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AIM JOURNAL

boohoo heads awards list

Online retailer boohoo (see page 2), which has become the largest company on AIM, appears to be the frontrunner for the company of the year at the 2019 AIM awards. The shortlist of candidates for all the awards has been published ahead of the awards dinner in London on Thursday 10 October.

AB Dynamics (see page 5) is also on the shortlist for AIM company of the year as well as for four other awards. It won the global achievement award in 2018, but this is not an award that is included this year. The other four companies on the company of the year shortlist are identification and verification services provider GB Group, floorcoverings manufacturer James Halstead, patent translation services provider RWS and market researcher YouGov. None of the companies were on last year's company of the year shortlist.

The shortlist for AIM growth business of the year includes four from the company of the year shortlist, with GB Group and James Halstead replaced by communications services provider Gamma Communications, last year's AIM company of the year, and video games developer Sumo.

The best newcomer shortlist includes Crossword Cybersecurity, healthcare data provider Diaceutics, software supplier essensys, bars operator Loungers, litigation finance provider Manolete Partners and diagnostics company Renalytix AI.

Premier funds merger

Premier Asset Management is merging with fellow fund manager Miton, which has a focus on smaller companies, in order to build a larger, broader based UK asset manager. Annual cost savings of £7m are expected to be achieved, although it will take three years to get the full benefit. That compares with a combined pre-tax profit of £25m prior to the cost savings. The combined group will have assets under management of £11.5bn.

Premier is offering 0.30186 of one share for each Miton share. Miton shareholders will also receive a special dividend payment of 4.9p a share, including which the value of the bid was 51.8p a share based on a Premier share price of 171.75p. Miton shareholders will own one-third of the enlarged company.

Management argues that there is little overlap in terms of the funds managed by the two companies. The funds under management will be split between multi-asset and single-strategy funds, with the former accounting for a slightly higher percentage of the total. The top five funds represent 44% of assets. Cost savings will come from consolidating back-office functions and rationalising the head-office operations. There will be one-off cash costs of £10m relating to these savings.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

Upgrades for boohoo

Online fashion retailer boohoo continues to spark forecast upgrades, while its rivals struggle. It has leapfrogged rival ASOS and become the largest company on AIM. The company has invested more than £150m on its infrastructure in the past three years and it has capacity for sales of £2.5bn, which is double the expected sales this year. At this year's AIM awards, boohoo is on the shortlists for company of the year and AIM growth business of the year.

An unscheduled trading update revealed that all the group's brands are growing strongly in the second quarter. The fastest growth has been at Nasty Gal. Full-year sales growth guidance has been raised from 25%-30% to 33%-38%. This is being achieved while maintaining EBITDA margins at around 10%. The interim results will be published on 25 September.

Peel Hunt upgraded its 2019-20 pre-tax profit forecast from £93.7m to £100.8m, up from £76.3m last year. To put this in perspective, back in June 2017, Peel Hunt was forecasting a 2019-20 pre-tax profit of £67.5m. In the subsequent period additional brands have been acquired.

The latest purchase is the online assets of Karen Millen and Coast for £18.2m. Karen Millan has an older clientele that spends more on individual items than the group's other brands. No stores or other relationships have been acquired, although 125 staff will be transferred. Online sales were £28m, but other sales were five times that level. Investment in the brands is required and the benefits will not show through this year.

Elektron tender

Elektron Technology has gained the required approvals to sell its original Bulgin electricals business for £105m, £94m after costs, and intends to return £81m to shareholders. This will be via a tender offer at 65p a share, where shareholders will be able to tender two shares for every three that they own. This is still subject to receipt of the disposal cash, which should happen by 24 September and a general meeting of shareholders to approve the tender. The company will change its name to Checkit and become a Software-as-a-Service business focused on real-time operations management. A recent acquisition has increased turnover eight-fold. There should be cash left in the business after the tender.

Burford's improved governance plan

Criticism by short sellers and investors has led to corporate governance changes at litigation finance provider Burford Capital. This followed a sharp fall in the share price, which has continued to be volatile. At the end of July, by no means at the share price high, Burford was valued at £3.3bn and it is currently valued at around £1.5bn.

Burford is vulnerable to short sellers because of the difficulty in valuing the investments in litigation cases. It has not helped that Burford was the largest investment in the Woodford Equity Income Fund, which is closed to withdrawals, and it is one of the more liquid shares in the portfolio.

The reported profit is predominantly generated from investment income, but that includes movements in litigation case values. This is not a cash movement; it is based on the values assigned by the company, which relate to the likely outcomes. A presentation on accounting and disclosure is planned to provide further information.

A listing on either Nasdaq or the New York Stock Exchange is being considered, although Burford appears set to stay on AIM. Burford would be able to access additional US capital if it does this. There has never been a US-listed litigation funder, so that could make the process take longer. The plan is to list in the first quarter of 2020.

The board is being overhauled, with two independent non-executives set to be appointed. Two existing directors will leave the board after an overlapping period. One of the criticisms of Burford is that there is no executive on the board. The chief executive will "join the board in due course" according to the company. His wife is no longer finance director and has become chief strategy officer. She has been replaced by Jim Kilman, who will help to identify long-term replacement.

Leonard Curtis reconciles SVS accounts

Smaller company broker SVS Securities has been placed in special administration and this is being handled by Leonard Curtis. This happened because the Financial Conduct Authority has concerns about the investment of clients' money and stopped SVS from conducting regulated activities.

Leonard Curtis is currently reconciling SVS's client accounts and this could take months. Leonard Curtis will write to clients with a claim setting out proposals within eight weeks and by 27 September at the latest. The administrator has also warned about fraudulent communications.

■ Cenkos Securities says that there was a slight improvement in second-quarter trading, but interim revenues will be lower. The second half should be much stronger, but this depends on the timing of transactions that are currently being worked on. Individuals in the investment companies team have resigned, but this should not have a significant impact on 2019 revenues.

ADVISER CHANGES - AUGUST 2019

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Serinus Energy	WH Ireland/Arden	Arden/GMP FirstEnergy/Numis	WH Ireland	Numis	01/08/19
Novacyt	SP Angel	SP Angel/WG Partners	SP Angel	SP Angel	02/08/19
Adamas Finance Asia	Pello Capital/VSA	VSA	WH Ireland	WH Ireland	05/08/19
Botswana Diamonds	Beaumont Cornish	SVS	Beaumont Cornish	Beaumont Cornish	05/08/19
Sunrise Resources	Beaumont Cornish	SVS	Beaumont Cornish	Beaumont Cornish	05/08/19
Be Heard	Dowgate	Dowgate/N+1 Singer	Cairn	N+1 Singer	06/08/19
Kibo Energy	First Equity	First Equity/SVS	RFC Ambrian	RFC Ambrian	06/08/19
Tertiary Minerals	SP Angel	SP Angel/SVS	SP Angel	SP Angel	06/08/19
Urban Logistics	Panmure Gordon/ N+1 Singer	N+1 Singer	N+1 Singer	N+1 Singer	06/08/19
URU Metals Ltd	SP Angel	SP Angel/SVS	SP Angel	SP Angel	06/08/19
Vela Technologies	Smaller Company Capital	Smaller Co Cap/SVS	Allenby	Allenby	06/08/19
Westminster Group	SP Angel	SP Angel/SVS	SP Angel	SP Angel	06/08/19
Xpediator	Cenkos/Cantor Fitzgerald	SP Angel/Cantor Fitzgerald	Cenkos	SP Angel	07/08/19
Churchill China	Investec	N+1 Singer	Investec	N+1 Singer	08/08/19
Gattaca	Liberum	Numis	Liberum	Numis	08/08/19
Inspirit Energy	Global Investment Strategy	SVS	Beaumont Cornish	Beaumont Cornish	09/08/19
Katoro Gold	SI Capital	SVS	Strand Hanson	Strand Hanson	12/08/19
Cloudcall	Canaccord Genuity	Cenkos/Arden	Canaccord Genuity	Cenkos	14/08/19
Frontier Developments	Liberum/Jefferies	Liberum/finnCap	Liberum	Liberum	14/08/19
Sareum	Hybridan	Hybridan	Strand Hanson	WH Ireland	16/08/19
Warpaint London	N+1 Singer/Shore	Shore	Shore	Shore	19/08/19
Bidstack	Stifel Nicolaus	Peterhouse	Spark	Spark	22/08/19
Versarien	Berenberg/Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	22/08/19
Hardide	Allenby/finnCap	finnCap	finnCap	finnCap	23/08/19
Symphony Environmental	Hybridan/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	28/08/19

Brickability builds on consolidation plans with AIM flotation

Bricks and building products *www.brickabilitygroupplc.com*

BRICKABILITY (BRCK)			67.5p
12 MONTH CHANGE % N/A		MARKET CAP £M	155.6

Bridgend-based **Brickability** supplies bricks and other construction materials.The core customer base is national and local housebuilders and general builders. Brickability was formed by a management buyout in 2016, although the core business has been trading since 1984 and the chief executive has been with that business for two decades. The company has enhanced growth by acquisition and the AIM flotation will help to provide finance for additional acquisitions.

Good relationships with brick manufacturers help Brickability to gain access to bricks even when they are in short supply. There are 2.4 billion bricks sold in the UK each year. The need for additional homes to be built provides a positive backdrop for demand.

Brickability supplies bricks from UK and European manufacturers.

Dividends are planned

Imports will be more costly following the decline of the pound. This could hamper progress, although brick imports have been rising because of a lack of UK supply. They accounted for 17% of bricks sold in 2018.

In recent years, Brickability has diversified its range to include roof, flooring and other construction products. The bricks business still generates a majority of revenues, but the other activities have higher margins. It continues to broaden the geographic coverage and cross-sell products to existing customers.

In the year to March 2019, Brickability made a pre-tax profit of £9.89m on revenues of £163.3m. The £4.2m finance cost will be reduced following the fundraising, but the company is already different because of further acquisitions.

The placing raised £43.1m at 65p a share, after expenses of £3m, and management swapped loan notes for shares, taking the total raised to £53.7m net. Pro forma NAV is £71.1m and pro forma net cash is £4.7m. However, this figure does not take account of the £6.7m of additional debt taken on to pay for three acquisitions since March. The strategy is to keep long-term debt down to around 50% of reported EBITDA.

Dividend payments are planned and are likely to be three times covered by earnings per share. That suggests a potential 2% yield.

Diversified acquires US pipelines

Oil and gas *www.dgoc.com*

DIVERSIFIED GAS & OIL (DGOC)			103.5p
12 MONTH CHANGE %	-5.5	MARKET CAP £M	684.2

Diversified Gas & Oil has agreed to acquire two separate packages of natural gas gathering systems in Pennsylvania and West Virginia for $7.5m. On top of this, the previously announced $50m purchase of EdgeMarc Energy's gas assets is set to complete in September.

The acquisition of the 1,700 miles of low-pressure gas pipelines plus related equipment will help the company to maximise the revenues from its gas. The pipelines move approximately 109,000 MMBtu of gas each day and 60% of this comes from Diversified Gas & Oil. Owning the infrastructure means that gas can be routed to the place where it will generate the best price and it also mitigates against any potential increase in charges for the transportation of the gas.

The deal will also increase third-party revenues by $3m a year. The company owns 12,000 miles of pipeline in the Appalachian Basin.

The acquisition from EdgeMarc will add a further 46 million cubic feet of gas each day and the cost is less than three times projected annual cash flow. In 2018, the wells generated EBITDA of more than $30m. The wells are near to existing group wells, but production costs are lower than for those wells.

Investment in dealerships provides good longer-term prospects for Marshall Motor

Motor dealer *www.mmhplc.com*

MARSHALL MOTOR (MMH)			145p
12 MONTH CHANGE %	-9.9	MARKET CAP £M	113.3

Car dealer **Marshall Motor** has negotiated the decline of the new-car market with a small drop in overall profit. Investment in dealerships will help to offset any continued weakness in the overall market.

In the six months to June 2019, underlying pre-tax profit fell from £16m to £15.2m. Like-for-like revenues were 0.9% ahead. There was a larger gross profit contribution from new cars in the first half, even though there was a decline in revenues.

Marshall keeps used-car stocks for 56 days. This means it is not hit as hard as its rivals when there are price slumps as occurred in June.

The NAV is 257p a share

Net cash was £5.8m at the end of June, but on the new accounting basis including operating lease liabilities net debt fell from £92.7m to £82.2m. Marshall has invested in Skoda dealerships that are still to make a significant contribution to the group.

Marshall previously said that it planned to reduce dividend cover to between 2.5 and 3.5 times. Last year's dividend was increased from 6.4p a share to 8.54p a share. The interim dividend was increased by one-third to 2.85p a share. This is to make it one-third of the total. A maintained total dividend of 8.54p a share would be covered more than 2.5 times by forecast earnings.

A dip in full-year pre-tax profit from £25.7m to £23.2m is expected, with a small uptick the following year. The shares are trading on six times prospective earnings. The forecast yield is 5.9%. The NAV is 257p a share, so the shares are trading at a 44% discount to that figure.

AB Dynamics drives international growth

Automotive testing *www.abdynamics.com*

AB DYNAMICS (ABDP)			2750p
12 MONTH CHANGE %	+119.1	MARKET CAP £M	611.1

Automotive testing and measuring systems supplier **AB Dynamics**, which is on the shortlist for five of this year's AIM awards, is acquiring California-based Dynamic Research Inc (DRI) for up to $24.7m. This will expand the group's capacity and enhance earnings.

There is an upfront cash payment of $21m and up to $3.5m more depending on the performance in the current financial year to May 2020. There is also a potential adjustment relating to net assets of $200,000. Senior management will stay with the business.

AB Dynamics is already an international business and this deal will increase exposure to North America, as well as providing a base on that continent. DRI has been trading for four decades, which is three years longer than AB Dynamics, which is already a supplier to the top 25 global vehicle manufacturers. DRI has its own test facility in Bakersfield, which can be used all year round, and has a product-focused subsidiary called DRI Advanced Test Systems, which manufactures products for track-based testing. This technology fits with the group's existing products.

In the year to May 2019, DRI increased revenues from $10.4m to $13.7m, while underlying operating profit more than doubled from $1.6m to $3.7m. That indicates that the acquisition should be earnings enhancing in a full year. AB Dynamics is trading on a prospective 2018-19 multiple of 52, falling to less than 40 the following year and then 30 in 2020-21.

Founder Tony Best, who is on the shortlist for entrepreneur of the year at the AIM awards, and his wife have sold 130,000 shares at 2,750p each. They still own 26.6% of the company.

Amryt set to more than double in size with Aegerion reversal

Orphan drugs *www.amrytpharma.com*

Amryt is acquiring US-based Aegerion Pharmaceuticals via a reverse takeover and this will make the enlarged group a global orphan drug business. It will have two marketed products and a pipeline of other treatments. The enlarged business would have pro forma annual revenues of $136.5m.

Aegerion is being restructured via Chapter 11 bankruptcy in the US and will be acquired when this is completed. Key creditors support the restructuring. The transaction is expected to complete by 25 September. The share-based transaction is based on a $120m valuation for Amryt and a $190.7m valuation for Aegerion. The deal is conditional on Amryt raising $60m via a share placing. A share consolidation of six shares for one new share has been completed ahead of the acquisition.

Pro forma annual revenues are $136.5m

AMRYT (AMYT)			107p
12 MONTH CHANGE %	-6.3	MARKET CAP £M	53.9

Amryt acquired the EMEA rights to Lojuxta from Aegerion at the end of 2016 and revenues have been growing at more than 25% a year. This drug reduces the production and release of cholesterol from the liver. Aegerion has continued to sell the same drug, under the name Juxtapid, in the Americas and Amryt's expertise may help to accelerate sales growth in those markets.

Aegerion also sells metreleptin, which is a treatment for people with low levels of the hormone that regulates appetite and the storage of fat in the body. This drug has orphan exclusivity in the US until 2027 and in Europe until 2028.

Existing shareholders in Amryt will receive contingent value rights (CVRs) which could be worth up to $85m. The payments will be based on the successful development of AP101, which is expected to report data from its clinical trial in early 2020. AP101 is being developed to treat Epidermolysis Bullosa and ensure more rapid wound healing. There are three triggers for payments. They are EMA approval, FDA approval and the achievement of 12-month net product revenue of more than $75m before the end of June 2024.

Scancell commences UK-based phase II trial

Immunotherapy *www.scancell.co.uk*

Cancer immunotherapy treatments developer **Scancell** is moving ahead with the UK-focused SCIB1 phase II trial for the treatment of metastatic melanoma alongside checkpoint inhibitor pembrolizumab. Scancell has also signed its first collaboration and non-exclusive research agreement with an antibody technology company, which will help with the development of the AvidiMab enhanced cell killing platform.

A US phase II trial has been held up by device-specific queries from the FDA and the decision was taken to push ahead in the UK and wait for further clarification before resubmitting an investigational new drug application in the US. Patients are being recruited for the UK trial, which is designed to assess whether there is an improvement in the response of tumours to the treatment and the overall survival rate in 25 patients with advanced melanoma.

SCANCELL (SCLP)			7.15p
12 MONTH CHANGE %	-38.4	MARKET CAP £M	34

AvidiMab was licenced from the University of Nottingham just over a year ago. The technology can potentially increase the potency of a therapeutic monoclonal antibody. The collaboration will evaluate potential anti-TaG mAbs enhanced with the AvidiMab technology. This covers various potential products, such as antibody drug conjugates, bispecific antibodies and standalone antibodies.

Scancell had £4.56m in the bank at the end of April 2019. Since then it has raised £3.9m via a subscription at 5p a share by Vulpes Life Sciences Fund, which has a 16.7% stake.

Wentworth Resources pays maiden dividend

Oil and gas *www.wentplc.com*

Dividend

Africa-focused oil and gas producer Wentworth Resources has announced its maiden interim dividend of 0.45p a share. This will cost $1m and it is expected to represent one-third of the total dividend for the year. Cash generated by the Mnazi Bay asset in Tanzania finances the dividend.

It appears that this dividend will be covered around 1.5 times by forecasts earnings – depending on what the dollar/pound exchange rate is at the time. This cash generation will partly be dependent on the oil price, so the dividend level could be volatile. A maintained dividend is currently forecast for 2020.

The dividend policy is based on the level of free cash flow generated during a year and what investment the operations require.

Business

Wentworth joined AIM in 2011. Last year, the company's domicile was switched from Alberta in Canada to Jersey. Wentworth had a listing on the Oslo Bors, but that was cancelled in February. In April, the non-core exploration licence in Mozambique was relinquished.

The main asset of the company has not changed. Wentworth has a 31.94% stake in the production of the Mnazi Bay field in Tanzania and 39.925% of exploration operations. This field is in the Rovuma Basin of southern Tanzania.

Tanzania has a population of 60 million and GDP is growing at more than 7% a year. Natural gas provides around three-fifths of the country's power. Hydro is the other main contributor.

Gas production declined in the first half of 2019. Average gross daily production was 66.17 million cubic feet of gas, down from 78.6 million cubic feet in the first half of 2018. That was partly due to a heavier rainy season. Gross daily production volumes recovered to 90 million cubic feet in August. The average for the year is expected to be between 60 and 75 million cubic feet.

WENTWORTH RESOURCES (WEN)	
Price (p)	20
Market cap £m	37.3
Historical yield	Nil
Prospective yield	6.7%

In the six months to June 2019, revenues fell from $10.8m to £8.02m. The operating costs increased from 44 cents to 64 cents for each million cubic feet of gas, due to the lower production.

Cash generated from operations declined from $4.01m to $2.77m, although there was a cash outflow after working-capital changes. That was due to a near-doubling of the trade receivable from Tanzania national oil company TPDC from $5.76m to $10.5m. Since the end of June, Wentworth has received payments totalling $8.4m, predominantly from TPDC.

Total debt was $7.67m and cash $9.87m at the end of June. There was a $1.7m debt repayment in July. There are two more term loan repayments by January. That would leave the $2.5m overdraft credit facility. The cash balance was more than $14m by the end of August.

Wentworth's working interest in the 2P reserves of Mnazi Bay was 100 billion cubic feet at the end of 2018, which is equivalent to a NPV15 value of $106m.

Dividend news

Somero International increased its interim dividend by 4.5% to 5.75 cents a share despite the tough trading conditions in the first half. Poor weather in North America hit construction activity and demand for the company's concrete-levelling equipment. European demand was held back by economic uncertainty. Interim pre-tax profit was 23% lower at $10.5m. There should be some recovery in the second half, but revenues and pre-tax profit will be lower this year. A 2019 pre-tax profit of $24.9m is expected, while a total dividend of 17 cents a share is forecast, which should be twice covered by earnings. Net cash of more than $17m is forecast for the end of 2019.

Bricks manufacturer **Michelmersh Brick** improved underlying interim pre-tax profit from £4.4m to £5.2m, helped by an initial contribution from Belgian business Floren, which was acquired during the period. The interim dividend has been raised from 1.06p a share to 1.15p a share. That suggests a total 2019 dividend of 3.45p a share. Trading is better than expected and the second-half order book is 7% ahead, excluding Floren. UK brick stocks are at historically low levels. Michelmersh also has land assets that have the potential to be worth more than their book value.

Property lettings agency **Belvoir** maintained its interim dividend at 3.4p a share, but management intends to increase the final dividend. The total dividend could rise from 7.2p a share to 7.4p a share. The financial services division continues to generate a large proportion of the profit growth of the business, but the core lettings operations also improved their contribution. The tenant fee ban will hamper progress in the second half, but full-year pre-tax profit is expected to improve from £5.5m to £5.7m and the forecast dividend would be covered 1.7 times by earnings.

AIM's successful graduates

Entertainment One is being acquired at a significantly higher price than when it originally joined AIM. It is not the only AIM company that has continued to prosper after moving to the Main Market.

Nearly 200 companies have moved from AIM to the Main Market, although some of these have subsequently returned to AIM. There have been poor performers, such as building maintenance firm Connaught, which went bust, but there have also been some significant successes.

Sirius Real Estate will be the latest former AIM company to join the FTSE 250 index, in late-September. Melrose Industries started out as an AIM shell and is currently in the FTSE 100 index, following the acquisition of GKN. Melrose is valued at just short of £10bn and it has also made significant cash distributions to shareholders.

TV and films producer Entertainment One and car auctions firm BCA both started out on AIM and having moved to the Main Market they are both the subject of current bids.

Entertainment One joined AIM at the end of March 2007 at a placing price of 100p a share and when it started trading it was valued at £84m. It moved from AIM to the Main Market in July 2010. The bid from Hasbro values the company at £3.3bn.

Additional share issues have been part of that rise in value, but the share price has also risen by 460% to the bid value of 560p a share. Investors have also been receiving dividends, although they have been relatively modest. The recent final dividend was 1.5p a share.

Like Melrose, BCA Marketplace was a shell (called Haversham Holdings) when it joined AIM at 120p a share in November 2014 and it used the quotation to make the billion pounds acquisition of car auctions firm BCA and move to the Main Market the following year.

During the summer BBD Bidco launched a 243p a share bid, which values BCA at £1.9bn. A potential final dividend of 6.65p a share was announced at the time of the bid. The deal has not yet completed so the dividend will be paid if it does not complete on or around 20 September, and the bid price will be reduced by the same amount.

That would make the total dividend for the year 9.65p a share. BCA has been paying a growing dividend over the past four years.

> Sirius Real Estate will be the latest former AIM company to join the FTSE 250 index

Unite

One of the big successes among the early movers from AIM to the Main Market is student accommodation developer Unite. In June 1999, Unite raised £9.83m in a placing at 85p a share. The company was valued at just over £20m.

Unite moved from AIM to the Main Market in April 2000, so it is not far off its 20th anniversary on the market. In those days, companies moved to the Main Market at a much earlier point in their development than they would now. Unite was capitalised at £90m when it made the switch.

Unite has been a constituent of the FTSE 250 index for many years and it has become a REIT. The Unite share price is near to its all time high at 1040p. That is more than twelve times the original placing price. Unite paid its first dividend in 1999, but it stopped in 2008 before returning to a growing dividend from 2011. Last year's total dividend was 29p a share.

At the end of June 2019, there was a portfolio of 51,200 operational beds for the 2019-20 academic year, which have a value of £5.5bn and Unite's share of that is valued at £3bn.

The proposed £1.4bn acquisition of Liberty Living should be completed early in the fourth quarter. This deal will be materially earnings enhancing from 2020.

Most of the growth may have come on the Main Market but it was AIM that gave the company the initial chance to raise money and start the journey to becoming a company valued at £3bn.

Recognising the important role of non-executives in growth companies

A new report commissioned by the QCA shows how important it is for non-executive directors to be active in engaging with the company and to be the right fit for whatever stage the company has reached in terms of its development.

Non-executive directors are an important part of corporate governance and they can also help a growing business by providing their commercial experience and expertise. Non-executives of large companies may not have the appropriate skills and understanding to be effective in the role at a smaller, growth company.

AIM has a wide range of companies that have contrasting needs and requirements of their non-executives. A start-up will require different skills to a more mature growth company. When a company is small it can require much more input into its strategy rather than just analysis and approval of strategy put to them by the executives.

It is important that the non-executives are able to gain a well-rounded understanding of the business by visiting the operations and finding out views from people who are not on the board. This can be time-consuming. Investors do not like it if they think that non-executives do not have enough engagement with the business they are supposed to be stewarding.

There is also a balance to be found between mentoring and monitoring, depending on the type of company and its executives' requirements. It may be that an entrepreneur can continue to run a business when it gets more mature, but they need to be made aware of how they need to adapt to the changing circumstances at this point in the company's history.

Interviews were undertaken with 32 investors and directors and responses debated with three focus groups

These things are complicated further if the non-executive is based in a different country to the company or it has a wide geographical spread of operations. Again, this can be time-consuming. Having a UK-based non-executive is important for an overseas company quoted on AIM, because investors can then have someone they can easily approach for further information.

Report

The Role of Non-Executive Directors in Growth Companies is a research report commissioned by the Quoted Companies Alliance and sponsored by fund manager Downing. Henley Business School carried out the research, where the focus is predominantly, but not purely, AIM companies, directors and advisers.

Interviews were undertaken with 32 investors and directors – mainly of AIM companies. This information was then debated with three focus groups, with a total of 18 participants.

Growth companies are not defined by size in the report; they are deemed to be those companies that have "growth as their main strategy and focus".

Chairing the board

The chair of the board has an important role in leading the board and making sure it has the right composition. Their relationship with the chief executive is a crucial part of the role, particularly when the chief executive is new to the public arena. They need to be honest and upfront with each other in order for the relationship to be successful.

A chair has to assess the correct way to lead the board in relation to the point in the company's development. This requires the correct non-executive directors to be in place to provide the help and guidance that is required.

Any change in requirements will mean a change in the make-up of the board is needed. This could mean that existing executives or non-executives may not be the right fit and they need to be tactfully handled if they have to be replaced.

There should be discussions with the nomination committee about the requirements for a director and they should help to identify the skills required.

Whoever is the chair of the board also needs to be aware that their talents may not be suited for the next part of the company's development and pass on the role at the appropriate time to someone with the right skills.

Fast-growing companies can reach a point where the entrepreneurial way that they have been run needs to be changed or adapted and a more corporate approach is required. If this is not managed successfully, the company's performance could slump. There are companies that have soared and then crashed back down to earth because the growth has not been managed appropriately.

Strong non-executives can help to address the problem and guide the company in the right direction, however disruptive to the existing situation that may be. This is not easy if an entrepreneur who may even have founded the company and has steered it through its successful years is required to step aside for someone with a background running a more substantial and mature business.

Company types

The report identifies four broad types of growth company, each of which requires a particular form of stewardship by non-executives.

The first type is small and low complexity, where the chief executive needs to be kept on track. The relationship with the chief executive is important and non-executives should be able to broach difficult subjects.

The chief executive, who may have a significant shareholding in the company, may believe that they know how to run the business, but the situation may have changed. They need to be able to adapt and learn. Non-executives need to assess any weaknesses and how the chief executive communicates internally.

This type of company probably also has little experience of interacting with investors, so they require guidance from the non-executives who have been involved in other quoted companies. This interaction with investors could be highly important when more money is required or there is short-term disappointment in the business.

The next type of growth company is large and low in complexity, with a requirement for non-executives to make sure that the business is kept on track. These tend to be more well-established businesses with a more corporate style.

Non-executives need to keep their eye on the ball. The company may be running smoothly, but there will always be pitfalls around the corner. The non-executives need to be aware of what might hamper the progress of the business. This perspective is important because executives may be so focused on running the business that they lose sight of the bigger picture.

The independence and broader skill set of non-executives is important in this case.

The third type of growth company is large and highly complex, which probably has a more dispersed ownership.

Helping with strategy development is important in this case. This requires difficult issues to be tackled and the board and management need to work well together. There also needs to be good shareholder relations and communication.

The fourth type of growth company is small and highly complex, where the non-executives need to be involved in building up a team. This is similar to the first type of growth company, but the more complex nature of the job requires additional skills.

The mentorship role is the key to this role, and it is not just the chief executive that requires this. There is a wider role in terms of mentoring the whole management team. The depth of business experience of the non-executives is important. Experience of building and developing management teams will help with this situation.

> The report identifies four broad types of growth company each of which requires a particular form of stewardship

This may involve having to replace existing management with people who have more experience in their roles. There should also be a clear separation of roles between the various executives. This requires emotional intelligence and skill in handling people.

Conclusion

The report concludes that the biggest factor in the effectiveness of a non-executive director is their individual experience, skill and will. The role is influenced by the type of company and the dynamism of the board.

Non-executive directorships are important and should not be viewed as an easy job, particularly with the increasing regulatory requirements involved.

The Role of Non-Executive Directors in Growth Companies is available at www.theqca.com/news/briefs/189061/new-report-on-the-role-of-neds-in-growth-companies-released.thtml.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	26.2	16.1
Industrials	16.4	16
Healthcare	12.6	9.8
Financials	12.4	12.5
Technology	11.8	12.5
Energy	7.4	11.1
Basic materials	5.2	13.6
Property	5.1	3.1
Telecoms	1.8	2.6
Utilities	1	1.5

KEY AIM STATISTICS

Total number of AIM	895
Number of nominated advisers	28
Number of market makers	48
Total market cap for all AIM	£101.4bn
Total of new money raised	£114.3bn
Total raised by new issues	£45bn
Total raised by secondary issues	£69.1bn
Share turnover value (June 2019)	£36.3bn
Number of bargains (June 2019)	6m
Shares traded (June 2019)	279.9bn
Transfers to the official list	191

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	871.57	-21.1
FTSE AIM 50	4836.36	-25.2
FTSE AIM 100	4411.74	-25.2
FTSE Fledgling	9260.27	-18.7
FTSE Small Cap	5376.32	-7.9
FTSE All-Share	3953.02	-3.7
FTSE 100	7207.18	-3.1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	149
£5m-£10m	103
£10m-£25m	161
£25m-£50m	133
£50m-£100m	140
£100m-£250m	111
£250m+	98

TOP 5 RISERS OVER 30 DAYS

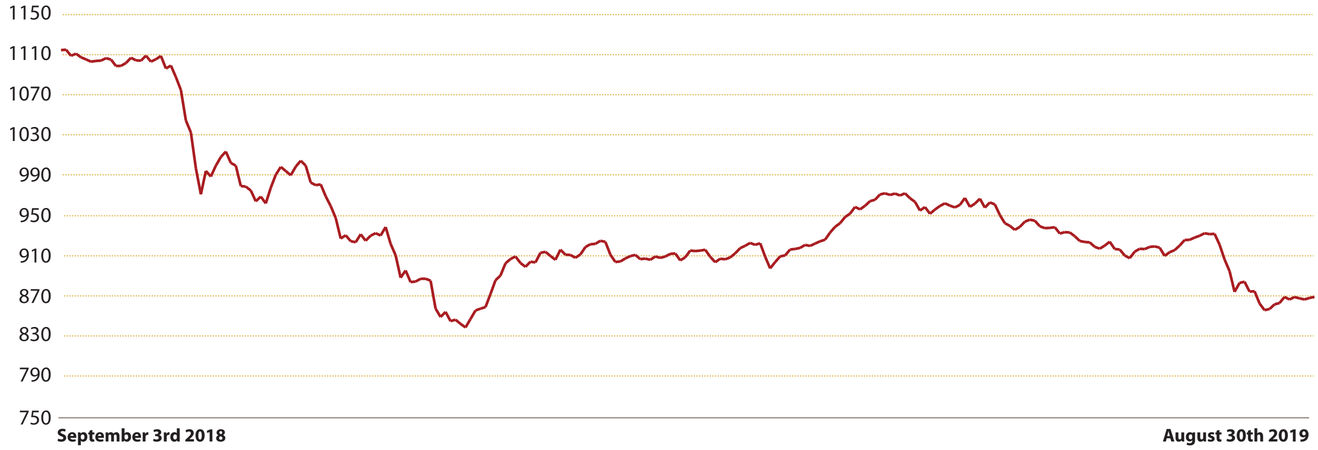
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Adept4	IT services	3.55	+914
IDE	IT services	7.35	+172
Europa Metals	Mining	0.0485	+155
Hawkwing	Shell	1.7	+127
China Nonferrous Gold	Mining	16.6	+125

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Verseon Corporation	Healthcare	9.3	-77.6
Avanti Communications	Technology	0.43	-70.8
ADM Energy	Oil and gas	6.75	-70.7
Cabot Energy	Oil and gas	3.5	-60
Corero Network Security	Technology	2.95	-57.9

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th Augustww 2019, and we cannot accept responsibility for their accuracy.

AIM Journal

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

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

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

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

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

AIM

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

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

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

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

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