finnCap

finnCap

www.finnCap.com

AUGUST 2013

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Baker Tilly considers RSM Tenon bid

Accountant Baker Tilly is considering acquiring rival RSM Tenon, which currently has a standard listing but started life as an AIM shell. However, Baker Tilly may decide to buy the assets rather than bid for the holding company. Baker Tilly is currently carrying out due diligence.

RSM Tenon shareholders are unlikely to receive much for their shares even if there is a bid. The share price has nearly halved to just under 2p since the bid announcement. RSM Tenon is losing money and it is heavily indebted to Lloyds Banking Group, which will need to agree to any transaction. Net debt was £80.4m at the end of 2012, compared with total facilities provided by Lloyds of £93m.

The most recent trading statement did not give a figure for the latest debt position but it stated that RSM Tenon continues "to manage our cash position carefully and [we] have utilised less of our debt facilities over the period than we had forecast". There is still headroom available but RSM Tenon is dependent on the support of Lloyds.

Baker Tilly has until 22 August to decide whether to make a bid in cash for RSM Tenon. There is no guarantee that a bid or any other transaction will happen.

Oakridge considers AIM flotation

Battery technology developer Oakridge Energy Technologies Inc is considering obtaining a quotation on AIM along with a Nasdaq listing. Oakridge wants an international quotation and AIM is the most likely market. A recent fundraising should help the company to generate its initial revenues in the last quarter of 2013.

Oakridge, which is changing its name from Oak Ridge Micro-Energy Inc and is currently on the OTC Bulletin Board in the US under the code OKME, has raised $2.5m from Precept Investment Management. Precept says that Oakridge is one of only two investment targets it identified after an in-depth analysis of the energy storage market. The other is Swiss battery company Leclanche.

New chief executive and president Jeffrey Flood has restructured the business and built an engineering and manufacturing team in Melbourne, Florida. Oakridge will use this expertise to commercialise its solid-state battery technology. Oakridge also plans to supply other products, such as high-energy Lithium Ion batteries, thermal batteries and super capacitors.

Oakridge also owns Carbon Strategic, which is a REDD (Reduced Emissions from forest Degradation and Deforestation) carbon projects developer. However, none of its projects have been awarded carbon credits yet.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Renovo seals Ultimate deal to become small company funder

Cash shell Renovo Group is acquiring trade finance provider Ultimate Finance. Combining this business with the acquirer's cash will create a well-funded finance business providing capital for smaller companies.

At a time when small companies find it difficult to secure funding from banks, Renovo, where Henderson is a 35.7% shareholder, will be in a strong position to become a major player in this market. Ultimate brings a loan book of £40m and more than 850 customers and it will be able to grow faster with Renovo's backing. Further acquisitions are likely in order to widen the range of financial products and customer base.

The bid is 6p in cash and 1.05 Renovo shares for each Ultimate share. Shares in Renovo are trading at 18p each. That values each Ultimate share at 24.9p and the company at £18.8m. Renovo will be paying £4m in cash and Ultimate shareholders will end up with just under one-third of the enlarged group. Renovo already owns a 12.77% stake in Ultimate.

Renovo ended development of it scar treatments following disappointing clinical trials and moved from the Main Market to AIM in October 2011. At the end of March 2013, Renovo had cash of £26.4m so the cash payment for Ultimate will not make much of a dent in this. This leaves plenty of cash with which to finance expansion.

One downside of this takeover is that Ultimate shareholders will no longer receive a dividend and there is no likelihood of a dividend from Renovo for a few years.

Chargemaster delays

Chargemaster, an installer and operator of charging systems for electric cars, has delayed its flotation to the end of August. The original plan was to float by the end of July. Chargemaster, which generated revenues of £3.6m in 2012, was started by chief executive David Martell, who built up traffic information business Trafficmaster. At the end of July, BMW i Ventures made an equity investment in the company. BMW and Chargemaster have a five-year cooperation agreement to jointly market and promote electric vehicles and e-mobility services. BMW already has an investment in ParkAtMyHouse.com and Chargemaster will help to roll out charging points at more than 30,000 private parking locations. At the end of 2012, Chargemaster announced plans to acquire rival Elektromotive for £8.5m.

W&G Investments plans bid for RBS banking assets

A new shell plans to join AIM this month as a precursor to acquiring banking assets from Royal Bank of Scotland. The European regulators have forced RBS to sell these assets, which were previously going to be bought by Santander. But that deal fell through.

The company has been called W&G Investments as a nod to RBS's old Williams & Glynn banking brand. Former Tesco finance director Andrew Higginson is chairman and the company has a number of institutional backers, many of which backed previous AIM bank shell NBNK Investments.

W&G expect to float on AIM on 14 August, which will be before it finds out if it has been the successful bidder for the assets. It is unclear how much it will be valued at because the institutional backers will not put in all the money it needs until they know the acquisition has been secured. It appears ordinary shares and redeemable preference shares will be issued.

After the flotation W&G will complete initial due diligence into the potential acquisition. The company then hopes to negotiate to acquire the assets. Santander was going to pay £1.65bn for the assets. They include 1.7m retail customers, £20bn of deposits and loans, and 230,000 small-business clients.

If a deal is agreed then W&G will raise money from a placing and move to a standard listing. If no deal is agreed then any remaining cash will be returned to shareholders.

Rival bidders for the assets are a vehicle backed by private equity firms Corsair Capital and Centerbridge, and a company headed by AnaCap Financial Partners, which is collaborating with US private equity firm Blackstone.

advisers

WH Ireland grows client retainers

AIM broker **WH Ireland** reported a dip in interim profit but recurring revenues from corporate retainers increased 44% to £1.5m in the six months to May 2013. WH Ireland is the third-largest nominated adviser by number of clients.

Despite this increase in recurring revenues a reduction in corporate finance activity meant that revenues from broking were a quarter lower at £3.08m. Total funds under management increased by 32% to £2.27bn over a 12-month period, helped by the acquisition of the Seymour Pierce private client business. Growth in the private wealth management division was behind the improvement in group revenues from £12.6m to £13.1m and WH Ireland would not have achieved its profit of £59,000, down from £185,000, without this. There was net cash of £6.63m at the end of May 2013.

A former employee has commenced litigation for "unfair dismissal, wrongful dismissal and breach of contract regarding a share agreement". The employee is not named but Paul Compton left as chief executive at the end of 2012. Compton had a joint share ownership agreement with the company's share ownership trust but he did not end up owning any of these 2.13m shares, or a further 19,565 shares that were part of a Save As You Earn scheme. WH Ireland is fighting the case, which is expected to conclude later this year.

AIM adviser **Arden Partners** improved its interim profit even though revenues were flat and the interim dividend has been increased. In the six months to April 2013, revenues edged up from £5.63m to £5.7m. Corporate finance revenues jumped from £2.1m to £2.72m even though M&A activity remains subdued. Pre-tax profit improved from £628,000 to £1m, because there was no repeat of the reorganisation costs of £257,000. Cash improved from £4.09m to £5.6m even though £1.32m was spent on share buy-backs. The interim dividend is increasing from 0.65p a share to 1.25p a share.

Deutsche Bank AG London has withdrawn from the nominated adviser register with effect from 8 July.

ADVISER CHANGES - JULY 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Quindell Portfolio	Canaccord Genuity/ Cenkos	Cenkos	Cenkos	Cenkos	02/07/2013
Pactolus Hungarian Property	Midas Investment	Midas Investment	Cairn	N+1 Singer	05/07/2013
Eland Oil & Gas	FirstEnergy/ Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	09/07/2013
Rangers International FC	Strand Hanson	Cenkos	Strand Hanson	Cenkos	09/07/2013
Intandem Films	Peterhouse/finnCap	finnCap	finnCap	finnCap	11/07/2013
NewRiver Retail Ltd	Liberum/Cenkos	Investec/Cenkos	Cenkos	Cenkos	11/07/2013
Earthport	Charles Stanley/ Panmure Gordon	Charles Stanley/ Panmure Gordon	Charles Stanley	Panmure Gordon	12/07/2013
Auhua Clean Energy	Beaufort	Beaufort/Northland	Grant Thornton	Northland	15/07/2013
Nyota Minerals ltd	Daniel Stewart/Ocean	Mirabaud/Ocean	Daniel Stewart	RFC	15/07/2013
dotDigital Group	finnCap/N+1 Singer	Charles Stanley/Zeus	N+1 Singer	Zeus	16/07/2013
ITM Power	Zeus	N+1 Singer	Zeus	N+1 Singer	17/07/2013
Reabold Resources	Beaumont Cornish	Westhouse	Beaumont Cornish	Westhouse	17/07/2013
Renovo Group	Panmure Gordon	Panmure Gordon	Altium	Panmure Gordon	17/07/2013
Orogen Gold	XCAP/WH Ireland	WH Ireland	WH Ireland	WH Ireland	18/07/2013
Conroy Gold & Natural Resources	Hybridan	Hybridan/Shore	Sanlam	Sanlam	23/07/2013
DDD Group	Peel Hunt	Canaccord Genuity	Peel Hunt	Canaccord Genuity	25/07/2013
GCM Resources	ZAI	Investec	ZAI	ZAI	26/07/2013

company news

Hydrodec set for rapid growth when finances are sorted out

Waste oil recycling *www.hydrodec.com*

Used transformer oil refiner **Hydrodec's** interim figures do not reflect its strategic partnership with G&S Technologies in the US. This will start to show through in the second half and longer-term plans to expand in Europe and recycle other oils will help Hydrodec to move towards profitability.

In the six months to June 2013, revenues were flat at $13.9m but improved gross margins and lower overheads meant that there was a decline in the underlying operating loss from $1.76m to $1.03m. That excludes development investment, which increased from $900,000 to $1.4m. Plant utilisation levels are running at 72%.

The US deal involves Hydrodec transferring its existing US refinery operations based in Ohio into a new

> A refinancing will make the balance sheet appear much stronger

holding company where it will end up owning 50.1% and its partner, G&S, will own the rest and supply used transformer oil. The cash paid by G&S for the stake will be reinvested by Hydrodec so capacity can be increased by 150% at the existing site and on the West Cost of the US.

Hydrodec hopes to sign up a European partner next year. It will commission a plant in the UK or on the Continent with an initial capacity of 13m litres. There are plans to move into re-refining of lubricant oil. At the

HYDRODEC (HYR)			9.25p
12 MONTH CHANGE %	- 11.9	MARKET CAP £M	34

moment, the likes of DCC only clean up the oil so it can be used in power stations but Hydrodec believes that it can produce oil that can still be used as a lubricant.

Edison forecasts a steady reduction in losses over the next three years to near to breakeven in 2015. Net debt was $18m at the end of June 2013 but it could rise to $28.7m by the end of 2014. Hydrodec needs to refinance its borrowings because it has £12.8m of 8% convertible unsecured loan stock, which has passed its final conversion date and is redeemable at the end of October 2014. A refinancing will make the balance sheet appear much stronger.

Healthcare optimises performance of Allocate

Workforce optimisation software *www.allocatesoftware.com*

Workforce optimisation software supplier **Allocate Software** had a much stronger second half in the year to May 2013. Allocate continues to gain new deals for its healthcare software, which dominates the group.

Hospitals need to be more efficient and reduce costs and Allocate's software helps them do this while maintaining safe staffing levels.

Revenues were 1% higher at £37.1m, with growth in healthcare revenues from £26.7m to £29.3m

ALLOCATE SOFTWARE (ALL)			86.5p
12 MONTH CHANGE %	+ 15.3	MARKET CAP £M	55.5

offsetting a decline in the defence sector because the previous period benefited from a one-off contract in Australia. The maritime division also grew its revenues but it is less than 8% of the total. Higher costs meant that profit fell last year. Underlying profit dipped from £6.2m to £4.5m. Bookings are strong, particularly in the healthcare sector, and deferred income is £2m higher at £14.6m.

A cloud product has been launched for the healthcare sector and this will help to further grow recurring revenues, which were 47% of last year's total.

House broker Numis has already upgraded its forecasts twice this year. The broker forecasts a profit of £6.1m and earnings per share of 6.79p in 2013-14, which puts the shares on less than 13 times prospective earnings. Net cash was £9.1m at the end of May 2013 and this is expected to increase to £13.1m by May 2014.

company news

ANGLE on course for commercialisation of Parsortix cancer diagnostics technology

Cancer diagnostics technology *www.angleplc.com*

ANGLE continues to make strong progress with its Parsortix cancer detection technology and research partners are already using the device. ANGLE's focus is gaining EU regulatory approval and it will also seek FDA approval in the US so that the device can be sold commercially.

ANGLE continues to invest in further development of the Parsortix system and this is the main focus of the business. The Parsortix technology captures circulating tumour cells (CTC) from small amounts of blood from cancer patients. Unlike its rivals it does not require the use of antibodies. The device can be used for all solid tumour cancer types and it has been demonstrated in prostate, colorectal, renal, lung and breast cancer. The capture of undamaged cells means that they can be DNA analysed. The test can be done regularly to assess the progression of the disease. The third generation of the device has been developed and there is third-party confirmation that the system works.

A submission to the FDA will happen in early 2014

Parsortix is seeking CE mark authorisation in the EU. A submission to the FDA will happen in early 2014. This could be for specific uses of the technology rather than overall approval for the device.

In the year to April 2013, a swing from a £1.35m fall in the value of investments to a £514,000 gain helped reduce the loss from £2.71m to £1.03m. There was £1.83m in the bank at the end of April 2013. Cash burn is running at around £2.4m to £3m a year so that cash will not last long. Further share issues or the sale of other investments will be needed.

ANGLE (AGL)			62p
12 MONTH CHANGE %	+ 51.2	MARKET CAP £M	28.1

The investment in computer gaming lighting software developer Geomerics is valued in the balance sheet at £4m. Delays in new platforms from Xbox and PlayStation have held back progress by the computer games developers that are customers of Geomerics. This has been sorted out so revenues have rapidly recovered and are better than one year ago. This may provide an opportunity to sell this investment.

New era for Imperial Innovations

Technology transfer and incubation *www.imperialinnovations.co.uk*

Susan Searle's departure as chief executive of **Imperial Innovations** could spark a change in strategy for the business, which develops companies utilising technology that comes out of Imperial College London and other universities. Russ Cummings, who was chief investment officer, has become chief executive

Searle helped to build Imperial in two decades at the company and was chief executive for 11 of those years, leading the flotation of Imperial Innovations seven years ago.

IMPERIAL INNOVATIONS (IVO)			261.5p
12 MONTH CHANGE %	- 9.8	MARKET CAP £M	260.6

Cummings is not a new boy because he has been with the company since just after the flotation in 2006.

The investment portfolio was valued at £168m at the end of January 2013 and there was cash of £63m at that time. More investments have been made since then but the company has also received a £30m loan from the European Investment Bank.

Robin Davison of Edison says that the change at the top is an ideal time to review strategy and he believes that the strong market for pharma companies in the US could provide an opportunity for flotations of some of the older investments begin to mature.

Imperial Innovations is trading at a premium to its estimated NAV of £226.4m at the end of July 2013.

company news

Highly rated Plexus proves safe bet for the oil and gas sector

Oil services and equipment — *www.posgrip.com*

PLEXUS HOLDINGS (POS)			261p
12 MONTH CHANGE %	+ 97.7	MARKET CAP £M	216.9

Profit forecast upgrades have followed the latest trading statement from oil services and equipment provider **Plexus**, whose share price has already doubled over the past year. This reflects demand for cost-effective safety products for the oil sector.

Plexus has developed a form of wellhead and connector that is safer and can withstand higher pressure levels than the existing equipment on the market. The POS-GRIP wellhead systems, which are rented to customers, enable drilling and testing of wells to be done more quickly. The first commercial implementation of the POS-GRIP technology was in 1998 and Plexus joined AIM in December 2005. Plexus has built up an impressive customer base, including BHP Billiton, BP, Shell, Cairn Energy, ConocoPhillips, Bowleven and Tullow Oil. The recent gas blowout on the Hercules jack-up rig in the Gulf of Mexico highlights the continuing safety requirements.

> Plexus has built an impressive customer base

Cenkos estimates that Plexus has a 10.8% share of the jack-up exploration market, compared with 2.5% when it floated. The High Pressure/High Temperature (HPHT) part of the market is growing rapidly and POS-GRIP is expected to have a market share of 12.8% in 2014 but Plexus needs to build up rental stocks of this equipment in order to be able to satisfy demand. This means that capital expenditure will need to continue to be significant although Plexus could move into a net cash position by June 2014. Plexus is also developing its HGSS subsea wellhead design and prototype testing should start in the middle of 2014.

Cenkos forecasts a profit of £4m in the year to June 2013, rising to £4.6m in 2013-14. The prospective profit multiple for 2013-14 of 60 appears high but this reflects the growing market and potential to gain share through existing and new products.

Enegi Oil refocuses on stranded oil technology

Oil and gas explorer and producer — *www.enegioil.com*

ENEGI OIL (ENEG)			7.13p
12 MONTH CHANGE %	- 28.7	MARKET CAP £M	11.2

Enegi Oil has completed the farm-out deal with Black Spruce Exploration (BSE) for its Newfoundland assets and this will enable Enegi to focus its own resources on buoy technology that enables borderline offshore oilfields to become economic.

A 50/50 joint venture has been set up with ABTechnology, which has developed the buoy technology that lowers capital and operating costs and reduces decommissioning liabilities. This technology uses known technology but it has yet to be proved commercially. The plan is to farm-in to stranded North Sea assets of other oil companies. The first such deal is with Antrim Energy and this will help to prove the technology. Antrim owns the Fyne Field in the North Sea and the joint venture will earn a 50% interest by using its technology to get the field into production. A field development programme will be submitted at the beginning of 2014.

BSE will pay all the costs of a Newfoundland multi-well drilling programme in two phases in order to earn 50% interests in the exploration licences and then an additional 10% stake in them. A new appraisal well will be drilled in Newfoundland during the autumn.

Enegi has raised £2.02m, including £1.2m from its Newfoundland partner at just under 9p a share and a further £818,500 from Yorkville, including £150,000 which is the subject of a six-month equity swap with a benchmark price of 7.78p a share. The only cash outflow other than for overheads will be for ABTechnology joint venture projects.

Portmeirion continues payout growth despite blip

Tableware *www.portmeiriongroup.com*

PORTMEIRION GROUP (PMP)	
Price	650p
Market cap £m	69.4
Historical yield	3.4%
Prospective yield	3.7%

Dividend

Portmeirion had a tough first half of 2013 because of problems with import duties but it still increased its interim dividend. The dividend was raised by 11% to 5p a share – the ex-dividend date is 4 September. Portmeirion has a stated policy of growing its interim by the same percentage as the previous year's final dividend.

Portmeirion is keen to continue to grow its dividend but it also wants to maintain a prudent dividend cover. A similar final dividend increase would make a total dividend of 24.2p a share. That would still be more than twice covered by forecast earnings. Panmure Gordon forecasts a rise to 26.6p a share in 2014 and 28.7p a share in 2015. The prospective 2013 yield is 3.7% and this rises to 4.1% in 2014.

There is a strong balance sheet, with £5.88m in the bank at the end of June 2013. Since then, Portmeirion has paid £3.9m for a long leasehold interest in warehouses and offices in Stoke-on-Trent. This property was previously leased at an annual cost of £306,000. Taking account of interest on the cash, this deal will save £220,000 a year.

Business

Tableware and cookware supplier Portmeirion was formed in 1960 and more recently it has added other well-known brands Pimpernel, Spode (which is 200 years old in 2016) and Royal Worcester to its product range. Even so, Portmeirion's Botanic Garden range, which was launched in 1972, still generates around two-fifths of group revenues.

The UK, the US and South Korea are the most important markets. South Korea was the fastest-growing part of the business in the first half of 2013, with a 25% increase in revenues on the first half of 2012. UK sales were slightly lower because the comparatives were boosted by the Diamond Jubilee. Online sales are growing rapidly, with UK internet sales 22% ahead and the newly launched US website getting off to a good start.

EU Anti-Dumping Duties on ceramic products from China added more than £400,000 to costs and this hit pre-tax profit, which fell 38% to £853,000. The problems with Chinese imports have masked the strong orders already received for Christmas, which mean that the factory is working at full pelt. Products are being sourced outside of China so that Anti-Dumping Duty should not be a major factor in 2014.

Panmure Gordon still expects Portmeirion to report an improvement in full-year profit from £6.75m to £7.1m on the back of a 4% increase in revenues to £57.7m. The shares are trading on 13 times prospective 2013 earnings, falling to 12 for the following year. Portmeirion has a strong portfolio of brands and a growing business, so this rating along with the dividend makes the shares an attractive long-term investment, particularly now that AIM shares can be put into ISAs.

Dividend news

Fuel, animal feeds and food distributor **NWF** produced better than expected figures for the year to May 2013. NWF had maintained the previous year's dividend at 4.5p a share, which was the first time it was not increased since NWF joined AIM, so the 0.3p a share increase in the final dividend means that the company has returned to a progressive policy. The total dividend is 4.8p a share. There was a record contribution from the fuel division even though its revenues were 2% lower and the animal feed business also grew its profit. The food distribution division reported halved profit due to competitive trading conditions.

Shareholders in Indonesia-focused gold miner **Archipelago Resources** are going to be receiving two dividend cheques within a month. Back in March, Archipelago announced a maiden dividend of 1.25p a share plus a one-off special dividend of 1p a share. The payment was delayed until a capital reorganisation was completed and interim figures were published. This has happened and the dividend will be paid at the end of August. An interim dividend of 0.5p a share was announced with the figures, the shares go ex-dividend on 11 September and payment is on 27 September. The plan is to distribute at least 10% of operating cash flows.

Furnishings supplier **Colefax** increased its dividend for the first time in two years. A 5% increase in the final dividend to 2.1p took the total to 4p a share, up from 3.85p a share in 2011-12. This was on the back of a 13% increase in pre-tax profit to £3.6m in the year to April 2013 thanks to improved gross margins and tight cost control. House broker Peel Hunt forecasts a jump in profit to £4.5m in 2013-14 due to improved trading by the US fabric division.

expert views

Positive momentum at Litebulb

By MARK PADDON

Over the past two years, Litebulb* has built a portfolio of innovative consumer brands either through acquisition or its strategic relationship with 13% shareholder Bartle Bogle Hegarty. The group's core expertise is developing intellectual property and commercialising it through design, sourcing, distribution and sales of its products in the UK and international markets.

Recent acquisitions and positive news flow indicate the momentum building behind this business. We have set a target price of 1p a share.

In a short period of time, the company has built up an impressive list of major retail customers, including Tesco, Sainsbury's, Asda, M&S and Debenhams. As the product and retailer base increases, a matrix emerges that provides huge opportunities for cross-selling.

Litebulb is a multi-brand owner specialising in the creation of innovative brands and products. These include ILA, which supplies personal security products for women, Scootrix scooter accessories, Shirt Box lunch and sandwich boxes with football and superhero logos, Scarlett Willow products for the home and children's gardening products supplier Seedlets.

2013 has been a transformational year for the group. The acquisitions of Bluwstuff and Rizon and a subsequent reorganisation have resulted in a vertically integrated company that can offer customers an end-to-end service covering all aspects of brand management, design, consultancy, manufacturing and distribution.

The group has two main divisions, Litebulb Creative, which focuses on idea and brand creation and works with some of the largest brands, and Litebulb Product, which focuses on product creation and sells to many of the largest retailers. The Creative division is expected to develop quickly and offer a range of opportunities to the Product division.

Acquisitions

The two most recent acquisitions are the group's most important to date. Bluwstuff significantly increases potential revenue through a materially enlarged product and retailer base, and it expands the group's geographic platform through its presence in Hong Kong. This is complementary to Litebulb's presence in Scandinavia and Europe. Significant cross-selling opportunities have been identified through 12 existing relationships.

The consolidation of the product sourcing and development teams of Premium Factory, the group's first acquisition in 2011, and Bluwstuff have resulted in the closure of the Premium Factory operation. This has delivered operational efficiencies, reducing group indebtedness by c. £0.4m a year.

Rizon strengthens the group's position in brand development and intellectual property ownership. Existing client relationships included Disney, Mattel, Sony Pictures, Paramount and ABC TV.

Past work has included the global consumer product guides for Toy Story, Cars and Monsters Inc. franchises for Disney Pixar. In April, Rizon entered into a strategic partnership with Evolution, a US licensing agency, under which Rizon will act as international sub-agent in the UK and Ireland with exclusive development and licensing rights for the Miramax catalogue.

The Rizon division is set to grow quickly, both organically and by the acquisition of key teams, and it is already trading profitably. It will form the core of the Litebulb Creative division.

Forecasts

The group has changed its year-end from June to December. Our forecasts now reflect the period for the 12 months to December 2013 and 2014. The current year will benefit from the full consolidation of Scarlett Willow, 10.5 months of Bluwstuff and nine months of Rizon. We expect revenue to increase significantly through the consolidation of these acquisitions and, in recent months, positive news flow has indicated that momentum is building, with sales of the ILA security products gaining traction and an encouraging update on integration progress and current trading. Overall, we expect the group to broadly break even in 2013 and expect the year to be H2 weighted.

For 2014, we expect the real potential of the group to become more evident as it fully capitalises on the opportunities for cross-selling and as some of the retailer relationships mature. We believe an increase in revenue to £11m and a profit of £1.5m is possible. This implies EPS of 0.1p.

The current valuation does not reflect the potential of the product and retailer base that has been created. As positive news flow emerges on further progress towards profitability, we see scope for multiple expansion and set a target price of 1p, which implies a 2014 rating more in line with the UK small cap market.

**Litebulb is a corporate client of finnCap*

MARK PADDON is head of research at finnCap.

feature

ISAs provide AIM boost

Demand for AIM shares appears set to grow thanks to the opportunity to include them in Individual Savings Accounts (ISAs). However, investors have to be aware of the spreads on some of these shares if they are transferring existing holdings into an ISA.

There has been a long campaign to make AIM shares eligible for ISAs but it really gained momentum in the past couple of years and the change became a reality on 5 August. Next April's abolition of stamp duty on AIM shares will also help but the ISA eligibility will be much more significant.

Since the launch of ISAs at the end of the last century only companies that were on the Main Market or overseas equivalents were allowed to be owned in an ISA. There have been some AIM companies eligible due to the fact that they were also listed on one of the eligible stock exchanges. In some cases, these companies have dropped their AIM quotation but others have retained their AIM quotation and withdrawn from their other listing which meant that they were not eligible any more.

There were further complications when companies moved from the Main Market to AIM and investors had to remove the shares from their ISA within a stated time period. This meant unnecessary commission costs and the potential costs of the bid-offer spread whether or not the shares are sold outright or bought back in a personal account.

There was lobbying from the London Stock Exchange, the QCA and other parties, including an e-petition on the Downing Street website initiated by David O'Hara of Blackthorn Focus.

The government had been snooty about the inclusion of AIM shares, believing they were too 'risky' but this was a spurious argument because many Main Market companies are just as risky as some AIM companies, if not more so – companies such as Northern Rock and Royal Bank of Scotland have always been available for inclusion. AIM does, of course, have many other tax benefits so it was uncertain whether the government would allow it to benefit from any others.

Research for the Quoted Companies Alliance (QCA) has previously shown that the companies themselves believed that allowing AIM shares into ISAs would provide the most positive impact for the smaller companies sector.

> Many Main Market companies are just as risky as some AIM companies, if not more so

QCA chief executive Tim Ward certainly believes that the move is positive and he says: "The Quoted Companies Alliance has been actively campaigning for the inclusion of AIM and ISDX shares in ISAs for some time and welcomes the Government's decisive action on this. The decision will provide more fuel for the engines of growth and channel much-needed investment into the smaller growing companies that are the backbone of the UK economy." As Ward says, it is not just AIM that benefits from the new legislation. ICAP Securities and Derivatives Exchange (ISDX), the former Plus Markets, and GXG Markets will also benefit from companies on their markets being eligible for inclusion in ISAs.

Additional liquidity

Any additional cash going into AIM will help liquidity in the market. Many AIM shares are already highly liquid and are traded regularly. These may be the ones that attract the most attention from ISA investors but some of the less liquid companies might also benefit.

Equity Development believes that there is £200bn held in Stocks and Shares ISAs, which has been built up over many years. Even a fraction of 1% of that cash going into AIM shares would be hugely significant. To put this into context, the value of trades on AIM in the first half of 2013 was £14.3bn and the figure for the whole of 2012 was just over £38bn. Much of that activity is trading by small shareholders. There are large trades by institutions in some shares but the average value of each trade in the first half of 2013 was just over £6,100. The average size of trade has fallen in recent years. That indicates that there must have been a majority of trades that are of a size that could be done within an ISA.

The total value of AIM is just short of £62bn and anything that feature

can attract good companies to AIM should be positive. However, it will not be a good thing if lower-quality businesses float and dilute the effectiveness of the market. There may also be some Main Market companies that have not moved to AIM because their investors have shares in ISAs, so some additional transfers may happen.

Richard Stone, chief operating officer and finance director of Share plc, the owner of execution-only broker The Share Centre, says that the propensity to invest in AIM shares is greater in the execution-only broking sector than in the advisory broking sector. The way that the regulators apportion what is risky and how risky it is has a significant effect on that advisory broking sector because many advisers are wary about recommending AIM shares because they are worried the regulators will have to explain why they have advised a purchase of an AIM share which the regulator probably deems to be highly risky because of the market it is on rather than for what the business does and how strong its balance sheet is. It is much easier to advise a client to invest in a company just because its shares are in the FTSE 100 index even if it is a relatively risky mining company.

Gavin Oldham, founder and chief executive of Share plc, says that 30% of the share transactions handled by his business are in AIM shares. "We have been pushing for the inclusion of AIM shares in ISAs for years because we could see that people with more appetite for risk had moved from AIM to spread betting, which has no benefits for the economy and company financing," he adds.

There is anecdotal evidence that trading in AIM shares has already increased. "We saw significant uplift in trading in AIM shares on Monday (5 August) as well as an uplift in the number of ISAs being opened," according to Oldham. Investors in AIM shares tend to be the more frequent dealers. "AIM trading tends to be trading on ideas and stories so there is much more active trading", says Stone.

Oldham points out that the Treasury was concerned about the lack of available information and research on smaller companies and he believes that more research on AIM shares needs to be encouraged.

Stone says that The Share Centre will be introducing special initiatives in the autumn to attract ISA investors to AIM shares.

It will be interesting to find out whether the ISA investors have a different general focus than the existing AIM investors. Hopefully, they will be less focused on resources businesses. Although mining companies account for just over 8% of AIM these days they still generate more than 16% of the trades in turnover terms and nearly a quarter of all trades. Oil and gas companies, which are just over one-fifth of AIM in value terms, account for around one-third of the trades.

ISA investors may have a different perspective and be more open to investments in other sectors.

Pradeep Jethi, the co-founder and chief executive of the Social Stock Exchange (SSE), believes that new rules on ISAs could lead to new, focused products. In order to qualify for the Social Stock Exchange a company must "have social or environmental impact as a core aim" and be publicly quoted. The Social Stock Exchange is not a trading exchange but it enables companies to gain additional profile in a crowded quoted arena as well as attracting investors that focus on the social and environmental impact of businesses. Seven of its 11 members are on AIM.

Jethi reckons that in time a social impact-based ISA could be created and the criteria could be membership of the Social Stock Exchange. He concedes that more companies need to become members before this becomes a reality because there needs to be a wider range of potential investments.

> It will be interesting to find out whether the ISA investors have a different focus than the existing AIM investors

Spreads

Bid-offer spreads have been a problem for some investors who want to transfer their AIM stakes directly into their ISAs. The spread is effectively part of the cost of transferring the investment to an ISA, along with the broking commission that has to be paid.

Online fashion retailer ASOS has a share price of nearly £50 so the spread of around 20p or so is not enormous. However, penny shares tend to have large spreads, although even some shells are traded often enough for the spread to be below 10%.

Hopefully, the additional liquidity will at least help to reduce the spread on some AIM shares. This is not something that will happen across the board. If there is still no interest in a company then the spread on its shares will continue to be wide.

Ultimately, tinkering with tax and investment incentives is not going to make AIM companies successful. It is their underlying businesses that matter. Incentives are helpful but only if investors choose their investments carefully and understand the levels of risk they are taking on.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	19.3	12.2
Financials	17	20.4
Industrials	11.8	18.2
Consumer services	11	9.5
Technology	9	9.7
Basic materials	8.1	16.3
Consumer goods	6.2	5.3
Health care	5.2	6
Telecoms	2.1	1.2
Utilities	1.1	1.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	718.38	+7.5
FTSE AIM 50	3771.4	+34.5
FTSE AIM 100	3314.98	+10.3
FTSE Fledgling	5619.55	+31
FTSE Small Cap	4056.62	+34.9
FTSE All-Share	3509.94	+19.9
FTSE 100	6621.06	+17.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	289
£5m-£10m	134
£10m-£25m	230
£25m-£50m	158
£50m-£100m	131
£100m-£250m	89
£250m+	54

KEY AIM STATISTICS

Total number of AIM	1085
Number of nominated advisers	50
Number of market makers	54
Total market cap for all AIM	£67.9bn
Total of new money raised	£81.6bn
Total raised by new issues	£35.9bn
Total raised by secondary issues	£45.7bn
Share turnover value (2013)	£14.3bn
Number of bargains (2013)	2.34m
Shares traded (2013)	126.8bn
Transfers to the official list	164

TOP 5 RISERS OVER 30 DAYS

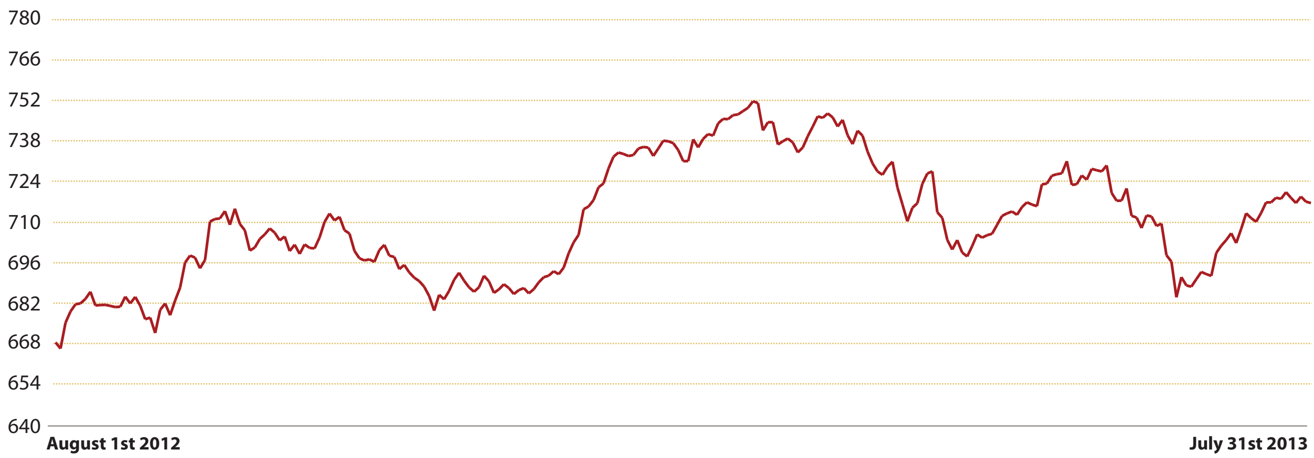
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Metminco	Mining	2.17	+186.2
AfriAg	Financials	1.6	+137
Plethora Solutions	Health	4.67	+112.5
Mentum Inc	Shell	0.42	+102.4
CIC Capital	Mining	8	+73

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Tavistock Investments	Shell	0.06	-78.2
Biome Technologies	Cleantech	75	-58.8
West African Minerals	Mining	11.12	-55.5
African Eagle Resources	Mining	0.28	-52.2
Shidu Capital	Financials	0.88	-50

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



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

sponsors

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.

PUBLISHED BY:	Hubinvest Ltd,	**Mobile:**	07849 669 572
ADDRESS:	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	**EDITOR:**	Andrew Hore
		DATA:	Andrew Hore
TELEPHONE:	020 8549 4253	**PRODUCTION & DESIGN:**	David Piddington

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