

SEPTEMBER 2013

AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM Awards shortlist revealed

The AIM Awards are coming of age with the 18th awards dinner scheduled to be held on 10 October at the regular venue of Old Billingsgate Market in London. The shortlist for the 2013 AIM Awards has been released, with online protein research tools retailer Abcam, online fashion retailer ASOS, airline operator and logistics business Dart and restaurants operator Prezzo nominated for the company of the year award. GP patient records software supplier EMIS Group was the 2012 company of the year.

The best newcomer award, sponsored by finnCap, is between business-to-business online platform provider blur, pharmaceutical services and products supplier Clinigen, alcoholic drinks retailer Conviviality Retail and software supplier

Fusionex International.

Gas-to-liquids technology developer Oxford Catalysts, which is changing its name to Velocys, is included in two shortlists. Along with identity verification services provider GB Group, medical devices developer Lombard Medical Technologies and utility cost management consultancy Utilitywise, Oxford Catalysts is on the list for best use of AIM, while it is also included in the best technology shortlist. The others in line for the best technology award are cadmium-free quantum dots developer Nanoco, rail scheduling software provider Tracsis and software supplier WANdisco.

The AIM awards shortlist is available at http://www.aim-awards.co.uk/nominations_and_shortlist/.

Oil companies underperform AIM

Ernst & Young's Oil and Gas Eye Index of the largest 20 AIM oil and gas companies has underperformed AIM so far this year. The 12% decline in the second quarter of 2013 was the largest ever in any single quarter. This compares with a 5% fall in AIM over the second quarter.

The Oil and Gas Eye index also underperformed the FTSE 350 Oil & Gas Producers index, which fell by 2% in the same period. The accountant says that the Oil and Gas Eye index has not achieved two consecutive quarters of growth since 2009. The weaker oil price has not helped the sector's performance. The better AIM

performers tend to have released positive drilling news.

The share prices of one-fifth of AIM oil and gas companies rose in the second quarter. It has been more difficult to raise cash and oil and gas companies accounted for 9% of funds raised by AIM companies in the second quarter of 2013, compared with 44.8% in the first quarter of 2013 and 25.6% in the second quarter of 2012. Ernst & Young says that larger companies are still able to raise finance at relatively attractive interest rates but it is much more difficult for those companies at the smaller end of the sector.

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DQ Entertainment ready to draw on content demand

Rising demand for animation and other children's TV programming provides a positive market background for India-based DQ Entertainment, which owns its own content and provides production services to other producers. In recent years, DQ has built up a library of its own series, such as the Jungle Book, and it has plans to produce around five new children's series, either existing or newly developed, every year.

The demand for children's programming is shown by a recent Netflix deal with major film producer DreamWorks, which has agreed to provide 300 hours of new programmes. The first of these programmes, which will be shown across the global Netflix service covering 40 countries, should be shown in 2014. DQ has produced work for DreamWorks in the past

and could benefit from the deal. For example, DQ has a minority interest in Casper the Friendly Ghost, which is part of the DreamWorks catalogue. DQ is capable of increasing capacity at its production services operations if it wins outside work and it is well placed to take advantage with existing and newly developed series.

Pre-tax profit is expected to improve from INR423m (£432,000) to INR580m this year and reach INR751m in 2014-15. A greater proportion of revenues are coming from the company's own animation series, which helps to push up gross margins.

The order book is worth INR6.59bn, with around one-third of this figure relating to the upcoming Jungle Book film. There is even the prospect of a dividend for the current financial year.

Macromac picks AIM

Malaysia-based Macromac plans to join AIM before the end of September but Chargemaster, the installer of charging systems for electric cars, has pulled its flotation. Macromac is predominantly a mobile content aggregator and messaging services provider but it also undertakes one-off mobile software projects. Macromac chose AIM rather than an Asian market because of greater access to funding and the better understanding of the mobile sector. The company wants to use its quotation to help expand its operations in southeast Asia. Macromac currently has operations in Malaysia and Thailand. Indonesia could be the next market entered. Macromac is expected to be valued at £10.1m at a placing price of 10p a share and there is the promise of a regular dividend payment.

October date for AIM Investor Focus event

The latest AIM Investor Focus event is being held on Thursday 10 October at finnCap's offices in London. This follows the successful event last April. All five of the companies presenting at that event have outperformed AIM, which has risen by 7% over the period. The increases of the participants range from 14% for pottery manufacturer Portmeirion to 43% for scientific instruments supplier Judges Scientific. The average increase is nearly 30%.

The five companies presenting next month are: Goals Soccer Centres, Staffline, idox, Matchtech and IndigoVision.

Five-a-side football centres operator Goals Soccer Centres recently reported 2013 interims with revenues 2% ahead at £16.6m, while underlying profit fell 7% to £4.1m. However, the full-year profit is expected to edge higher. Recruitment services provider Staffline increased net fee income by 26% to £19.2m in the six months to June 2013 and it is set to grow its pre-tax profit from £10.3m to £12.5m in the full year. Document management services provider idox reported a dip in first-half profit but house broker finnCap forecasts a 2012-13 profit of £15.7m, up from £14.2m.

Engineering and professional services recruitment company Matchtech says that its underlying profit for the year to July 2013 will be slightly ahead of previous expectations when it is reported on 15 October. Underlying net fee income was 9% higher at £38.5m. Network video security systems supplier IndigoVision is set to publish its full-year figures on 26 September. Pre-tax profit of £2m is estimated for the year to July 2013.

The event starts at 11am. Anyone interested in the event can find further information at <http://blackthornfocus.com/events/aif201310>.

advisers

Baker Tilly acquires RSM Tenon assets

Accountant Baker Tilly decided not to bid for larger rival RSM Tenon and instead it picked up the trading entities of the company from the administrator, Deloitte. The acquired operations will continue to trade under the RSM Tenon brand for a short time before they change to the Baker Tilly brand.

Lloyds pulled the plug on RSM Tenon but it will not recover all the debt owed to it. Shareholders are left with nothing.

Baker Tilly had been undertaking due diligence prior to deciding not to bid for the company so it understood what it was getting and the sale was a pre-pack deal organised before the company went into administration. Baker Tilly said that the assets acquired are "free from the burden of the group's (RSM Tenon's) historical debt

obligations". There is no indication of how much was paid for the assets.

Loss-making RSM Tenon, which was the seventh-largest accountancy firm in the UK, has 2,300 partners and staff in 35 offices. Baker Tilly was the ninth-largest accountancy firm prior to the acquisition. It is unclear how much rationalisation and restructuring the acquired business will require.

Baker Tilly sold its financial services division in 2007 so it is unclear whether it would want to retain RSM Tenon's financial services operations. Baker Tilly is larger in the auditing area but RSM Tenon is much larger in the insolvency sector.

Tenon started out as an AIM shell in 2000 before making a large number of acquisitions, which led to problems in integrating the disparate businesses. The company had to go through

a period of rationalisation and integration before moving into profit.

Tenon acquired RSM Bentley Jennison for up to £76.3m at the end of 2009. The merged business moved to the Main Market in 2010 and switched to a standard listing last year in order to save money following the discovery of accounting irregularities and tough trading conditions.

Baker Tilly's acquisition of RSM Tenon follows the merger of BDO and PKF earlier this year. The merger meant that BDO took over from Grant Thornton as the leading auditor of AIM companies. BDO has 156 AIM clients, while Grant Thornton has 146 AIM clients. The total market capitalisation of BDO's clients is more than £6bn, although this is still much lower than the £13bn-plus capitalisation of the AIM clients of PwC.

ADVISER CHANGES - AUGUST 2013

| COMPANY | NEW BROKER | OLD BROKER | NEW NOMAD | OLD NOMAD | DATE |
|------------------------------------|---------------------------------|-----------------------------|-------------------|-------------------|------------|
| Energiser Investments | Cairn | finnCap | Cairn | finnCap | 01/08/2013 |
| Centurion Resources | SP Angel/Sanlam | Beaumont Cornish/ Sanlam | SP Angel | Beaumont Cornish | 02/08/2013 |
| Strategic Natural Resources | Allenby | Allenby/SP Angel | Allenby | Allenby | 02/08/2013 |
| Rangers International FC | Daniel Stewart | Strand Hanson | Strand Hanson | Strand Hanson | 05/08/2013 |
| 2 ergo Group | Zeus Capital | Numis | Zeus Capital | Numis | 08/08/2013 |
| Andrews Sykes | Arden | WH Ireland | Altium | WH Ireland | 08/08/2013 |
| Inspirit Energy Holdings | Peterhouse/ Westhouse | Westhouse | Westhouse | Westhouse | 08/08/2013 |
| IPSA Group | WH Ireland | WH Ireland | WH Ireland | Execution Noble | 12/08/2013 |
| North RiverResources | VSA/Ocean Equities | SP Angel/ Ocean Equities | Strand Hanson | Strand Hanson | 12/08/2013 |
| Tertiary Minerals | Beaufort/ Cantor Fitzgerald | VSA/ Cantor Fitzgerald | Cantor Fitzgerald | Cantor Fitzgerald | 14/08/2013 |
| DiamondCorp | Panmure Gordon | SP Angel/ Panmure Gordon | Panmure Gordon | Panmure Gordon | 19/08/2013 |
| SQS Software | Canaccord Genuity/ Westhouse | Westhouse | Canaccord Genuity | Westhouse | 20/08/2013 |
| Cellcast | Zeus Capital | Allenby | Zeus Capital | Allenby | 23/08/2013 |
| Oxford Catalysts (Velocys) | Numis | Peel Hunt | Numis | Peel Hunt | 23/08/2013 |
| Coms | Charles Stanley/ SI Capital | SI Capital | Charles Stanley | Grant Thornton | 28/08/2013 |

company news

Production efficiency improvements enable Churchill China to prosper

Ceramics manufacturer

www.churchill1795.com

Ten years ago **Churchill China** was unsure if its UK manufacturing operations had a future but in recent years the increasingly efficient UK factory is competing successfully and more than £1m is being invested in a facility to house a new kiln bought from Wedgwood.

Churchill had a strong first half in 2013 thanks to improved sales and margins in the hospitality business. This more than covered the decline in retail sales and contribution. Revenues improved from £19.2m to £19.7m while pre-tax profit jumped from a restated £700,000 to £1.1m. The previous year's profit figure has been restated for a £200,000 swing from a pension interest credit to a charge because of a change in pension accounting policies. Chinese anti-dumping duty may have cost

More than £1m is being invested in a facility to house a new kiln

the retail division around £200,000, where price increases were pushed through, but this was partly offset by the competitive benefits of Churchill products made in the UK.

Churchill is reducing its exposure to licensed brands, such as Cath Kidston and Jamie Oliver, by developing its own themed ranges, which can be sold through retailers.

Broker N+1 Singer appears to be reporting a flat profit of £3.1m for 2013 but the 2012 figure benefited from the pension income credit so

| CHURCHILL CHINA (CHH) | | 375p |
|-----------------------|-------|--------------------|
| 12 MONTH CHANGE % | +12.8 | MARKET CAP £m 41.1 |

the underlying comparative is £2.7m. The forecast is achievable with a flat second-half profit so there is scope to beat this target if trading is strong.

There is £4.8m in the bank and year end-cash could be similar to the £7m reported at the end of 2012. Investment in the new kiln facility could reduce cash next year.

The interim dividend has been edged up from 4.8p a share to 4.9p a share. Churchill is trying to rebuild the cover for its dividend. The cover is still lower than the 1.8 times that management is aiming for but it wants to maintain a progressive dividend policy. The prospective yield is 3.9%.

Electric Word back on course after digital switch

Information publisher

www.electricwordplc.com

Education, health and online gaming information publisher **Electric Word** had a tough first half but trading should start to improve in the second half. The investment in moving from paper-based to digital products is beginning to pay off and profit and margin should recover over the long term.

All three divisions made a lower interim contribution, partly due to investment in developing online products. This meant that Electric Word fell into loss in the first half.

The education business has been

| ELECTRIC WORD (ELE) | | 1.63p |
|---------------------|------|--------------------|
| 12 MONTH CHANGE % | -9.7 | MARKET CAP £m 6.61 |

hit by uncertainties about school budgets but this should be coming to an end. A new boss has been recruited for the health division where the performance has been disappointing. The sports and gaming division continues to trade strongly when the switching of an online gaming conference from the first to the second half is taken into account. Legalising online gaming

in the US and other new markets provides a positive background for this business.

The board has been strengthened with the appointment of RWS Holdings boss Andrew Brode as chairman and the hiring of Will Fawbert as finance director.

Full-year EBITDA is forecast to slump from £1.2m to £500,000 but there should be a profit recovery next year. There are no forecasts for 2013-14 onwards but there is scope for a significant recovery in margins.

company news

Land disposal provides Renew Holdings with acquisition cash

Engineering and construction services

www.renewholdings.com

Engineering and construction services provider **Renew Holdings** has a strong order book and the finances to make further add-on acquisitions. Renew has strengthened its cash position through the disposal of 71 acres of land near Rugby for £11m.

The disposal follows the £7.9m acquisition of Lewis Civil Engineering, which specialises in the construction and maintenance of water-sector infrastructure. Major clients include Wessex Water and Welsh Water.

The land disposal will contribute an exceptional gain of £9.4m in the year to September 2013. This will be partly offset by a £5.2m write-down of the value of other land owned by the company and a provision of £2.9m against unrecoverable costs

The disposal will contribute an exceptional gain of £9.4m

caused by subcontractors to the building business that Renew has shut down.

Renew is expected to have net cash of £2.3m at the end of September 2013, compared with net debt of £5.5m one year earlier. The net cash figure could rise to £8m by the end of September 2014.

Renew has a good record of making acquisitions that add to the business. The Lewis acquisition is expected to enhance earnings by 13% in 2013-14, thanks to a forecast

| RENEW (RNWH) | | 126p |
|-------------------|--------|---------------|
| 12 MONTH CHANGE % | + 42.4 | MARKET CAP £m |
| | | 75.5 |

profit contribution of £1.3m.

At the time of the interims, Renew had an order book worth £361m, which covers more than one financial year. This underpins growth in the coming years and does not include all the potential work that can be gained from the large Sellafield contract or the recent acquisition.

Renew is on course to edge up its profit from £10m to £10.6m in 2012-13, while a full contribution from Lewis should help the profit improve to £13m in 2013-14. The shares are trading on nine times prospective 2012-13 earnings, falling to less than seven in 2013-14. The forecast dividend yield is 2.6%.

HaloSource on brink of profitability

Clean water technology

www.halosource.com

Clean water technology developer **HaloSource Inc** has built a solid base from which to grow its revenues. This means that the water purification and remediation products supplier is on course to be profitable in 2014.

HaloSource revenues edged up 2% to \$5.88m in the six months to June 2013 but growth should start to accelerate in the second half. The loss increased from \$6.46m to \$6.97m but the second-half loss should be lower.

Water purification and environmental water remediation both increased revenues but there was a small fall in recreational water

| HALOSOURCE INC (HAL) | | 34p |
|----------------------|--------|---------------|
| 12 MONTH CHANGE % | - 38.2 | MARKET CAP £m |
| | | 60.5 |

revenues, which still generate the majority of the total. That should change next year. Orders for water purification products have more than doubled and this should be the biggest revenue generating division in 2014. Gross margins are improving and growth in operating costs is being held back despite the expected increases in sales, which means that more of the additional

gross profit will drop through to pre-tax profit.

A full-year loss of \$9.3m on revenues of \$18.3m is forecast. In 2014, revenues of \$34.5m and pre-tax profit of \$396,000 are estimated. Environmental water revenues will not grow as quickly as originally expected due to extended lead times with customers.

Net cash was \$16.4m at the end of June 2013 and this will provide enough cash to get HaloSource to profitability if things go to plan and there is leeway if it takes longer than expected.

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www.cleantechinvestor.com

company news

Proxama reversal secures near-field communications technology growth

Near-field communications technology

www.proxama.com

Cash shell Longships took more than five years to find a suitable acquisition target, but it has finally secured a target - near-field communications business **Proxama Ltd**. Proxama was bought in an all-share deal worth £14.6m at 4p a share.

The London Transport Oyster card is one of the most high profile examples of the use of NFC technology. The technology enables connectivity that can help consumers to make transactions, exchange content and connect devices with a touch or tap or by being in close proximity to another device. NFC can be used for access control, healthcare, coupons and payments. This is a new market but by the end of 2014, there are expected to be 300m NFC-enabled mobile phones around the world.

Norwich-based Proxama develops mobile proximity marketing and secure mobile contactless payments

In 2014, there should be 300m NFC mobile phones around the world

services on a fee-for-service basis. In the longer term, Proxama wants to generate recurring revenues based on usage.

Proxama has developed NFC-based mobile wallet technology called TapTransact. The mobile wallet technology enables financial businesses to launch secure contactless services with limited capital investment. Consumers are able to hold a number of different cards in virtual form in the mobile wallet. ARM's TrustZone technology can be used to switch the device to a secure mode of operation and provide greater security.

| | |
|-----------------------------|--------------------|
| PROXAMA (PROX) | 6.25p |
| 12 MONTH CHANGE % unchanged | MARKET CAP £m 29.1 |

Proxama is primarily focused on the UK and intends to move into the US and Canada on the back of its relationship with ARM. Further geographical expansion is likely to be via partners.

Revenues have grown strongly, from £256,000 in 2010 to £637,000 in 2011 and £1.38m in 2012. One UK customer accounted for 80.2% of revenues in 2012. The loss has increased at an even faster rate, reaching £1.81m in 2012. The main reason for this was a sharp rise in R&D spending, which reached £864,000 in 2012. None of this spending is capitalised. Proxama continues to invest heavily in R&D so it will need to raise more cash next year because cash generation from operations is still some way off.

Delcam continues to beat expectations

CAM software supplier

www.delcam.com

Computer-aided-manufacturing software supplier **Delcam** continues to beat expectations and the latest interims have sparked an upgrade from house broker Numis.

In the six months to June 2013, revenues were 9% ahead at £25m as stronger software sales more than made up for a £500,000 reduction in hardware revenues, which are low margin anyway. Interim profit improved from £2.09m to £2.83m. The 2013 profit expectation has been edged up from £5.5m to £5.8m

| | |
|------------------------|---------------------|
| DELCAM (DLC) | 1692.5p |
| 12 MONTH CHANGE % +107 | MARKET CAP £m 134.3 |

and the following year's forecast has been pushed up from £6.3m to £6.5m. Net cash could reach £19m by the end of 2014.

Delcam benefits from a wide geographical spread to its business, as well as a broad range of customers. The best performances were in the UK, US, China, Germany and Italy. Delcam is building

direct sales channels in some of its fastest-growing markets, including China, Mexico, India and Indonesia. Automotive and footwear sector demand was particularly strong in China.

Delcam is not immune to economic downturns but it has bounced back strongly since 2009. New product launches will help Delcam continue its growth. The shares are trading on 27 times 2013 prospective earnings, falling to 24 for 2014.

dividends

GLI Finance offers yield of nearly 10%

Finance provider

www.glifund.com

Dividend

GLI Finance is focused on providing an attractive yield for its shareholders while preserving its asset value. The current quarterly dividend is running at 1.25p a share, giving a likely 2013 dividend of 5p a share. The 2012 total was 4.8p a share and had grown from 4p a share back in 2010.

Between August 2005 and September 2008, GLI paid total dividends of 19.5p a share. Dividend payments were then suspended because of the poor market conditions and reinstated a year later. GLI should be able to continue to grow its dividend because it is more than covered by earnings and it should also be covered next year.

Business

Guernsey-registered GLI, which is also listed on the CSE, started out as T2 Income Fund and joined AIM in August 2005, subsequently changing its name to Greenwich Loan Income Fund in October 2009. At the end of April 2013, the company's name became GLI Finance. Throughout this time the company has been investing in the secured loans of small and medium-sized businesses but the focus has changed slightly from investment to specialist lending. The core market is in the US but the UK is becoming increasingly important and earlier this year GMB Partners became manager of the company's assets.

The strategy is to invest in corporate debt where other investors have wrongly assessed the risk or where illiquidity discounts are higher than appropriate.

At the beginning of 2011, GLI acquired AMIC for £12.3m and

| GLI FINANCE (GLIF) | |
|--------------------|------|
| Price | 51p |
| Market cap £m | 66.9 |
| Historical yield | 9.4% |
| Prospective yield | 9.8% |

has already realised investments worth more than the buying price and still has further investments valued at £3.2m. Later that year, GLI renegotiated its management fee and reduced it by \$4m a year.

GLI has been acquisitive in the past year and acquired BMS Finance, which brought with it a management team, at a cost of £11.6m - 20.5m shares and £1.3m in cash. The seller recently reduced its stake to 12.8m shares. This business reduced dependence on the US. Typical loan size is between £500,000 and £3m.

A further £1.5m has been invested in a 20% stake in Funding Knight, which has developed an online platform for crowd lending. The loans are between £25,000 and £100,000 and last up to three years. The most recent deal is the acquisition of 20% of crowd-funding platform Platform Black for £2m. GLI claims that Platform Black is the fastest-growing online platform for crowd-funding invoice finance. The invoices are auctioned online to investors who want short-term returns. So far, the platform has provided £21m of finance for small businesses and net annualised returns of 12%-15% for its investors.

GLI is trading near to its NAV of 53.1p a share. The crowd-funding businesses have diversified the business but they are unlikely to make a significant contribution in the short term.

Dividend news

Pensions consultancy **Mattioli Woods** has increased its full-year dividend much faster than the rate of profit growth in the year to May 2013. The total dividend is 26% higher at 7p a share, while underlying profit improved 10% to £5.56m. The yield is 2.1% and the dividend is covered more than three times by earnings. The balance sheet is strong, with net cash of £8.05m. Since the year end, Mattioli Woods has acquired Atkinson Bolton and this has taken its client assets to more than £4bn, with more than £450m of discretionary assets under management.

Somero Enterprises Inc is paying an interim dividend of 0.9 cents a share on the back of the continuing recovery in the business. This follows on from the 2012 final dividend of 0.8 cents a share, the first dividend since 2008. US-based Somero supplies laser concrete screeding equipment that is used to ensure that the concrete floors of buildings are flat. In the six months to June 2013, revenues improved from \$16.1m to \$21m and this enabled pre-tax profit to more than double to \$1.9m. Somero has moved into a net cash position. The fastest growth was in China, Australia and Latin America.

Textile services provider **Johnson Service Group** increased its interim dividend by 11% to 0.4p a share as underlying pre-tax jumped from £3.6m to £5.5m as the dry-cleaning business returned to profit. Johnson says it has a progressive dividend policy but it will maintain an adequate level of cover. Net debt was £53.6m at the end of June 2013, but this has been reduced to a pro forma figure of £25.6m following the disposal of the facilities management division - the profit figures have been adjusted for the disposal. There are plans for acquisitions in the textile rental sector.

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expert views

Expert view: The broker

Revenue visibility improves at Sopheon

By ANDREW DARLEY

Sopheon* has delivered interims to June 2013 in line with the July trading update and unchanged full-year expectations. Revenue visibility has improved to £10.5m, representing 74% of full-year revenue expectations, with a growing base of maintenance revenue.

Planned expansion of costs to strengthen sales, services and implementation continues to be expected to generate improved 2H13 and FY14 licence sales, assisted by efficiencies generated with the roll-out

The reduction in the proportion of licences in the revenue mix reduced the gross margin to 68.6% for 1H13. After a strong FY12 in new customer licence sales, 1H13 necessitated focus on implementation. We expect recovery in licence sales, and therefore margin, in 2H13. Furthermore, the reorganisation of the services team to create a leadership tier, ancillary resources and a delivery team which had been undertaken in 2H12 was still settling down, resulting in the use of subcontractors and temporarily increasing the cost of sales.

performance is expected to be very mildly cash-flow negative, with creditors normalising, debtors stable, and deferred revenue dipping in line with the typical seasonal pattern of payments.

The remaining balance of the term loan from BlueCrest was £0.5m, repayable in monthly instalments until March 2014. At June 2013, the revolving facility from BlueCrest was £0.8m, also due to expire in March 2014 without renewal as BlueCrest withdraws from lending. The board will explore debt facilities over the coming months.

Sopheon provides software and services for product life cycle management

of v.8.3 of the Accolade platform.

Sopheon provides software and services for product life cycle management. The Accolade solution supports strategic roadmapping, idea development, product portfolio management and creation, commercialisation and replacement of products. Sopheon has operating bases in the US, UK and the Netherlands, with distribution, implementation and support channels worldwide.

Interims

Interim revenue of £6.6m (1H12: 6.2m) accounted for 47% of full year expectations, and included 19 licence orders (including extensions) versus 26 in 1H12, although at a higher average value per transaction. The trend, already reported, of phased payments during implementation, continues.

Maintenance revenue increased to £4.8m vs £4.1m in 1H12, reflecting the recurring base of contracted revenue. Deferred revenue on the balance sheet also improved to £3.3m from £2.95m, equivalent to 50% of 1H revenue.

Costs

Operating costs increased as expected, with opex of £4.4m highlighting increased R&D in the income statement (opex 1H12: £4.3m, 2H12 £4.2m). Planned cost expansion continues, with an ongoing increase in staffing levels in line with expectations, from increases in sales, development and services teams; we also expect some 2H transfer of costs from cost of sales to opex as the use of subcontractors eases in the second half. The roll-out of the Accolade 8.3 technology platform has been able to incorporate several one-off client enhancements into the standard software, reducing the need for individual client customisation, and reducing the effort necessary for future upgrade implementation.

Cash flow

Free cash flow in the first half was negative, after a reduction in creditors relating to FY12 bonus accruals, even as deferred revenue increased. 2H

Capital reorganisation

In June, the first phase of the corporate restructuring took place, reducing shares in issue by a factor of 20 in part to manage the very long tail of very small shareholdings and also to reposition the share price range in the £1 area rather than the penny area. The UK register dropped from 4,000 holdings to around 200. The impact on the Dutch register is to be confirmed.

The capital reorganisation is expected to continue with the elimination of the accumulated deficit on the P&L account. This will ultimately enable the board to consider payment of a dividend, when appropriate.

Valuation

Sopheon is forecast to make a 2013 profit of £300,000 and the profit is expected to grow to £700,000 in 2014. EBITDA is expected to increase from £1.8m in 2013 to £2.3m in 2014. The 220p target price is equivalent to 7x FY14 EV/EBITDA.

*Sopheon is a corporate client of finnCap



ANDREW DARLEY is a research director at finnCap.

feature

Investors' AIM sector preferences evolve

AIM trading patterns have changed significantly since the beginning of this year, with resources becoming less important and other sectors coming to the fore.

AIM has always been a market where certain sectors become favoured by investors and then dominate the market for a period. At the turn of the century it was technology but more recently it has been resources. This is changing, though, with other sectors gaining in importance in respect of trading volumes.

Oil and gas is still the largest AIM sector but it has been finding things tougher in the past year or so and its dominance has waned. In 2012, the majority of trading in terms of value and number of trades was in the oil and gas sector. This year it is around one-third of trades and 27% by value.

In July, eleven out of the 25 top companies in terms of the number of bargains were from the oil and gas sector. Seven of those are in the top 25 by value of shares traded. This shows that the oil and gas sector continues to be important to AIM but it no longer dominates in an unhealthy way.

The decline in the basic materials sector has been marked in recent years. The basic materials sector includes chemicals and paper businesses but the vast majority of the sector is accounted for by mining and metals so it is effectively the mining sector. It was not long ago that the sector accounted for more than one-fifth of the market value of AIM but there has been a steady decline to 8.7% of the market in July 2013. Weak commodity prices and disappointing performances by companies in the sector have made investors more wary.

Despite the fall in the value of the mining sector, the decline in trading activity has been nowhere

near as sharp, suggesting that many smaller shareholders, in particular, are still keen on the sector despite its disappointments and the poor short-term commodity price background. One-third of all trades in July were in this sector, while 15.8% in terms of traded value.

Investors have looked outside of the resources sectors to find value, while also seeking longer-term growth.

Technology

Technology is an area where interest has certainly been picking up this year. In 2012, the technology sector accounted for 5.7% of turnover by value and 5.9% of all trades. So far this year, the technology sector has accounted for 12.4% of AIM

In many cases that was because their valuations were low and they were opportunistic bids. This contrasts with WANDisco, for example, which is currently trading on a heady rating.

Even though there have been more technology company flotations so far this year than there were in 2012, the amount of money raised remains small and is lower than last year.

The average amount per company raised up until the end of July was barely £3m – around one-third of the average raised by technology new issues in 2007 and 2012. It may be that these companies intend to raise additional cash after they join AIM.

The consumer services sector has also grown in importance but this is mainly because the value of online fashion retailer ASOS has jumped to £3.9bn out of a sector value of

There appears to be a solid pipeline of technology companies planning to join AIM

trading by value, with only oil and gas, consumer services and mining accounting for a higher percentage. Technology accounts for more than 10% of trades, although the resources sectors still account for nearly three-fifths.

The strong performances of WANDisco, Fusionex International and other recent technology admissions has created interest in the sector and investors are seeking out other companies that they believe could do well. Until recently there had been a shortage of good technology companies on AIM because many, such as Group NBT, had been taken over in recent years.

£8.4bn. ASOS accounts for more than half of the sector's trades.

The industrials sector is still lagging behind. The sector's share of trading has increased but it is still running well below its importance in terms of market value.

Financials

Back in 2007, the most noticeable thing is that trading in companies in the financials sector accounted for nearly one-third of the volumes for AIM. The most noticeable thing about the sector back in 2007 is that it was dominated by property companies, many of which were

feature

focused on overseas markets. This was before the global economic crisis got going and property companies were hit hard. More than two-fifths of trading in the financials sector was attributable to property companies in 2007 and this has fallen to less than one-third in 2013.

The insurance sector has shrunk significantly. The likes of Just Retirement, Lancashire Holdings, Advent Capital and Omega have moved to the Main Market and/or been taken over. On the back of this the value of trades in insurance companies slumped from £1.8bn in 2007 to £69m in 2012. To put it another way, it has fallen from 8% of the trading in the financial sector in 2007 to 3%.

The financial sector has always had a lot of companies in it but many have tended to be small. AIM tightened its rules on shells in March 2007 and there was a flood of newly formed shells at the beginning of the year. Some of these found deals later in the year or in the following year so they were then transferred to other sectors and this may be another of the reasons why trading levels in the financial sector declined.

ISAs

It is too early to know how the inclusion of AIM companies in individual Savings Accounts (ISAs) will affect trading levels and general liquidity in the longer term. Looking at some of the most actively traded AIM companies, on the face of it there does not appear to be a sharp increase in the trading of their shares. For example, online fashion retailer ASOS tends to top the trading levels each month and the value of shares traded in August 2013 was slightly higher than in July 2013 but nothing to indicate a surge in interest. Of course, August is not normally a strong trading month.

In fact, in every year except 2011 the value of shares traded on the whole of AIM in July has been higher

AIM TRADING BY SECTOR (NUMBER OF TRADES)

| SECTOR | 2007 % | 2012 % | 2013 (TO JULY) % |
|--------------------------|--------|--------|------------------|
| Oil and gas | 17.3 | 50.1 | 33.6 |
| Basic materials | 18.9 | 22.3 | 23.8 |
| Consumer services | 10.3 | 8.1 | 13.8 |
| Technology | 8.3 | 5.9 | 10.8 |
| Industrials | 18.5 | 3.6 | 4.9 |
| Health care | 6.1 | 3.5 | 4.1 |
| Telecoms | 1.5 | 2.2 | 3.8 |
| Financials | 16.3 | 2.4 | 3.2 |
| Consumer goods | 2.2 | 1.6 | 1.7 |
| Utilities | 0.6 | 0.3 | 0.3 |

AIM TRADING BY SECTOR (VALUE)

| SECTOR | 2007 % | 2012 % | 2013 (TO JULY) % |
|--------------------------|--------|--------|------------------|
| Oil and gas | 14.7 | 52.5 | 27.2 |
| Consumer services | 9.7 | 8.1 | 17.1 |
| Basic materials | 18 | 17.5 | 15.8 |
| Technology | 5 | 5.7 | 12.4 |
| Financials | 30.3 | 5.6 | 9.9 |
| Industrials | 14 | 4.1 | 6.9 |
| Telecoms | 1 | 1.6 | 3.9 |
| Health care | 3.7 | 2.6 | 3.7 |
| Consumer goods | 1.6 | 2 | 2.6 |
| Utilities | 2 | 0.3 | 0.5 |

than in August. The difference in 2011 is partly attributable to large one-off trades in Mulberry, which accounted for nearly one-quarter of the volume in the month and most of the increase from July.

Last year, the July trading volume was more than double the August level although the London 2012 Olympics may have had something to do with the large difference. There was a much narrower differential between the number of bargains traded in those months suggesting that there was a lack of larger trades. The official figures for trading on the whole of AIM in August 2013 have not been published yet. However, according to savings and pensions provider Sippdeal, one-quarter of all shares purchased through ISAs in August were quoted on AIM.

Looking at the individual figures for

the likes of ASOS and Gulf Keystone, which are regularly among the most heavily traded AIM companies, they also tend to follow the trend of reduced trading volumes in August, although not in every year. Even so, ASOS trading levels in August 2013 may have received a boost from ISA changes but whether this is a one-off effect is another matter. The ISA changes could also have the effect of encouraging more companies to come to AIM.

It does not always pay to place too much importance on short-term changes in the market but there appears to be a solid pipeline of technology companies planning to join AIM and the passion for resources companies has undoubtedly cooled. This should mean a more varied diet for AIM investors used to a glut of resources businesses.

statistics

Market Performance, Indices and Statistics

| AIM SECTOR INFORMATION | | |
|------------------------|-----------------|----------------|
| SECTOR NAME | % OF MARKET CAP | % OF COMPANIES |
| Oil & gas | 20.7 | 12.2 |
| Financials | 19 | 20.3 |
| Industrials | 11.9 | 17.9 |
| Consumer services | 13.1 | 9.4 |
| Technology | 10.1 | 9.9 |
| Basic materials | 8.7 | 16.3 |
| Consumer goods | 7.1 | 5.6 |
| Health care | 5.8 | 6.1 |
| Telecoms | 2.1 | 1.1 |
| Utilities | 1.4 | 1.4 |

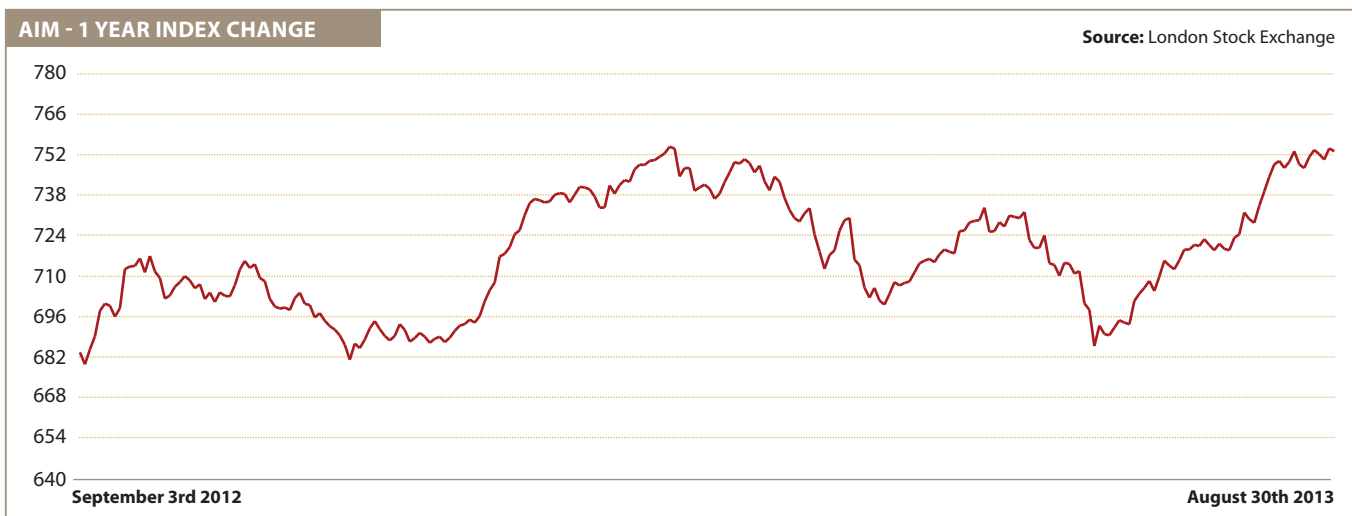
| KEY AIM STATISTICS | |
|----------------------------------|---------|
| Total number of AIM | 1086 |
| Number of nominated advisers | 50 |
| Number of market makers | 53 |
| Total market cap for all AIM | £64.2bn |
| Total of new money raised | £82bn |
| Total raised by new issues | £36.1bn |
| Total raised by secondary issues | £45.9bn |
| Share turnover value (2013) | £16.4bn |
| Number of bargains (2013) | 2.67m |
| Shares traded (2013) | 142.6bn |
| Transfers to the official list | 164 |

| FTSE INDICES | | |
|--------------------|---------|----------|
| ONE-YEAR CHANGES | | |
| INDEX | PRICE | % CHANGE |
| FTSE AIM All-Share | 752.61 | +11.9 |
| FTSE AIM 50 | 3916.41 | +38.44 |
| FTSE AIM 100 | 3420.82 | +13.6 |
| FTSE Fledgling | 5815.95 | +33.7 |
| FTSE Small Cap | 4098.39 | +31.6 |
| FTSE All-Share | 3410.43 | +14.7 |
| FTSE 100 | 6412.93 | +12.1 |

| COMPANIES BY MARKET CAP | |
|-------------------------|-----|
| MARKET CAP | NO. |
| Under £5m | 281 |
| £5m-£10m | 127 |
| £10m-£25m | 232 |
| £25m-£50m | 170 |
| £50m-£100m | 130 |
| £100m-£250m | 95 |
| £250m+ | 51 |

| TOP 5 RISERS OVER 30 DAYS | | | |
|---------------------------|------------|-----------|------------|
| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
| Rare Earth Minerals | Mining | 0.97 | +20667.7 |
| Red Rock Resources | Mining | 1.04 | +258.62 |
| The Hotel Corporation | Leisure | 3.3 | +247.4 |
| @UK | Technology | 31 | +239.7 |
| ECR Minerals | Mining | 0.34 | +219.1 |

| TOP 5 FALLERS OVER 30 DAYS | | | |
|----------------------------|-------------|-----------|------------|
| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
| Tern | IT | 0.42 | -77.3 |
| Fastjet | Transport | 5.05 | -51 |
| Paragon Resources | Agriculture | 0.3 | -50 |
| 21st Century Technology | Technology | 5 | -49.4 |
| Equatorial Palm Oil | Agriculture | 3.25 | -46.9 |



Data: Hubinvest Please note - All share prices are the closing prices on the 31st August 2013, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus.

finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. finnCap

has grown rapidly and in 2013 commenced market making.

At the end of 2012, finnCap became the top AIM broker by overall client numbers, according to research compiled by financial website Morningstar. The broker is also the number one adviser in the technology, industrials and healthcare sectors, number three adviser in the oil and gas sector and number five in the basic materials sector.

finnCap won the Best Research award at the 2012 AIM Awards.

finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running.

In the six months to October 2012, finnCap reported a 14% increase in revenues to £5.7m and operating profit quadrupled to £1.1m. finnCap has a strong track record of raising money for clients and it raised £80m during the period.



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SPONSORSHIP & ADVERTISING editor@aimmicro.com
or telephone 020 8549 4253

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