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AUGUST 2023

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Tan Delta Systems flotation

Real-time oil condition analysis company Tan Delta Systems has revealed plans to join AIM in the middle of August. There is no indication of the potential valuation or the amount of money that may be raised.

Sheffield-based Tan Delta Systems was founded in 2007 by chief executive and current 9.53% shareholder Christopher Greenwood. AIM-quoted SRT Marine Systems boss Simon Tucker has been on the board since 2013 and currently owns 19.9% of Tan Delta Systems. Seven shareholders own 100% of the company ahead of the flotation.

Oil condition monitoring is part of predictive maintenance and involves analysis of lubricant and fuels for contamination and chemical content. This indicates how performance and reliability can be affected. The information can be used to reduce breakdowns and oil consumption, thereby saving money.

The technology combines ultra-accurate electrochemical oil analysis and data analytics. There are a range of products, including sensors, kits, displays and other accessories. The first commercial sensor went into full scale production in 2020. There are a range of customers, such as electricity grid operators, train companies, steel producers and hospitals. A new sensor is being developed for smaller scale, high volume applications for light commercial and automotive sectors.

Bid activity continues

AIM companies remain attractive to bidders, particular private equity backed ones. Francisco Partners II is making a recommended cash offer for e-waste and data erasure company Blancco Technology Group. The bid is 223p/share and values Blancco Technology at £175m. The share price has not been as high as that for 18 months. Blancco Technology management believe a backer with cash to invest will help to expand the business.

Asset manager Gresham House is recommending a 1105p/share cash bid from financial services business Searchlight Capital Partners. That values the company at £440.6m. Gresham House's sustainable asset investment expertise is an attraction to the bidder, as is the management team.

STM Group has received an indicative cash bid of 70p/share from pensions company PSF Capital GP II Ltd and the cross border financial services provider has agreed in principle to this offer. The share price has not been that high for five years. There are regulatory hurdles that will have to be negotiated before the bid can be completed, so even if a firm bid is announced it may take a while to go unconditional. Recruitment company Impellam is in bid talks with HeadFirst Global. Last year, Michael Ashcroft said he was seeking ways of selling his 60% stake in Impellam.

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Long-term lithium prospects

RBC Ambrian says it still expects a supply deficit for lithium in 2030, but the difference between supply and demand is continuing to narrow and may not be as big as currently forecast.

Lack of electric vehicle production meant that lithium supply was outstripping demand in 2019 and 2020. Rising demand has pushed up the lithium price since then. In 2022, the price rose from around $10,000/t to up to $80,000/t depending on the type of lithium. Prices have fallen back, but are still around $40,000-$50,000/t.

Unsurprisingly, the rise in the lithium price sparked a sharp increase in exploration spending to around $460m last year, which is more than the previous two years combined and much higher than the previous peak in 2019. That should help to plug the gap in supply over the longer-term.

In 2022, 51% of lithium production came from Australia, 28% from Chile and 10% from China. Approximately, 95% of production was from 16 mines. There is an increasing focus on developing local production, particularly in Europe. European Metals Holdings has secured investment from the European Bank for Reconstruction and Development for developing the Cinovec lithium project in the Czech Republic. It is investing €6m at 42.3p/share. This will fund pre-development work up to the completion of the definitive feasibility study.

Eight new mines are set to commence lithium production this year and another eleven could start production in 2024 or 2025. There is scope for further increases in production if investment is put into early-stage projects.

Intuitive move

Healthcare investment company Intuitive Investments Group has gained shareholder approval for a move from AIM to the Specialist Funds Segment of the London Stock Exchange on 8 August. Existing shareholders were offered the chance to realise some or all of their shareholding through a tender offer for 17.4% of the share capital at 5.25p/share. However, only 62,049 shares were tendered. This cost £3,258. A placing by Turner Pope raised £672,000 at 5.25p/share and there could be further share issues. The investment strategy will be adapted by widening the remit to technology businesses and setting a target average return of 20% a year. There is no limit to an investment in any single company.

Metals One seeks battery growth

Metals One was set up to acquire battery metals projects. As part of the admission process to AIM the company bought the Black Schist project in Finland from AIM-quoted Bluejay Mining and a company with 80% of the Brownfield Rana project in Norway. Metals One raised £2.2m before expenses at 5p/share at a market capitalisation of £10.4m. Although the shares opened at 6p, they have fallen to 4.25p.

The Black Schist project has two exploration permits with another pending. The project has potential nickel, copper, cobalt and zinc resources. There is a requirement to pay a net smelter royalty of 0.5% to Magnus Minerals. AIM-quoted investment company Gunsynd has the right to subscribe £1m for 25% of the subsidiary that owns the Black Schist project. Metals One will still be the operator.

ASX-listed Kingrose Mining, which is operator of the Brownfield Rana project and already owns 10%, has the right to increase its stake through exploration expenditure and that could dilute Metals One's 80% interest to 15%. There are three exploration permits at Brownfield Rana, which is an early-stage nickel, copper, platinum group metals project. Exploration drilling is just starting.

The proceeds of the fundraising will be used to develop the two projects and provide working capital for the business. Over 18 months, exploration costs are estimated to be £1.5m.

Each electric vehicle is estimated to require 35kg of nickel. Like lithium, a shortfall of nickel supply is anticipated in the next decade. These two projects could supply metals for batteries for electric vehicles in the local European markets.

Bluejay Mining has a 29.98% stake following the sale of Black Schist, while the directors own 9.67%. Six other shareholders hold just over 40%.

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WH Ireland secures rescue fundraising

WH Ireland is an example of how the weak stockmarket and lack of trading and new admissions activity has hit smaller company brokers. WH Ireland did not have the required regulatory capital and the FCA could have required a solvent wind down of the business if cash were not raised. An emergency fundraising was required, and it needed to be at a large discount to the market price to ensure success.

WH Ireland has raised £5m at 3p/share and this has knocked more than two-thirds off the share price to 7p. The broker is loss making and it does not believe that trading is going to improve this year. WH Ireland is one of the largest AIM nominated advisers and brokers in terms of number of clients.

There are plans to reduce annual overheads by up to £4m. Senior management will take some of their salary in shares. This should help to make the company more financially stable. Asset sales are a possibility. The focus has been on growing the asset management business and this could be the most saleable part of the group, but it would not be ideal to sell this division.

■ At its AGM, **Peel Hunt** said that first quarter trading was in line with expectations, but trading will be second half weighted. A full year pre-tax profit of £800,000 is forecast. The share price is one-fifth higher than at the start of 2023 but is still less than 50% of the September 2021 placing price of 228p/share.

■ **VSA Capital** says it had a better than expected first quarter to June 2023, but it still expects an interim loss.

■ Aquis-quoted **Oberon Investments** reported a decline in revenues from £6.7m to £5m because of lower share dealing and capital markets income. The loss increased from £581,000 to £3.9m, which was predominantly down to one-off reorganisation and transaction costs.

Investment management teams have been recruited that have brought £100m of assets under management to the group and a further £100m is expected to be added. New fund launches should enable a further increase. The corporate broking business has more than 20 corporate clients.

Management is confident that acquisitions and new teams will enable revenues to grow to more than £8m this year. Progressive Research expects a reduced loss and then forecasts a 2024-25 pre-tax profit of £1.56m on revenues of £14.3m.

■ Peel Hunt has cut its 2022-23 operating profit forecast for **Winterflood** from £8m to £3m, with a small profit contribution in the second half, although the broker does expect the pre-tax profit of the market maker to bounce back to £19m next year.

ADVISER CHANGES - JULY 2023

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Cornerstone FS	Shore	SP Angel	Spark	Spark	7/4/2023
Team17	Peel Hunt / Berenberg	Berenberg	Houlihan Lokey	Houlihan Lokey	7/14/2023
Kromek	Cenkos / finnCap	finnCap	finnCap	finnCap	7/24/2023
Blancco Technology	Stifel Nicolaus	Investec / Stifel Nicolaus	Stifel Nicolaus	Investec	7/24/2023
Horizonte Minerals	Barclays/ Peel Hunt / BMO Capital	Peel Hunt / BMO Capital	Peel Hunt	Peel Hunt	7/25/2023
Alpha Group International	Peel Hunt / Liberum	Liberum	Liberum	Liberum	7/25/2023
Mobile Streams	Panmure Gordon	Peterhouse	Beaumont Cornish	Beaumont Cornish	7/26/2023
Pathfinder Minerals	Allenby	Strand Hanson	Allenby	Strand Hanson	7/26/2023
The Mission Group	Canaccord Genuity	Shore	Canaccord Genuity	Shore	7/27/2023

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New product development will benefit longer-term growth at ECO Animal Health

Animal drugs *www.ecoanimalhealthgroupplc.com*

ECO ANIMAL HEALTH (EAH)			110.5p
12 MONTH CHANGE %	-9.1	MARKET CAP £M	74.9

Eco Animal Health reported full year figures ahead of expectations. China remained a tough market last year, but there were higher revenues elsewhere. The long-term growth of the business is dependent on its new product development pipeline.

In the year to March 2023, revenues were 4% higher at £85.3m and pre-tax profit was flat at £3.9m. Net cash was £21.7m at the end of March 2023 as inventory levels start to unwind.

Two poultry vaccines for mycoplasma, bacteria that can cause chronic respiratory disease and infectious sinusitis, are near to submission for approvals, which could be achieved by the end of March 2024. R&D spending is expected to increase to £10.4m this year, which is more than the 10% of revenues target. ECO Animal Health is collaborating with Imperial College London and Moredun Research Institute in Scotland on late-stage development projects.

Two poultry vaccines await approval

The new products will reduce the dependence on pig and poultry respiratory and intestinal infections treatment Aivlosin, although it continues to improve market share and it is being approved for additional diseases. A safety warning that was on the label in the US is no longer required by the FDA following trials that show there is no danger to pregnant and lactating sows. China remains the key market, though, and hog prices are rising. Farmers have been hit by losses due to disease and the recovery in demand for antibiotics could be slow.

A 2023-24 pre-tax profit of £4.3m is forecast by Singer and cash should increase despite the high level of R&D spending. The benefits of the new products will take time to show through, but when revenues start to build it will boost profit.

Fertiliser price volatility hits Wynnstay profit

Agricultural products *www.wynnstayplc.co.uk*

WYNNSTAY GROUP (WYN)			470p
12 MONTH CHANGE %	-24.2	MARKET CAP £M	106

Agricultural products supplier **Wynnstay Group** increased interim revenues but could not repeat the previous level of profit which was boosted by high commodity prices. The figures were also hit by a £1.5m fertiliser stock write-down because of a rapid fall in the fertiliser price. This type of volatility is not unusual for an agricultural business, but Wynnstay continues to make underlying progress.

In six months to April 2023, group revenues grew by 22% to £409.1m, with commodity price inflation accounting for £48m of the increase, but underlying pre-tax profit nearly halved from £10.2m to £5.25m. The previous year there was a one-off gain for the fertiliser operation. The dividend was increased by 2% to 5.5p/share - maintaining the record of steady growth. Net debt was £10.7m at the end of April 2023. There should be the normal seasonal swing back to net cash at the end of October 2023.

Fertiliser demand has recovered due to the lower, more stable prices. The grain business is increasing market share. Poultry numbers are rising following avian flu related reductions so demand for feed should improve. The Carmarthen feed mill upgrade is progressing and there are plans for a feed facility in southwest England. Grass seed production capacity at Astley has been doubled. Management continues to seek add-on acquisitions.

Shore Capital forecasts a fall in full year pre-tax profit from £22.6m to £10.7m, but the dividend will continue to increase and should be twice covered by the lower earnings. The prospective multiple is 13 and that could fall to less than 12 if profit recovers as expected next year.

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Chain maker Renold remains undervalued despite upgrades following annual results

Chain and conveyor supplier *www.renold.com*

RENOLD (RNO)			29.4p
12 MONTH CHANGE %	+20	MARKET CAP £M	66.3

Chain and transmission equipment manufacturer **Renold** reported better than expected 2022-23 results after a strong fourth quarter and this year's forecast has been upgraded. Analysts still expect a fall in profit, although it will be well above the 2021-22 level.

In the year to March 2023, revenues improved from £195.2m to £247.1m, while underlying pre-tax profit jumped from £11.5m to £18.6m. Lower shipping costs helped. A higher tax charge held back earnings growth. The order book is worth £99.5m, with some of the growth coming from last year's acquisition YUK.

Chain remains the main revenue generator and profit contributor and margins improved from 11.9% to 13.4%. There was a particularly strong fourth quarter due to earlier than expected orders and that could hit this year's figures.

Realised case revenues increased

Torque transmission benefited from increased activity in Australia and North America, and it is a later cycle business than chain. Earlier this year, the business won a long-term contract military contract worth £8.9m.

Debt has been refinanced and cash generation will reduce net debt to £25.3m without any acquisition activity. The pension deficit has come down from £76.1m to £56.7m thanks to higher interest rates, but it remains significant. This appears to be a major factor in the low rating of the shares.

Energy prices have peaked, and steel prices have stopped increasing. This year's profit forecast has been raised from £14.6m to £16.1m, which still reflects some destocking as supply chains get back to normal. The prospective multiple is less than six even after the profit decline and higher tax rate this year. The recent record of profit forecast upgrades means that Renold has a good chance of doing better than expected.

Autins requires recovery in demand

Acoustic insulation supplier *www.autins.com*

AUTINS (AUTG)			11p
12 MONTH CHANGE %	-21.4	MARKET CAP £M	6

Management has taken strides in cutting costs and improving efficiency at acoustic insulation supplier **Autins**, but what the company really requires is an upturn in demand, particularly from its vehicle manufacturing customers. Vehicle production is recovering but lack of electronic components is still a problem for some of Autins' customers. More volumes need to be pushed through the company's factories so that it can reach profitability. That could come from winning new customers.

Price increases helped interim revenues improve by 15% to £10.8m and the loss was reduced from £1.4m to £900,000. Sales of the newer Neptune product were one-third ahead at £4.4m, as fully recycled products boosted demand. Flooring product sales were one-third lower at €1.5m because of a slowdown in the German construction market.

Back in November 2021, £3m was raised in a placing at 20p/share. There was a small operating cash inflow in the first half, but net debt increased by one-fifth to £2.4m. There is still £3.5m of cash headroom for the business, so it should be able to cope with further losses. However, loan repayments are restarting, following previous deferments.

The fact that Singer does not publish any forecasts shows the uncertainty about prospects. Management expects a slow recovery in the UK vehicle market because of a lack of new models and does not anticipate UK volumes will go back to pre-Covid levels. New electric vehicle contract wins should help the German business to grow. AIM-quoted investment company Braveheart Investment continues to increase its stake in Autins and it reached 16.1% in April.

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YouGov set to acquire European consumer panel business to diversify its income

Market research *www.corporate.yougov.com*

YOUGOV (YOU)			970p
12 MONTH CHANGE %	-10.2	MARKET CAP £M	1,135.6

Market research firm **YouGov** has agreed the purchase of the consumer panel business of GfK for €315m. That should enhance earnings by a mid-teen percentage in the first full financial year. The deal takes YouGov into the consumer market.

A placing raised £51.2m, before expenses, at 920p. YouGov already has shareholder approval to issue the new shares. This cash will help to fund the acquisition. The rest of the cost of the acquisition will come from existing cash and debt. Net cash was £104m at the end of July 2023, including the placing proceeds. Dividends will continue to be steadily raised.

The EU is forcing GfK to sell the consumer panel business following its merger with NielsenIQ. The deal requires regulatory clearance and should be completed in the second half of 2023.

Initial cost savings are £4m

GfK has consumer panels in 16 European countries that cover more than 100,000 households. Average contract length is three years and two-thirds of the revenues are recurring. There should be initial annual cost savings of £4m from integrating this business. In 2022, the consumer panel business' revenues were €134m and pre-tax profit was €24m.

The strategy is to enhance the acquired business by using the group's profiling, media consumption and brand data. There are also plans to launch consumer panels in the US.

Following the latest trading statement Peel Hunt has trimmed its revenues forecast for YouGov by 2% to £258m in the year to July 2023, but it is maintaining its earnings estimate at 39p/share. Clients are taking longer to make decisions. The shares are trading on 25 times estimated earnings. A full contribution from the acquisition could reduce the 2024-25 multiple to 17.

Steve Hatch was appointed as chief executive of YouGov in April and he takes over from Stephan Shakespeare on 1 August. He previously worked at Facebook and WPP.

TPXimpact set to bounce back this year

Digital technology services *www.tpximpact.com*

TPXIMPACT (TPX)			38.5p
12 MONTH CHANGE %	-70.4	MARKET CAP £M	35.5

New management appears to be having a positive effect on the performance of digital technology services provider **TPXimpact**. Last year was a tough one and effort has been put into integrating the various acquisitions that have been made since joining AIM. They now trade under a unified brand.

Staff retention rates have improved to 84% on an annualised basis. The company has signed a lease on a single London office and set up a data and insights division. New business continues to be won despite these distractions. Demand for digital transformation services from the public sector is boosted by the need for cost savings and greater efficiency.

In the year to March 2023, revenues improved from £79.7m to £83.7m, but underlying pre-tax profit slumped from £10.9m to £700,000. Net debt was £17.5m at the year end and new banking arrangements mean that TPXimpact is comfortable financially.

Like-for-like growth in revenues was 5% in the first two months of the financial year and committed revenues are already more than £80m. Consensus forecasts show a £2.8m profit on revenues of £97.1m this year, with the profit more than doubling to £6.15m in the year to March 2025. This should generate cash to significantly reduce borrowings.

The current share price reflects the scepticism of investors after past disappointments. If TPXimpact can show that it is making good progress towards achieving forecasts, then the shares are likely to be re-rated.

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Marks Electrical increases income profile

Electricals retailer *www.markselectrical.co.uk*

Dividend

Marks Electrical floated on AIM during November 2021 at a placing price of 110p, so the dividend history is limited. There was a maiden final dividend of 0.66p/share. The total dividend for 2022-23 is 0.97p/share.

The dividend is expected to increase to 1.1p/share this year, which would be covered 4.6 times by anticipated earnings, and then 1.3p/share is forecast for the following year.

Net cash rose from £3.9m to £10m by the end of March 2023. That could rise to £12m this year. This provides plenty of cash to fund expansion and a growing dividend.

Business

Leicester-based online electrical retailer Marks Electrical was founded in 1987 by chief executive Mark Smithson. Revenues come from a combination of online and telesales activity, but the former is the main source. Marks Electrical specialises in supplying premium kitchen appliances, audio visual products and small electrical appliances from one distribution warehouse. It is focused on the premium end of the market and has been expanding the range of products it offers.

The vehicle fleet is being expanded to cope with growth in deliveries and the warehouse has been extended. Free next day deliveries for purchases over £500 and installation services are helping to win customers. Average order value is £550. The Marks Electrical brand is becoming increasingly well known outside of its core east Midlands base.

The underlying market declined by 10% in the past year. That enabled

MARKS ELECTRICAL (LSE: MRK)	
Price (p)	100
Market cap £m	104.9
Historical yield	1%
Prospective yield	1.1%

Marks Electrical to increase its domestic appliances market share from 2% to 2.5% and raise its share of the consumer electronics market, which it entered more recently, from 0.4% to 0.6%.

In the year to March 2023, revenues improved from £97.8m to £112.4m, while underlying pre-tax profit was flat at £6.4m. Gross margins edged down. Bringing installations in-house also affected operating margins.

Revenues have grown 30% in the first two months of this financial year and cost increases are easing. Canaccord Genuity forecasts a 2023-24 pre-tax profit of £7.1m, based on a 15% increase in revenues – this was upgraded after the results. Next year, profit could rise by around one-fifth to £8.5m.

The current distribution centre can cope with £250m of annual sales, which is double 2024-25 expectations. That would equate to a market share of more than 5%. Canaccord Genuity reckons that every 1% increase in revenues should increase pre-tax profit by 2%.

The Smithson family still own 73.6% of the company. Following the full year results, finance director Josh Egan acquired 25,569 shares at 98.537p/share. The shares are trading on less than twenty times earnings, falling to 16 the following year. This growth is being achieved in a tough time for retail and Marks Electrical has an impressive track record, so the forecast could prove conservative.

Dividend news

NWF chief executive Richard Whiting has announced his intention to step down later this year and he will be replaced by finance director Chris Belsham. Underlying pre-tax profit declined from £20.9m to £19.6m, which was an impressive performance considering the additional profit made from the volatile oil price in the previous year. Feeds operating profit more than doubled to £3.9m, while food distribution contribution was 50% higher at £4.2m, although the majority of profit still comes from fuel. The dividend was raised 4% to 7.8p/share. There could be a further dip in pre-tax profit this year, but the dividend is expected to increase to 7.8p/share.

Solid State improved 2022-23 revenues from £85m to £126.5m, while pre-tax profit jumped from £7.2m to £10.8m. This includes an eight-month contribution from the recent US acquisition Custom Power. Organic revenue growth was 18%, helped by US dollar movements. Defence, security and medical technology markets have been strong. The order book has been boosted by recent NATO contract wins. The dividend was raised from 19.5p/share to 20p/share. It could rise to 21p/share this year, which would be nearly four times covered by forecast earnings. Solid State will still be able to reduce net debt from £8.1m to £400,000. That provides potential for further acquisitions.

Data analysis and publishing company **GlobalData** increased interim revenues by 21% to £135.9m, including organic growth of 8%. Pre-tax profit was 59% ahead at £23.9m. Investment in artificial intelligence technology is starting to pay off. Net debt was £230.8m at the end of June 2023 and this should reduce if no acquisitions are made. The interim dividend was raised from 1.08p/share to 1.4p/share. The momentum is continuing in the second half. Singer forecasts a full year pre-tax profit of £78.8m, up from £61.4m, and a total dividend of around 4.5p/ share.

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Expert view: Registrars

What next for securities registration?

By Hardeep Tamana

At the start of July, the Government's digitisation taskforce published its interim report on the progress that has been made so far when it comes to moving the UK shareholder framework into a purely electronic format. We need to remember that this is evolution not revolution and that many other parts of the world have progressed successfully towards such a basis.

Indeed, had we not abandoned parts of the Central Securities Depositories Regulations enshrined in UK law, such reform would have already been implemented in the UK. It is hard to understand why a pathway adopted both by the EU and USA was abandoned by the UK for a fresh review, but we are where we are.

Reviewing the proposals as they stand, the favoured approach lays bare the fact that if we are not careful, a once in a generation opportunity to make for easier access to data, facilitate a reduction in costs, and enable the deployment of technology to improve communication between issuers and holders will be missed. The risks are manifold, not just when it comes to transparency of ownership, but investors risk being lumbered with higher costs and even stock brokers may see their business models being squeezed.

What's planned?

Although a range of proposals have been suggested, the seemingly favoured approach would see all certificated holders placed into a nominee and for there to be no choice thereafter but nominees.

The risk to issuers

Issuers would be compelled to communicate with shareholders through nominees only. Whilst this has historically been a challenge for those who hold via nominees anyway, other channels of communication would end. Ensuring that the relevant narratives can be maintained will mean having to invest in additional communications tools and the proposal's attempts to legally oblige nominees to respond critically omits details on timing. Issuers will also find it harder to understand ownership structures.

The risk to investors

This new approach will see the nominees taking on an increased administrative workload, which needs to be funded, with costs passed to any intermediary then onto the ultimate beneficial owner. It will also be harder for investors to exercise their rights as securities holders.

The risk to brokers

Perhaps an unexpected consequence is what this means for the broker community. They may have to face new nominee intermediaries as well as a concentration risk develop, as has happened with CSDs. The registrar will also be incentivised to further develop shareholder services, not only acting as the default execution provider in the event that existing shareholders want to increase or decrease their holding, but potentially offering tax wrappers, too. Whilst this is unlikely to be a dealbreaker for brokers, it certainly risks erosion of some valuable revenues.

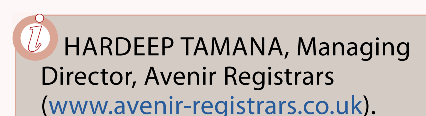
> This is a complex issue and one that requires real investment to resolve

In short, the favoured nominee model strips away shareholder choice, increases the cost of being a shareholder and constrains the rights of share ownership. It makes little sense to have a model for listed companies that does not allow for ease of movement of securities between unlisted and listed state, nor one that is so different to the pathways adopted by the bulk of the world.

A solution is however in reach. Either the existing CSDR model could be enhanced to address the market need once all certificates are dematerialised, or the current model can be readily digitised, leveraging the infrastructure and technology which is already in place. Ideally the legislation needed is one that facilitates choice (of certificates, book entry, nominee and CSD to operate concurrently) but more importantly tackles aspects such as Schedule 5 of the Companies Act by making e-comms the default as opposed to paper.

This is a complex issue and one that requires real investment to resolve. But if, as market participants, we stand idly by, the chance for meaningful reform that delivers a better outcome will be missed. The consultation period runs until 25th September – we owe it to issuers and investors alike to take that opportunity and make our voices heard.

The report is accessible at https://www.gov.uk/government/publications/digitisation-taskforce.



HARDEEP TAMANA, Managing Director, Avenir Registrars (www.avenir-registrars.co.uk).

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AIM in the FTSE 100 index

There are three former AIM companies that are constituents of the FTSE 100 index and more that are part of the FTSE 250 index.

Baltimore Technologies was the first former AIM company to make it into the FTSE 100 index back at the height of the internet boom at the turn of the millennium. The IT security business did not last long as part of the high-profile index because its sky-high rating proved a temporary phenomenon, and it withered away as a business.

There are currently three former AIM companies in the FTSE 100, though, and this is at a time when retailer Marks & Spencer, which was firmly ensconced in the index when AIM was launched, is no longer a constituent. Other big names no longer in the index include Tate & Lyle and ITV.

AIM was set up to provide a way for younger companies to gain access to funding and initial experience of the stockmarket. The expectation was that when these companies matured, they would move to the Main Market. Although more than 200 companies have taken that route, some of those have returned to AIM and other companies on the Main Market made the move the other way.

AIM companies are staying put for longer than when the junior market launched. They tend to wait until they are bigger to make the move and some stay even though they are valued at more than one billion pounds.

There have been many companies making the move that have been a success - not just the three in the FTSE 100.

There do not appear to be any other former AIM companies that are near to achieving the move into the FTSE 100. Self-storage operator Big Yellow Group is the largest with a market capitalisation of nearly £2bn, but that leaves it well behind much larger FTSE250 constituents. It would need to be double that valuation to have a good chance of graduating to the FTSE 100.

> Unite Group was valued at £20m when it joined AIM in 1999 and it is currently valued at £4.2bn

Online gaming technology provider Playtech is valued at £1.75bn, while the recent results from Domino's Pizza have helped to push its valuation above £1.6bn. Animal genetics company Genus, which started out on Ofex (now Aquis Stock Exchange) before moving to AIM, is also worth around £1.6bn.

Aggregates producer Breedon recently moved to the Main Market and changed its jurisdiction from the Channel Islands to the UK to be eligible to be included in a FTSE index. It is likely to move into the FTSE 250 index, but it is far too small to go any further at least for the moment.

The three current FTSE 100 constituents have not had a smooth ride over the past two decades, but they have shown their ability to cope with economic and regulatory changes and continue to prosper. Even if they fell out of the FTSE 100, they will not disappear.

Melrose Industries

Melrose Industries started out as a shell seeking engineering and industrial acquisitions. It has made many acquisitions in the past two decades, the most significant of which was aerospace and automotive components manufacturer GKN. Melrose Industries was the first of the three companies to join the FTSE 100.

There have also been plenty of cash distributions along the way as parts of the groups acquired were sold. In April, Melrose Industries demerged Dowlais, which is effectively the GKN automotive business, but it remained a constituent of the FTSE 100. Dowlais has gone into the FTSE 250.

Melrose Industries is left with an aerospace business focused on the commercial market. It manufactures airframe and engine structures and electrical interconnection systems. The company has 40 manufacturing locations in 13 countries and supplies 90% of the world's aircraft and engine manufacturers.

This year revenues should be £3.3bn as the business continues to recover from a tough start to the decade. Pre-tax profit is expected to be £225m, while net debt could end the year at £486m. The target operating margin is 14% and there is still some way to get there with 10% forecast for 2023.

Distributions and spin-offs make it difficult to assess the performance of the shares. The original placing price was 100p, but Sharepad.co.uk calculates an adjusted price of 45.5p when trading commenced. The

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transfer from AIM happened on 9 December 2005 when the share price was 59.93p. The share price has risen to 529.4p and the company is currently valued at £7.15bn.

Melrose Industries has been paying dividends since the final dividend announced with the 2005 figures. The total dividends paid exceeds 472p/share, according to Sharepad.co.uk. The total cash dividends do not factor in the value of the demerger of Dowlais. Melrose Industries shareholders received one Dowlais share for each share they owned and the Dowlais share price is 120.8p.

> Melrose Industries started out as a shell seeking engineering and industrial acquisitions

Entain

Entain started out as Gaming VC, which joined AIM on 21 December 2004 at an introduction price of 420p, valuing the business at more than £130m. The domicile was subsequently changed from Luxembourg to the Isle of Man. As GVC Holdings, the online gaming company moved to the standard list on 2 February 2016, having closed the previous day at 467p, and then upgraded to the premium list later in the year enabling entry into the FTSE 250. GVC Holdings became Entain at the end of 2020. At 1399p, Entain is valued at £8.9bn. This makes it one of the top 50 constituents of the FTSE 100 in terms of market capitalisation.

Entain has swallowed many online and high street betting and gaming companies, including fellow former AIM company Sportingbet, which was acquired in tandem with William Hill. The biggest acquisition was Labrokes Coral in 2018. It then created the 50/50 US joint venture BetMGM, which has been developed into a business with approaching $2bn of revenues.

In 2022, net gaming revenues increased from £3.89bn to £4.35bn. Underlying pre-tax profit fell from £527.3m to £321.8m. In the first quarter of 2023, group net gaming revenues were 15% ahead. Pre-tax profit is forecast to recover to £495m.

Entain has been a consistent dividend payer since 2006, except for periods after large acquisitions when it tries to use the cash generated from operations to reduce borrowings. Last year, Entain returned to paying dividends and they totalled 17p/share in two equal instalments.

Net debt was £2.75bn at the end of 2022. In June, a placing and PrimaryBid offer raised £600m at 1230p/share. The cash helped to fund the acquisition of Poland-based STS for £450m and the subsequent purchase of US sports betting firm Angstrom Sports.

The company's operations cover more than 40 territories. Entain is leaving unregulated markets and concentrating on nationally regulated markets.

> Marks & Spencer is no longer a constituent of the FTSE 100 index

Unite Group

Student accommodation provider Unite Group is the most recent of the former AIM companies to gain a place in the FTSE 100. It is also the one that joined AIM the earliest. The 1 June 1999 placing at 85p/share valued the company at just over £20m.

Unite Group was the first company to focus on providing purpose-built student accommodation. The company has been trading for more than three decades and it opened its first student accommodation property in Bristol in 1992. It currently owns 157 properties across 23 cities in England, Scotland and Wales. This is either directly or via co-investments. The company is also dipping its toe in the build to rent sector, but expansion is on hold while management investigates potential co-investment opportunities.

Unite Group moved to the Main Market on 11 April 2000. The share price ended trading on AIM at 251.6p and the initial market capitalisation was £89.9m. At 960p, Unite Group is valued at £4.2bn, so it is among the smaller constituents of the FTSE 100, so there is no guarantee it will retain its place in the index if the valuations of companies outside the index increase. Unite Group recently raised £296m at 905p/share. That reduces pro forma loan-to-value levels to 25% and provides scope for further growth.

Although the student accommodation investment market has been tough and hit by delays in investment decisions, the underlying shortage of supply of accommodation remains. There is a committed pipeline of £623m and a future pipeline of £227m. Some of the investment will be covered by cash from disposals.

Diluted EPRA net tangible assets were 926.8p/share at the end of 2022 and it is forecast to rise to 938.6p/share by the end of 2023. There are already reservations for 98% of the company's capacity for the 2023-24 academic year.

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WINNER
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Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	26.1	16.3
Industrials	19.1	17
Technology	12.5	12.9
Financials	12.1	10.7
Health Care	9.8	10.5
Basic materials	8.5	15.5
Energy	6.4	12.1
Utilities	1.9	1
Telecoms	1.9	1.8
Property	1.7	2.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	764.72	-17
FTSE AIM 50	4073.7	-19.9
FTSE AIM 100	3635.78	-18.8
FTSE Fledgling	10688.1	-12
FTSE Small Cap	6287.88	-3.1
FTSE All-Share	4198.02	+2.2
FTSE 100	7699.41	+3.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	130
£5m-£10m	93
£10m-£25m	162
£25m-£50m	105
£50m-£100m	102
£100m-£250m	121
£250m+	79

KEY AIM STATISTICS

Total number of AIM	792
Number of nominated advisers	26
Number of market makers	21
Total market cap for all AIM	£81.4bn
Total of new money raised	£133.4bn
Total raised by new issues	£47.9bn
Total raised by secondary issues	£85.5bn
Share turnover value (Jun 2023)	£27.9bn
Number of bargains (Jun 2023)	5.5m
Shares traded (Jun 2023)	413.7bn
Transfers to the official list	201

TOP 5 RISERS OVER 30 DAYS

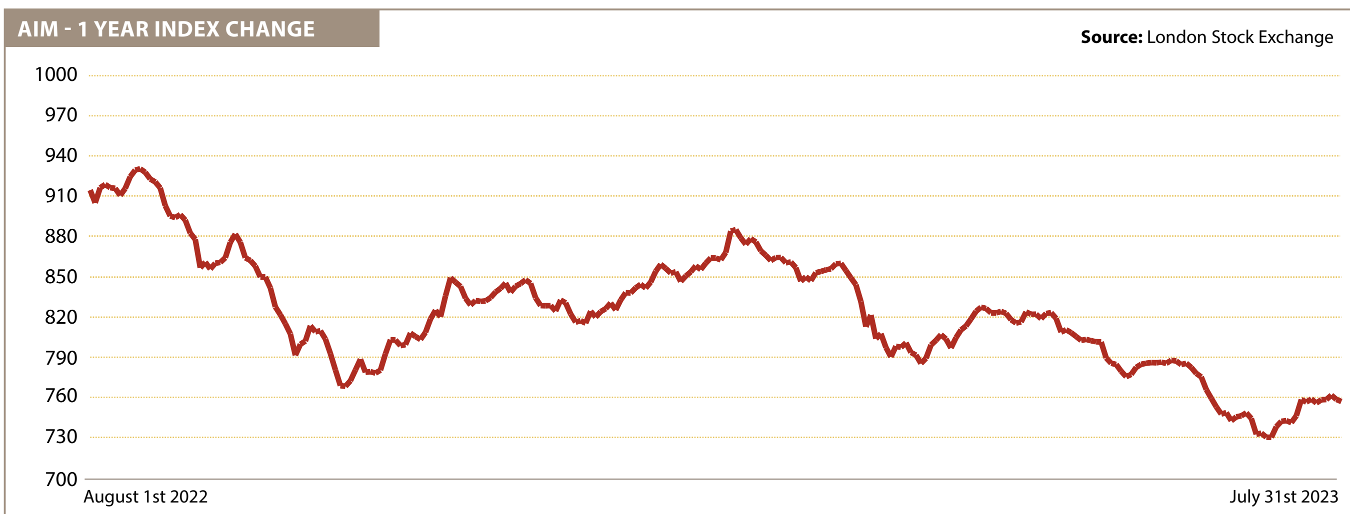
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Itsarm	Shell	2.75	+900
OptiBiotix Health	Healthcare	27.5	+233
Allergy Therapeutics	Healthcare	2.96	+182
Empire Metals	Mining	4.5	+181
Yourgene Health	Healthcare	0.49	+151

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Wandisco	Software	120	-90.8
Bonhill	Media	0.66	-82.4
Fiinu	Financials	1.775	-73.1
Aptamer	Healthcare	2	-70.4
Pelatro	Technology	2.68	-67.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st July 2023, and we cannot accept responsibility for their accuracy.

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AIM Journal

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

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

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

The pdf-based publication has an email database of company directors and advisers and an email with a link to the latest edition is sent out each month when the AIM Journal is published. The AIM Journal can also be downloaded from the website www.AimJournal.info/archive.

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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