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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Tougher times for AIM

AIM lost 10% of its value during January, whereas the FTSE 100 index was 1.1% higher and the FTSE All Share index dipped by 0.4%. This appears to reflect a move to larger companies with a track record of revenues and profit.

There were some large fallers among the renewable energy and pharma companies in the FTSE AIM 100 index. These will also have a significant influence on the overall performance of AIM. Fuel cell technology developer Ceres Power and cell engineering services provider MaxCyte were both nearly 39% lower, while Avacta, which withdrew a Covid test due to doubts of its effectiveness in identifying the Omicron variant, fell by nearly one-third. ITM Power and AFC Energy were 31% and 29.5% lower respectively. These companies have little in the way of fundamentals to shore up a share price.

Nine companies fell by one-quarter or more and many were strong performers one year ago when AIM was still outperforming the Main Market. Fevertree Drinks, which has the largest weighting in the AIM 100, slumped by 21%, while Keywords Studios fell by 14%. In contrast. Jet2, the company with third highest weighting, was the best performer in the AIM 100 with a 18% increase.

Hercules investment boost

Cirencester-based labour provider Hercules Site Services raised £4m at 50.5p a share through a placing and PrimaryBid offer ahead of joining AIM. That values the company at £29.6m.

Hercules supplies carpenters, bricklayers, ground workers, security and site engineers. The company also hires out suction excavators and sometimes there are cross selling opportunities with the labour supply business. More suction excavators are being acquired this year and there should be 20 by February. There is also a new pile cropping process that could become a significant revenue generator.

There is expected to be £650bn of infrastructure investment in the UK over the next decade and it can be difficult to obtain people with the right skills. Staff turnover is relatively low according to management and the company has launched a digital recruitment app, which has 3,600 registered users.

Clients include Balfour Beatty, Thames Water, Kier and Highways England. Current and upcoming projects include HS2, the latest water infrastructure asset plan and the lower Thames crossing.

Revenues have grown from £9.7m in 2015 to £30.7m in 2019 before a dip to £22.9m during 2020. There was a recovery in the first half of 2021 to £14m. Profit after tax peaked at £1.8m in 2019 before falling to £700,000 last year.

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SigmaRoc quarry deal

SigmaRoc is paying £35.5m for aggregates supplier Johnston Quarry Group Ltd and related business Guiting Quarry Ltd. This will be an immediately earnings enhancing deal for the building materials sector consolidator and enhance SigmaRoc's position in southern England and Wales.

Johnston Quarry operates quarries in south west England, Oxfordshire and Lincolnshire with 86 million tonnes of reserves. It supplies aggregates, building stone and agricultural lime for soil improvement. One of the attractions of Johnston Quarry is its unique Cotswold ironstone and Bath stone products that are used in high-end residential developments.

In the year to September 2021, the pre-tax profit of the acquired business was £3.6m on revenues £14.7m. SigmaRoc will assume £6m of long-term debt and up to £3.6m in plant hire contracts.

SigmaRoc has conditionally agreed to acquire two further quarries and additional mineral reserves for £14.5m. This is payable in three phases, and they should be paid between the second half of 2022 and the end of 2024.

SigmaRoc traded strongly in 2021. In the eleven months to November 2021, revenues more than doubled to £236.5m, partly thanks to recent acquisitions. The EBITDA will be ahead of the consensus figure of £48.1m.

A 2021 pre-tax profit of at least £27m is likely, including four months from Finland-based limestone supplier Nordkalk acquired for £402m including debt. This profit figure could more than double to £56m in 2022. SigmaRoc has a strong acquisition track record and there should be more earnings enhancing acquisitions making a contribution to 2022 and beyond.

Knights legal buy

Legal services provider Knights Group is stepping up acquisition activity and has bought Langleys Solicitors, which has offices in York and Lincoln, for £11.5m in cash and shares. In the year to March 2021, Langleys generated revenues of £14m. One-third of revenues come from non-core child law and volume conveyancing operations. Knights believes that the core business can achieve an adjusted pre-tax profit margin of around 20%. Knights generated organic growth of 9% in the six months to October 2021, against weak comparatives at the height of lockdown in 2020. Overall revenues increased by 29% to £59.7m including contributions from acquisitions. Underlying pre-tax profit was 26% ahead at £7.6m.

Unbound from Electra past

Unbound Group is the new name for Electra Private Equity, which has jettisoned most of its assets other than footwear business Hotter and moved from the Main Market to AIM. No new cash was raised, but it cost £2.05m to restructure and change to the junior market. Unbound was valued at £23.1m when it debuted on AIM.

Hotter is predominantly a direct-to-consumer comfort-based footwear business focused on the over 55 years old age group. There are still 23 retail stores, down from 78 three years ago. There are also digital partnerships with retailers John Lewis, Next and Very.

In 2019-20, the revenues of the core business were £85.5m and they fell to £44.5m last year - there was growth in UK online sales with a slump in store sales. The loss from operations increased from £6.96m to £10.5m. The latest interim revenues improved from £20m to £25m and the operating loss fell from £18.5m to £1.84m. In the third quarter, revenues and margins continued to improve.

Hotter has an ecommerce database of more than one million emails and a broader database of four million customers. It hopes that selling additional products to that customer base will significantly improve profitability. The first sales of third-party products through the company's website will be in the second quarter of 2022. The plan is to generate 50% of profit from these other products. Unbound has a strong position its niche market and could do well if its strategy works.

Unbound still owns 2.07 million shares in fully listed Hostmore, the business that owns the TGI Friday's chain in the UK, and a small stake in a US technology business that has been written down to nil. The other non-core asset is a leasehold property generating income of £300,000 a year. There was also £1m in the bank.

AssetCo offer for River and Mercantile

AssetCo has launched a recommended bid for fully listed asset manager River and Mercantile Group. The all-share offer valued River and Mercantile at £98.9m when it was announced on 25 January -based on an AssetCo share price of 1550p - which is after an assumed return of £190m in cash to the target's shareholders.

This would be AssetCo's fourth investment as part of its buy and build strategy, and it is offering 0.7392 of one share for each River and Mercantile share. AssetCo shareholders would own 58.4% of the enlarged group. River and Mercantile will be combined with the existing AssetCo subsidiary Saracen to form the basis of an active equities business and there will also be a private markets business.

River and Mercantile group assets under management exceeded £50bn by the end of 2021. River and Mercantile has subsequently sold Schroders the solutions division, which had £44bn under management, for £230m. That will fund the return of capital. The US solutions business is being sold for at least $8.6m.

River and Mercantile will be left with around £4.2bn of assets under management, generating annualised management fees of £20.8m. There should be cost savings given the reduced scale of the business.

The scheme of arrangement being used to implement this merger is expected to become effective during the second quarter of this year. Once the bid goes ahead there is a planned launch of an infrastructure fund.

Rival fund manager Premier Miton considered a bid for River and Mercantile but decided not to proceed after initial discussions with management.

ADVISER CHANGES - JANUARY 2022

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Capital Metals	WH Ireland / Tavira	WH Ireland/ Brandon Hill	Spark	Spark	1/4/2022
Catenae Innovations	Shard	Brandon Hill	Cairn	Cairn	1/4/2022
Kefi Gold and Copper	WH Ireland / Tavira / SP Angel	WH Ireland/ Brandon Hill / SP Angel	SP Angel	SP Angel	1/4/2022
Zenova Group	SI Capital	Brandon Hill	Spark	Spark	1/4/2022
Science in Sport	Davy / Liberum	Liberum	Liberum	Liberum	1/5/2022
Lansdowne Oil & Gas	Tavira	Brandon Hill / SP Angel	SP Angel	SP Angel	1/7/2022
Haydale Graphene Industries	finnCap	Arden	finnCap	Arden	1/10/2022
Cornerstone FS	Peterhouse / SP Angel	Peterhouse	Spark	Spark	1/11/2022
Instem	Stifel Nicolaus / Singer	Singer	Singer	Singer	1/11/2002
Mercantile Ports & Logistics	Cenkos	Cenkos / Zeus	Cenkos	Cenkos	1/11/2022
Eco Animal Health	Investec / Peel Hunt / Singer	Peel Hunt / Singer	Singer	Singer	1/12/2022
Edenville Energy	Tavira	Brandon Hill	Strand Hanson	Strand Hanson	1/12/2022
Jangada Mines	Tavira	Brandon Hill	Strand Hanson	Strand Hanson	1/12/2022
Kibo Energy	Shard / Hybridan	Hybridan	RFC Ambrian	RFC Ambrian	1/12/2022
Fox Marble	Tavira / Allenby	Brandon Hill/ Allenby	Cairn	Cairn	1/13/2022
Globalworth Real Estate	Panmure Gordon	Panmure Gordon / Jeffries	Panmure Gordon	Panmure Gordon	1/13/2022
Osirium Technologies	Allenby	Stifel Nicolaus	Allenby	Stifel Nicolaus	1/14/2022
H&T	Shore	Numis	Shore	Numis	1/17/2022
Xpediator	Zeus	Cenkos	Zeus	Cenkos	1/19/2022
Trident Royalties	Stifel Nicolaus / Tamesis	Tamesis	Grant Thornton	Grant Thornton	1/21/2022
Flowtech Fluidpower	Liberum	finnCap	Liberum	finnCap	1/26/2022
San Leon Energy	Panmure Gordon / Allenby	Panmure Gordon / Allenby / Brandon Hill	Panmure Gordon	Panmure Gordon	1/31/2022

Team17 makes three acquisitions including move into the simulation games market

Video games *www.team17.com*

TEAM17 (TM17)			710p
12 MONTH CHANGE %	-11.5	MARKET CAP £M	1,026.8

Video games label and developer **Team17** is acquiring astragon Entertainment for €100m (£83m), which takes Team17 into the simulation games market. This is the third and largest acquisition Team17 has made in 2022. The initial payment is €75m (£63m) in cash with the rest dependent on the achievement of EBITDA targets for 2021 and 2022.

A placing at 714p a share raised £78.6m to provide finance for the deal. Team17 floated on 23 May 2018 when it raised £45m at 165p a share. The Team17 share price has more than quadrupled in less than three years, but it reached its peak at the beginning of 2021.

Germany-based astragon is a simulation games developer and publisher. Titles include Construction Simulator and Bus Simulator. More than 20 games have been developed over a decade. In 2020, astragon generated revenues of €26m and EBITDA of €5.7m. The deal is expected to be earnings enhancing.

The deal is earnings enhancing

Earlier in January, US-based mobile games developer The Label was acquired for an initial $24m (£17.8m) in cash and shares at 734.44p each, with up to $18m (£11.8m) payable depending on achieving EBITDA targets. This takes Team17 into the mobile games market, which is expected to be worth more than $11bn by the end of 2025. Existing IP can be exploited for mobile games.

Hell Let Loose was acquired for £31m in cash and shares, with revenue performance dependent payments of between £5m and £15m. This was already a third-party title, and the acquisition makes it fully owned. Hell Let Loose is a multiplayer tactical first-person shooter video game with more than six million users.

In January, Team17's forecast 2021 pre-tax profit was upgraded to £30.6m. This year's profit could be more than £38m. The shares are trading on 32 times prospective earnings for this year.

Venture Life ready to bounce back

Health products *www.venture-life.com*

VENTURE LIFE GROUP (VLG)			51.2p
12 MONTH CHANGE %	+ 58.2	MARKET CAP £M	64.4

Consumer health products supplier **Venture Life Group** achieved better trading than expected last year, but reported profit is still set to halve. The strong end to the year suggests that profit should bounce back in 2022 as momentum continues to build.

A trading statement revealed that 2021 revenues were 8% ahead at £32.6m. The pre-tax profit is likely to fall from £3.28m to £1.65m. Interim revenues fell £3m to £13.9m, so there was an increase in second half revenues from £13.2m to £18.7m. There were contributions from acquisitions BBI Healthcare and Helsinn, though, which contributed little to the first half revenues.

In January, Venture Life signed an exclusive distribution agreement with Aquis-quoted Samarkand Global. Samarkand's Nomad e-commerce technology platform will be the exclusive distributor of mouthwash Dentyl Dual Action and halitosis mouthwash Ultradex in China for an initial term of five years. Shipments have already started, and this deal could significantly increase Chinese revenues.

A health and beauty retailer will sell Venture Life's new rosacea product under its own brand. Venture Life will launch other new products in the second half.

The cash pile has funded acquisition and net debt was £3.2m at the end of 2021. Supply problems still exist, but there should be a profit recovery this year with more to come from the integration of recent acquisitions. A profit of £4m could be achieved in 2022. That would put the shares on 22 times prospective earnings.

Marlowe broadens its exposure to the occupational health sector

Regulatory-focused services *www.marloweplc.com*

Marlowe significantly expanded its occupational health operations via the acquisition of Optima Health for an enterprise value of £135m and it will become part of the governance, risk and compliance division. A placing raised £131m at 1000p a share, prior to a fall in the share price. The acquisition should add more than 10% to earnings in the first 12 months after completion.

Redditch-based Optima Health provides technology-enabled corporate health services, and it has been owned by private equity firm CBPE Capital since 2015. Clients have been with the company for an average of 9 years with two-thirds in the public sector and one-third in the private sector. Services include mental health, physiotherapy, fitness for work assessments, devising health strategies and on-site health-related events. Many of these services are offered digitally.

The deal adds 10% to eps

The UK occupational health market is worth £1bn a year and is growing at up to 5% a year. This is a fragmented market. Optima Health generated revenues of £68m in 2021. There should be £2m of cost savings.

This is not the only acquisition in the past few months. In December, equality and diversity elearning company Skill Boosters was bought for up to £8m. Last October, elearning provider EssentialSkillz was acquired for £25m with £50m raised in a placing at 907p a share. Net debt is forecast to be £84m at the end of March 2022.

MARLOWE (MRL)			896p
12 MONTH CHANGE %	+56.1	MARKET CAP £M	858.7

Cenkos expects revenues of £303m in the year to March, while a full year contribution from Optima Health could take revenues to £410m the following year. A pre-tax profit of £58.9m is forecast for 2022-23 and earnings per share would be double the 2020-21 figure at 49.2p. This shows that Marlowe's acquisitions have propelled earnings and not just made the company bigger. Marlowe is targeting run-rate adjusted EBITDA of £100m by the end of March 2024 and management believes that it could achieve this earlier.

Watkin Jones builds rental pipeline

Residential developer *www.watkinjonesplc.com*

Watkin Jones reported slightly better than expected full year profit and the outlook remains positive. Demand for private rental residential property developments remains high from both institutions and potential renters and there is additional potential from affordable housing development. Demand for student accommodation, which currently dominates revenues, is also strong. Shortage of supply of private rental residential properties means that this part of the business will become the major profit contributor.

Revenues grew from £354.1m to £430.2m, while pre-tax profit improved from £45.8m to £51.1m in the year to September 2021. The profit improvement came from the private rental development business, with lower contributions from the other parts of the group. There was no additional provision for cladding replacement costs.

WATKIN JONES (WJG)			266p
12 MONTH CHANGE %	+35.9	MARKET CAP £M	681.4

The total dividend is 8.2p a share, providing a 3.1% yield. There was net cash of £124.3m and also more than £100m of available borrowing facilities.

Watkin Jones has already secured 70% of expected revenues for the year to September 2022. There is a development pipeline of £1.8bn stretching over many years. Planning permission has been received for the first co-living scheme where tenants have their own room and shared facilities.

Analysts expect pre-tax profit to improve to £55m this year with a jump to £75m next year as more of the private rental developments reach maturity. The shares are trading on less than 12 times prospective 2022-23 earnings.

Kromek detects broader market potential and growing order book

Imaging and detection technology *www.kromek.com*

Imaging and bio-detection technology developer **Kromek** has been a frustrating company. Delays to orders have held back its progress, but it has developed a range of products that will help to significantly increase revenues, while past investment in facilities means that there is capacity to cope with the growth. The order book is growing.

The six months to October 2021 were hit by supply chain issues for Kromek and its customers. Revenues improved from £4.58m to £4.71m, while the loss declined from £3.4m to £3.06m. The loss was reduced due to the forgiveness of loans and grants related to Covid assistance schemes totalling £1.34m, up from £300,000 in the same period last year.

The order book is growing

Additional cash was invested in building up stocks of components, so that orders can be satisfied. There is still £10.2m of cash in the bank, although there is also debt of £6.8m. This should be enough cash for more than 12 months even with additional working capital requirements.

Advanced imaging is building up its medical imaging sales based on the $58m contract previously announced and entered commercial agreements with three manufacturers for other medical imaging applications. Kromek has won a $17m industrial screening order.

The detection division has developed products with the help of government backing. This includes systems that can detect pathogens, including Covid-19. The new biodetection products will be much bigger contributors next year.

KROMEK GROUP (KMK)			17.9p
12 MONTH CHANGE %	-11.8	MARKET CAP £M	77.3

Full year revenues are expected to increase from £10.4m to £15m and this is already 96% covered by orders. Cenkos forecasts a reduction in full year underlying loss from £6.4m to £5.1m and the loss could be similar next year. Based on these forecasts there could be net debt of £1.1m by the end of April 2023. Capital investment requirements are low and there will still be cash in the bank.

Pressure Technologies hydrogen opportunity

Engineering *www.pressuretechnologies.com*

Pressure Technologies reported flat full year revenues of £25.4m, but the underlying loss was reduced from £1.4m to £1.2m and the steel cylinders and machined components manufacturer should return to profit this year. Investment in hydrogen infrastructure requires the type of cylinders the company manufactures.

A good performance from the Chesterfield Special Cylinders, helped by the timing of defence orders, was offset by weak oil and gas demand for precision machined components – that division is trying to diversify its customer base.

PRESSURE TECHNOLOGIES (PRES)			71p
12 MONTH CHANGE %	-24.5	MARKET CAP £M	22.1

Chesterfield manufactures ultra large cylinders to store gas under high pressure and high pressure, seamless steel cylinders for use on floating offshore oil platforms and vessels. It also supplies cylinders for submarines, for uses such as backup breathing and nuclear reactor valve operating systems. Demand for cylinders for hydrogen refuelling is building up and should become a significant area for Chesterfield over the next couple of years. Oil and gas demand is improving and the main growth this year will come from precision machined components, which could get back to breakeven.

Net debt was £4.9m at the end of September 2021. Capital spending is set to increase, but the debt should still reduce.

Singer forecasts a 2021-22 pre-tax profit of £900,000, rising to £2m next year. That is still well below past profit levels and the operational gearing of the group means that profit recovery could be much more significant. The shares are trading on 11 times prospective 2022-23 earnings.

MJ Hudson's alternative income stream

Asset management services *www.mjhudson.com*

Dividend

MJ HUDSON (MJH)	
Price (p)	41.5
Market cap £m	71.6
Historical yield	0.3%
Prospective yield	1%

MJ Hudson announced a 0.13p a share maiden dividend with the results for the year to June 2021. The uncertainty caused by Covid-19 may have delayed the payment of dividends, even though the company was profitable in 2019-20.

A total dividend of 0.4p a share is forecast for 2021-22 and that would be covered 5.5 times by forecast earnings. A rise to 0.5p a share is anticipated for next year.

Business

Asset management consultancy MJ Hudson joined AIM on the day of the 2019 UK general election and raised £26.3m after expenses through a placing at 57p a share. The share price initially went to a premium but has rarely been near to the flotation price since then.

There are three main divisions focused on a customer base involved in alternative investment areas, such as private equity and venture capital. The advisory division designs and advises on fund structures and portfolios. The outsourcing division provides support services for managers and investors in funds, as well as regulatory services. The data and analytics division provides performance, risk and ESG-based data and benchmarking services.

In the year to June 2021, the advisory and outsourcing divisions each generated around three-eights of revenues and the rest came from data and analytics. However, data and analytics was the highest contributor to profit, followed by outsourcing. Group revenues improved from £20.3m to £25.5m, while underlying pre-tax profit increased from £900,000 to £2.4m.

Growth in alternative investment funds and the trend to outsourcing non-core services is increasing demand for services offered by MJ Hudson. The latest contract win was to advise the ACCESS local government pension scheme on its illiquid and private market investments. ESG is an area of the business that should grow strongly as more regulation is put in place by governments. Acquisitions are enhancing organic growth.

Following the latest trading statement there has been a second profit upgrade by Cenkos in two months. The new 2021-22 pre-tax profit forecast is £4.3m. Panmure Gordon was already forecasting £4.4m and has maintained this estimate even though it edged up its revenues estimate. Cenkos forecasts 2022-23 pre-tax profit of £5.4m. Further acquisitions could enhance these forecasts.

Chief executive Matthew Hudson bought 37,500 shares at 41p each, having purchased additional shares early in January and December. He and his wife own 27.6% of the company, which is more than twice the stake of the next largest shareholder Canaccord Genuity, which has 10.3%.

The share price has drifted lower since the summer and the shares are trading on 19 times 2021-22 prospective earnings and that could fall to 15 next year. MJ Hudson is building up a strong position in its niche and there should be plenty of long-term upside for the shares.

Dividend news

Hargreaves Services increased its interim dividend from 2.7p a share to 2.8p a share. The earthworks and land developer is on course for a total dividend of 20.4p a share this year, including the 12p a share additional dividend that will be paid for at least another two years. In the six months to November 2021, revenues fell from £92m to £76.1m partly due to the previous sale of coal stocks to German joint venture HRMS, although operating profit improved from £868,000 to £1.06m. Pre-tax profit was £10.4m, up from £1.08m. That includes a share of HRMS profit of £9.27m, up from £944,000. Net assets are 462p a share.

NWF maintained its interim dividend at 1p a share, but the full year total is expected to be higher than last year's 7.2p a share. The fuel and food distribution businesses traded strongly with the former benefiting from concerns about supply shortages last autumn. The feeds business fell into loss, partly due to the loss of a distributor, and there was a £8.4m asset write down. Stripping out that exceptional, underlying pre-tax profit jumped from £2.5m to £4.3m. Net debt was £7.4m at the end of November 2021. Management is seeking fuel distribution acquisitions to add to the regional network.

Wynnstay Group has continued its record of increasing its dividend with an 18th consecutive rise. The total dividend improved from 14.6p a share to 15.5p a share. In the year to October 2021, underlying pre-tax profit was 37% higher at £11.4m. NAV is 525p a share. Wynnstay has increased market share in the feeds market, particularly for dairy and egg production. Agricultural merchanting operations benefited from the improved spending power of farmers. There is likely to be a dip in profit this year, but the dividend is forecast to rise to 16.3p a share.

Expert view: Registrars

Why we're cheering the ASOS migration to the main board

By Samiul Siddique

It has taken long enough to happen, but finally ASOS has confirmed it is moving up to the main board of the London Stock Exchange. The company, which has a market cap not too dissimilar from that of retailers such as Dunelm or WH Smith, seems assured of a place in the FTSE 250 mid-caps index.

Indeed, looking at the share price less than a year ago, the company would have been knocking on the door of the FTSE 100 and if those consensus sales forecasts of comfortable double-digit growth over the next three years are met, then this may well be back on the agenda. Add to this the fact that the stock now trades at a very modest PE ratio of just over 18, something that may again prove alluring to investors if they start hunting out value in a bear market.

Should AIM's primary objective be to foster growth?

It is perhaps too easy to be drawn into the benefits of the innovative AIM from the perspective of issuers. Lower burdens when it comes to listing and then the subsequent reporting makes it easier to make that first foray into capital markets, but this should pave the way for companies to recognise their full potential, become accustomed to operating as a listed entity and then pave the way for greater growth.

And perhaps more attention needs to be paid to the advantageous position investors – especially at the retail end of the spectrum – find themselves in. The government is clearly keen to lend support here and whilst we can inevitably argue that there is more which can be done, two key points stand out.

Firstly, to broaden investing in these risk assets, almost a decade ago, the government allowed AIM stocks to be held in an ISA, something which provides a significant level of support given the potential for rapid gains to be seen here.

Then secondly there's inheritance tax. Dating back almost half a century is the IHT exemption which applies to the vast majority of AIM stocks. As we move into a period where we're likely to see an extended period of inflation combined with a general reluctance from government to offer many new tax concessions as they look to repay the cost of the pandemic, it is probably for the best that established multinationals are not in a position to look as if they're exploiting such structural incentives.

> It seems inevitable that the ASOS migration will see many institutions being obliged to extend their exposure

The main board effect

It seems inevitable that the ASOS migration will see many institutions being obliged to extend their economic exposure in the stock as it will fulfil many more investment criteria, most notably its expected eventual inclusion in the FTSE 250. The company has also been in the spotlight in terms of governance, but has by all accounts addressed these issues, again shoring up its corporate image for a future as a bigger player.

As a result, this should point towards inflation of the underlying asset and arguably ought to free up risk capital, especially amongst those investors who have been engaged for some time. They are likely to start hunting out the next investment opportunity – most likely on AIM or another junior market – so without the catalyst of the migration, this money would more than likely remain stranded.

Improving market quality

London has an enviable array of listing venues, catering to the specific needs of companies, depending where they are in their growth cycle. AIM provides that hugely valuable pool of liquidity for issuers to tap into and an equally rich environment for investors to try and benefit from. However, there comes a point in time when having the very largest of firms in the smaller ponds becomes self-defeating. They have an undue influence over AIM's ability to be a barometer of small cap activity – eight firms currently represent around 20% of the total market cap – and that risk capital sits stranded. We applaud ASOS's migration to the main board and look forward to what fresh opportunities this will foster on AIM.

SAMIUL SIDDIQUE, Head of Capital Markets, Avenir Registrars (www.avenir-registrars.co.uk).

Study highlights differing perspectives of smaller companies

The latest QCA/Peel Hunt Mid and Small-Cap Survey shows that the regulatory burden is thought to be putting off companies gaining a quotation.

The Quoted Companies Alliance (QCA) has published the Mid and Small-Cap Survey for 2022. The publication "The Eye of the Beholder: The differing perspectives on the UK's equity markets" has been produced in association with broker Peel Hunt.

AIM-quoted YouGov undertook the research, which was conducted between 29 September and 27 October 2021. It surveyed 126 UK-based fund managers and 118 small and mid-cap UK quoted companies. Three-quarters of the funds covered by the survey invest in AIM and 20% in Aquis-quoted companies.

Private investors are valued by companies and institutional investors. There were 83% of the companies that thought that private investors were desirable, although 4% thought that they were quite undesirable. There were 61% of the institutional respondents that thought private investors were desirable on the share register.

When investors were asked how they defined a small and mid-sized company one-quarter thought that the maximum market capitalisation should be £500m and a further one-quarter £1bn. A majority of the companies surveyed plumped for £250m or lower.

There are 50% of the investors surveyed that believe that the attractiveness of the UK market has improved over the past 12 months, while 63% believe that it is currently attractive. This contrasts with 30% of companies that think attractiveness has improved, while 45% believe that the UK market is attractive.

Reporting complexities and regulations are cited by investors as being designed for larger companies and they are more difficult for smaller companies to comply with.

Companies also mention the burden of regulations and listing requirements. There is also concern that investors are not tolerant enough of short-term problems. Aquis was mentioned by one company as broadening the choice of venues for quotations.

Priorities

Investors continue to believe that holding a capital markets day is the most important way of increasing the visibility of a company. There were 68% that thought this, slightly down from 71% in 2021. All the possibilities have lower percentages this year. The second biggest figure was the 41% that thought improving the corporate website was particularly important, down from 59%. Companies felt that improving the website was most important, although the percentage fell from 68% to 56%. There were 50% of companies that felt more PR activity to generate media coverage was important, whereas 27% of investors felt the same.

Interestingly, only 2% of investors mentioned changing broker this year. Last year, 22% suggested this was a way of gaining visibility. It is unclear if the companies that investors believed should change their broker have already done that or that the investors have regained confidence in the brokers. However, 22% of companies are considering changing broker. The investors believe that creating liquidity is the major thing that brokers can do for companies.

Unsurprisingly, supply chain problems and inflation are the most important questions for companies, according to investors.

Only 29% of investors believe that corporate governance has improved over the past year, compared with 31% of companies. There are 41% of investors that think that the rise of ESG funds will help to improve the attractiveness of stock markets to private companies, although 23% believe it will make them less attractive.

Only 29% of investors believe that corporate governance has improved over the past year

Research

The study shows that investors tend to believe that the quantity of research on smaller companies is not high enough to aid investment decisions - 46% of those surveyed felt that. Whereas 28% believe that it is good enough to aid decisions. The rest do not know or neither agree nor disagree with the question.

Mifid II is blamed for reducing the quantity of research in smaller companies. The FCA's proposed changes to regulations may help to ease this problem.

Companies do appear to be becoming happier with the research published on them. There were 27% who felt that the quality of research had improved, while 17% believed that it had declined. They appear worried about the quantity of research, particularly the level of information that is available to private investors.

feature

ASOS leaves AIM after two decades

ASOS is leaving AIM this month and it is not just one of the larger companies it is also one of the most actively traded.

Online fashion retailer ASOS is planning to obtain a premium listing by the end of February. In its trading statement for the four months to December 2021 it said it was preparing a prospectus for approval by the FCA.

When ASOS joined the junior market in October 2001 it was valued at £12.4m and, even though the share price is around one-third of its peak in 2018, it is currently worth £2.1bn.

The online fashion retailer is more than large enough to go straight into the FTSE 250 index and join the other 18 formerly AIM-quoted constituents. This could spark additional demand from institutions with index tracking funds, but there has been no sustained improvement in the share price since the announcement of the move.

The latest QCA/Peel Hunt Mid and Small-Cap Survey (see page 9) asked investors and companies what they thought that the minimum market capitalisation should be for a company listing on the Main Market. There were 5% of quoted companies that thought that £1bn was the minimum with 7% plumping for other, which presumably means more than £1bn. There were 9% of investors that thought £1bn and 4% went for other. The rest suggested lower valuations, including £25m, or were a don't know.

Tax perks

ASOS has been valued at much more than £1bn for many years. It has been regularly asked whether it would switch markets and until now it has not appeared interested. This may have been due to the potential loss of some of the tax perks of being on AIM.

For example, ASOS shares will no longer be eligible for inheritance tax (IHT) relief when it leaves AIM. That means anyone with ASOS shares in their IHT relief portfolio for at least two years will have to sell and reinvest the cash in an alternative eligible share so that they can retain the benefit of being able to pass on the shares without them being subject to IHT.

Founders and early management shareholders no longer account for a significant proportion of ASOS shares with retailer Bestseller and institutions holding the vast majority of the shares.

Former chief executive Nick Robertson reduced his stake to 2.89% on 31 January, raising around £10m. He previously owned 3.34%. At the beginning of 2015, when he was still chief executive, he owned more than 7.74 million shares and he currently owns 2.89 million shares. He has steadily been reducing his stake since stepping down to non-executive director.

Liquidity

ASOS has been one of the most traded AIM shares in the past decade. It is not as important to the market's overall trading as it has been in the past, but it will still be a loss in terms of AIM liquidity. In 2021, 4.8% of AIM trades were in ASOS and they accounted for 4.5% of the total value of trades.

AIM has coped with similar losses of liquidity in the past. Spreadbetting company Plus500 made the switch to the Main Market in June 2018. The last full month of trading on AIM was May, and it was the third most traded company during that month, both in terms of value and number of trades. It accounted for 7% of the value traded on AIM during May 2018 and nearly 6% of the trades. In that same month, ASOS accounted for 9% of value traded from more than 7% of trades.

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ASOS is already one of the top 150 most traded shares on the Main Market and AIM combined. Even so, AIM will be able to cope with the move, although in recent months trading has been lower than the exceptionally high levels a year earlier.

Trading

ASOS has had a bumpy time in recent years with a sharp decline in the share price over the past 12 months. Trading in the first four months of the financial year was in line with expectations. Sales were 2% ahead and full year pre-tax profit guidance is maintained at £110m-£140m.

UK and US sales were better than expected. The US could have done better without the continued delivery problems. Sales in the US via retailer Nordstrom have gone well. The other international markets did not do as well through a combination of the effect of lockdowns and delivery problems.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	26.7	16.9
Industrials	16.3	16.8
Health Care	15.8	10.7
Technology	12.5	12.6
Financials	9.3	11.1
Energy	7.6	11.1
Basic materials	6.2	14.7
Property	3.3	2.9
Telecoms	1.5	1.8
Utilities	0.8	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1094.97	-5.7
FTSE AIM 50	5841.5	-9.2
FTSE AIM 100	5279.45	-9.5
FTSE Fledgling	12997.2	+20.2
FTSE Small Cap	7153.39	+14.8
FTSE All-Share	4191.81	+15.1
FTSE 100	7464.37	+16.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	64
£5m-£10m	96
£10m-£25m	140
£25m-£50m	135
£50m-£100m	114
£100m-£250m	169
£250m+	134

KEY AIM STATISTICS

Total number of AIM	852
Number of nominated advisers	28
Number of market makers	21
Total market cap for all AIM	£150bn
Total of new money raised	£130.2bn
Total raised by new issues	£47.7bn
Total raised by secondary issues	£82.4bn
Share turnover value (Dec 2021)	£99.8bn
Number of bargains (Dec 2021)	20.3m
Shares traded (Dec 2021)	914.1bn
Transfers to the official list	194

TOP 5 RISERS OVER 30 DAYS

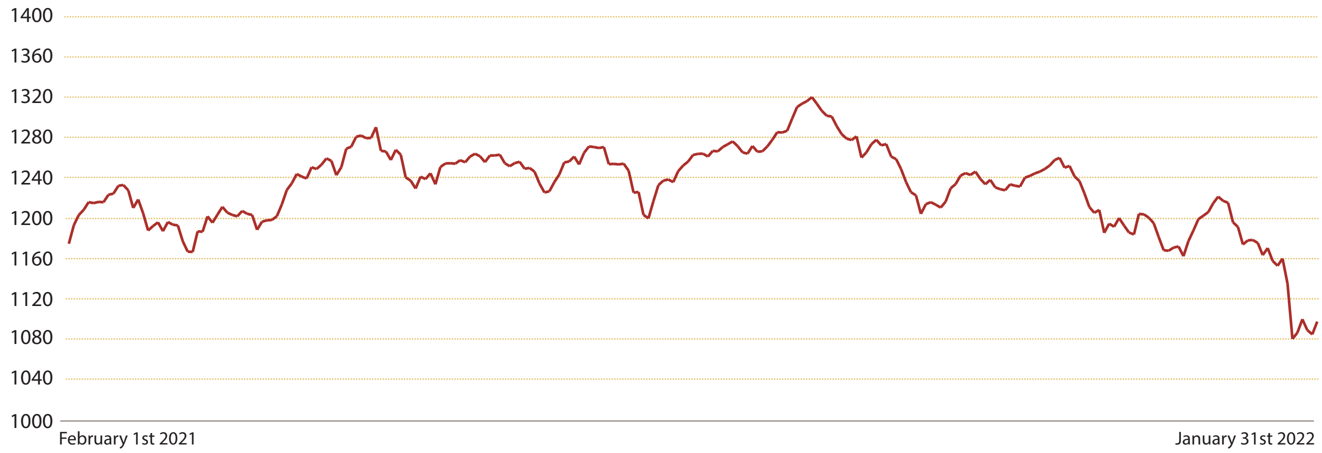
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Tintra	Financials	187.5	+257
Amur Minerals	Mining	3.5	+105
Bradda Head	Mining	14.9	+72.8
Venture Life Group	Consumer	51.2	+70.7
Falcon Oil & Gas	Oil and gas	13.05	+66.2

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Advance Energy	Oil and gas	0.255	-93.9
Challenger Energy	Oil and gas	0.11	-83.1
Sensyne Health	Healthcare	19.5	-75.8
Omega Diagnostics	Healthcare	7.25	-73.4
IG Design	Consumer	96	-62.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st January 2022, and we cannot accept responsibility for their accuracy.

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AIM Journal

AIM Journal is a monthly publication that focuses on the Alternative Investment Market (AIM) of the London Stock Exchange and the companies and advisers involved in the junior market.

Each month the publication includes information about AIM-quoted company news, changes to the brokers and nominated advisers, AIM statistics and general articles concerning AIM.

AIM Journal has been published for nearly a decade. There is no other publication of its type with a pure AIM focus and a sponsorship model, making it free to readers.

The pdf-based publication has an email database of company directors and advisers and an email with a link to the latest edition is sent out each month when the AIM Journal is published. The AIM Journal can also be accessed via http://www.hubinvest.com/AimJournalDownload.htm.

The readership via the email is predominantly a professional one. One-quarter of readers are company directors, one-fifth solicitors and accountants, one-fifth brokers and 15% PRs. The rest of the readership is made up of investors, journalists and other individuals.

AIM

The Alternative Investment Market (AIM) was launched on 19 June 1995 with ten companies that had a total market value of £82.2m at the end of the first day's trading. The total amount of money raised by new and existing companies in the remainder of 1995 was £96.5m.

More than 3,800 companies have joined AIM since then, although it should be remembered that some of these are the same companies readmitted after a reverse takeover. These companies have raised more than £112bn either when they join AIM or while they are trading on the junior market.

In 1995, there were 29,099 trades with a total value of £270.2m. These days it is unusual if there are not that many trades in a single day, although their total value tends to be less than £270m.

Companies that started out on AIM include online gaming operator GVC, healthcare properties investor Primary Health Properties, self-storage firm Big Yellow, animal genetics provider Genus, online gaming technology developer Playtech and student accommodation developer Unite Group – all of which are FTSE 250 index constituents.

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