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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

In this issue

VCTs benefit from pensions changes

A new survey suggests that there will be more money flowing into Venture Capital Trusts (VCTs) in the next 12 months. More than 90% of advisers expect their clients to invest more in VCTs and a separate survey suggests that they are also more likely to invest in Enterprise Investment Scheme (EIS) investments. This is good news for smaller companies seeking investment.

In January, Intelligent Partnership published the Alternative Investment Report on VCTs. It says that the confirmation of state aid provides certainty over the future of VCTs. Even so, VCTs raised £429m in 2014-15, the most since 2005-06 and the fourth-largest amount in two decades, and the peak fundraising period is just getting going this year. A reduction in pension limits and changes to higher-rate tax relief are major drivers behind the expected increase in VCT activity. It is also possible to buy VCT shares in nominee accounts and still get the tax reliefs, which makes it easier for financial advisers to manage client investments.

According to calculations by the Association of Investment Companies (AIC), on average each company that receives investment from VCTs increases turnover by £12.7m and adds 51 new employees.

In a separate survey for the Enterprise Investment Scheme Association (EISA) more than three-fifths of financial advisers surveyed say that they intend to make greater use of EIS in the next 12 months.

Regenersis erasing repair services

Regenersis has conditionally agreed the sale of its electronic equipment repair services business to Communications Test Design Inc. This will enable it to return around £50m to shareholders and concentrate on its software business.

Regenersis will receive €96m (£73.9m), plus €7.5m (£5.8m) based on additional value added since September and subject to adjustment, when the deal is completed, which should be before the end of June, and the cash will be returned after this. Regenersis is still talking to potential purchasers of the digital care mobile insurance business, which has been running at around breakeven.

Regenersis will focus on the data erasure software activities, where it is already a leading player in the market, and change its name to Blancco Technology Group. The company is also retaining its mobile phone diagnostics joint venture Xcaliber, which is currently loss-making. Group overheads will be reduced and there will be surplus cash to finance the growth of the business. Edison expects the business to generate revenues of £22m this year and places a value on the business of £110m.

general news

New sponsors for AIM Journal

On behalf of the team here at Northland Capital Partners, I'm delighted to announce our sponsorship of the AIM Journal.

As the most successful growth market in the world, AIM is an important platform for helping small companies raise capital. At Northland, we see the AIM Journal as an opportunity for investors to learn more about the many great companies quoted on AIM.

Northland has a strong track record in advising and raising funds for growth companies. We always aim to provide innovative ideas and solutions that will enable our clients to fulfil their long-term growth ambitions in a wide range of sectors, including healthcare, TMT, consumer, resources and support services.

Our sponsorship of the AIM Journal reflects our support for AIM, and we look forward to readers being able to continue to enjoy high-quality coverage of this important market.

Patrick Claridge
Chief Executive Officer

■ Marriott Harrison LLP is also commencing its sponsorship of AIM Journal this month. Marriott Harrison is a leading legal adviser to nomads and brokers, investors and AIM-quoted companies and it has a highly experienced team covering a number of sectors.

Marriott Harrison hosts a regular Nomad Forum and the latest will be held at its offices on the evening of Thursday 17 March 2016. The forum provides an opportunity to discuss AIM regulatory issues and provide briefings on key legal issues. The discussions at the forums sometimes lead to submissions being made to the AIM regulatory authorities. Invitations to the next Nomad Forum are due to be sent out in the near future.

For more information about Marriott Harrison see page 12 or www.marriottharrison.co.uk.

Clean energy flotations target AIM

Two clean energy companies plan to join AIM in the first quarter of this year. Green & Smart and Cogenpower are both operating overseas.

Malaysia-based Green & Smart has more than three decades of experience treating waste water for rubber and palm-oil producers. The plan is to use the palm-oil mill effluent that is generated in the production of palm oil to generate electricity. The company has already built four biogas capture facilities for palm-oil producer Felda Global Ventures.

The government of Malaysia is targeting 249.6MW of biomass installed capacity by 2020. So Green & Smart wants to become an independent power producer providing electricity to the grid through the Feed-in-Tariff mechanism, where revenues are fixed for 16 years. Green & Smart wants to raise £5m to finance the construction of two of its own plants.

Green & Smart is already profitable and it is forecast to make a 2016 profit of RM7.7m (£1.31m) on revenues of RM67.6 (£11.5m). Those revenues are mainly from contracts to construct plants but as its own power production starts to come through in 2017 a profit of RM20.7m (£3.52m) is forecast on revenues of RM55.5m (£9.44m).

Cogenpower intends to raise £1m at 20p a share. This will value the company at £10m. Italy-based, but UK registered, Cogenpower plans to join AIM on 11 February. Cogenpower designs, builds and operates combined heat and power plants with annexed district heating distribution networks. Each scheme can provide power to up to 50,000 people. At the end of 2015, Cogenpower acquired Esseti Energia, which produces electricity using biomass. The plan is to expand in Italy and then across the rest of Europe.

Chief executive Dr Francesco Vallone will own 76.1% of the company after admission and Miton Group is taking a 4% stake. The board includes Richard Day, a former head of corporate development at Arden Partners.

advisers

Sanlam Securities ending nominated adviser activities

Trading conditions remain tough in the small company broker sector, with Sanlam Securities in the process of withdrawing as a nominated adviser on AIM and Arden Partners slumping into a full-year loss.

At the beginning of February, Motive Television said that Sanlam had told it at the end of 2015 that it was ceasing its nominated adviser and small company broking activities. Sanlam is resigning as Motive TV nominated adviser on 14 February but there have been no announcements about other clients.

According to the London Stock Exchange website, Sanlam has 26 nominated adviser clients and most of these are also broking clients. Allenby is set to take on some of these clients. In 2014, Sanlam Securities UK lost £269,000 on revenues of £4.54m.

AIM adviser Arden thought that trading was going to pick up in the second half but the improvement was not sustained. In the year to October 2015, revenues slumped from £7.96m to £5.49m, with both secondary commissions and corporate finance fees declining. One unnamed client accounted for £914,000 of last year's revenues. A profit of £75,000 was turned into a loss of £2.1m. There was still cash of £5.37m on the balance sheet even though £1.1m was spent on share buybacks.

■ A new service that will enable investors to participate in placings has been launched. However, the investor will have to take shares in each placing that is on offer and cannot choose to opt out of any of them. The invst (www.invst.co.uk) service will cover all IPOs and secondary placings offered by Peterhouse. Other brokers could sign up to the service in the future and then investors can choose which of the relevant brokers' fundraisings that they wish to put their money into.

An investor registering with the platform will become a client of First Equity and the investment will become part of a pool of money. The minimum investment is £1,000. When there is a fundraising the lower of 10% of the funds being raised or 10% of the funds left in the pool will be invested in the opportunity. The individual investor will then receive the shares in their broking account with no cost or commission charge. They are free to trade in them immediately.

ADVISER CHANGES - JANUARY 2016

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Sphere Medical	Panmure Gordon	Peel Hunt/finnCap	Panmure Gordon	Peel Hunt	11/01/16
IMImobile	Investec/ Whitman Howard	WH Ireland/ Whitman Howard	Investec	SPARK	13/01/16
ZincOx Resources	Peel Hunt	Peel Hunt/finnCap	Peel Hunt	Peel Hunt	13/01/16
entu (UK)	Zeus	Zeus	Zeus	Grant Thornton	14/01/16
Namibian Resources	Cenkos/ Keith Bayley Roger	Keith Bayley Rogers	Cenkos	Grant Thornton	14/01/16
Tlou Energy Ltd	Optiva/Brandon Hill	Brandon Hill	Grant Thornton	Grant Thornton	15/01/16
Duke Royalty Ltd	Peel Hunt	Pareto	Peel Hunt	Grant Thornton	19/01/16
Mortgage Advice Bureau	Zeus/ Canaccord Genuity	Canaccord Genuity	Zeus	Canaccord Genuity	21/01/16
Bacanora Minerals Ltd	Stifel Nicolaus/ HD Capital	HD Capital	Cairn	Cairn	25/01/16
Earthport	Panmure Gordon/ N+1 Singer/Shore	Panmure Gordon	Panmure Gordon	Panmure Gordon	25/01/16
AFC Energy	Cantor Fitzgerald/ MC Peat	Zeus/MC Peat	Cantor Fitzgerald	Zeus	28/01/16
Greka Engineering & Technology Ltd	Smith & Williamson	WH Ireland	Smith & Williamson	Smith & Williamson	28/01/16
Auhua Clean Energy	WH Ireland	WH Ireland	None	Grant Thornton	29/01/16

Curtis Banks accelerates SIPPs consolidation through Suffolk Life purchase

SIPPs provider *www.curtisbanks.co.uk*

CURTIS BANKS GROUP (CBP)			370p
12 MONTH CHANGE %	N/A	MARKET CAP £M	197.5

Curtis Banks Group has become the second-largest Self-Invested Personal Pension (SIPP) schemes provider in the UK following its acquisition of Suffolk Life from Legal & General for £45m. Suffolk Life will add 26,500 SIPPs to the group and this will take the number of SIPPs managed by Curtis Banks to more than 65,000.

The average size of the SIPPs run by Suffolk Life is larger than the existing Curtis Banks SIPPs client base so assets under administration will nearly double to £17.7bn. Curtis Banks raised £27m at 320p a share to help finance the acquisition. There will be opportunities to consolidate IT and other back-office services to reduce costs.

Assets under administration will double to £17.7bn

Bristol-based Curtis Banks commenced trading in 2009 but each of its three founders, who are still executive directors, has more than three decades of experience in the financial services sector. They also still own the majority of the shares. Curtis Banks also trades under the Pointon York brand and the group had 26,000 SIPP clients when it floated in May 2015. The share price has almost doubled from the flotation price of 190p a share.

Curtis Banks has announced a maiden dividend of 3.5p a share, which will be paid before the 2015 results are published on 15 March. A total dividend of 6p a share is forecast for 2016.

Peel Hunt has increased its 2016 earnings per share forecast from 14.9p to 15.8p on the back of this latest acquisition. The 2017 earnings forecast has been increased from 17.9p to 19.8p. That still means the shares are trading on more than 23 times prospective 2016 earnings, falling to nearly 17 the following year. Further consolidation is likely, so additional acquisitions could help to reduce the multiple.

Formation rebuilds profitability

Residential property developer *www.formationgroupplc.com*

FORMATION GROUP (FRM)			9.88p
12 MONTH CHANGE %	+581.4	MARKET CAP £M	21.9

Residential property developer and construction project manager **Formation Group** has reported a move back into profit last year and it is set to do even better this year. The 2014-15 profit was ahead of expectations and Formation is seeking new projects to invest in so that it can increase its exposure to its own residential developments.

In the year to August 2015, revenues trebled to £23.8m. These mainly come from construction project management work on eleven projects. There was a swing from a £99,000 loss to pre-tax profit of £2.2m during the year. That profit includes £2.42m recognised from a profit share for the development of Norwich House and excludes a £219,000 loss on discontinued activities outside London. Formation did not generate cash from operations in the period, although there was a £4.6m final payment from the Aldgate Investment Funds. Part of the proceeds received from the Norwich House development was in the form of properties valued at £1.59m and there were other additions to inventories, including the Iverson Road project in West Hampstead. Net debt increased from £4m to £8.33m at the end of August 2015.

The Iverson Road project should be completed by August 2016 and will generate revenues this year. There will be further income from Norwich House as well. Revenues from the Iverson Road project can be ploughed back into other projects in London. Formation has already produced guidance that it should report a profit of more than £3.5m for 2015-16.

company news

KBC Advanced Technologies agrees £158m AspenTech offer

Refinery software and consultancy *www.kbcat.com*

US software company Aspen Technology Inc (AspenTech) has launched a £158m bid for oil and gas refinery software and consultancy provider **KBC Advanced Technologies**. The 185p a share cash bid has been recommended by the board. KBC has performed strongly despite the difficult conditions in the oil and gas sector but it believes that having a financially stronger parent will help.

The bid price is still less than half the peak in the share price in 1998, which was prior to KBC moving to AIM in June 2006. The offer is still about five times the share price of 36p when KBC moved to AIM, as well as being 49% higher than the previous closing price. The bid values KBC, which has £12m in the bank, at twenty times prospective 2016 earnings.

The bid is five times the price when KBC moved to AIM

AspenTech supplies software that optimises process manufacturing for the energy, chemicals, engineering and construction sectors. KBC's products and customer base in the oil and gas sector appears to fit well with AspenTech's existing business.

KBC ADVANCED TECHNOLOGIES (KBC)			183.75p
12 MONTH CHANGE %	+93.4	MARKET CAP £M	151.3

KBC has done well to restructure its cost base so that it is still growing its profit but the recent falls in the oil price would have brought additional pressures for an independent business.

Orosur Mining slashes cost base

Gold mining *www.orosur.ca*

Uruguay-focused gold miner **Orosur Mining** has cut back its costs substantially. This means that it should start to generate enough cash from operations to cover exploration costs. Staff levels have been cut by two-fifths and the board's cash remuneration has been reduced but the full benefit has yet to show through. There should be a $2m cost reduction in the rest of this financial year.

The restructuring has been completed and there should be no additional costs for this. All-in sustaining costs of production are just under $1,100/ounce, which is a significant fall from $1,258/ounce 12 months before. The latest figure is similar to the gold price received in the second quarter. The cost figure is on course to fall below $1,000/ounce when averaged out over the final nine months of the financial year. At the end of 2015, the President of Uruguay granted the company a one-year exemption from its 3% royalty payment to the government.

OROSUR MINING (OMI)			6.13p
12 MONTH CHANGE %	-49	MARKET CAP £M	5.15

Edison believes that gold production could be as high as 35,000 ounces in the year to May 2016 – Orosur has already produced 20,643 ounces – and then rise to 41,000 ounces the following year.

Orosur had cash of $2.6m at the end of the second quarter, down from $4.6m at the end of the previous quarter. However, the cost savings should enable the cash to remain at a similar level by the end of the financial year. The year to May 2017 is expected to be cash generative even if there is no significant upturn in the gold price. Edison forecasts net cash of $13.5m at the end of May 2017 but this does depend on the gold price.

Orosur's joint venture partner is financing exploration of its Anilo project in Chile. Orosur is investing in the development of the San Gregorio Deeps in Uruguay and it will be an important contributor next year. Orosur has done an impressive job of reducing costs and it is well placed to benefit if the gold price rises.

company news

Diversification helps NWF to maintain profitability

Agriculture and distribution *www.nwf.couk*

NWF (NWF)			170.5p
12 MONTH CHANGE %	+33.2	MARKET CAP £M	82.6

The benefits of the spread of activities showed through in the latest interims of **NWF**. Two parts of the business reported a small decline in profit while the agriculture division made up for this – helped by the acquisition of New Breed. The second half is likely to be difficult for the agriculture division as milk prices remain low but the other divisions should help to offset this.

Reductions in commodity and oil prices were behind the decline in revenues from £247.1m to £224.6m in the six months to November 2015. A lower interest charge meant that underlying profit improved from £2.5m to £2.6m. Net debt is always higher at the end of the first half than it is at the end of the year and it fell from £12.4m to £10.4m. In fact, without the £4.5m of acquisition spending in the period net debt would have been the same as at the end of May 2015.

Net debt fell to £10.4m

Agriculture remains the focus of expansion and this could prove a good time to be a consolidator. NWF is seeking acquisitions with proven management. A wider range of products and services is being offered but they are difficult to sell in current market conditions. New depots have been opened in the fuel division and these should make increasing contributions. Further geographic expansion is planned.

Peel Hunt forecasts a full-year profit of £8.3m, up from £8.1m last year, as the diversified nature of the business helps to offset the tough agriculture market. The shares are trading on 13 times prospective earnings and yield 3.3%.

Wynnstay continues progressive dividend policy

Agriculture and retail *www.wynnstay.co.uk*

WYNNSTAY GROUP (WYN)			515p
12 MONTH CHANGE %	-8.6	MARKET CAP £M	101

Agricultural products supplier and retailer **Wynnstay** is going to find this financial year tougher as the low milk price continues to hit farmers but it still believes that it can continue to increase its dividend. Dividends have grown each year since Wynnstay joined AIM more than a decade ago. The 2003-04 dividend was 4.5p a share and this year it could rise to 12p a share.

In the year to October 2015, revenues fell from £413.6m to £377.4m, with declining commodity prices offsetting some volume growth. There is a natural hedge in terms of the revenues of the agriculture division between the feed and arable operations and this helps to reduce the negative effects of the milk-price decline. The improvement in underlying profit from £8.7m to £9.05m was achieved even though there was a lower contribution from joint ventures and associates. Feed sales were 1.5% ahead last year despite the mild autumn; this reflects higher sales to the poultry sector. Seed sales were strong and feed raw materials trading performed well.

Retail revenues improved from £104.6m to £107.2m, while operating profit rose from £4.88m to £5.08m. Like-for-like revenues for Wynnstay stores were 1% lower, mainly due to deflation, and there was no contribution from the acquisition of eight stores in the West Country. The Just For Pets retail business reported a small like-for-like improvement.

Shore Capital forecasts a dip in pre-tax profit to £7.3m in 2015-16 but the increased dividend of 12p a share would still be covered 2.5 times. Net cash is forecast to rise from £2.1m to £3.5m at the end of October 2016. The shares are trading on 17 times prospective earnings and yield 2.3%.

Belvoir acquisitions start to pay dividends

Property lettings *www.belvoirlettingsplc.com*

Dividend

Property lettings and sales franchisor Belvoir Lettings joined AIM in February 2012 and it has consistently paid dividends since then. The total dividend for 2012 was 5.8p a share and it was raised to 6.8p a share in 2013 and then maintained at the same level in 2014. The latest interim dividend was maintained at 3.4p a share. The dividend was not covered by reported 2014 earnings but they should be enough to cover an unchanged dividend for 2015. Further growth in earnings will provide scope for increasing the dividend.

Business

Residential property rentals are a growing market and Belvoir is well placed to take advantage of increasing demand for private rental accommodation. Pension changes are making investors seek other investment opportunities and buy to let is one of these. Growth will come from adding new franchisees, acquiring lettings agents and increasing revenues from the estate agency sector.

Belvoir is building its own network of letting agents but it has also added other networks. The first to be added was Newton Fallowell, which has 31 branches in the East Midlands, at a cost of up to £6.38m – depending on profitability in the two years after acquisition. The second network was West Midlands-based Goodchilds, which cost £3.26m. Newton Fallowell and Goodchilds are a good geographic fit. Belvoir has also made smaller add-on acquisitions of one or two branches. There are 168 Belvoir branches and a total of 213 branches over all three networks.

BELVOIR LETTINGS (BLV)	
Price (p)	98.5
Market cap £m	30.1
Historical yield	6.9%
Prospective yield	7%

Belvoir was hit by uncertainty prior to last year's General Election, because of concerns about rent controls, and this meant that fees from the sale of additional franchises fell in the first half of 2015. Belvoir receives a management service fee from its franchisees and these were 14% higher at £1.76m but total revenues declined from £3.26m to £2.68m. There was a small decline in pre-tax profit to £747,000.

Estate agency revenues accounted for 5% of the total and last year's acquisitions will increase this figure although it still has some way to go to hit the target of 35% of revenues. Not all Belvoir branches are providing estate agency services yet. The second half tends to be stronger and Belvoir has confirmed that it is on course to make a full-year profit of £2.2m. There was £2.7m in the bank at the end of 2015. The full-year figures will be published on 4 April.

Belvoir raised £4.28m at 125p a share at the time of the Newton Fallowell acquisition and £3.6m at 116p a share when it bought Goodchilds. Since then the share price has dropped back. Cantor Fitzgerald forecasts a rise in profit to £2.9m in 2016, when the acquisitions will make a full contribution, which puts the shares on less than 12 times prospective earnings.

Dividend news

XLMedia followed up a positive trading statement by announcing a final dividend of 2.4956 US cents a share, taking the total for 2015 to 5.096 cents a share. The policy of the digital performance marketing services business is to pay at least 50% of retained earnings in dividends. XLMedia joined AIM in March 2014 at 49p a share and paid a dividend of 3.156 cents a share for 2014. In 2015, revenues grew 75% to at least $88.6m and EBITDA by 66% to at least $28.2m. The board has launched a strategic review in order to assess whether the business should be put up for sale.

Strong deal momentum means that online analytics and services provider **IS Solutions** will do much better than expected in the year to March 2016. The data analytics products are higher margin and two new contracts will add up to £2m to revenues and this led to an upgrade in earnings per share from 6.3p to 7.8p. On the back of this the dividend forecast has been hiked from 1.5p to 2p – based on expected dividend cover of around four times. IS Solutions should have net cash of £1.2m by the end of March 2016.

Replacement windows manufacturer **Safestyle UK** grew revenues by nearly 10% in 2015 despite the tough home improvements market. Pre-tax profit is estimated to have improved from £16.7m to £17.7m and the dividend should be increased from 9.3p to 10.2p. Despite this generous pay-out, Safestyle had net cash of £16.4m at the end of 2015. The cash pile will continue to grow. Net cash is expected to rise to £21.7m by the end of 2016. Up to £10m may be required for investment in the company's factory but house broker Zeus believes that there is potential to return around £10m of cash to shareholders.

expert views

Expert view: The broker

Immunotherapy: a turning point in cancer treatment

By VADIM ALEXANDRE

Cancer immunotherapy was a focal point of discussion at this year's annual JP Morgan Healthcare Conference in San Francisco in early January. This conference is the biggest industry event of its kind and it always provides key insights into emerging trends in healthcare.

Until recently, cancer treatments relied on non-specific methods of killing tumour cells, such as chemotherapy or radiotherapy, which cause serious side-effects due to their lethal effects on healthy cells within the body. With the recent development of target-based agents, primed to attack cancer cells only, less toxic and more effective treatments are now possible. New drugs in this group promise to greatly improve outcomes for cancer patients.

Cancer immunotherapy, which involves manipulating the immune system to recognise cancer cells, has become the most promising area in targeted treatment. Recent successes in this approach have revolutionised the field of oncology: thanks to immunotherapy, the treatment of cancer has the potential to become more effective, longer-lasting and far less invasive.

The immune system provides the body with a natural defence mechanism. Cancer cells normally trigger this mechanism, leading to an immune response which then destroys the deleterious cells before they can cause harm. However, these rebellious cells can sometimes evolve the ability to hide from the immune system and hence evade the body's natural defences. Such cells then multiply, form tumours and precipitate the disease.

Immunotherapy aims to reverse the ability of cancers to evade detection by the immune system. In so doing, the immune system is then able to mount a comprehensive response to these aberrant cells, deploying the full and multifaceted power of the body's potent natural defence mechanism against the cancer.

Today, a range of immunotherapeutic approaches are in use, or in development, which either stimulate or supplement a patient's own immune system to fight cancer, including: monoclonal antibodies; cancer vaccines; cytokines; and cell therapies. In addition to these, a central mechanism which cancer cells employ to hide from the immune system was recently uncovered, leading to a suite of successful new therapies known as checkpoint inhibitors.

> Immunotherapy aims to reverse the ability of cancers to evade detection by the immune system

Checkpoint inhibitors

The immune system relies on various self-regulating mechanisms to avoid overreaction and the targeting of healthy cells. These 'checkpoints' are key to the overall modulation of immune responses. It is now known that cancer cells leverage these checkpoints to evade the immune system, and effectively stay hidden. Two such checkpoints, PD-1 and CTLA-4, were recently identified as being instrumentally involved in the ability of tumour cells to avoid immune detection. These checkpoints have become successful targets for several approved and pipeline cancer immunotherapies, known as checkpoint inhibitors.

As a result of the huge success of the first checkpoint inhibitors – which only recently hit the market, generating billions of dollars in revenue in the first few years of sales—the market for cancer immunotherapies is now projected to reach $80 billion by 2020 and these drugs are soon expected to treat up to 60% of cancers in the developed world.

Also, due to the step change in efficacy associated with these drugs, regulators have allowed for a reduction in development times, making way for smaller, shorter and less expensive clinical trials. Consequently, there are currently over 450 ongoing clinical trials of cancer immunotherapies, and interest in the field is growing rapidly.

Creating enormous value

As a result of the recent improvements in treatment efficacy associated with the use of novel cancer immunotherapies, many major pharmaceutical companies are trying to establish a presence in this promising area of oncology. As such, several industry giants are seeking out partnering deals in the field, even in the licensing of pre-clinical compounds. Unsurprisingly, these deals have generated enormous value for first movers in this space, with deal values already running in the billions of dollars.

In the UK, a few AIM and fully listed companies operate in the area, including SalvaRx Ltd (3Legs Resources*), Scancell Holdings, Redx Pharma and Oxford Biomedica. All these companies present an opportunity for investors to get exposure to the space at reasonable valuations, as they are all grossly undervalued when compared with their US peer group.

**Northland Capital Partners Ltd acts as nomad and broker to 3Legs Resources*

VADIM ALEXANDRE is Director, Research, at Northland Capital Partners

feature

Main movers not guaranteed success

Graduating to the Main Market from AIM may appear to be an achievement but it does not guarantee that a company will grow in value.

Online gaming company GVC has become the 179th company to move from AIM to the Main Market, having completed the acquisition of its fully listed rival bwin.party. This was a few days after Camden Market property owner Market Tech made the switch.

That is a combined market capitalisation of more than £2.3bn that AIM has lost in a matter of days – 3% of the junior market's value.

Eleven companies made the move in the past two years, compared with five in the previous two years, suggesting that there is an albeit modest increase in interest in making the switch despite the mixed performances of those that have gone before.

VinaCapital Vietnam Opportunity Fund Ltd has been heading for a premium listing for the past few months but it has been delayed by the regulatory process in Guernsey. The transfer should happen by the end of March.

Switching markets

One hundred companies made the move within the first ten years of AIM but more than ten years later there is still some way to go to reach the next century. This is partly due to much smaller companies moving in the early days of AIM and even large companies are now much more comfortable staying on the junior market. Some companies, such as Lombard Medical, move to Nasdaq or other overseas markets instead of the Main Market. More companies have moved from the Main Market to AIM than the other way around, which was not the original intention.

Many of these companies were valued at much less than £100m. To put this in perspective, AIM as a whole was valued at £5.66bn at the end of 1997. The top four companies on AIM at the end of 2015 were worth more than £8bn. The average size of an AIM company at the end of 1997 was less than £19m and it is now £70m.

Four out of the 26 companies that moved from AIM to the Main Market and the Specialist Fund Market between 2011 and 2015 were valued at less than £100m and three were worth well over £1bn. The total market value of those 26 companies when they moved was £12.1bn. Their values when they joined AIM were little more than a quarter of that at £3.16bn.

> One hundred companies made the move within the first ten years of AIM

This includes four companies that had previously moved from the Main Market – Africa-focused trading business Lonrho, insulation supplier Cape, Avocet Mining and building products manufacturer Tyman. In fact, Tyman has gone back and forth between AIM and the Main Market. It started out as Dean Corporation, which joined AIM in September 1995 before initially moving to the Main Market in November 1997. The renamed Lupus Capital returned to AIM in April 2006 before becoming Tyman and switching to a premium listing in July 2013.

Some of the 179 companies are very different to when they started. Property developer Urban & Civic was originally Neill Clerk, which was not only one of the first companies to join AIM but was also one of the original nominated advisers.

There are 30 companies that moved from AIM to the Main Market that have returned. Around one-third of these moved at the peak of the technology market back in 1999-2000 so their valuations were inflated and when they fell they decided they were too small for a full listing. The latest company set to return to AIM is Tribal Group, which left in July 2002. Last December, the education software and services provider announced a rights issue and a proposed move to AIM but there has been no additional news since.

Four of the companies that moved in the past five years were subsequently taken over: Lonrho, Allied Gold, engineer and construction company Kentz and Central European property investor Ablon Group. That leaves 22 still trading on the market – eleven have a premium listing, eight a standard listing and three are on the Specialist Fund Market.

Online gaming software developer Playtech is the only one of the premium listed companies that has made it into the FTSE 250 index. The standard listed companies are not eligible for any FTSE index so car auctions operator BCA Marketplace cannot be included. Online payments systems operator Paysafe moved too late to be in the recent index review.

Even so, there are 15 former AIM

feature

companies in the FTSE 250 at the moment. They include self-storage company Big Yellow, Domino's Pizza and food wholesaler Booker.

One notable thing about the companies that moved from AIM in the past five years is how well nearly all of them did in their time on AIM in terms of growing their market values, whereas their total value since leaving is steady at £12.1bn, including the bid values of the four taken over, and that is mainly attributable a sharp rise in the value of Playtech. Eight of the traded companies have increased in value since moving and Kentz was taken over at a premium. The mining and property companies have undoubtedly dragged down the total valuation and others moved when the stockmarket was stronger.

Of course, these figures are for the value of the companies and not the performance of the share prices, which will be nowhere near as good because most of the companies will have issued shares to help them grow. However, it shows that moving to the Main Market does not guarantee further growth in the valuation of a company despite the idea that a wider range of investors will be interested.

MOVING TO MAIN

COMPANY	LEFT AIM	VALUE THEN (£M)	VALUE NOW (£M)	JOINED AIM	INITIAL VALUE (£M)
Lonrho	26/04/11	218.4	174.5*	26/02/01	20.9
Qatar Investment Fund	13/05/11	129.1	124.5	31/07/07	82.25
Cape	17/06/11	648.9	249.5	27/01/03	7.2
Allied Gold	30/06/11	407.5	360*	02/05/06	64
PPHE Hotel	30/06/11	93.5	273.1	17/07/07	225.2
Ablon Group	01/07/11	64.5	30.8*	07/02/07	262.5
Kentz Corporation	22/07/11	548.1	1164*	05/02/08	133.8
Utilico Emerging Markets	14/10/11	306.1	351.6	20/07/05	79.2
Avocet Mining	08/12/11	443.5	6.3	26/07/02	8.5
Petra Diamonds Ltd	21/12/11	585.3	431.3	30/04/97	8.8
Alpha Real Property Trust	23/03/12	192.5	58	21/12/06	75
Playtech Ltd	02/07/12	1011.1	2451.9	28/03/06	548.3
Canaccord Genuity	13/07/12	329.4	224.4	22/06/05	199.5
Sherborne Invs (Guernsey) B	07/05/13	212.2	361.7	29/11/12	207
Tyman	08/07/13	382.3	439.1	04/04/06	86.3
Gulf Keystone Petroleum	25/03/14	924.5	161.4	08/09/04	121.8
Africa Opportunity Fund	17/04/14	60.9	27.1	24/07/07	61
Urban & Civic	22/05/14	373	373	17/07/95	5
Green Dragon Gas	27/10/14	754.3	377.1	17/08/06	277.8
Goldbridges Global	19/12/14	69.7	37.7	10/06/04	10
BCA Marketplace	02/04/15	1225	1306.9	10/11/14	32.3
Nanoco Group	01/05/15	255.9	106.7	01/05/09	81
Zegona Communications	29/09/15	309.8	247.1	19/03/15	35.9
Bonmarche Holdings	19/10/15	151.3	89.3	20/11/13	110.3
PureCircle	28/10/15	745.7	701.3	11/12/07	172.1
Paysafe Group	23/12/15	1696.6	1960.8	14/04/04	239.6

* Takeover valuation

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	22.7	18.1
Consumer services	16.9	11.2
Industrials	14.8	16.7
Healthcare	14.8	8.2
Technology	9.7	10.8
Consumer goods	7.8	5.7
Basic materials	5.2	15.3
Oil & gas	5	11.1
Telecoms	1.9	1.4
Utilities	1.1	1.3

KEY AIM STATISTICS

Total number of AIM	1044
Number of nominated advisers	35
Number of market makers	50
Total market cap for all AIM	£73.1bn
Total of new money raised	£95.4bn
Total raised by new issues	£40.5bn
Total raised by secondary issues	£54.9bn
Share turnover value (2015)	£30.9bn
Number of bargains (2015)	5.73m
Shares traded (2015)	387.5bn
Transfers to the official list	178

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	693.7	+1.1
FTSE AIM 50	3800.79	+13.4
FTSE AIM 100	3263.13	+8.6
FTSE Fledgling	7369.3	+5.5
FTSE Small Cap	4364.76	-1.2
FTSE All-Share	3335.9	-8.6
FTSE 100	6083.79	-10.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	271
£5m-£10m	122
£10m-£25m	197
£25m-£50m	151
£50m-£100m	123
£100m-£250m	107
£250m+	73

TOP 5 RISERS OVER 30 DAYS

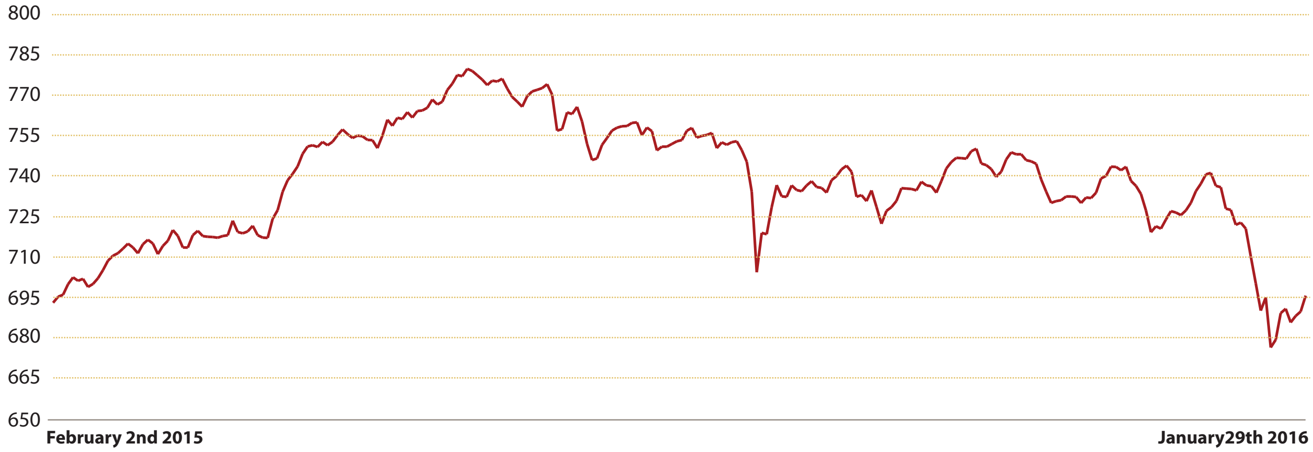
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Vitesse Media	Media	3.13	+177.8
Condor Gold	MIning	51	+134.5
7digital Group	Media	13.25	+86
Corero Network Security	Software	28.5	+83.9
Wishbone Gold	Mining	0.28	+83.3

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Independent Resources	Oil and gas	0.13	-82.8
Plexus Holdings	Oil services	57.75	-65.8
Independent Oil & Gas	Oil and gas	6.37	-58.2
Fusionex International	Software	155	-55.7
Aureus Mining Inc	Mining	2.62	-54.4

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st January 2016, and we cannot accept responsibility for their accuracy.

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We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to AIM Regulation as a result of discussions held. Our next Nomad Forum shall be held at our offices on the evening of Thursday 17 March 2016. We shall be sending invitations to nomads soon.

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