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AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

Upham in a Downs world

Hampshire-based pubs operator and brewer Upham Group plans to raise £12m when it floats on AIM. That is expected to value the company at up to £35m, which suggests that the issue price is likely to be near to the most recent ordinary share issue price of 140p. Upham also raised £5m from a preference share issue last year. The cash will enable Upham to buy more pubs and double the size of its estate to 30 pubs by 2021.

Revenues grew from £1.2m in 2012 to £12.2m in 2015. Upham has been loss-making but it made an EBITDA of £900,000 in 2015, although the depreciation charge is likely to more than halve that figure.

A review by Savills has increased the valuation of the pubs by £10.3m to £36.8m.

Upham chief executive Chris Phillips was involved in the early days of the setting up of the Slug and Lettuce pub chain. Upham has built up an estate of 15 food-focused pubs in the south of England, including the Wheelwright's Arms in Havant. These generate the majority of revenues but the South Downs-based brewery has been growing rapidly. The brewery has not been broken out in the intention to float announcement but revenues grew from £113,000 in 2012 to £619,000 in 2014 and it made its first profit in December 2014. Upham has increased its brewing capacity.

Johnson enhances profit

Linen-rental and dry-cleaning services provider Johnson Service Group will become one of the largest providers of linen to budget hotels and widen its geographical coverage following the acquisition of Afonwen for £52.6m and Chester Laundry for £3.3m. A placing at 90p a share raised £28.7m after expenses to help finance the acquisitions, while additional debt will take pro forma net debt to £117m.

Afonwen has well-invested laundry facilities in Pwllheli, Reading and Cardiff and a distribution depot in Leeds. In the year to August 2015, Afonwen generated an adjusted pre-tax profit of £6.4m

on revenues of £38.4m and it will be immediately earnings enhancing even after the additional shares are issued. The Chester acquisition will strengthen the northwest England operations and it should add £7.1m to annual revenues.

Johnson has made six acquisitions in little more than two years and this has enabled it to build up its presence in the budget hotels market, as well as enhancing the premium hotel linen and workwear rental operations. These acquisitions will help Johnson to more than double its profit between 2013 and 2016.

In this issue

02 GENERAL NEWS
Pharma floats

03 ADVISERS
2016 Small Cap Awards

04 NEWS
Nasstar branding

07 DIVIDENDS
Digital InterQuest

08 EXPERT VIEWS
AdEPT trading

09 EXPERT VIEWS
MARS Attacks?

10 FEATURE
Dividend growth

11 STATISTICS
Market indices and statistics

general news

AIM attracts pharma floats

There continues to be a flow of pharma and healthcare companies coming to AIM. Amryt Pharma reversed into Fastnet Equity last month and cancer detection technology developer Oncimmune Holdings plans to float on 10 May.

Amryt raised £10m, before expenses, at 24p a share and also inherited cash from the shell into which it reversed. Amryt owns the rights to Episalvan, a treatment for epidermolysis bullosa (EB), which is a disorder that leads to fragility of the skin. The treatment can also be used for burns and other wounds but management has identified EB as a niche market. Episalvan already has EU marketing approvals and Amryt will use the cash raised to finance a phase III study for EB. Amryt has an experienced management team and is already generating some revenues from

skin care product range Imlan. The strategy is to build up a range of treatments for orphan diseases.

Nottingham-based Oncimmune plans to raise £11m and the expected market value is £66m. Oncimmune has developed EarlyCDT technology that can test for the presence in the blood of autoantibodies against specific tumour-associated antigens and the company claims that these tests can detect cancer up to four years earlier than other diagnostic methods. The main subsidiary, Oncimmune Ltd, was spun out of Nottingham University in 2002 and lost £2m on revenues of £1.35m in the year to May 2015. Initial revenues have come from a test for lung cancer and Oncimmune is developing similar tests for liver and ovarian cancer. There are also plans for companion diagnostic tests.

Vernalis cash

Cough treatments developer Vernalis is raising £40m at 50p a share, which should enable the company to reach 2018 when it is expected to become cash generating. Even if, the point of cash generation is delayed there should still be enough cash to provide comfort for the business. Vernalis already had £54m in the bank at the end of 2015 but the additional cash will help to fund the US roll-out and additional promotion of the prescription-only, extended-release cough treatment Tuzistra XR and the relaunch of antibiotic Moxatag, as well as four cough-cold products with its partner Tris. A mild cough-cold season meant that initial sales of Tuzistra XR in 2015 were low and the prospects for Vernalis depend on how quickly these sales can be increased.

Morses Club arrives at AIM's door

Doorstep lender Morses Club was valued at £140m when it joined AIM on 5 May. Morses Club has more than 100 branches in the UK and 200,000 customers, who borrow between £100 and £1,000 for 20 to 78 weeks. The company plans to distribute the majority of its post-tax profit to shareholders in the form of dividends. Morses Club says that it generated a pre-tax profit of £16.8m in the year to February 2016.

Morses Club was 100% owned by investment company Perpignon and it raised £68.5m from selling existing shares in the placing. Perpignon sold Shopacheck

Financial Services to Morses Club for £69m in shares at the end of February 2015, having bought it one year earlier for £18m.

The risky nature of home-collected credit is highlighted by the high bad debt provisions. In the year to February 2015, the bad debt provision increased by £33.5m, possibly due to the Shopacheck acquisition. Net receivables from customers were £56.8m at the end of February 2016, while the unused loan provision was £36.1m at that time – a fall of £4.7m on the previous year – after £21.7m was written off during the period.

AIM-quoted Private & Commercial Finance's gross receivables for its instalment credit business at the end of March 2015 were £100m spread over a five-year period yet its loan-loss provision was less than £3m. The two businesses are different but this shows the difference in the requirement for provisions depending on the quality of the loan book. Of course, that is why the Morses Club interest rate is so much higher.

Schroders, Miton, JO Hambro, BlackRock and Soros Fund Management have all taken stakes via the placing at 108p a share.


advisers

Small Cap Awards Nominations

Antibodies supplier Bioventix, meat and delicatessen products retailer Crawshaw, speciality paper and technical fibres manufacturer James Cropper and telematics services and equipment supplier Trakm8, all of which are AIM-quoted, are on the shortlist for the company of the year at the fourth Small Cap Awards.

ISDX is the headline sponsor of the 2016 awards, which are being held at The Montcalm Hotel, Marble Arch, on Thursday 16 June. The awards

cover companies that have a market capitalisation of less than £150m and are quoted on AIM, ISDX and the Main Market. There is also an award for alternative financing of the year, which covers crowdfunding deals. There are eleven award categories in total.

The impact company of the year award, sponsored by the Social Stock Exchange, will be fought out between health properties developer Ashley House, ISDX-quoted employee-

owned business finance provider Capital for Colleagues, renewable energy supplier Good Energy, energy efficiency-focused investment company Menhaden Capital and ISDX-quoted art studios provider V22.

AdEPT Telecom's acquisition of Centrix (see page 8), 1PM's acquisition of Academy Leasing, Scientific Digital Imaging's purchase of Sentek and Venn Life Science's acquisition of Kinesis Pharma are in line for the transaction of the year award.

ADVISER CHANGES - APRIL 2016

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Kennedy Ventures	Shore	Shore/Cenkos	Grant Thornton	Cenkos	01/04/16
eServGlobal Ltd	finnCap	Canaccord Genuity	finnCap	Canaccord Genuity	04/04/16
MySQAR Ltd	SP Angel/Mirabaud/ Beaufort	Beaufort	SP Angel	SP Angel	04/04/16
Quantum Pharma	N+1 Singer/Zeus	Zeus	Zeus	Zeus	04/04/16
Polemos	Peterhouse / Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	05/04/16
Young & Co Brewery	Panmure Gordon/ JP Morgan Cazenove	JP Morgan Cazenove	JP Morgan Cazenove	JP Morgan Cazenove	06/04/16
Bushveld Minerals Ltd	Beaufort/Brandon Hill/Mirabaud	Brandon Hill/ Mirabaud	Strand Hanson	Strand Hanson	08/04/16
Port Erin Biopharma	Northland/ Peterhouse	Peterhouse	Northland	Beaumont Cornish	15/04/16
Ultimate Sports Group	Northland/Cantor Fitzgerald/Dowgate	Cantor Fitzgerald/ Dowgate	Cantor Fitzgerald	Cantor Fitzgerald	15/04/16
Eckoh	Berenberg/ N+1 Singer	N+1 Singer	N+1 Singer	N+1 Singer	18/04/16
Horizon Discovery Group	Numis/RBC Capital Markets	Panmure Gordon	Numis	Panmure Gordon	18/04/16
K&C REIT	Stockdale	Allenby	Stockdale	Allenby	18/04/16
Legendary Investments	Beaufort	Beaufort/Peterhouse	Grant Thornton	Grant Thornton	18/04/16
Mirada	Allenby	Arden	Allenby	Arden	18/04/16
Stride Gaming	Canaccord Genuity/ Shore	Cantor Fitzgerald	Canaccord Genuity	Cantor Fitzgerald	18/04/16
Kolar Gold Ltd	Smaller Company Capital/N+1 Singer	N+1 Singer	N+1 Singer	N+1 Singer	19/04/16
Majestic Wine	Liberum/Investec	Investec	Investec	Investec	19/04/16
Corero Network Security	Cenkos	finnCap	Cenkos	finnCap	20/04/16
Rotala	Cenkos	Numis	Cenkos	Numis	21/04/16
BMR Group	Peterhouse/ WH Ireland	WH Ireland	WH Ireland	WH Ireland	22/04/16
Faron Pharmaceuticals Ltd	Panmure Gordon/ Whitman Howard	Whitman Howard	Cairn	Cairn	22/04/16
Global Energy Development	finnCap	Northland	finnCap	Northland	25/04/16
Frenkel Topping	finnCap	Shore	finnCap	Shore	26/04/16
Armstrong Ventures	Peterhouse	Peterhouse	SPARK	Cairn	27/04/16
Powerhouse Energy	WH Ireland/ Vicarage Capital	Allenby/ Vicarage Capital	WH Ireland	Allenby	29/04/16
Prospex Oil and Gas	Beaufort/Peterhouse/ WH Ireland	Peterhouse/ WH Ireland	WH Ireland	WH Ireland	29/04/16

May 2016 : 3


company news

Nasstar expands its cloud offering into additional market sectors

Cloud services

www.nasstar.com

Cloud software services provider **Nasstar** is showing the benefits of its acquisition programme and it is investing in widening the range of sectors where it has a strong market position. Contracted monthly recurring revenues have increased from £942,000 to £1.2m during the year despite the loss of a couple of large customers.

Recruitment, legal and financial services are the main sectors where Nasstar has a particularly strong market position and it is building up its exposure to other sectors. The acquisition of Vesk strengthened the position in the logistics market as well as providing the G-cloud certification needed when dealing with government departments.

Kestrel Partners has increased its stake to 26%

In 2015, revenues increased from £11.2m to £13.8m and underlying pre-tax profit from £1.2m to £1.6m. Net debt was £5.1m at the end of 2015. There was £2.1m generated from operations but acquisition costs led to the net debt figure. A maiden dividend of 0.045p a share was announced.

Nasstar has built up a closer relationship with Microsoft. It has achieved Microsoft gold hosting partner certification for its datacentre operations and it will talk about how it went through the process in a webinar at 11am on 18 May and anyone

NASSTAR (NASA)		8.88p
12 MONTH CHANGE %	-3.5	MARKET CAP £m 34.1

interested can register at <http://bit.ly/MicrosoftGold>.

Kestrel Partners has increased its stake to 26%. There has been profit-taking since the results announcement. Nasstar is adding additional management and investing in a single brand for the group. This will increase costs and hold back short-term profit so this year's expectations have been downgraded. House broker finnCap forecasts a 2016 profit of £1.8m. That still leaves the shares trading on more than 20 times prospective earnings. A profit of £2.3m is forecast for 2017.

Investment will pay off for Focusrite

Audio equipment

www.focusriteplc.com

Music and audio products developer **Focusrite** has been widening its product portfolio but it is taking time for new products to build up their sales. The recently launched Bloc Waves app aimed at the electronic dance music market will also provide additional income.

Focusrite has around 10% of the international market but it is particularly strong in the mass market niche. Newer product ranges, such as Red interfaces, will increase the exposure to higher-priced equipment. Novation is focused on the electronic dance music equipment and software market and it is also launching a new

FOCUSRITE (TUNE)		157.5p
12 MONTH CHANGE %	-8.2	MARKET CAP £m 91.4

product range in the summer.

In the six months to February 2016, revenues were 9% higher at £25.9m and underlying pre-tax profit was flat at £3.7m. That profit figure is after stripping out exceptional costs of £537,000, down from £704,000, which relate to litigation that should be reaching a conclusion, and a swing from profit to loss on non-cash hedging movements. There was net cash of £4m and the interim dividend was increased from 0.6p a share to 0.65p.

There was a large increase in working capital as Focusrite stocked up on new products, where demand is difficult to predict. The other reason for the working capital increase was a doubling of credit terms for US distributors to 60 days. The US is an important market so this contributed to an increase in trade receivables of more than 50%.

It will take time for sales of the Focusrite Red product range to build up and profit is expected to slip from £7.2m to £6.7m this year. The profit is then expected to bounce back to £7.7m in 2016-17.



company news

Mid-cap focus provides additional earnings growth for Vietnam Holding

Vietnam-focused investment

www.vietnamholding.com

Vietnam is becoming an increasingly competitive international economy and its stock market outperformed the other main Asian markets last year, yet the ratings are still lower and the yields available are higher than the other markets. **Vietnam Holding** focuses on mid-caps which have strong growth prospects.

Large companies are moving manufacturing to Vietnam and the government wants more of the components to be made in Vietnam. Imports to China are growing. GDP growth is expected to be maintained at 6.7% this year. Corporate earnings are expected to grow by 8.8% in 2016 but the Vietnam Holding portfolio is forecast to grow earnings at double that rate.

Foreign investment is not as high

GDP growth is expected to be 6.7% this year

as it was in percentage terms back in 2008, although it has risen in monetary terms. It could reach \$16 billion this year. Further opening up of opportunities to foreign investors are planned. That could mean that foreign investors will be able to own up to 100% of a company in certain sectors. That will bring in additional cash to the Vietnamese stock market and increase demand for existing investments. There are also plans for further privatisations. The property market is recovering, with rapidly increasing demand for affordable and mid-market homes.

One of the reasons that Vietnam

VIETNAM HOLDING LTD (VNH)		\$112.2m
12 MONTH CHANGE %	+14.3	MARKET CAP £M 112.2

Holding has done relatively well is that it has a local management team that understands the local market. The management is also keen that the companies that it invests in are run properly and if it does not believe there is good corporate governance it will sell the shares.

The most recent net asset value was \$2.38 a share. That means that the shares are trading at a 16% discount to NAV. The share price has risen by nearly two-thirds over the past three years but the potential growth in the Vietnamese economy means that the share price could go higher.

Air quality concerns boost MayAir prospects

Air filtration equipment

www.mayairgroup.com

Air-filtration and clean-air equipment supplier **MayAir** has developed a significant position in the supply of clean-room equipment in China and it plans to grow in the commercial and residential markets on the back of concerns about air quality – rising car ownership in China is increasing pollution levels.

In 2015, revenues jumped from \$43.8m to \$63.6m and reported pre-tax profit improved from \$5.6m to \$6.3m as competition and increased costs hit margins. The two largest

MAYAIR (MAYA)		69p
12 MONTH CHANGE %	-47.9	MARKET CAP £M 29.3

customers contributed 47% of revenues, whereas last year the largest customer accounted for 15%.

In common with many companies that have most of their business with China the trade receivables are high. Non-China revenues are growing but are currently around 4% of the total. There was a \$3.7m cash outflow from

operations even though inventories were reduced. Thanks to the \$22.8m raised in last year's flotation, there was net cash of \$15m at the end of 2015. MayAir spent \$3.4m on land-use rights so that it can build its new factory in China.

The main uncertainty is whether MayAir can replace last year's large contributions from two clients either through a number of additional customers or another large one. The share price does seem to more than discount this concern.



company news

Inspiration Healthcare reversal provides base for international expansion

Medical technology

www.insiration-healthcare.com

Critical care technology distributor **Inspiration Healthcare** had a strong first year on AIM, with maiden results in line with upgraded profit expectations and strong growth forecast. Inspiration reversed into surgical warming products developer Inditherm last June in an all-share deal.

Stated figures include Inspiration for 12 months and Inditherm for part of the period. In the year to January 2016, proforma revenues were 15% higher at £13.1m and underlying profit improved from £308,000 to £1.1m, including other operating income of £295,000 and all of the Inditherm loss. There was £1.62m generated from operations during the year and net cash was £2.3m at the end of January 2016.

Inspiration initially focused on

Inspiration has an experienced management team

distributing other companies' products, which provided strong cash flow that was used to license products and to start to invest in the development of the company's own IP and products. The strong balance sheet enables Inspiration to increase this development spending.

Inspiration has a management team that is experienced in its niche market of neonatal intensive care and the level of service provided is important to winning business. There is an international client base although the

INSPIRATION HEALTHCARE (IHC)		55p
12 MONTH CHANGE %	+91.3	MARKET CAP £M
		16.9

NHS is still around 50% of revenues. Critical care is the biggest revenue generator but operating theatre and home health are both growing faster from a lower base.

Profit expectations for this year have been upgraded from £1.1m to £1.2m and earnings per share have been increased from 2.9p to 3.3p – helped by a reduction in the forecast tax charge. The shares are trading on 17 times prospective earnings, which looks full in the short term, but there is plenty of potential to grow the business as new products join the range.

Fishing Republic catches eye of investors

Fishing equipment retailer

www.fishingrepublic.net

Fishing equipment and consumables retailer Fishing Republic reported a flat underlying profit in 2015 but it is set to more than double its profit this year. The initial investments after last year's flotation are beginning to pay off and there are more consolidation opportunities.

In 2015, revenues grew from £3.39m to £4.12m, while underlying pre-tax profit rose from £295,000 to £305,000 – if £299,000 of flotation expenses are excluded. The second-half growth in revenues was 45% and online sales via the company's own website more than doubled in that period. Earnings per share declined

FISHING REPUBLIC (FISH)		29.25p
12 MONTH CHANGE %	N/A	MARKET CAP £M
		7.86

because of the additional shares in issue and the delayed return on the cash.

Fishing Republic raised £953,000, after expenses, at 15p a share last June and a further £500,000 at 16p a share at the end of 2015. This helped to finance the acquisition of Swindon-based Cotswold Angling and left Fishing Republic with £646,000 in the bank at the end of 2015 even though inventories have increased by more than a quarter to £2.45m – Cotswold

Angling added £133,000 of this figure.

This year will include contributions from three new stores opened in Hull (a replacement for a smaller site), Birmingham and Crewe. That takes the total number of stores to ten. The share price has nearly doubled since flotation. House broker Northland forecasts a 2016 profit of £663,000 and earnings per share of 1.9p, which would be 12% higher than the earnings for 2014, giving a prospective multiple of 15.

Anyone owning at least 25,000 shares can apply for a shareholder privilege card that offers discounts on purchases.



dividends

Digital expansion for recruiter InterQuest

Digital recruitment

www.interquestgroup.com

Dividend

IT and digital services personnel recruiter InterQuest raised £3m gross (£2.4m net) at 55p a share when it joined AIM in May 2005 and it paid its maiden dividend of 1p a share after it reported its 2008 figures, followed by 2p a share the next year. InterQuest has been paying dividends totalling 2.5p a share for five years until the latest year when the total was increased to 3p a share.

The dividend is expected to grow steadily from now on, with 3.13p a share forecast for this year and 3.31p a share for 2017. Recruitment is a cyclical sector but the dividend is currently well covered. The dividend cover is expected to rise to more than four by 2017.

Business

A new management team has taken the reins at InterQuest in the past six months. Chris Eldridge became chief executive and David Bygrave started as finance director. The previous management team had tried to agree a management buyout of the company but failed. Founder Gary Ashworth, who owns more than one-third of the company, remains chairman.

Chris Eldridge has a background in technology recruitment, particularly in high-growth areas such as digital, big data and analytics. The average salary for digital roles is 36% higher than the national average at £50,000. Cyber security is a particularly fast-growing area. Rising demand means rising pay, and therefore increasing fees and margins. InterQuest has specific brands focused on technology niches and there are plans to improve cross-selling between these businesses.

In 2015, net fee income increased by

INTERQUEST (ITQ)	
Price (p)	86.5
Market cap £m	31.1
Historical yield	3.5%
Prospective yield	3.6%

3% to £23.8m, while underlying pre-tax profit was 11% higher at £5m. The business is cash generative and the net debt was reduced from £8.3m to £6m by the end of 2015.

There has been a move towards permanent recruitment from contract but the latter is still two-thirds of the net fee income. InterQuest also has a managed service business called IQ Solutions, which provides outsourced recruitment services to five large corporate clients. This is a growing business with long-term contracts providing a more assured revenue stream than the other activities.

The InterQuest board admits that last year's failed management buyout means that the company has to regain the trust of investors. That provides an opportunity to invest when the share price is relatively low considering the growth potential.

House broker Panmure Gordon forecasts a 2016 profit of £5.6m, rising to £6.41m the next year. The shares are trading on less than eight times prospective 2016 earnings, falling to just over six times the following year. Acquisitions could supplement organic growth. InterQuest offers a more focused exposure to fast-growing digital recruitment markets than its quoted recruitment rivals, which have businesses covering a wider range of markets, many of which have more limited growth prospects.

Dividend news

Automotive testing and measurement products designer and supplier **AB Dynamics** continues to beat expectations thanks to its international spread of customers and it has increased its interim dividend by 10% to 1.21p a share. In the six months to February 2016, pre-tax profit was 50% higher at £2.26m on revenues one-third ahead at £10.1m. The £10.2m in the bank is more than enough to finance the new 33,000 square feet facility that should be ready in 2017. AB Dynamics continues to add products to its range and it is growing sales in China. Full year pre-tax profit is forecast to rise from £3.7m to £4.6m.

Self-storage operator **Lok'nStore** managed to grow while holding down its costs in the six months to January 2016 and it is investing in more new openings. Net debt was £25.8m at the end of January 2016 and a new £40m bank facility will provide the finance for capital investment in new sites. New stores will open in Southampton and Bristol during May. Even the document storage business is improving its profit. The interim dividend was increased by 15% to 2.67p a share. The underlying NAV is 307p a share.

Plastic building products manufacturer and supplier **Epwin** increased its total dividend by 50% to 6.37p a share even though trading conditions were tough in 2016 and revenues were flat. Exposure to the repair and maintenance sector means that demand has held up over recent years but not last year. In 2015, revenues were flat at £256m and underlying pre-tax profit improved from £18.8m to £19.6m. The final dividend is 4.25p a share and the shares do not go ex-dividend until 11 May. Recent acquisitions will help to boost this year's profit to £25.3m and the total dividend is expected to rise to 6.6p a share.

May 2016 : 7


expert views

Expert view: The broker

Positive trading at AdEPT

By Mike Jeremy

AdEPT Telecom* is a network-independent provider of voice and data telecoms services which has recently diversified into the provision of unified communications solutions particularly suited to multi-site businesses and public-sector organisations.

In a recent (5 April) trading update the Tunbridge Wells-based company said that it expected to post underlying EBITDA for the year to March 2016 of £6.15m, up 33% on 2015, and offer an increase in dividend from an expected 6p/share for the full year to 6.5p. Revenue is expected to be 30% above 2015 levels, i.e. at £28.7m. Strong cashflow generation also means that AdEPT says that it will report a reduction in net debt to £6.2m, £0.8m better than market expectations. AdEPT has a track record of growth through successful acquisition and integration, and retains a revolving credit facility from Barclays, estimated at £8.8m, with which to continue to augment growth through acquisition in what remains a highly fragmented UK telecoms market.

AdEPT launched its unified communications offering with the acquisition of Centrix in May 2015 for an initial cash consideration of £7m (plus a performance-based earnout of up to £3.5m). Centrix offers integrated communications solutions including hosted IP services and WiFi access, working closely with Avaya. In September 2015 Centrix was designated an Avaya Partner in Customer Excellence and in November added Avaya Certified Gold Partner status. It has one of the largest Avaya Aura customer bases in the UK, and specialises in providing separable communications and billing services to multi-tenanted sites. Centrix clients include financial services provider Fidessa, hotel chain Exclusive Hotels & Venues, healthcare groups including Healthcare of America and Benenden,

serviced offices provider Regus, Somerset House, and the London Borough of Islington Council.

AdEPT derives revenue from two operations: the provision of telephony services to consumers, estimated to contribute just over half of the 2016 total, and from the rapidly growing data and unified communications segment, including Centrix's offering. Overall, the company reports a 70% concentration of revenue in its Premier Customer category and in the first half of 2016 noted that managed services, including connectivity, hardware and contact-centre access, contributed 41% of the total.

AdEPT's telecom services operation is facilitated by a sophisticated client management system and has been a focus for acquisition activity in a segment which is otherwise highly regulated and has been subjected to wholesale price reduction. Whilst this continues to offer opportunities for selective acquisition,

The UK telecoms services market remains fragmented

the focus is on unified communications. As AdEPT describes this process, it has added the provision of services within the customer's premises to those which hitherto offered only external connectivity.

Client growth

Centrix itself is expected to generate 31% of 2016 revenue, rising to 34% in 2017. The concentration of growth and opportunity in unified services provision is underlined by an expanding client portfolio including a total of 35 local authorities (with a regional bias), and a range of universities including the University of Southampton, Lancaster University, University of Reading,

Oxford University and the University of Warwick. Overall, 24% of revenue is concentrated in public or healthcare-related segments (H1 2016). AdEPT has a framework agreement with the UK universities' Ja.Net high-speed research and education network which has the capability to provide optical spectrum access at up to 100Gbps into bandwidth-hungry student and academic environments. Indeed, the successful provision of solutions into demanding university environments attests to the quality of AdEPT's deployments, whilst it also has approved supplier status in four selected categories within the RM1045 Network Services framework for public-sector bidding.

AdEPT reports that year-end net debt should be £6.2m, which is significantly below market estimates, underpinned strong cashflow generation and a second-half proposed dividend raised from 3p/share to 3.5p/share.

The UK telecoms services market remains fragmented within a closely regulated environment designed to promote competition and services excellence. This is particularly suited to AdEPT as a highly efficient and acquisitive operator with clarity of target markets and a proven track record in cash generation.

**Northland Capital Partners Limited is the Nominated Adviser and Broker to AdEPT Telecom and therefore this information should be viewed as a marketing communication*



MIKE JEREMY is a director of research at Northland Capital Partners


expert views

Expert view: The lawyer

MARS Attacks – 'We come in peace'

By Simon Charles

Tim Burton's science fiction comedy film *Mars Attacks* came out in 1996, a year after AIM was launched. In the film, humankind survived because the heads of the invading Martians exploded after they heard a certain song. AIM has released its response to the EU Market Abuse Regulation (MAR). There had been a fear among practitioners that the effects of the implementation of MAR and their interface with the AIM Rules might have a similar effect. The fear is not misplaced.

MAR takes effect on 3 July 2016. It will affect in material terms the rules on directors' (and others') dealings in interests in shares and how companies must deal with inside information. The AIM Rules will be amended to accommodate MAR. The FCA (Financial Conduct Authority) is the responsible enforcement authority in the UK for breaches of MAR. Added to the regulatory mix is secondary legislation and guidance on MAR to be issued by ESMA (the European Securities and Markets Authority). Unlike the Market Abuse Directive, MAR applies to AIM as it applies to companies with their securities traded on a multilateral trading facility; there are no exemptions for AIM.

Article 17

An analysis of each of the key points of MAR affecting AIM is beyond the scope of this article so I will focus on Article 17 (MAR 17), which deals with when an issuer may delay announcing inside information. This has caused some disquiet and confusion among nomads and their clients. The new provision obliges an issuer to inform the FCA when it discloses information to the market on a delayed basis and, if the FCA requires an explanation, why that delay was felt to be justified.

It shall be permissible to delay making an announcement if:

- Immediate disclosure of the information is likely to prejudice the issuer's legitimate interests; and
- The delay is not likely to mislead the public; and
- The issuer is able to ensure that the inside information remains confidential.

ESMA's draft guidelines provide helpful examples as to when the first two of the three conditions above may be met: for example where the issuer is conducting confidential negotiations whose outcome would be compromised by a public announcement, and where the issuer has developed a product or invention whose immediate public disclosure is likely to jeopardise intellectual property rights.

AIM has produced draft changes to the AIM Rules to address other MAR issues, but has decided to retain AIM Rule 11, which provides that an AIM company must disclose "without delay... any new developments which are not public knowledge which, if made public, would be likely to lead to a significant movement in the price of its AIM securities". This includes a change in its financial condition, sphere of activity, business performance or expectation of its performance. There is a similarity to MAR 17. An AIM company is not obliged to announce "impending developments or matters in the course of negotiation".


One option would have been for AIM to delete AIM Rule 11 and to import/apply MAR 17. However, it proposes instead to amend the guidance notes to AIM Rule 11 to say that AIM companies must also comply with MAR 17. Although there is overlap between the standards, there are also differences and it is not that difficult to see circumstances where an AIM company's compliance with MAR 17 might nevertheless put it in breach of AIM Rule 11.

AIM's position is clear – that AIM companies shall not find themselves safe harboured on AIM Rule 11 simply by taking legal advice as to MAR 17 – they shall expect AIM companies to have taken advice from their nomads and for this to be provided after due consideration. AIM has reminded the market that it shall in any event "continue to" liaise with the FCA.

Possible crossfire?

It is easy to see how nomads might be caught in regulatory crossfire between their duties to the Exchange and the FCA and in commercial crossfire where an AIM company's position is that as a matter of law it is not obliged to make a MAR 17 disclosure but is advised by a nomad that it is required to make an AIM Rule 11 disclosure. An AIM company in that circumstance would no doubt ask the nomad to liaise with the FCA on the point; nomads would no doubt beware not to overreach themselves and might also wish to ensure their terms of engagement do not oblige them to do so – AIM companies might wish nomads expressly to assume the obligation.

Unless AIM Rule 11 is amended to conform more closely to, or be replaced with, MAR 17, there is potential for confusion. It might, however, be argued that MAR 17 actually imposes a lighter disclosure obligation on AIM companies, which might also be an unspoken justification, and a quite understandable one if that were to be the case, for AIM's complete retention of AIM Rule 11.

 SIMON CHARLES is a corporate partner of Marriott Harrison LLP and advises public and private companies, nomads, sponsors, brokers and private and institutional investors


feature

AIM for dividend growth

Anyone seeking income growth should not be looking at the FTSE 100 because the best dividend growth prospects are in smaller companies, particularly those on the junior market.

AIM is not generally thought of as a market that provides plenty of income-producing investment opportunities but this has been a misnomer for a number of years. Around one-fifth of AIM companies have been paying dividends for years and if the mining and oil and gas exploration companies are taken out the figure is probably nearer to one-third.

According to research by Peter Ashworth of broker Stockdale Securities, AIM's dividend growth

already declared in the first quarter of 2016.

The figures indicate that dividend growth has been outstripping the earnings per share growth but there does not appear to be any concern about dividend cover. Smaller companies also offer better growth prospects than their larger counterparts, suggesting that their dividends could continue to grow faster than those of large companies. That depends on the economy, of course.

in particular, the larger AIM companies that are more likely to pay a dividend, has outperformed the FTSE 100 index, which has declined in the past year.

The FTSE 100 dividend growth rate of 4% on a dividend of 4.1% is not too bad considering the low interest income on cash but it falls significantly below the 12.8% growth expected for AIM or even the 11% increase for the smaller companies on the Main Market.

In some cases, an index does not have a significant exposure to certain sectors so the sector breakdown in the table may not always provide relevant information. For example there are not many telecoms and utilities companies on AIM and there are limited dividend payers in the resources sectors. Special dividends can also skew the figures from year to year.

What the figures do show is that AIM companies in the consumer, industrial and financials sectors offer attractive dividend growth. The levels of growth have tended to vary substantially from year to year, although the industrials sector has been the most consistent.

Interestingly, the figures suggest that the technology sector provides less scope for dividend growth on AIM. That is probably because there are a number of early-stage technology companies which do not pay dividends yet. Software companies, such as Sanderson and K3 Business Technology, are growing their dividends at faster rates, although the latter's growth is from a low base.

Of course, these are figures for broad sectors and investors can choose companies that have records of consistently growing their dividends.

AIM's dividend growth rate in 2016 is expected to be 12.8%

lagged behind in 2013 but it was better than for most of the main indices for the Main Market in 2014 and 2015 and it is set to do much better than them this year. The analysis is based on the level of dividends

Admittedly, AIM still lags behind when it comes to dividend yield. AIM's 2015 dividend yield was 1.6%, whereas the FTSE Small Cap yield was nearly double that at 3.1% and the FTSE 100 yield was 4.1%. Remember, AIM and,

DIVIDEND GROWTH RATES (%)			
INDEX	AIM	FTSE SMALL CAP	FTSE 100
Total	12.8	11	4
Sectors			
Basic materials	-16.2	-4.8	-30.5
Consumer goods	20.4	5	10.2
Consumer services	27.8	13	9.2
Financials	14.3	18	5.1
Healthcare	-32.2	-2.8	0.2
Industrials	14.9	7.8	9.3
Oil and gas	-47.9	-28.3	3.8
Technology	9.2	93.6	14.2
Telecoms	11.4	5.2	7.7
Utilities	10.3	na	1.3



statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	22.3	17.8
Consumer services	17	10.7
Industrials	14.9	17
Healthcare	13.8	8.4
Technology	9.9	11.2
Consumer goods	8.2	5.8
Basic materials	5.8	15.3
Oil & gas	5.4	11.1
Telecoms	1.7	1.5
Utilities	0.8	1.3

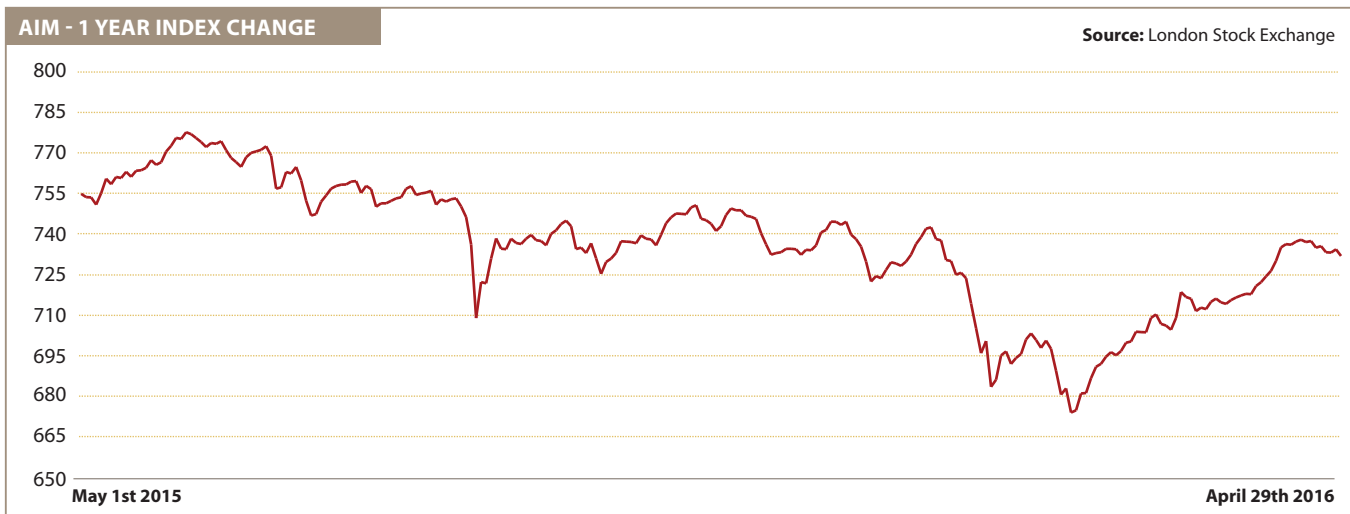
KEY AIM STATISTICS	
Total number of AIM	1020
Number of nominated advisers	33
Number of market makers	48
Total market cap for all AIM	£70.8bn
Total of new money raised	£96.2bn
Total raised by new issues	£40.8bn
Total raised by secondary issues	£55.4bn
Share turnover value (2016)	£6.9bn
Number of bargains (2016)	1.36m
Shares traded (2016)	87.7bn
Transfers to the official list	179

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	727.71	-3.3
FTSE AIM 50	3955.07	+1.7
FTSE AIM 100	3391.45	-0.5
FTSE Fledgling	7759.24	+1.5
FTSE Small Cap	4589.05	-1.3
FTSE All-Share	3421.7	-8.9
FTSE 100	6241.89	-10.1

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	252
£5m-£10m	130
£10m-£25m	191
£25m-£50m	155
£50m-£100m	119
£100m-£250m	106
£250m+	67

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
GCM Resources	Mining	17.75	+305.7
Greatland Gold	Mining	0.31	+264.7
Petro Matad Ltd	Oil and gas	6.88	+205.6
Imaginatik	Software	5.5	+193.3
Strategic Minerals	Mining	0.33	+170.8

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Snoozebox	Leisure	0.4	-84.8
Ascent Resources	Oil and gas	1.62	-77
Andalus Energy and Power	Resources	0.3	-73.8
Strat Aero	Technology	1.13	-72.7
Outsourcery	Technology	4.5	-56.1



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2016, and we cannot accept responsibility for their accuracy.

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Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It has excellent connections with investors, providing them with equity research, advice and trading services. Northland has assembled

a team of highly motivated and experienced professionals that aims to deliver unparalleled service to our clients.

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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.

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law firms stand us in good stead in advising on legal issues arising out of corporate finance transactions. Two of the partners in the team, Simon Charles and Andrew Williamson, formerly worked as nomads and Main Market sponsors. The team has international capability, with particular expertise in the film and television production, healthcare and life sciences, leisure and hotels, technology, music, recruitment,

renewables and cleantech, resources, retail and telecoms sectors.

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.

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MOBILE / TEL: 07729 478 474 / 020 8549 4253

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SPONSORSHIP & ADVERTISING aimjournal@hubinvest.com
or telephone 020 8549 4253

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