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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Bid battle for Toronto Stock Exchange

A rival bidder is attempting to scupper the agreed merger between the London Stock Exchange and TMX, the owner of the Toronto Stock Exchange. Maple Group, a consortium that includes the banks CIBC, Toronto Dominion, National Bank of Canada and Scotiabank, is bidding C$48 a share in cash for TMX, which values the Canadian copany at C$3.8bn.

The agreed all-share merger would give London Stock Exchange shareholders 55% of the merged group and TMX shareholders, who vote on the merger on 30 June, the rest.

According to a Reuters survey neither side has won the firm backing of most of the TMX shareholders.

LSE boss Xavier Rolet argues that if Maple does acquire TMX then the combined group will control 90% of the Canadian financial markets and that trading fees could rise as a consequence. The bid would also leave TMX with significant borrowings. He believes that a combined LSE/TMX could be a global force, particularly in the resources sector.

Maple wants the Canadian markets to remain in Canadian hands and that could be a powerful card. There are concerns that Canada could lose out on flotations if the agreed merger goes ahead. The bid circular is due to be sent out and that should include details of how Maple would run the markets.

Tokyo AIM gains first entrant

Tokyo AIM appears to have secured its first company two years after the market was launched and following a multi-million pound investment by the London Stock Exchange.

Japanese biotech Mebiopharm, which was formed in 2002, has applied to join the junior market. Mebiopharm's main focus is cancer treatments. Founder and chief executive Tadashi Fujisawa is a former employee of GlaxoSmithKline KK. Phillip Securities Japan is the company's J-Nomad. Mebiopharm has raised money ten times since it was formed in 2002. It intends to raise more cash on joining Tokyo AIM and this will be used to finance research and development, as well as helping to fund international expansion.

Tokyo AIM is 51% owned by the Tokyo Stock Exchange and 49% owned by the London Stock Exchange. It was launched in June 2009. In its accounts for the year to March 2010, the London Stock Exchange admitted that it had pumped £6.1m into Tokyo AIM. The share of last year's loss by Tokyo AIM was £1.6m, down from £2m the year before. The investment has a book value of £3.6m in the latest accounts.

Tokyo AIM has been trying to drum up business. Representatives recently visited Sri Lanka to try to develop opportunities there.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

GXG Markets ready for UK launch

GXG Markets, a new rival to AIM, will go live by the end of June, having cleared all the required regulatory hurdles. As the market already operates in Denmark the regulatory process was reasonably straightforward and the first company has already been lined up. GXG wants to attract companies that are capitalised at between £4m and £42m.

GXG Markets (www.gxgmarkets.com), the Denmark-based market for small and medium-sized companies, has teamed up with AIM-quoted corporate finance firm Merchant House to launch the market in the UK (www.gxgmarkets.co.uk). Simon Kiero-Watson is heading the market in the UK. He is the former boss of 535X, a matched bargains market that had a short life in the early years of the century. Kiero-Watson says that 535X's technology was not up to the task and one of the attractions of GXG is that it has proven software that is already in use. GXG's background is in trading software and it subsequently diversified into operating stock markets.

The first company will be south-east England bus services operator Countryliner. This is one of the investments of the Merchant Corporate Recovery, which injected funds when Surrey-based Countryliner ran short of cash. The board includes Merchant House chairman James Holmes.

Countryliner has already joined the Danish Over The Counter (OTC) market (danksotc.dk) in preparation for the start of trading on GXG Markets in the UK. Countryliner is classed as a foreign company on the Dansk OTC. The Dansk OTC website shows that Countryliner lost £238,000 on turnover of £1.65m in 2009. Shareholders funds were £963,000 at the end of 2009.

GXG now needs to show that it can attract other UK companies not connected with Merchant House.

GGG gains ASX quote

GGG Resources has secured its ASX listing although it looks unlikely that it will succeed in its bid for Auzex Resources, which has been extended into July.

Baker Steel, which owns 9.3% of Auzex and 10.2% of GGG, says that it will not accept GGG's current all-share bid although it does want a friendly merger between the two parties. Baker Steel would be an ideal party to bring the two companies together and get them to agree a merger. Auzex and GGG each own 50% of the Bullabulling gold project.

In its defence document, Auzex says that it wants to raise $25m as part of a flotation on AIM and to demerge all of its other assets and concentrate on its stake in Bullabulling.

Drilling continues at Bullabulling in order to try to boost the resource estimate.

Continued mixed news on AIM flotations

AIM flotations have been thin on the ground in 2011 but there are signs that there could be more activity in the next few weeks if the companies that have indicated their intention to join AIM complete their flotations. The majority are resources companies, including Poland-focused gas explorer 3Legs Resources, which is raising £62.5m, but there are also agricultural and technology businesses.

However, there is still mixed news. Environmental Waste Controls has pulled its flotation even though there was plenty of investor interest in the company. The stumbling block was the flotation price.

One high-profile flotation is Jellybook, the new investment vehicle of Jonathan Rowland, who has previously been involved in AIM-quoted companies Jellyworks, Resurge and Networx. Rowland is trying to take advantage of investor interest in social media and he wants to raise a minimum of £3m for the shell company.

Healthcare company Stirling Products is already quoted on ASX and has begun the process of obtaining a dual listing on AIM so that it can attract European investors.

Warsaw Stock Exchange-listed Kulczyk Oil Ventures Inc hopes to gain a dual listing on AIM during the autumn and it has stated that it wants to raise cash to finance its interest in the OML 42 licence in Nigeria. Kulczyk is aware that AIM is a recognised market for oil and gas companies and has the investors it requires. Kulczyk also has oil and gas interests in the Ukraine, Brunei and Syria.

advisers

Flotation fees begin to flatten out

Accountant UHY Hacker Young says that its analysis of AIM flotation costs in 2010 shows that fees have barely changed as a percentage of the cash raised when compared with the previous year. In fact, the limited number of new entrants raising money, combined with one apparently costly fundraising last year, means that the underlying cost of raising money could even have fallen.

The figures show that the fees charged to raise cash for new entrants were equivalent to 7.29% of the total amount raised in 2010. That is a small rise from 7.24% in 2009. In 2005 the figure was 6.1% and in 2006 it was 6.2%.

The costs of raising money have risen by one-fifth over five years. Tighter regulation and increased due diligence are thought to be behind the rise.

The rate of growth in fees is the slowest for the past five years. UHY Hacker Young attributes this to nominated advisers being more flexible in their pricing.

The number of new entrants raising cash rose from 18 in 2009 to 65 in 2010. That is still much lower than at the peak around five years ago.

The one fundraising that stands out in 2010 is that of Hangar 8, where 60% of the £2m raised went in fees. The market capitalisation of Hangar 8, whose nominated adviser and broker was Daniel Stewart, was £9.5m. Whilst the figure for fees is correct, it is not strictly true that all of that cost relates to the flotation itself. Hangar 8 manages a fleet of privately owned passenger jet aircraft and provides charter services. There were a number of companies with common ownership that had to be brought together under the new holding company and it is difficult to assess how much this cost. If Hangar 8 is excluded, the average cost of the other flotations is 6.47% - the lowest since 2006.

The other costly flotation was that of PeerTV, where it cost £160,000 to raise £440,000 –equivalent to 37.93% of cash raised. PeerTV tried to raise more cash but tough market conditions meant that it raised less than it hoped it would.

ADVISER CHANGES - MAY 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Feedback	Merchant Securities	Charles Stanley	Merchant Securities	Charles Stanley	03/05/2011
Milestone Group	Hybridan	Hybridan	Cairn	Strand Hanson	03/05/2001
Begbies Traynor	Shore Capital/ Collins Stewart	Shore Capital	Collins Stewart	Shore Capital	05/05/2011
Robinson	WH Ireland	Arbuthnot	WH Ireland	Arbuthnot	05/05/2011
Scotty Group	Northland	Allenby	Cairn	Allenby	09/05/2011
Shore Capital Group Ltd	RBC	Shore Capital	Deloitte	Deloitte	09/05/2011
Unitech Corp Parks	Westhouse	Arbuthnot	Westhouse	Arbuthnot	09/05/2011
ProPhotonix Ltd	Brewin Dolphin	Libertas	Brewin Dolphin	Libertas	10/05/2011
Chariot Oil & Gas Ltd	UBS/RBC	Ambrian/RBC	RBC	Ambrian	16/05/2011
MCB Finance Group	Merchant Securities	Macquarie	Merchant Securities	Macquarie	16/05/2011
Penna Consulting	Arbuthnot	Collins Stewart	Arbuthnot	Collins Stewart	16/05/2011
Software Radio Technology	Cenkos/ Westhouse	Westhouse	Westhouse	Westhouse	16/05/2011
Crosby Asset Management Inc	Renaissance Capital / Strand Hanson	Strand Hanson	Strand Hanson	Strand Hanson	17/05/2011
Cyan Holdings	XCAP/ Cenkos	Cenkos	Cenkos	Cenkos	17/05/2011
Xcite Energy	Oriel / Morgasn Stanley	Arbuthnot	Oriel	Arbuthnot	17/05/2011
Sierra Rutile Ltd	Collins Stewart / Arbuthnot	Arbuthnot	Collins Stewart	Arbuthnot	19/05/2011
Leed Petroleum	Rivington Street	Matrix/ Brewin Dolphin	Libertas	Matrix	20/05/2011
BgenuineTec Inc	Alexander David	Charles Stanley		Charles Stanley	23/05/2011
Optimal Payments	Canaccord Genuity	Daniel Stewart	Canaccord Genuity	Daniel Stewart	23/05/2011
Accumuli	FinnCap	Zeus	FinnCap	Zeus	25/05/2011
Merchant Securities	Merchant Securities	Arden	Grant Thornton	Arden	25/05/2011
SacOil Holdings Ltd	Shore Capital/ FinnCap	FinnCap	FinnCap	FinnCap	25/05/2011
Deo Petroleum	Canaccord Genuity / FirstEnergy Capital	FirstEnergy Capital	Canaccord Genuity	Merchant Securities	26/05/2011
Motive Television	XCAP	Jendens	Merchant Securities	Merchant Securities	26/05/2011
Noricum Gold Ltd	Old Park Lane/ Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	27/05/2011
Sable Mining Africa Ltd	GMP / Matrix	Matrix	Seymour Pierce	Seymour Pierce	31/05/2011

company news

InterBulk secures cash injection from Chinese transport firm

Intermodal transport equipment and services *www.interbulkgroup.com*

Intermodal transport equipment and services provider **InterBulk** has gained shareholder approval for a £18.15m placing at nearly three times the share price prior to its announcement, even though a major shareholder was against the plan. This cash should help to cut annual interest costs by £2.8m.

China-based transport group Sinotrans is buying the shares for 11p each and shareholders have also approved Sinotrans taking a 35.3% stake in InterBulk without having to make a bid.

Prior to this placing, Atorka owned 40.8% of InterBulk and it gave its backing to the placing. However, 23% shareholder and competitor Hoyer GmbH Internationale Fachspedition was not in favour and could have blocked the deal. That is why the placing is being done as a cash box placing that does not require the support of 75% of the votes at a general meeting. In effect,

China-based transport group Sinotrans is paying a premium to the market price

Sinotrans is investing the cash in a new subsidiary and then swapping that investment for shares in the company.

The general meeting motions received support from 72.97% of the votes cast so the placing would not have gone ahead if it had been done in the conventional way. Hoyer and the owners of 29,500 additional shares voted against.

InterBulk has been weighed down by high borrowings. The bank facilities were due for renegotiation in September 2012. The cash will be used to repay a large chunk of the most expensive debt, which has an interest charge of LIBOR plus 12

INTERBULK GROUP (INB)	7.62p
12 MONTH CHANGE % + 117.7	MARKET CAP £M 23.1

percentage points. There was £37.4m of this mezzanine debt at the end of September 2010. A further £5.1m of mezzanine debt will be converted into a Term B loan lasting until June 2013. The Bank of Scotland will also cancel its warrants and waive a deferred fee of £471,000. Net debt will be cut by 16%.

Linking up with Sinotrans also provides impetus to InterBulk's attempts to grow in China. The two companies have already worked together on chemical transportation and storage projects. This is what sparked Sinotrans' interest in investing in InterBulk.

The German competition authorities also have to give their blessing to the placing and a response is expected before the end of June.

EKF makes North American move

Diagnostics *www.ekfdiagnostics.co.uk*

Cardiff-based **EKF Diagnostics** has entered the US market through the acquisition of Stanbio Laboratory for up to $25.5m. EKF hopes that Stanbio will help to fast track its products through the US regulatory process.

Stanbio is costing an initial $14m in cash and $5.5m in shares. A further $2m could be payable if EBITDA targets are achieved in 2011 and 2012, while $4m will be paid if group sales exceed $50m a year

EKF DIAGNOSTICS (EKF)	22.5p
12 MONTH CHANGE % - 8.2	MARKET CAP £M 38

by 2015. Stanbio made a profit of $2.4m on revenues of $16.4m in 2010. Stanbio already sells products supplied by EKF and other suppliers as well as its own reagents.

A placing at 20p a share is raising £13m (£12.1m net), which will help to finance the acquisition and provide working capital. Net cash was £2.65m at the end of 2010.

US diagnostics giant Alere has been appointed the exclusive distributor of EKF's CLIA waived Hemo_Control rapid haemoglobin test in the US, Canada and UK. This is a three-year agreement that gives EKF access to a large point-of-care sales force in the US.

Loss-making EKF has not existed in its current form for a full year but it achieved organic revenue growth of 10% in 2010.

company news

Ebiquity expands into social media analysis market

Media monitoring and analysis *www.ebiquity.com*

Media monitoring and analysis services provider **Ebiquity** is expanding into social media analysis through the acquisition of Echo Research. Ebiquity is acquiring Echo for up to £10m but Echo will have to achieve tough targets for the full amount to be paid.

At the same time Ebiquity raised £2.6m at 90p a share. There was also an increase in the term loan facility to help pay for Echo and finance further purchases.

Echo is a global reputation analysis and stakeholder research business, which focuses on brand reputation. Echo analyses non-paid media, which includes social media. Companies are increasingly using social media to market their brands. The deal will be materially earnings enhancing in the first full year.

An initial £3.5m has been paid for Echo with £300,000 due next May and potential deferred consideration over two years of up to £6.3m.

Echo adds to the range of services provided by Ebiquity

Echo made an operating profit of £500,000 on revenues of £5m in the year to March 2011. Gross revenue would need to hit £5.57m in the year to April 2012 for any additional payment and £9m for the maximum first year deferred consideration of £3.2m to be paid. Gross revenues would have to grow by more than 40% in 2012-13 for all the rest of the deferred consideration to be payable. Up to 50% of the deferred consideration can be paid in shares.

Ebiquity has strengthened its presence in Russia by acquiring a majority stake of 50.1% in Russian media partner The Joined Up Media Company (JUMC) for up to £1.2m. The initial payment is £356,000 and the balance will be paid depending on performance criteria over three years. JUMC is Ebiquity's partner in Russia, Central and Eastern Europe and adjacent countries and it accounts for nearly 50% of the Russian media auditing market.

EBIQUITY (EBQ)	91.5p		
12 MONTH CHANGE %	+ 44.1	MARKET CAP £M	53.8

Ebiquity says that trading in the year to April 2011 was comfortably in line with expectations. House broker Numis estimates a £4.4m profit for 2010-11 and a jump in profit to £7.4m this year. Edison is more cautious, with a £6.5m profit forecast for 2011-12 – a profit multiple of 13.

New products propel Elektron growth

Engineered components *www.elektronplc.com*

New product development is behind the recent success of engineered components supplier **Elektron**. These may be completely new products or improved versions of existing products.

Elektron is spending £1.3m to improve one of its main connector product ranges and other new products include waterproof wireless antennae and systems used to test hard disc drives.

The latest figures include a five-month contribution from last year's acquisition Hartest. Underlying pre-tax profit jumped from £1.6m to £5.1m in the year to January 2011. Turnover grew from £29.9m to £50m, with around £10m of the growth coming from the existing group and the rest from Hartest.

ELEKTRON (EKT)	44p		
12 MONTH CHANGE %	+ 134.7	MARKET CAP £M	47.2

Net debt was £4.3m at the end of January 2011. The total dividend is 0.8p a share and Elektron expects to push up the dividend each year.

Elektron is changing its management structure following the purchase of Hartest. Sales will be regionally focused while R&D, finance and other operations will be centralised. Elektron is keen to make a substantial acquisition that will push the company towards the £100m market capitalisation level.

Elektron expects to continue to grow profit but earnings per share are likely to be held back by a rising tax charge. Westhouse forecasts a £7m profit for the year to January 2012, which represents a prospective multiple of eight.

company news

Buy and build strategy underway at Corero

Network security software *www.corero.com*

A new management team has joined **Corero** in order to use it as a base from which to build a network security software business.

Increasing awareness of the threats to computer networks and systems means that this is a growing sector.

Escalating cyber crime and attempts to disrupt businesses suggest that the growth is likely to continue. The security infrastructure market is worth $19.9bn a year according to Gartner. The research house reckons it is growing at a rate of around 11% a year.

Corero's chief operating officer, Andrew Miller, argues that smaller security companies lack the scale required to take full advantage of the market. The strategy is to buy and build a network security business and create an operation with critical mass that can benefit from group expertise in sales and marketing. The focus of the acquisitions will be companies with revenues of between £5m and £10m.

The first acquisition in the buy-and-build strategy happened in March when Corero bought Massachusetts-based Top Layer. Corero is paying up to $15.3m (£9.5m) in cash and shares for Top Layer. The shares are being issued for 45p each. Corero also raised £2.3m via a placing at 35p a share. Top Layer is a software-focused business covering the higher education, healthcare, financials and e-commerce sectors. It provides Intrusion Prevention Systems and Distributed Denial-of-Service protection solutions and has a 13-year history.

CORERO (CORO)			31.5p
12 MONTH CHANGE %	- 16	MARKET CAP £M	15V

Corero non-executive chairman Jens Montanana is also chief executive of South Africa-based IT services company Datatec. He owns 21.8% of Corero. Loudwater Trust became a 9.25% shareholder following the acquisition of Top Layer and Edward Forwood joined the Corero board. He will bring additional expertise in the technology sector. Their experience will be useful in building international reseller networks to sell group services.

Corero still owns its profitable educational software business. There is more than £5m in the bank and the educational software business will be a useful cash cow.

Investment pays off for Endace

Network security products *www.endace.com*

New Zealand-based **Endace** is another firm that is benefiting from the threats that occur because of increasing use of data networks by governments and companies, particularly in the financial sector. Cloud computing will lead to even more demand for Endace's products.

Endace had a flat first half but the second half was much stronger as its increased investment in sales and marketing begins to pay off. The year-on-year revenue growth for the second half was 82%. Full-year revenues rose from $31m to $38.4m in the year to March 2011, with the majority of the revenues coming from the US. Endace grew its underlying profit from $1.71m to $2.91m, helped by improved gross margins. There was a sharp fall in the bad debt provision. The capitalised development costs increased from $2.5m to $3.27m, compared with amortisation of $2.27m.

ENDACE (EDA)			465p
12 MONTH CHANGE %	+ 151.4	MARKET CAP £M	70.2

Net cash was $6.37m at the end of March 2011. Capital investment and capitalised development costs are expected to be $6m in 2011-12 but the net cash position should still improve.

Endace has signed up Betfair as a client. This is the first client in the online gaming sector, which has some similarities to the core financials customer base.

Edison expects flat profits this year, because more development spending will be written off, but a rise to $6.6m in 2012-13. Even if that target is achieved the 2012-13 profit multiple will still be 25.

dividends

Chamberlin takes first step in rebuilding its dividend

Castings and engineered products *www.chamberlin.co.uk*

Dividend

Chamberlin is confident enough in the sustainability of its improved trading to start paying dividends once more. This return to the dividend list is earlier than expected.

Chamberlin is paying a final dividend of 1p a share, which is covered nearly seven times by underlying earnings. This is the first dividend since an interim of 1.2p a share was paid at the end of 2008. For the previous seven years Chamberlin had paid a total dividend of 11.35p a share. FinnCap forecasts a 3p a share total payout for 2011-12, rising to 3.5p a share in 2012-13. That would still mean that the dividend will be covered 4.7 times in 2011-12, rising to 5.5 times in 2012-13.

The dividend will not make much of a dent in cash generated. Net debt fell from £3.4m to £2.9m at the end of March 2011 and it should continue to fall even though spending on capital equipment will rise in order to take advantage of increased demand. By March 2014, net debt should be minimal unless Chamberlin secures acquisitions.

Business

Castings maker Chamberlin says that trading is back to levels prior to the start of the recession in 2008 and the latest figures show the progress it is making. Revenues jumped by two-fifths to £39.8m in the year to March 2011, while an underlying loss of £1.03m was turned into a profit of £804,000.

Chamberlin says demand for heavy castings is greater than pre-recession levels, with rail and wind turbine business rising. Turbo-charger castings demand has also returned the light castings trading to past levels and castings capacity can be increased without significant spending. The medium-sized castings business has been slower in its recovery but it is moving back to former levels. Additional staff is being taken on and short-time working has ended. Chief executive Tim Hair believes that supply chain inflexibilities experienced from the transfer of work to China mean that customers are keen to bring work back to foundries in the UK.

The engineering businesses made an increased profit contribution. Door closers maker Jebron was acquired too late in the year to make a significant contribution but it should add £1m a year to revenues.

Chamberlin is particularly keen to acquire other foundries but it is also looking at other engineering companies with niche businesses. Ideally, the businesses should generate revenues of £5m-£15m a year so that they make a significant contribution to the group. These purchases could be debt financed.

Revenues will continue to rise this year, even if no acquisitions are made, and underlying profit could double to £1.6m. The shares are trading on eight times prospective earnings for 2011-12.

CHAMBERLIN (CMH)	
Price	113p
Market cap £m	8.4
Historical yield	0.9%
Prospective yield	2.7%

Dividend news

Cloud computing and hosting services provider **Iomart** is a highly cash generative business and the dividend payout was increased from 0.4p a share to 0.65p a share for the year to March 2011. Pre-tax profit more than doubled from £1.25m to £2.79m as revenues improved from £18.3m to £25.3m. Net cash dipped from £4.4m to £3.1m after a net £3.35m spent on acquisitions, including deferred consideration, during the year. FinnCap believes that Iomart could double its dividend to 1.3p a share this year. That dividend would still be covered nearly four times by forecast earnings. Iomart is keen to make hosting acquisitions and it could decide to hold back the growth of the dividend in order to conserve cash.

Business telecoms services provider **Alternative Networks** continues to grow revenues and profit. Underlying interim revenues grew 25% to £59m in the six months to March 2011, with pre-tax profit moving up from £5.73m to £7.08m. The interim dividend is 3p a share and the final will be at least 6p a share. Alternative Networks paid total dividends of 9.1p a share last year but that included a 3p a share special dividend. The medium-term plan is to grow the total dividend of 9p a share by at least 10% a year for the next two years.

AEC Education had a tough 2010 but despite that it still increased its dividend from 0.15p a share to 0.2p a share. AEC moved from an underlying profit of £1.22m to a loss of £221,000 in 2010 because the uncertainty about student visas hit the English teaching operations in the UK. There were also additional costs for regulatory changes in Malaysia and Singapore. House broker WH Ireland expects AEC to report a 2011 profit of £1m and a rise in the dividend to 0.23p a share.

expert views

Expert view: The broker

Breadth, depth and profit

By DR KEITH REDPATH

Sinclair Pharma's merger with IS Pharma is immediately earnings enhancing and as part of the deal Sinclair has returned to AIM. Sinclair presents investors with a low-risk, defensive opportunity to gain exposure to both the European healthcare market and those of high-growth emerging markets. We believe the shares are undervalued compared with their peer group,

Sinclair is undervalued in comparison to its peers

The merger has created a speciality pharmaceutical company focused on hospital products encompassing oncology supportive care, critical care and wound care and dermatology. Sinclair has its own direct sales force of 75 people in the five major EU territories, and Ireland.

The company now has several opportunities for selling the portfolio through its own channels: for example Variquel, a treatment for uncontrolled bleeding from oesophageal varices, is currently sold through distributors in Europe; however with a hospital sales infrastructure now in place within the expanded firm, distribution deals in countries where the combined group has a direct presence could be terminated. The impact would be to capture the margin currently enjoyed by the distributors.

Similarly products that prior to the merger were sold in only one country can now be launched de minimis in the remaining five countries in which Sinclair has a direct sales force.

Distributors

Outside of these territories, Sinclair's products are currently available in 90 countries through a large network of distributors. This network is being revised with a view to reducing the number of distributors and entering agreements with larger companies for multi-country/multi-product deals.

The recent deal with Invida for 12 Asian markets, which include China, Australia and India, for a 20-year period is a demonstration of management's philosophy in this regard.

This deal represents a sea change in Sinclair's strategy: previously it had a large number of distributors, each with a small number of products for single territories.

We expect to see similar deals in the next 12 months for larger geographical regions: MENA, and South America are territories of particular interest to Sinclair and active discussions are being pursued. We believe such deals will be transformational for Sinclair: larger distribution partners will have greater resources available to market the product ranges and drive sales.

Sinclair is an attractive distribution partner in Europe

We believe the existence of a sales force in the five key EU territories could be attractive to other companies looking to distribute products, particularly into hospitals.

Sinclair is thus itself an attractive distribution partner in Europe and this may also result in commercial opportunities.

The portfolio represents a good spread of risk: the top five products in our forecasts account for only 38% of Sinclair's revenues in 2013.

With a portfolio of approved and reimbursed products, there are two keys risks to Sinclair's business: competition and price controls. Healthcare remains a defensive sector, despite austerity measures being pursued by several European governments. Further reinforcing its defensive characteristics, Sinclair's products are relatively immune to these price controls.

Upgraded earnings

The merger immediately improves our adjusted earnings per share forecasts: from -1.1p to -0.7p for the current financial year to June 2011 and from 0p to 1.2p next year. We estimate greater than 170% pre-tax profit growth in 2012-13 from sales growth of 10%.

We forecast cash on the balance sheet of about £13m at year end; prior to the merger IS Pharma secured £16m of banking facilities.

We have revised our price target to 45p a share, a 2.9 times sales multiple of our 2012 forecast of £62.5m and still a discount to the average of 3.4 times for the peer group. At this target price Sinclair would be capitalised at £179m and be on an EV/EBITDA of 19.9 times our 2012-13 earnings forecasts. We rate the shares as a buy.

Dr Redpath is a research director specialising in health care and pharmaceuticals at FinnCap.

FinnCap has consolidated its position as the leading adviser to the AIM life sciences sector over the past 12 months and has seven retained clients. These clients raised around one-fifth of the total money raised by AIM life sciences companies in 2010.

feature

AIM share trading's positive side

AIM tends to be thought of as a market with poor liquidity and wide spreads but this is by no means true of all companies. There are plenty of shares on AIM with spreads as narrow as many Main Market shares.

Liquidity is always a hot topic for AIM. The attention tends to be focused on the illiquid companies rather than the ones that are regularly traded. Yet there are plenty of companies where there is significant trading in the shares, particularly when there are events that spark investor interest.

Commentators point to AIM companies that are rarely traded as though this defines the market. What they forget is that there are companies on the Main Market, such as Stavert Zigomala, which rarely muster more than two or three trades in a year. There used to be much talk about the 'AIM tail' of small, illiquid companies but all stock markets have this type of tail, with companies that floated many years ago and failing to come up to expectations now shunned – or just forgotten - by investors.

The Main Market's tail might be fairly short but that is mainly down to companies that would have formed the tail moving to AIM. Companies that were fully listed for 50 or more years have moved to AIM in the past decade and are traded as infrequently as they ever were prior to the move.

There are also plenty of Main Market companies that have the shockingly wide bid-offer spreads that can certainly be witnessed on AIM.

Roger Parry of marketing services provider Media Square has talked about the AIM companies that fail to attract investor attention and bemoaned the lack of liquidity of his own company's shares. Maybe if he spent 10 minutes looking at Media Square's past results he might come up with some clues to why investors are cautious about trading in Media Square shares. There are many other companies where this would also apply.

MOST TRADED AIM SHARES ON 9 JUNE 2011

COMPANY	MARKET CAP £M	% TRADED
New World Oil & Gas	6.5	11.97
Berkeley Mineral Resources	56.5	8.38
Tricorn	10.5	6.35
Desire Petroleum	59.9	5.7
SeaEnergy	21.7	4.16
Bowleven	702.3	3.19
Angel Mining	15.3	3.17
Emerging Metals Ltd	13	1.86
Sefton Resources Inc	11.6	1.82
Conexion Media	0.5	1.81

Average daily bargains for 2011 so far are much higher than for any other year

Perspective

The best way of putting some perspective on the liquidity issue is to have a look at the positives as well as the negatives. Looking at the narrowest bid-offer spreads and those companies traded most on the day provides some indication that it is not all doom and gloom.

The figures in the tables are sourced from Hemscott and are for 9 June. There is nothing particularly significant about the day; it is just the one chosen for this analysis. It is certainly not one of the busier days of the year so these are not figures deliberately chosen to paint a positive picture. There have undoubtedly been many more active days in the past few months.

Trading volumes and spreads will change from day to day so the figures do not represent a definitive picture of the liquidity and spreads on AIM. However, it does provide a snapshot and shows that many AIM spreads can be narrow.

According to the figures there were 42 AIM companies whose bid-offer spread was less than 1% on the day. That is nearly 4% of the market. Not an enormous percentage but many people probably believe that all the spreads on AIM are enormous.

It is probably unsurprising that the companies with the narrowest spreads tend to be the bigger ones on AIM but not all of the very largest companies on the junior market made it into the top 50. The smallest on the list is zinc reclamation company ZincOx Resources, which is worth £49.1m, with

feature

Churchill Mining, worth just over £50m, just inside the top 30.

Active trading

The most traded AIM shares on the day had a much wider range of market values. This table is more driven by news flow on the day and in previous days. Recently floated shell New World Oil & Gas sparked interest with further news of its potential projects in Belize, while engineer Tricorn released results earlier in the week.

Tricorn is an example of a company that has kept its head low in recent years but is beginning to tell people its story. Trading since the results were published three days earlier has been much more active than previously. There were four times as many shares traded on 9 June as there were in the whole of May.

There was surprisingly little correlation between the most actively traded companies on the day and those that had the narrowest spreads.

There were 42 AIM companies whose bid-offer spread was less than 1% on 9 June

Some of the companies' with narrower spreads are traded on other stock markets. Coal of Africa is listed on ASX and Johannesburg Stock Exchange.

Rockhopper Exploration had the 14th narrowest spread and was the 34th most traded share on the day, while fellow oil and gas explorer Bowleven had the 26th narrowest spread and was the sixth most traded share. Cluff Gold and marine and oil and gas equipment supplier Hamworthy, which reported results two days before, were also in the top 50 for each of the categories. Those were the only companies in both lists.

Longer-term, there is more correlation between trading activity and spreads. When it comes to the top 25 traded AIM shares in May nearly all of these were in the top 50 narrowest spreads. This indicates that consistent trading in shares provides a good opportunity for the spread to narrow.

AIM SHARES WITH NARROWEST SPREADS ON 9 JUNE 2011

COMPANY	MARKET CAP £M	% BID-OFFER SPREAD
London Mining	436.7	0.13
GCM Resources	87.7	0.15
Mirland Development Corp	337.7	0.15
Nautical Petroleum	300.1	0.15
Playtech Ltd	802.6	0.23
Avocet Mining	375.7	0.27
Gulfsands Petroleum	314.7	0.29
Avanti Communications	352.1	0.3
Northern Petroleum	74.2	0.31
Nanoco	161.2	0.32
Coal of Africa Ltd	401	0.33
Chariot Oil & Gas Ltd	392.3	0.35
Abcam	774.1	0.35
Rockhopper Exploration	707.3	0.36
Mulberry	795.2	0.37
Blinkx	458.7	0.38
ZincOx Resources	49.1	0.4
EnCore Oil	182.9	0.4
Falkland Oil & Gas Ltd	126.9	0.41
ASOS	1807.4	0.42

Source: Hemscott

Overall liquidity

Overall, AIM liquidity is improving. The average number of daily bargains for the year so far is still much higher than for any other year even though there has been a slight fall in the past couple of months.

The average daily bargains so far in 2011 are 25,765, with May being the lowest month with an average of 23,654. Prior to this year, the highest average daily bargains were 16,460 in 2007, which was near to the height of the market. That is an average over a whole year, including the summer months which can be weak, but 2011 still looks on course to be the most active year yet for trades in AIM shares.

The average daily value of the trades on AIM is at its highest point since 2007. At £186.7m a day, it is still some way from the £290.6m a day in 2007 and the £230.2m a day in 2006.

There are undoubtedly problems with AIM, and there has been a dearth of new issues so far this year to replace the companies that are leaving, but this should not blind people to the positives. There is a reason why AIM has survived for 16 years despite more than one sharp downturn in global stock markets during that time. That is that AIM does provide a service to companies seeking cash to expand. Some of those may fail to come up to estimations but they were still given the chance to do so.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Basic materials	21.4	14
Oil & gas	23.5	10.3
Financials	18.9	23.3
Industrials	9.5	18.4
Technology	7.3	9.9
Consumer services	8.2	11.4
Health care	4.8	5.2
Consumer goods	4.1	5.3
Telecoms	1.3	1.1
Utilities	1	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	890.78	+29.8
FTSE AIM 50	3574.91	+33.4
FTSE AIM 100	4094.74	+30.6
FTSE Fledgling	5075.82	+24.6
FTSE Small Cap	3293.12	+19.8
FTSE All-Share	3121.07	+16.6
FTSE 100	5989.99	+15.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	245
£5m-£10m	152
£10m-£25m	239
£25m-£50m	214
£50m-£100m	131
£100m-£250m	99
£250m+	75

KEY AIM STATISTICS

Total number of AIM	1,155
Number of nominated advisers	61
Number of market makers	50
Total market cap for all AIM	£77.78bn
Total of new money raised	£75.05bn
Total raised by new issues	£34.39bn
Total raised by secondary issues	£40.66bn
Share turnover value (2011)	£18.86bn
Number of bargains (2011)	2.60m
Shares traded (2011)	88.90bn
Transfers to the official list	153

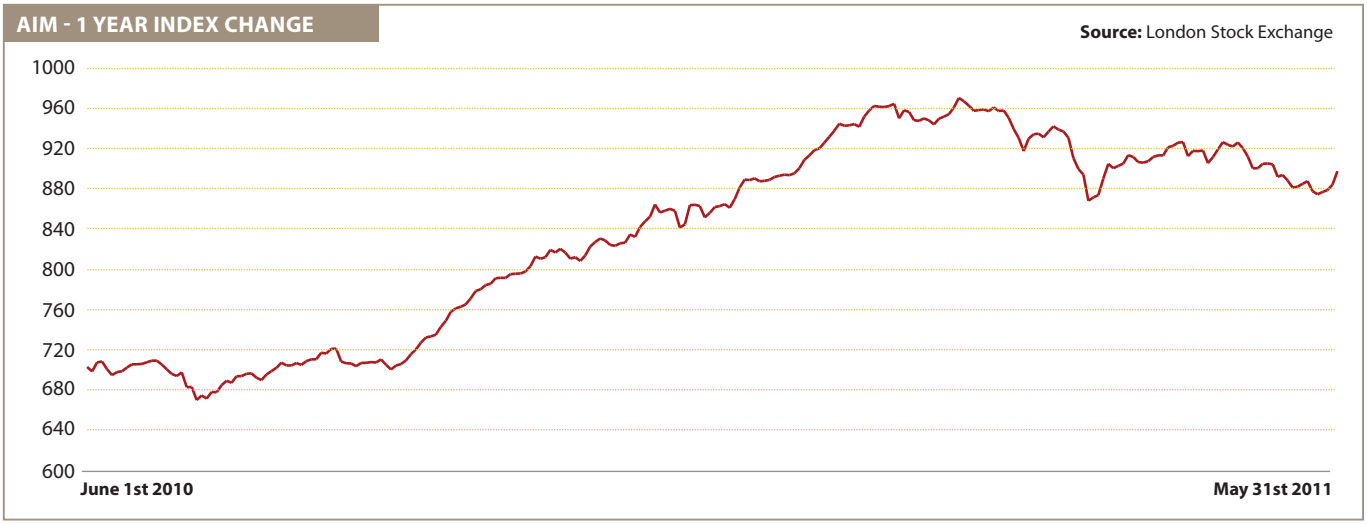
TOP 5 RISERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
HaiKe Chemical Group	Chemicals	64	+98.5
Medicsight	Health	6.63	+88.1
Interbulk Group	Transport	7.62	+79.4
Sefton Resources	Oil and gas	3.62	+74.7
Summit Corporation	Health	6.12	+69.0

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
AssetCo	Support services	3.73	-62.8
Eatonfield	Property	0.2	-57.9
Xcite Energy	Oil and gas	164	-51.3
Viridas	Mining	0.42	-48.5
Ceres Power	Cleantech	24	-47.8

AIM - 1 YEAR INDEX CHANGE



Data: Hubinvest Please note - All share prices are the closing prices on the 31st May 2011, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is a client focused institutional broker and corporate advisor, with astrong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets. In 2007, private client stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

In 2010, finnCap employees and non-executive chairman Jon Moulton acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

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