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In this issue

EMIS sells non-core division

Healthcare IT supplier EMIS has sold its non-core specialist and care division for £14.9m, including £900,000 of contingent consideration, which is more than its net assets of £8m. Northgate Public Services, which is part of NEC, is the buyer.

The division provides diabetic eye screening services and generated revenues of £20.4m and operating profit of £1.1m last year. Group net cash was £15.6m at the end of 2018, so this disposal will strengthen the balance sheet, but it will be difficult to initially replace the lost profit.

EMIS has sorted out its problems with NHS Digital and grew 2018 group revenues by 6% to £170.1m, including specialist and care, of which £140.7m was recurring. Underlying earnings per share were flat at 47.4p, although the dividend was increased by 10% to 28.4p a share.

Each division increased its revenues, but the main growth in profit came from the community pharmacy division. The patient division, which is developing a digital health platform, made a higher loss because of additional investment. This investment will continue. EMIS needs to secure its place on the GP IT futures framework and there should be news about this in the next few months.

Diversified enhances cash flow

Diversified Gas and Oil has come back to investors for more cash and raised £176.8m at 117p a share in order to help finance the $400m acquisition of HG Energy II Appalachia. This will be immediately earnings per share and cash flow per share enhancing.

Diversified Gas focuses on assets in the Appalachia region of the US. The pro forma net average production will increase to more than 90,000 barrels of oil equivalent per day when the deal goes through and this will help to reduce operating costs per barrel. To put this in perspective, that is more than Premier Oil produced last year.

There will be a general meeting held on 17 April to get shareholder approval for the placing and acquisition. Trive Capital has sold its remaining stake of 12.5 million shares at the same time as the company's placing, having sold 22.5 million shares at the end of 2018.

This is the fifth fundraising since the company joined AIM when it raised £39.7m at 65p a share. The most recent placing was last summer, when it raised £189.5m at 97p a share. Since it floated, Diversified Gas has paid more than 22 cents a share in dividends. The company's dividend policy is to pay 40% of excess cash flow in dividends.

general news

Majestic Wine's Naked future

Majestic Wine plans to sell the eponymous retail chain and concentrate on its Naked Wines brand online business, which was bought four years ago. The news of the divestiture of the original business and higher investment spending in Naked led to forecast downgrades. There will be further news when the full-year results are announced in June.

Management is seeking a buyer for the Majestic Wine chain although there is no guarantee that a suitable acquiror can be found for the whole business. Management expects the costs of exiting the retail business will be covered by cash from asset disposals. Some of the sites may have to be closed and there may be others retained as Naked outlets. The commercial business and Lay and Wheeler are also up for sale.

Naked has helped to increase the group's international revenues. The strongest growth is likely to come in the US, but there is also still scope for growth in the UK and Australia. Annual marketing spending on Naked will be increased from £20m to £26m.

The figures for the year to March 2019 will not be affected by the change in strategy and pre-tax profit is forecast to fall from £17.2m to £11m. However, the 2019-20 pre-tax profit had been expected to recover to £15m but Peel Hunt has downgraded the figure to £11m. The broker has also slashed its forecast dividend from 5.5p a share to 2p a share. These forecasts are for the group as it currently exists.

Oslo-based Protector frosikring ASA reduced its stake from 6.1% to 3.95% after the announcement.

Project Heather

Project Heather is attempting to launch a social and environmental impact focused stock exchange in Scotland by the end of 2019. The firm Bourse Scot was set up last June by former Social Stock Exchange boss Tomas Carruthers and Kirkman Ltd, where he is a director and major shareholder, is deemed to be a person with significant control because it has more than 75% of the shares and can appoint directors. Scotland has not had a stock exchange since 1973 when the Glasgow-based market merged with the London Stock Exchange. A new market could lower the cost of capital for Scottish firms. A breakfast meeting is being held on 10 April at Edison Group, 280 High Holborn, London. Tickets can be booked here.

Diaceutics gets premium rating

Pharma data analysis and advice provider Diaceutics went to an impressive premium when the shares commenced trading in March after a placing at 76p each. A limited number of shareholders own more than three-quarters of Diaceutics. This limited liquidity helped to push up the share price, which reached 103.5p by the end of March. Diaceutics has enormous potential, but that is already priced-in – at least in the medium term.

Northern Ireland-based Diaceutics provides data analysis and advisory services that help pharma companies developing diagnostic tests to do this more quickly and effectively, and then maximise profit and revenue potential when they are launched commercially. The focus is tests that enable clinicians to identify personalised medicines that will successfully treat a specific individual. Diaceutics has developed the software it uses to analyse data it has collected. The overall market for the company's services could reach $2.5bn by 2023.

There was £15.2m raised after expenses and £5.5m will be spent on acquiring more data and artificial intelligence analysis. More than two-thirds of the company's data relates to oncology and there is potential to broaden the data to other medical areas.

The current development focus is SaaS-based product NEXUS and £3m will be invested to complete the cloud-based portal, which should be up and running in 2020. Debt will also be paid off. Net debt was £1.7m at the end of 2018.

Twenty out of the 30 largest global pharma companies are clients and Diaceutics is keen to expand internationally. North America and Europe provide most of the company's revenues and there is an untapped market in Asia, where a Singapore office has been opened. Revenues increased from £4.59m in 2016 to £10.4m in 2018, while underlying pre-tax profit improved from £785,000 to £1.08m. In 2018, there was £1m of capitalised development spending.

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advisers

Uncertainty continues to hamper brokers

AIM brokers are continuing to find trading conditions tough, with economic uncertainty knocking investor confidence. There are potential flotations and corporate deals, but it is difficult to assess when they will come to fruition.

Shore Capital has completed its takeover of Stockdale. In 2018, Shore reported a 3% rise in revenues to £43.3m, but pre-tax profit fell from £4.6m to £4.1m. Capital markets division revenues fell from £27.2m to £25.5m, following a difficult fourth quarter, while profit declined from £5.19m to £4.06m. Income from corporate clients and transactions increased. Market making remained profitable on lower revenues.

Numis says that its interim revenues declined by 26%, although the comparative period was a strong one. The overall revenues are also 11% lower than the second half of the year to September 2018, although corporate broking and advisory revenues were maintained. Market making lost money in the first half. Edison reduced its 2018-19 earnings per share forecast by 11% to 15.8p.

In 2018, revenues fell from £59.5m to £45m at Cenkos Securities, while pre-tax profit was more than two-thirds lower at £3.15m. The total dividend has been halved to 4.5p a share. There is cash of £33.6m on the balance sheet. Cenkos says the start to this year is better than in 2018.

Arden Partners continues to win new clients and has completed deals this year.

Broker WH Ireland raised £4.95m at 45p a share in order to boost its regulatory capital and provide working capital. Trading has not improved, and the second-half operating loss will be higher than in the first half. Ongoing costs are being reduced and additional exceptional costs have been identified.

■ Citigroup Capital Markets has asked to be removed from the register of nominated advisers.

ADVISER CHANGES - MARCH 2019

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
IMImobile	N+1 Singer/Investec	Investec/Whitman Howard	Investec	Investec	01/03/19
Modern Water	Turner Pope	WH Ireland/Turner Pope	Cairn	WH Ireland	07/03/19
Prospex Oil & Gas	Novum/Peterhouse	Peterhouse	Strand Hanson	Strand Hanson	12/03/19
Codemasters	Jefferies/Liberum	Liberum	Liberum	Liberum	13/03/19
Duke Royalty	Cenkos	Mirabaud/Cenkos	Cenkos	Grant Thornton	14/03/19
Chaarat Gold Holdings	SP Angel/Numis/ BMO	Numis/BMO	Numis	Numis	18/03/19
Integumen	Turner Pope	Hybridan	Spark	Spark	18/03/19
ATTRAQT	Canaccord Genuity	N+1 Singer	Canaccord Genuity	N+1 Singer	20/03/19
Ceres Power	Investec/Berenberg	Zeus/Berenberg	Investec	Zeus	22/03/19
Falanx Group	Stifel Nicolaus/ Turner Pope	Turner Pope	Stifel Nicolaus	Spark	22/03/19
President Energy	Whitman Howard/ Panmure Gordon	Panmure Gordon/ finnCap	finnCap	finnCap	25/03/19
Koovs	Whitman Howard	Peel Hunt	Strand Hanson	Peel Hunt	26/03/19
MySale Group	N+1 Singer	N+1 Singer/Zeus	N+1 Singer	Zeus	26/03/19
Venn Life Sciences	Arden/Davy	Cenkos/Davy	Arden	Cenkos	26/03/19
Base Resources	Berenberg/Numis	Numis/	RFC Ambrian	RFC Ambrian	27/03/19
SEC	Arden	WH Ireland	Arden	WH Ireland	28/03/19
Kromek	Cenkos	Cantor Fitzgerald/ Cenkos	Cenkos	Cenkos	29/03/19

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company news

Aquis Exchange doubles market share after raising its profile with flotation

Equities exchange operator *www.aquis.eu*

European equities exchange operator **Aquis Exchange** not only raised cash when it joined AIM in June last year, it also raised its profile. This helped to increase activity in the second half of 2018 and accelerate growth in revenues. The share price has more than doubled from the 269p placing price nine months ago.

The Aquis exchange has a subscription pricing model. The subscription is based on the level of trading by a trading member, but there are significant savings compared with individual charges for each trade. There are 27 trading members. Market trades and prices are transparent without delays and Aquis has a policy preventing aggressive trading by firms. Aquis doubled its market share to 3.8% last year. More equities are being added to the platform and this will also help to grow market share.

There is £11.6m in cash

First-half revenues were £1.5m and second-half revenues were £2.5m, which on its own is more than the £2m generated in 2017. Subscription fees increased from £1.71m to £3.1m. There was an initial contribution from data vendor fees.

There is also potential to grow income from licensing the company's technology. These revenues more than doubled last year and could do again this year. The latest deal is with AkinovA Marketplace, which is developing an electronic marketplace for reinsurance risks and intends to incorporate the Aquis matching engine and surveillance tools.

AQUIS EXCHANGE (AQX)	590p		
12 MONTH CHANGE %	N/A	MARKET CAP £M	160.2

Aquis has gained French regulatory approval so that it can continue to trade with members in the EU. Brexit is expected to increase costs by 5%.

There was £11.6m in the bank at the end of 2018, having raised £12m in the flotation, and there is expected to be £9.6m left by the end of 2019. A halved loss is expected this year, before a move into profit in 2020. Even so, Aquis would only be scratching the surface of its potential market.

Brave Bison moves into profit

Social video *www.bravebison.io*

Online video channels and content creator **Brave Bison** has moved into profit and the cash in the bank could be used to make acquisitions by newly appointed chief executive Kate Burns.

In 2018, revenues grew 19% to £21.2m and a loss of £945,000 was turned into a profit of £830,000. The growth came from advertising revenues, which grew 43% to £17.8m. Advertising revenues were helped by the Ad Breaks technology developed by Facebook, which adds new revenue streams. The video channels reach one million people. The company has launched new channels in its network, including Mutha (sustainability) and Perk (careers advice), and that will help to continue to widen the overall reach. A lost contract hit fee income, which fell by 37%, but this should recover thanks to deals in Asia Pacific.

BRAVE BISON (BBSN)	2.4p		
12 MONTH CHANGE %	+242.9	MARKET CAP £M	14.5

There is £5.4m in cash in the balance sheet, which is more than one-third of the market capitalisation. Brave Bison is continuing to invest in its business and there should be modest cash generation this year.

The share price has not been helped by the finance director selling nearly 50% of his shares. Simon Davies has increased his stake to 7.07%. A 2019, pre-tax profit of £1m would put the shares on 15 times prospective earnings, with the prospect of further organic and acquisitive growth.

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company news

Franchise Brands set to benefit from restructuring and investment in Metro Rod

Franchise services *www.franchisebrands.co.uk*

Franchise Brands spent much of 2018 restructuring the Metro Rod drainage and plumbing operation, although the full benefits of the restructuring of the business and IT investment are still to show through.

Generation of sales will be transferred from the group to individual franchisees following the cloud-based IT investment and this should help to grow local sales. A work management system is also being trialled. A national advertising fund, which franchisees contribute to, was launched one year ago. Metro Plumb provides cold-water plumbing services, such as repairing leaking pipes. The majority of these franchises are owned by Metro Rod franchisees and 90% of work is for insurance companies.

Franchise Brands had a full 12-month contribution from the Metro Rod business acquired during 2017. Metro Rod generates around 50% of EBITDA before central costs, following a pro forma increase of 37%, and it is likely to become even more dominant.

Net debt is set to fall to £3.4m

Group fee income grew from £12.7m to £17.9m, while underlying pre-tax profit improved from £2.1m to £2.9m. The dividend was raised from 0.5p a share to 0.67p a share, which is covered 2.5 times by earnings.

The performance of the older businesses was mixed. Barking Mad reported a 14% decline in EBITDA, while the contributions of Ovenclean and ChipsAway, were flat. They added fewer new franchisees than in the previous year. The ChipsAway car panel repairs business is probably the only one with significant growth prospects as it transforms from a van-based operation to car-care centres.

FRANCHISE BRANDS (FRAN)			74.5p
12 MONTH CHANGE %	+5.7	MARKET CAP £M	57.7

The changes made to the Metro Rod business should help to generate organic growth this year. Allenby forecasts a rise in pre-tax profit to £3.5m in 2019, which values the shares at 20 times prospective earnings.

Net debt is set to decline from £5m to £3.4m, although that assumes no acquisitions. The group is in a strong position to seek more acquisitions, particularly ones that add to the services provided by Metro Rod.

Science in Sport accelerates towards profit

Nutrition products *www.scienceinsport.com*

Sports nutrition products supplier **Science in Sport** has acquired the profitable PhD Nutrition business. This adds premium protein products and sales in more than 45 countries as well as increasing the addressable market for the group to more than £10bn a year.

PhD cost £32m and was partly funded by a £29m share issue at 60p each. In the year to August 2018, it generated revenues of £20.8m and EBITDA of £2.8m. Investing in the Nelson factory will enable Science in Sport to bring protein powder production in-house.

SCIENCE IN SPORT (SIS)			52p
12 MONTH CHANGE %	-31.1	MARKET CAP £M	63.9

A 37% increase in 2018 revenues to £21.3m included a 25-day contribution from PhD. There was growth in all regions. The company's ecommerce platform grew revenues by 40% and 54% of revenues come from online sources. PhD does not generate as much of its sales online and this can be improved. The underlying pre-tax loss increased from £2.27m to £3.47m. The core UK and European distributor-focused business increased its profit contribution, but there was a start-up loss for the new football-focused division.

There was £8m in the bank at the end of 2018 and that should be enough for current requirements. Science in Sport is expected to lose money this year, but the cash outflow should reduce, and it could move into profit in 2020 – which was not expected before the PhD acquisition.

company news

ASOS still has much to prove in order to achieve its forecast guidance

Online fashion retailer *www.asosplc.com*

Online fashion retailer **ASOS** is continuing to outperform the UK market even if the growth rate is not what was expected six months ago. Guidance remains 15% revenue growth and a 2% operating margin for the current year. However, the latest trading statement has led to concerns about the US and that second-half trading is required to be better to achieve that guidance.

The overall growth in revenues of 13% in the second quarter, or 11% in constant-currency terms, was in line with the first quarter, but at the bottom of the range of expectations.

In the first quarter, the fastest growth was in the UK – 19% higher year on year - although Europe and North America also grew in double-digit percentages. The UK continued to grow strongly in the second quarter with a 14% increase.

ASOS could not cope with US demand

ASOS (ASC)			3200p
12 MONTH CHANGE %	-45.3	MARKET CAP £M	2683

European revenues grew by 12% in the second quarter, helped by positive currency movements. The markets in France and Germany remain tough, though. Offsetting the slowdown in progress elsewhere was 20% growth in the rest of the world, which had been the weaker region in the first quarter.

There were logistical difficulties in the US and revenues would have been lower without the favourable move in the £/$ exchange rate. ASOS could not cope with demand in its warehouse and shipments were delayed. The warehouse in Atlanta was operating for a few weeks of the period and demand was stronger than expected. That is good, but not if customers have been annoyed and put off coming back.

ASOS says that momentum is being rebuilt in the US, but this will be an area where investors will want confirmation of improvement in future trading statements. The US will be important in meeting full-year expectations.

First-half revenues rose by 13% to £1.28bn and gross margin has started to improve, even though it is still expected to decline for the year as a whole. ASOS appears on course for a full-year pre-tax profit of around £55m. That puts the shares on 60 times prospective 2018-19 earnings, falling to 42 next year.

Portmeirion's international progress

Ceramic products *www.portmeirion.co.uk*

Ceramic products supplier **Portmeirion** increased its 2018 pre-tax profit by 10% to £9.7m and a further rise to £10.3m is forecast for this year.

Revenues were 6% higher at £89.6m. The UK remains the largest market, followed by the US. The fastest growth was in South Korea, where revenues were a quarter higher. There was a dip in sales to the rest of the world, which was mainly down to India, where

PORTMEIRION GROUP (PMP)			1095p
12 MONTH CHANGE %	+16.2	MARKET CAP £M	119.1

Portmeirion has been reducing its exposure because products were being re-exported to other markets. Online sales are growing rapidly from a relatively low base. The home fragrance business is doing well, and capacity is being added. The total dividend was raised by 8% to 35.7p a share. Net cash was £2.2m at the end of 2018.

Churchill China and Portmeirion bought the stake in ceramic materials supplier Furlong Mills that was owned by Dudson. Churchill paid £454,000 for 9.5%, taking its stake to 55.6%. Portmeirion spent £363,000 to take its stake to 44.4%. Portmeirion will not consolidate the results of Furlong Mills, but Churchill will. In 2017, Furlong Mills revenues were £8.6m and pre-tax profit was £500,000.

Defaqto deal enhances SimplyBiz dividend

IFA services provider *www.simplybizgroup.co.uk*

Dividend

SimplyBiz Group is a cash generative business that intends to pay a growing dividend. The dividend policy is to pay one-third of underlying post-tax profit in dividends. The first dividend was an interim of 0.98p a share and the final dividend is 2.05p a share. This year's total dividend is expected to be 4.2p a share, rising to 4.8p a share in 2020 – growth enhanced by the Defaqto acquisition.

Net cash was £6.4m at the end of 2018, although the purchase of Defaqto means additional debt of £37.5m. SimplyBiz is a strong cash generator and the net debt figure should rapidly decline even after dividends.

Business

SimplyBiz is a UK-focused business that provides compliance and business services to financial advisers and it continues to add to member numbers and sell more services to them.

The number of directly authorised firms is growing, and they are also increasingly likely to outsource compliance and business services. There are around 6,000 directly authorised firms and a similar number that are part of networks. SimplyBiz is the largest provider of these services that is not attached to financial product providers.

Prior to the Defaqto acquisition, there were 3,700 members that each pay around £2,500/year for the core intermediary services, depending on their annual turnover, plus around £2,200/year for additional services. There is minimal additional cost when another adviser is added.

Verbatim, which provides funds for members, has £598m of assets under management and this generates £2m in annual revenues.

SIMPLYBIZ GROUP (SBIZ)	
Price (p)	208.5
Market cap £m	201.8
Historical yield	1.5%
Prospective yield	2%

SimplyBiz is acquiring financial information and technology business Defaqto for £74.3m in cash and shares – a placing raised £29.1m at 180p a share and £7.5m-worth of shares were retained by some of the previous owners. Defaqto is a good fit and the two businesses have already worked together. As well as enhancing SimplyBiz's position with financial advisers, the deal will provide access to general insurance and banking markets. SimplyBiz will also be able to sell Defaqto services to existing clients and exploit the technology expertise to enhance its compliance and regulatory services.

SimplyBiz grew 2018 revenues by 15% to £50.7m and the EBITDA margin was 22.5%. Pro forma figures show that the combined group would have generated revenues of £63.5m and 96.4% of these are recurring. Defaqto has a higher EBITDA margin so the combined group would have a 26.3% margin.

Even without a full-year contribution from Defaqto, 2019 pre-tax profit should be more than £14.5m and earnings per share should edge up to 12.3p – even after the share issue. The shares are trading on 17 times prospective 2019 earnings, falling to 15 next year.

Management has shown itself adept at making earnings-enhancing acquisitions and it could add more services for its clients.

Dividend news

Somero Enterprises is paying another special dividend for 2018. The concrete levelling equipment supplier announced a payment of 11.7 cents a share on top of the 23% increase in the ongoing dividend to 19 cents a share. That reflects the net cash of $28.2m at the end of 2018. The dividends will not make much of a dent in that cash pile because further cash generation means that net cash of $23.7m is forecast for the end of 2019, after paying $17.6m in dividends and increased capex and tax. Most of Somero's markets are growing, particularly the US, and this growth is supplemented by new products.

In 2018, payments technology developer **SafeCharge International** increased the number of transactions handled to 255.1 million. That helped revenues grow by 24% to $138.5m, although foreign exchange losses and abortive acquisition costs held back pre-tax profit, which edged up to $27.2m. The total dividend was increased by 8% to 18.31 cents a share, which is equivalent to 75% of adjusted EBITDA. Even after paying dividends and an $18.5m investment in cashless payments company Nayax, there was cash of $93.1m at the end of 2018. SafeCharge is opening more offices in order to offer its technology in additional countries and there is scope for strategic acquisitions.

Gaming machine platforms supplier **Quixant** increased its dividend by 19% to 3.1p a share, even though it reported a 3% rise in underlying pre-tax profit to $18.2m. The dividend is covered more than five times by earnings. Profit is expected to grow by around 10% this year, although 2019 will be more second half weighted, and then the pace of growth is forecast to accelerate in the following years as the mix moves towards higher-margin products. The Densitron displays business is moving into the broadcast sector.

feature

Boku beats expectations

Boku has consistently beaten expectations since floating in 2017.

Digital carrier billing technology developer Boku Inc has done even better than expected when it floated around 18 months ago. In little more than a decade Boku has grown organically and via acquisition and built up a technology infrastructure that it can use to handle much higher levels of transactions.

Many AIM new entrants fail to live up to expectations, but in the pre-flotation research Boku was expected to generate revenues of $21.7m in 2017 and $29.6m in 2018. In 2017, the outcome was $24.4m in revenues and last year it was $35.3m. The 2018 forecast was upgraded more than once last year yet the revenues were still at the upper end of expectations.

The cost base does not need to increase significantly as revenues grow and Boku moved into profit last year, which was earlier than expected back in 2017. There was an underlying pre-tax profit of $3m. Positive working-capital movements meant that $13.7m was generated from operations. Net cash improved from $16.2m to $28.9m. That cash figure could more than double in the next two years.

Boku gets paid a percentage-based fee by merchants for processing payment transactions over mobile. This includes the likes of Apple, Sony and Spotify. Direct carrier billing is more convenient than using PayPal or credit cards.

Boku has connections to 177 mobile network operators, up from 107 at the beginning of 2018, and more than 200 merchants. Monthly active users rose from eight million to 13.5 million during last year.

The mix of revenues has changed. Social games generated the vast majority of revenues in 2015, but these revenues have been declining every year since then. Mobile apps generated $100,000 in 2015 and have increased to more than two-fifths of revenues, with music and console games each growing rapidly.

Identity

The acquisition of identity verification services provider Danal Inc at the beginning of 2019 broadens the scope for growth. It enables Boku to validate the identity of individuals and combat the multiple use of accounts. It also means that the forecasts from 2017 are not comparable.

Danal is a lower-margin business, so the change in mix will mean that group gross margins will decline this year. That is nothing to worry about and there is scope to improve the Danal margin, just not to the 90%-plus made by the direct carrier billing operations.

Danal cost $1m in cash and 26.7 million Boku shares at 70.45p each, equivalent to 10.7% of the enlarged share capital. There is also a five-year warrant exercisable at $1.8352 a share and potential deferred consideration of up to $64m based on performance. Revenues have to be greater than $10m in 2019, double last year's figure, for any deferred consideration to be paid. Revenues are required to reach $20m for the full amount to be paid.

Cash generation is forecast to be modest in 2019 as some of the positive working capital movements unwind. However, in 2020, as more revenues are pushed through a flat overhead base, operating cash flow of $23.1m is forecast.

When Boku joined AIM in November 2017 it raised £15m via a placing at 59p a share, while existing shareholders raised £30m from share sales.

At one stage the shares were trading at three times the placing price, but even after such positive trading, the share price had fallen back to 68.5p last December. A positive reaction to the results pushed the share price back up to 104.5p. This puts the shares on 33 times prospective 2020 earnings with this multiple likely to fall rapidly over the coming years.

BOKU INC FORECASTS AND PERFORMANCE

	FORECAST 2017* ($)	ACTUAL 2017 ($)	FORECAST 2018* ($)	ACTUAL 2018 ($)	FORECAST 2019 ($)	ACTUAL 2019 ($)
Total payment value	1,640	1,700	3,330	3,600	5,000	6,400
Revenues	21.7	24.4	29.6	35.3	53	68.2
Pre-tax profit	-13.8	-7.6	-2.3	3	4.1	15.7

Peel Hunt forecasts. *4 October 2017

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feature

Stock overhangs from City Financial Investment

AIM share prices can be hit when there is uncertainty about the ownership of stakes and the administration of City Financial Investment provides an example of this.

The financial problems of fund manager City Financial Investment have had a knock-on effect on some AIM companies included in its funds, whether or not the stake has been sold or retained for the time being.

City Financial filed a notice of intention to appoint an administrator at the end of February and was placed in administration on 21 March. FRP Advisory is handling the administration.

The uncertainty caused by the administration has hit the share price of some of the AIM-quoted companies that are included in the company's funds.

The share price movements of some of these companies will not just be due to the stock overhang, but it is likely to have affected many of these companies, particularly ones with limited liquidity.

There is also the fact that City Financial has backed fundraisings by companies, such as a recent placing by oil and gas company Cabot Energy. The demise of City Financial could remove a source of growth capital for AIM companies.

MARCH STAKE DISPOSALS BY CITY FINANCIAL INVESTMENTS

COMPANY	CODE	% STAKE SOLD	SHARE PRICE % CHANGE MARCH	SHARE PRICE % CHANGE YTD
Ethernity Networks	ENET	6.03	-14.3	+20
Pressure Technologies	PRES	10.3	+0.6	-8.9
Serinus Energy	SENX	6.03	0	-31.7
Malvern International	MLVN	9.67	-32.2	-15.7
Plant Health Care	PHC	6.09	-28.8	-12
Norman Broadbent	NBB	6.32	0	-8.3
GetBusy	GETB	5.27	-10.3	-10.3
Erris Resources	ERIS	4.83	+2.3	-12
Ramsdens Holdings	RFX	9.73	+11.6	+7.7
Rose Petroleum	ROSE	13.25	-31.4	-45.5
Enteq Upstream	NTQ	5.31	-5.8	+27.6
EU Supply	EUSP	7.25	-16.3	-18.2

Garraway

Garraway Capital has taken on the investment management of six of City Financial's UCITs. Garraway is named after one of the coffee houses that became a trading site before the creation of the London Stock Exchange.

Some of the individual fund managers have joined Garraway from City Financial. Former Octopus fund manager David Crawford has gone with his Absolute Equity Fund to Garraway and so has his portfolio manager, Ade Roberts. Mark Harris, who was head of multi-asset funds at City Financial, has also moved to Garraway.

Garraway is making the decisions about what to do with the stakes and many of them are still held in the funds. It can be difficult to track what has been sold because some stakes have announcements that City Financial no longer has a stake and then subsequently it turns out it has been transferred to Garraway.

EU Supply had to publish a statement about the slump in its share price

Stake disposals

There have been stake sales prior to March, but many stakes appear to have been sold completely during March – although some have been transferred to, and retained by, Garraway.

The first table includes those City Financial stakes that appear to have been completely disposed of. Most of the disposals were on 25 March, although some, such as pawnbroker Ramsdens, were in early March. That is probably because Ramsdens is much more liquid than many of the other AIM companies. It is one of the better performers among these AIM companies and does not appear to have suffered any longer-term consequences.

E-procurement software provider EU Supply published a statement about the movement in its share price, which had slumped in the last week in March around the time of the transfer of the stake from City Financial to Garraway and then its disposal. The statement reassured investors that the software company had moved into profit in 2018 and recurring revenues were growing. Since the end of March the share price

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feature

has recovered.

These disposals can be untimely for some of the companies. Education services provider Malvern International raised £606,000 at 4p a share in late February and the share price subsequently fell to 2.25p at one point before recovering to 2.95p. The low point was hit on the day that Garraway sold its 9.67% stake.

At least Malvern had raised the cash, Rose Petroleum will require further cash to exploit its oil and gas assets in the US. The disposal of a 13.25% stake on 4 March led to a fall in the share price from 1.75p to 1.425p. Rose is still trying to secure a farm-in partner for its acreage in the Paradox Basin in Utah and, along with difficulties finding a suitable drilling rig, that has led to a further sharp fall in the share price.

Retained stakes

The second table includes stakes that still appear to be held by Garraway, although they may have subsequently been reduced or sold. These companies have generally performed worse than the companies where the stake has been sold due to the uncertainty about the future decisions by the fund manager.

There is one of these companies, Orchard Funding, which has a small gain during March, but the rest are all lower. The sharper falls, such as oil and gas company Cabot Energy and embedded video advertising technology developer Mirriad Advertising, are predominantly due to the troubles of the businesses.

Azerbaijan-focused oil and gas Greenfields Petroleum was intending to add an AIM-quotation to its TSX-Venture quotation, but this has not happened. At the time of the intention to float announcement City Financial had a 4.7% stake. The AIM-quotation has not happened but the share price on TSX-V fell by 30% over the past month and reached a low on 25 March.

Pressure Technologies

A 10.3% stake in engineer Pressure Technologies was sold by City Financial in March. After a slump in the middle of the month, the share price had recovered by the end of March.

Things have not been going smoothly for Pressure Technologies due to its past dependence on the oil and gas sector, which is starting to recover, and other problems, such as the consequences of a June 2015 accident at one of its factories. The Health & Safety Executive is prosecuting the company, which has pleaded not guilty.

The group has also been trying to sell its renewable energy-related business Greenlane Biogas to TSX Venture Exchange shell company Creation Capital Corp. This was first announced last December. There have been updates since then. The sale and purchase agreement is signed, but Creation is required to raise money in a share placing and it also has to obtain TSX-V approval.

It appears that prior to the stake disposal, Gresham House Asset Management acquired a near-7% stake in Pressure Technologies. AIM-quoted activist investment company Gresham House Strategic has a 5.52% stake, with the rest owned by other Gresham House offshoots.

Gresham House Strategic seeks out undervalued and underperforming smaller quoted companies with good growth prospects and strong asset bases that have been overlooked by investors. The cyclical nature of Pressure Technologies' business means that the share price has slumped over the past few years and there are signs that oil and gas sector business should start to recover, helping the profit performance of the company to improve.

Gresham House Strategic tends to take stakes between 5% and 25% and it engages with management to help them to improve the performance of the business.

Gresham House Strategic has a 5.52% stake in Pressure Technologies

STAKES HELD BY CITY FINANCIAL/ GARRAWAY AT END MARCH

COMPANY	CODE	% STAKE RETAINED	SHARE PRICE % CHANGE MARCH	SHARE PRICE % CHANGE YTD
7digital	7DIG	10.2	-19	-38.2
AfriTin Mining	ATM	5.8	-7	0
Bagir Group	BAGR	3.42	-12.7	-14.3
Cabot Energy	CAB	13.45	-38.3	-85.2
Condor Gold	CNR	4.7	-24.2	-41.9
Flowtech Fluidpower	FLO	4.24	-10	-2.9
Mirriad Advertising	MIRI	3.84	-58.2	-58.9
MyCelx Technologies	MYX	18.83	-12.5	+16.7
Nexus Infrastructure	NEXS	3.3	-1	+6.7
Orchard Funding	ORCH	8.88	+2.3	-7.4
Reabold Resources	RBD	4.7	-14.8	-21.8
Scancell	SCLP	4.2	-20.3	-37.5
Serabi Gold	SRB	5.02	-7.9	+15.5
Stirling Industries	STRL	11.2	-15.2	-15.2

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	18.1	17
Industrials	16.7	16.9
Consumer services	14.2	10.7
Healthcare	13.1	9.7
Technology	12.2	12.8
Consumer goods	10.4	9.7
Oil & gas	7.8	11.2
Basic materials	5.5	13
Telecoms	1.3	0.8
Utilities	0.4	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	916.83	-9.6
FTSE AIM 50	5135.71	-12.3
FTSE AIM 100	4793.78	-8.7
FTSE Fledgling	9270.54	-12.5
FTSE Small Cap	5466.35	-2.3
FTSE All-Share	3978.28	+2.2
FTSE 100	7279.19	+3.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	147
£5m-£10m	108
£10m-£25m	181
£25m-£50m	140
£50m-£100m	129
£100m-£250m	120
£250m+	88

KEY AIM STATISTICS

Total number of AIM	913
Number of nominated advisers	28
Number of market makers	48
Total market cap for all AIM	£96.2bn
Total of new money raised	£44.9bn
Total raised by new issues	£67bn
Total raised by secondary issues	£111.9bn
Share turnover value (Feb 2019)	£9.6bn
Number of bargains (Feb 2019)	1.67m
Shares traded (Jan 2019)	71.6bn
Transfers to the official list	190

TOP 5 RISERS OVER 30 DAYS

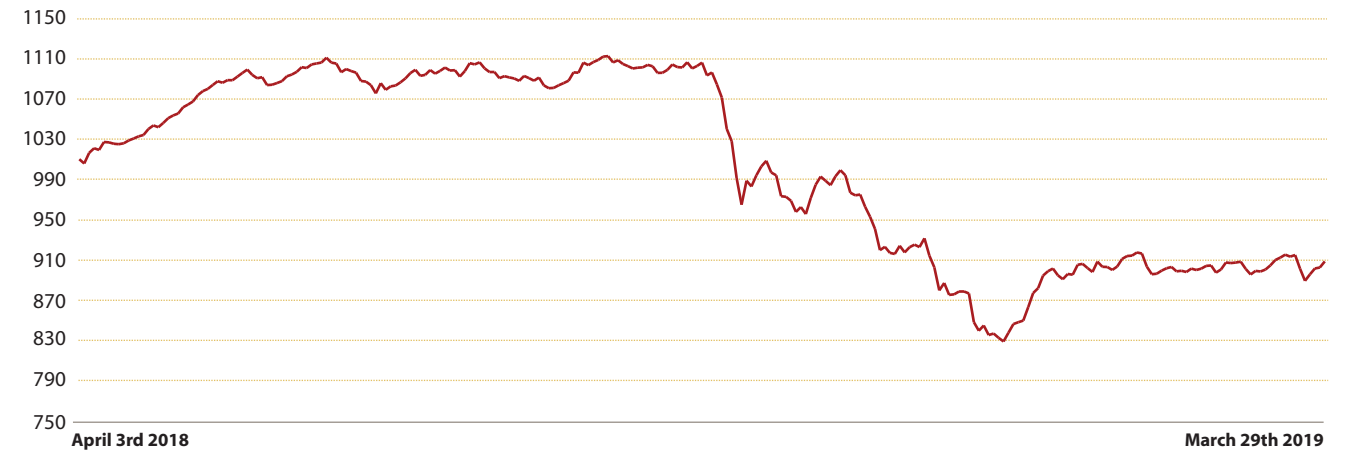
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Footasylum	Retail	81.5	+104
Alien Metals	Mining	0.15	+87.5
ReNeuron	Healthcare	102.5	+83
Ncondezi Coal	Mining	8.95	+82.7
Panthera Resources	Mining	13.5	+79.4

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Andalas Energy	Oil and gas	0.15	-70
LXB Retail Properties	Property	1.575	-66.5
Baron Oil	Oil and gas	0.115	-62.9
Europa Metals	Mining	0.015	-88.2
Mirriad Advertising	Media	6.475	-58.2

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 29th March 2019, 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. A 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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MOBILE / TEL: 07729 478 474 / 020 8549 4253

EDITOR: Andrew Hore

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

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