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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Warren floats Box Nation

TV channel Box Nation's holding company, Nation Media, plans to join AIM before Christmas. It wants to raise £5m to finance marketing, acquire additional rights and expand internationally. The flotation could value Nation Media at nearly £20m.

Box Nation is a subscription TV channel purely focused on boxing and it started broadcasting in November 2011. The channel is available on Sky and Virgin Media and an HD version will launch on Sky next year, which will enable Nation Media to generate pay per view revenues. Last year's David Haye fight with Derrick Chisora was pay per view but this was shown on cable. Even so, it generated nearly £1m in revenues. At the moment revenues come from a £10 sign-up fee and monthly subscriptions costing £10 (£8.33 excluding VAT). There is no minimum subscription period. House broker Allenby forecasts revenues of £10.4m and a loss of £2.91m in the year to January 2014. A profit of £1.53m is forecast for 2014-15.

Boxing promoter Frank Warren is a major shareholder, non-executive director and the main supplier of boxing events to Box Nation through his Queensbury business. The company says that the deals are done on an arm's length basis and the Warren family's stake will be diluted to 27.1% after the placing. Nation Media has links with other promoters in the UK and overseas, including Oscar De La Hoya's Golden Boy Promotions.

European Islamic requisition

Islamic-based financial services provider European Islamic Investment Bank has convened a general meeting on New Year's Eve. The meeting has been requisitioned by Esterad Investment Company and Al Bassam Investment Company, which control just over 5% of the company, in order to remove Michael Toxvaerd and Mohammed Al Sarhan as directors and appoint four new directors. These new directors include Stefan Allesch-Taylor who used to be boss of broker Fairfax IS. The other proposed directors are Abdulla Saif, Omar El-Abd and Frederick Stonehouse. There is also a special resolution seeking shareholder permission to buy back up to 10% of the company's shares.

The EIIB board recommends that shareholders vote against all of these resolutions. Abed Al Zeera was removed from the board "by the unanimous written decision of all of the other directors" after the requisition notice was received.

The Gulf Co-operation Council region is expected to continue to grow faster than the rest of the world and EIIB is in a strong position to take advantage of this. EIIB has assets under management of more than £1bn.

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HubInvest publishes AIM Journal

www.hubinvest.com

general news

Retailers overtake miners in importance on AIM

Retail is likely to become an increasingly important sector of AIM as more retailers join the junior market. Women's value clothing retailer Bonmarché joined AIM at the end of November via a flotation that valued it at £100m and online fashion retailer boohoo.com is set to follow next year.

To put this in perspective, the AIM general and food retail sector is already worth £6.5bn, which is more than the AIM mining sector and 9% of AIM's market value. However, online fashion retailer ASOS currently accounts for nearly two-thirds of the retail sector, which totals 21 companies. ASOS shows no signs of leaving AIM in the near future.

At the end of 2001, just after ASOS floated, there were 25 retailers valued at around £250m – just over 2% of the 2001 AIM market capitalisation.

The flotation of boohoo.com, which was founded in 2006, would at least provide a comparator with ASOS even though it is a much smaller business. In the year to February 2012, boohoo.com generated a pre-tax profit of £249,000 on revenues of £29m. Zeus Capital, which was broker to Bargain Booze retail chain owner Conviviality Retail's placing earlier this year, is advising boohoo.com on its flotation, which could take place in the first quarter of 2014.

The Conviviality Retail share price has risen by three-fifths since it floated at the end of July, while the Bonmarché share price has risen by around 15% in its first few days of trading.

Benchmark float

Animal health business Benchmark is on course to join AIM on 18 December. A placing will raise £45.1m at 64p a share and value the company at £87.3m. Existing shareholders will raise £17.6m and the rest is new money that will be invested in growing the business. Invesco, Lansdowne Partners, Slater Investments and Hargreave Hale are all buying shares. Management will still own more than two-fifths of Benchmark.

In the year to September 2013, Sheffield-based Benchmark made a post-tax profit of £4.29m on revenues of £27.5m. The core animal health division supplies aquaculture health products and manufactures vaccines. There is a pipeline of 30 new aquaculture vaccines, biocides and parasiticides. Benchmark also provides research on sustainable food production and publishes information on the international agri-food sector.

Oxford Instruments focuses on Andor takeover

Scientific digital camera technology developer Andor Technology rejected a proposed offer of 500p a share from fully listed Oxford Instruments, arguing that it did not fully value the business. Oxford has returned with an increased offer of 525p a share and Belfast-based Andor has decided to recommend this new bid because it provides the best way of maximising value in the short to medium term. There could potentially still be a higher bid from a rival.

Like most technology companies Andor has had its ups and downs over the years but broker WH Ireland's discounted cash-flow model suggests a fair value of 632p a share.

It should be noted that Oxford says that the proposed 2.15p a share dividend will not be paid by Andor. The dividend was announced when Andor reported an underlying 2012-13 pre-tax profit of £7.4m, down from £10m, on revenues 6% lower at £54.6m.

The new bid values Andor at £169m. Andor had net cash of £22.9m at the end of September 2013. Oxford says that it has completed due diligence and it describes its latest bid as final, although it reserves the right to increase the bid if there is a competing offer. Oxford has irrevocable acceptances from directors and Polar Capital totalling 8.14% of Andor's share capital and has secured a letter of intent from Cazenove Capital Management, which owns 9.8% of Andor, stating that it will accept the offer.

Oxford says that Andor fits well with its nanotechnology tools division because of its complementary products.

Andor joined AIM nine years ago when it raised £4.5m at 90p a share. The 525p a share bid represents a 483% increase on that price.

advisers

Bermudan firm takes control of Westhouse

Bermuda-based Somers, which was formerly known as Bermuda National, is bidding for the holding company of AIM adviser Westhouse Securities. This is part of a fundraising for Westhouse to enable it to take advantage of the cyclical recovery in the markets.

Bermuda Stock Exchange-listed Somers, which already owns 46% of Westhouse, will invest a further £2.65m at 1p a share and underwrite an open offer to raise a further £350,000 at the same price. Management and employees will subscribe for £450,000-worth of shares. The cash will help Westhouse to invest more in its market-making book and the backing of Somers will mean that the broker is part of a much larger international financial services business with a capital base of more than $200m.

Following an offer for outstanding shares, Somers will own at least 80% of Westhouse. Somers originally invested in Westhouse three years ago and it acquired a 62.5% stake in JO Hambro Investment Management last August.

Elsewhere, other smaller-company brokers are reporting strong trading. Cenkos Securities says that revenues and profit will be better than expected in 2013 and much higher than in 2012 when revenues were £20m and underlying profit was £4.1m. In the year to September 2013, Numis increased revenues by 55% to £77.7m and underlying profit more than trebled to £25m. Both Numis and Cenkos have strong pipelines of work stretching into 2014.

Shore Capital is reducing the size of its share register through a share consolidation and sub-division. Shore has 2,800 shareholders and 2,393 of these shareholders own 2,000 shares or fewer, which are worth less than £200. Many of these shareholders are likely to have been inherited from internet investment company JellyWorks following the offer of one Shore share for every two Jellyworks shares in 2000. Shore wants to reduce the costs of servicing its shareholder base so it proposes a 2,000-for-one consolidation followed by a subdivision into 200 shares. Shareholders with fewer than 2,000 shares will receive cash equivalent to their fractional entitlement after the additional aggregated shares are sold.

ADVISER CHANGES - NOVEMBER 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Alkane Energy	Liberum/VSA	Liberum/VSA	Liberum	Altium	01/11/2013
One Media IP Group	Charles Stanley	Hybridan	Cairn	Cairn	01/11/2013
Stellar Diamonds	Daniel Stewart	Daniel Stewart/ Charles Stanley	Daniel Stewart	Charles Stanley	01/11/2013
ValiRx	Daniel Stewart	Hybridan	Cairn	Cairn	01/11/2013
TXO	Northland	Fox Davies	Northland	Fox Davies	04/11/2013
Mytrah Energy Ltd	Investec/Mirabaud	Investec/Mirabaud	Investec	Strand Hanson	05/11/2013
President Energy	Canaccord Genuity/ RBC	RBC/ Jefferies Hoare Govett	RBC	RBC	05/11/2013
Hummingbird Resources	Cantor Fitzgerald	Liberum/ Jefferies Hoare Govett	Cantor Fitzgerald	Liberum	11/11/2013
Tricor	XCAP/Allenby	Allenby	Allenby	Allenby	11/11/2013
Hambledon Mining	Peat/Strand Hanson	Strand Hanson	Strand Hanson	Strand Hanson	12/11/2013
WANdisco	UBS/Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	13/11/2013
Great Western Mining Corp	XCAP/Davy	Davy	Davy	Davy	14/11/2013
Kemin Resources	Peat/Strand Hanson	Strand Hanson	Strand Hanson	Strand Hanson	18/11/2013
Silence Therapeutics	Canaccord Genuity	N+1 Singer	Canaccord Genuity	N+1 Singer	18/11/2013
Lekoil Ltd	UBS/Mirabaud	Mirabaud	Strand Hanson	Strand Hanson	19/11/2013
Polemos	Beaumont Cornish	N+1 Singer	Beaumont Cornish	N+1 Singer	20/11/2013
Legendary Investments	Beaufort/SI Capital	SI Capital	Grant Thornton	Grant Thornton	22/11/2013
Stellar Resources	Cairn	Northland	Cairn	Northland	22/11/2013
Proxama	Peel Hunt	SI Capital	Peel Hunt	Peel Hunt	25/11/2013
Mar City	Shore/WH Ireland	WH Ireland	WH Ireland	WH Ireland	28/11/2013

company news

Coastal Energy recommends bid from Spanish energy giant CEPSA

Oil explorer and producer *www.coastalenergy.com*

The original investors in **Coastal Energy** will make more than 100 times their initial investment following a bid from Compañía Española de Petróleos (CEPSA), which values the Thailand-focused oil explorer and producer at more than C$2.2bn. CEPSA is bidding C$19 a share for Coastal, which is also listed on the Toronto Stock Exchange, and the merger should be completed in the first quarter of 2014.

There is currently 58p to every Canadian dollar, so the sterling equivalent of the bid is just over £11 a share. Coastal was originally known as PetroWorld Corp when it joined AIM at the beginning of 2005. At that time it was effectively a shell and it raised £1.2m at 10p a share.

The bid is just over £11 a share

The company's name was changed to Coastal Energy Corp in October 2006 following a merger with Nucoastal (Thailand) Ltd and a $40m placing at C$0.65 a share. These investors will still make 29 times their investment.

CEPSA is an integrated energy company and the fourth-largest industrial group in Spain in terms of revenues. CEPSA is interested in expanding its exploration and production interests, particularly in southeast Asia, and the Coastal business will provide a base for that. The acquisition vehicle will be owned by CEPSA and Strategic Resources (Global) Ltd, which is owned by Larry Low.

COASTAL ENERGY CORP (CEO)			1084.5p
12 MONTH CHANGE %	- 12.1	MARKET CAP £M	1229.5

In the nine months to September 2013, Coastal generated revenues of $538m and net income before tax of $289m. This income figure falls to $125m after current and deferred tax. Net debt was $34m at the end of September 2013.

If the merger does not go ahead CEPSA is entitled to a termination payment of $76m.

ACM Shipping rides cyclical upturn

Tanker broker *www.acmshipping.co.uk*

Tanker broker **ACM Shipping** reported flat underlying interim profit of £1.6m but the market has started to recover from cyclical lows and this was an improvement on the second half of last year. The second half of the current financial year should be stronger as the improving market conditions show through in higher revenues and profit.

In the six months to September 2013, revenues were flat in dollar terms at $19.6m but sterling revenues rose 4% to £12.7m. The sale and purchase division more than doubled its revenues as the new team starts to rebuild the business. The dry cargo division has been restructured and it is starting to improve its performance.

ACM SHIPPING (ACMG)			248.5p
12 MONTH CHANGE %	+ 83.3	MARKET CAP £M	48.4

Rates were weak during the period but they are starting to recover in the large crude tanker market. Oil demand continues to grow, providing a positive market background.

There is cash in the bank of £4.73m at the end of September 2013, although last year's final dividend costing £1.34m was not paid until after September. The interim dividend is unchanged at 3.15p a share and the full-year total dividend should be maintained at 10.15p – a yield of 4.1%.

Edison Investment Research forecasts an improvement in full-year profit from £2.75m to £3.25m. The shares are trading on 19 times prospective earnings for 2013-14, falling to 17 in 2014-15. If these forecasts are achieved then ACM will not be back to previous profit levels – ACM made an underlying profit of £6.6m in 2009-10. Edison believes that the current operations could make a full-year profit of £10m. If tanker rates continue to rise, there could be scope for forecast upgrades.

company news

Autodesk secures bid recommendation from Delcam board

Engineering design software *www.delcam.com*

Computer-aided manufacturing software supplier **Delcam** is recommending a £20.75 a share bid from design software supplier Autodesk. The bid values Delcam at £172.5m and the Delcam directors believe that this fully reflects the future prospects for the business. The deal will accelerate Nasdaq-listed Autodesk's recent move into the computer-aided manufacturing software market.

Delcam was originally part of engineer Delta Group but it was bought by its management in 1989. The MBO was headed by Hugh Humphreys, who is still a non-executive director. Delcam joined AIM in July 1997 at a placing price of 260p a share. The market capitalisation was £15.4m. Progress has been steady but not smooth and Delcam was hit by the financial crisis in 2008. At the end of 2010 the share price was 318p but a recovery in profit sparked a strong recovery in the share price.

> The bid values Delcam at more than 35 times 2012 earnings.

Instrumentation supplier Renishaw will generate £32m from the sale of its stake in Delcam, most of which cost 400p a share.

In 1996, Delcam made a profit of £1.04m on revenues of £13.6m. Sixteen years later, Delcam reported a profit of £5.1m on revenues of £47.1m. The bid values Delcam at more than 35 times 2012 earnings.

DELCAM (DLC)			2057.5p
12 MONTH CHANGE %	+135.8	MARKET CAP £M	163.3

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. At the time of the interim announcement, the 2013 profit expectation was edged up from £5.5m to £5.8m and the following year's forecast was pushed up from £6.3m to £6.5m.

In the year to January 2013, Autodesk has generated a profit of $310m on revenues of $2.3bn.

Sanderson seeks further add-on acquisitions

Enterprise software *www.sanderson.com*

Enterprise software provider **Sanderson** has a strong balance sheet and it is in a good position to make further add-on acquisitions to enhance organic growth. The share price has risen significantly over the past year but there is still an attractive yield.

In the year to September 2013, revenues moved ahead from £13.4m to £13.8m while underlying profit jumped from £1.48m to £1.94m thanks to an improvement in gross margins. Both multi-channel retail and manufacturing divisions improved their profit contribution. Multi-channel retail accounted for 58% of operating profit and this is likely to be the fastest-growing part of the business as mobile and other higher-margin products become increasingly important. The food industry is driving growth in the manufacturing sector but other parts of the sector should recover.

SANDERSON (SND)			73.75p
12 MONTH CHANGE %	+ 52.1	MARKET CAP £M	38

Net cash was £3.66m at the end of September 2013. Since then, Sanderson has acquired Lancashire-based One iota Ltd for an initial £3.13m, with up to a further £2.3m payable depending on performance. Sanderson raised £3.5m at 55p a share at the time of the acquisition and had net cash of more than £4.5m in November. That cash position will enable further add-on acquisitions to be made. The total dividend is 25% higher at 1.5p a share. The dividend yield is more than 2% and there should be continued growth in the dividend, which is comfortably covered by earnings.

Charles Stanley forecasts a rise in profit to £2.7m in 2013-14. Sanderson has already secured two-thirds of the current year's forecast revenues through new orders and recurring revenues. The shares are trading on 18 times prospective earnings.

company news

Redcentric buys former AIM company InTechnology's managed services assets

IT managed services *www.redcentricplc.com*

Network-based managed services provider **Redcentric** has acquired the core business of former AIM company InTechnology for £65m in cash, predominantly financed by a £64m gross placing at 80p a share. The deal significantly increases the scale of Redcentric's managed services business and provides cross-selling opportunities.

InTechnology Managed Services (IMS) accounts for the vast majority of InTechnology's revenues. In the year to March 2013, it made an operating profit of £4.49m on revenues of £40.9m. Recurring revenues account for 94% of the total compared with 70% for Redcentric, which was demerged from Redstone earlier this year.

InTechnology left AIM at the beginning of 2008 following a tender offer for shares at 35p each. Following the completion of the tender, InTechnology was valued at £46.1m – at the 35p tender price. InTechnology originally floated as a shell in March 2000 and that July it bought Vdata and HOLF Technologies in a deal that valued them at £165m and was partly financed by a share issue at 160p a share. That was at the height of the technology boom so it is not entirely surprising that the valuation has declined even if the revenues have grown. The proceeds of the disposal are equivalent to 46p a share.

> The deal significantly increases the scale of Redcentric's managed services business

REDCENTRIC (RCN)		98.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M 140.2

InTechnology will be left with a digital health business called Inhealthcare, which has developed a patient information portal, plus some other operations with total revenues of £879,000 and an operating loss of £3.22m in the year to March 2013. Intechnology also has a 49.9% stake in AIM-quoted Mobile Tornado.

House broker finnCap forecasts a profit of £7.5m in the year to March 2014, rising to £17.2m when IMS makes a 12-month contribution the following year. Earnings per share are forecast to rise from 7.5p to 9.7p in 2014-15, while the dividend should increase from 1p a share to 3p a share over the same period.

Visa provides global opportunities for Planet

Payment processing services *www.planetpayment.com*

A strategic relationship with Visa will provide growth potential for international payments processor **Planet Payment**. The first deals that have come through Visa are in Mexico and Myanmar.

Planet is providing the software for mobile terminals in Mexican retailers supplied by bread maker Grupo BIMBO. Planet is setting up 6,000 accounts a month and there are 150,000 potential retailers. Planet generates revenues based on the number of transactions over the terminals, which offer card payments, mobile top-ups, bill payments and insurance premiums. In Myanmar, Planet's processing systems are used to connect the country's banks to Visa.

EPISTEM (EHP)		337.5p
12 MONTH CHANGE %	- 40	MARKET CAP £M 32.7

The whole market for general purpose card transactions is valued at $9.1 trillion a year and Planet still has a tiny share of the payment processing market.

Trading has been tough this year due to a soft Asian market but revenues in the first nine months of the year still grew from $9.93m to $10.5m. The loss was reduced from $3.98m to $842,000 thanks to a reduction in admin expenses.

Brazil will start to contribute early next year. The Mexico and Myanmar operations will also start to make a more significant contribution.

There was $4.7m in the bank at the end of September 2013, with debts of $919,000. In the nine months to September 2013, $176,000 was generated from operations but this did not cover the $1.6m of capital investment.

dividends

Cash-rich Caledonia promises quarterly dividend

Gold miner *www.caledoniamining.com*

Dividend

Gold miner Caledonia Mining Corporation started paying dividends in April. The initial dividend was C$0.05 per share. There is currently 58p to every Canadian dollar, making a sterling equivalent of 2.9p a share. Management initially said that it would review Caledonia's ability to pay a dividend every year. However, in November, a new dividend policy was announced. Caledonia will pay quarterly dividends. In 2014, the quarterly dividend will be 1.5 cents a share. That provides an annual dividend of 6 cents (3.48p) a share. This shows that Caledonia is confident that it can continue to generate cash that will more than cover the dividend. It already has $25.1m in the bank.

Business

Caledonia has a 49% stake in the Blanket gold mine in Zimbabwe, which produced 45,623 ounces of gold in 2012, a 27% increase over the previous year. In the nine months to September 2013, 34,102 ounces of gold was produced, a 1.4% increase on the same period last year. This year's production should be at least 44,000 ounces.

The cash cost of production continues to fall - from $571/ounce in 2012 to $554/ounce in the third quarter of 2013. The all-in cost has fallen from $1,027/ounce in 2012 to $999/ounce in the latest quarter. The overall cost includes royalties, which fall when the gold price declines. Increased production will help to reduce future costs. Gold recovery rates are high at 93.6%.

The mine sold 45,181 ounces of gold during 2012 at an average gold price of $1,666/ounce. In the latest quarter, 12,042 ounces were sold at an average gold price of $1,330/ounce. The quarterly net profit was $3.7m.

CALEDONIA MINING CORP (CMCL)	
Price	47.5p
Market cap £m	24.8
Historical yield	6.1%
Prospective yield	7.3%

Many investors will be cautious about investing in Zimbabwe. Inflation is low now that the Zimbabwean dollar has been abolished and Caledonia's management is not concerned about the commercial environment. Caledonia is helped by the fact that 51% of the Blanket mine is owned by indigenous Zimbabweans, including a 10% stake donated to the local community. Surplus cash is paid in dividends to the Blanket shareholders and the company's cash pile is in London.

There are 18 potential exploration projects in the Blanket area and there is the cash to invest in exploration. House broker WH Ireland forecasts 2014 gold production of 48,900 ounces, rising to 54,700 ounces in 2015. Caledonia wants to achieve production of more than 70,000 ounces in 2016. Caledonia will also look at potential acquisition opportunities.

Caledonia has quotations on AIM and TSX and the shares are also traded on the OTCQX market in the US. The share price has halved in the past eight months and there has been no significant recovery since the new dividend policy was announced. The shares are trading on around three times forecast 2013 profit of C$22.1m.

Dividend news

Plastic components supplier **Plastics Capital** has indicated its confidence in the future by increasing its interim dividend by 52% to 1p a share even though its interim profit was flat at £1.7m. Net debt has fallen from £8.6m to £8.1m at the end of September 2013. A stronger second half is expected, with house broker Cenkos forecasting full-year underlying profit will rise from £3.3m to £3.9m. There should be a contribution from the acquisition of Chinese creasing matrix supplier Shengli. The full-year total dividend is expected to rise from 2p a share to 3p a share, with a further increase to 4p in 2014-15. The debt will continue to fall even with these increased dividends and selective investment in additional capacity.

International construction and property consultancy **Sweett Group** has increased its interim dividend from 0.3p a share to 0.5p a share on the back of a 75% increase in pre-tax profit. If one-off gains from the sale of PFI/PPP investments in the corresponding period are excluded then the interim profit jumped from £910,000 to £3.5m. Net debt was reduced by one-quarter to £7.1m. The order book is worth £101m and three-fifths of this is work outside of Europe. Westhouse forecasts a full-year profit of £5.2m.

Communications and IT services provider **Daisy** has reiterated its intention to grow its total dividend by 15% a year. The maiden interim dividend is 1.5p a share and Liberum forecasts a full-year dividend of 4.6p a share. Interim revenues declined by 2% to £174m as lower-margin business was shed. Underlying EBITDA edged up to £27.8m. Net debt was £93.4m at the end of September 2013. Daisy will continue to be a consolidator in its market and it has spare loan facilities of more than £100m, which can fund purchases.

expert views

Expert view: The broker

Angel investors get fAN Club

By BRIAN PATIENT

At a time when it is particularly difficult for smaller companies to obtain finance to grow their business any new initiative that helps them to raise cash is welcome. This is why we have launched the finnCap Angel Network (fAN Club).

The fAN Club is aimed at providing specialist support to ambitious small businesses that wish to achieve an IPO in the near term. The fAN Club will also source committed Angel investors via finnCap's network of intermediaries, including private client brokers, family wealth offices, accountants, lawyers, fund managers and other investor networks. As the number one broker for AIM-quoted companies, finnCap is in a perfect position to help these small businesses as they progress towards a flotation.

The fAN Club plans to seek out ambitious small businesses that are seeking cash to help them grow

Attracting interest

Since the launch of the fAN Club in mid-August this year there has been a very high level of interest expressed by potential Angel investors and companies interested in attracting pre-IPO funding. In addition, there has been expressed interest from potential NEDs to support the developing businesses that secure pre-IPO funding through the fAN Club. This will be an essential part of the process that private businesses will need to embrace to secure a successful IPO and track record beyond the initial float. Furthermore, there have been approaches by a variety of support service businesses that could provide beneficial input to these early-stage companies to assist with their journey into the publicly quoted domain.

Our approach to providing this new service has been developed using the experience gained over many years from servicing small-cap companies and the investors who operate in this interesting space. In our experience, success is achieved for newly quoted companies and their shareholders where a business is able to produce sustainable growth for the business on a profitable basis and where valuation is set at a sensible level. This appears an obvious point but investors are regularly disappointed by potentially exciting early-stage companies that fail to achieve performance expectations in a timely manner where the viability of the company becomes an issue due to the time the business takes to secure sustainable profitability.

Pre-IPO

Accordingly, we will be looking to utilise the fAN Club to provide pre-IPO funding for businesses that have the characteristics required for a successful IPO. The business is likely to have had a number of years trading and building revenues, thereby demonstrating commercial demand for the product or service that the company is offering. This will also provide some insight into the ability of the management team to develop a rewarding strategy for the business. It is expected that the company will be able to achieve an IPO within two years of receiving pre-IPO funding and that the business will have achieved profitability by this stage.

Businesses that do not offer investors these characteristics have a higher risk of failing to deliver their shareholders an attractive return in the initial timeframe planned by the company's management. This outcome may impact on the viability of the business or result in further dilution for shareholders from rescue funding – not an attractive investment outcome. Consequently a business with limited commercial traction is unlikely to be a suitable pre-IPO funding candidate for the fAN Club.

Our plan is to screen companies introduced to us as potential pre-IPO candidates to ascertain the business's potential and that it has achieved the minimum criteria that we have established. Input for this exercise will utilise our sector research analysts and our corporate finance team. An initial 'Teaser' document is planned to be sent to registered, potential Angel investors to gauge the level of interest in the outline investment proposition. If sufficient appetite is indicated, we will undertake a level of due diligence before issuing an 'Investment Memorandum' to those Angel investors who had indicated an interest in the business. An opportunity to meet with the company's management seeking the investment will be arranged.

To join the fAN Club and find out more information about the services provided, please contact Brian Patient on 0207 220 0515.

BRIAN PATIENT is Small Cap Investments Director at finnCap

feature

Role of the non-executive chairman

A non-executive chairman has an important role to play in making sure that an AIM company is run well and it communicates successfully with its investors.

The role of the non-executive chairman of an AIM company is important for corporate governance and in terms of maintaining good relationships with institutional investors. Just how difficult it is can depend on how smoothly the business is running but even when things are going well a chairman has an important part to play.

It would be foolish to think that there is an exact blueprint for what a non-executive chairman should do and how they should interact with the company. Different companies require different qualities but there are some broad characteristics that are vital. Corporate governance is of course a major part of the role but there is much more to it.

Qualities

There are a large number of qualities that a person needs to be a good chairman of a small quoted company. An ability to assess the big picture and provide an overall strategic view is key in terms of the business itself. The chairman has to be able to identify the important issues and provide a clear sense of direction. This requires good business knowledge with significant board experience also important.

Communications skills are also important – both for within and for outside of the company. The chairman has to make sure that the company gets its message across.

Frank Lewis has 25 years of experience of being an independent non-executive director and non-executive chairman. He has chaired a number of AIM companies and he is currently non-executive chairman of Asia Ceramics Holdings, which supplies ceramic wall and floor tiles, sanitary ware and other home improvement products to the domestic Chinese market, and minerals explorer China Africa Resources.

Lewis says that he believes that a new chairman needs an induction to the business and he feels he needs to visit the different parts of the business so he can understand it. "I like to talk to people on the factory floor," he adds. This helps him to understand the morale and characteristics of the business.

Relationships

The relationship between a chairman and the rest of the board, particularly the chief executive, is a key ingredient of the role. Some companies have an executive chairman but generally a non-executive chairman is favoured by investors, although this can depend on the size and circumstances of the business. A non-executive chairman, though, is not there to run a business. That is the chief executive's job.

Lewis believes that the success of a chairman hinges on the relationship with the chief executive – a relationship that Lewis says should be "centred on honesty, trust and transparency". "There is a fine line to walk between being too involved and being too remote".

Richard Power, who heads the small companies team at fund manager Octopus Investments, says he likes to meet and chat to a company's chairman. He also wants to know that the executives and non-executives work well together so he will talk to executives about how the board is functioning and what the dynamics of the board room are. "We want boards to be operating well."

Sports nutrition products supplier Science In Sport needed a chairman when it was spun out of Provexis during the summer. In this case, chief executive Stephen Moon had worked with the company's eventual chairman John Clarke and he gave him a call to ask him to become chairman. Clarke spent 35 years with GlaxoSmithKline and its predecessor companies, becoming global president of GSK Consumer Healthcare between 2006 and 2012. Moon worked with Clarke in the development of Lucozade Sport so Clarke has relevant experience for Science In Sport.

Investors

Choosing the right chairman for the business is important but sector experience is not always the key quality a company wants. The chairman is an important conduit between the company and investors.

Generally the chief executive and finance director are the directors that deal with investors, particularly at results time. However, if there is a strategic question or there are concerns about the business then investors are likely to approach the chairman and they will want the chairman to make sure that any problems are sorted out. Investors will not be pleased if the chairman avoids the responsibility to keep them informed. The investors need to have confidence in the chairman.

Power says that at the smaller end of the market there is no exact prescription for the role of a chairman. When a company is small an executive chairman can work, although a split

feature

role is obviously preferred. It may even be a good thing to appoint an existing non-executive director rather than a chairman that is completely independent and from outside of the business.

The chairman also has an important role in protecting the interests of minority investors when there is one big shareholder in the company, who probably also has board representation. The interests of the main shareholder will not necessarily be the same as the rest of the other shareholders. The chairman may need to stand up to that major shareholder in order to ensure that the company is run in an appropriate way for a quoted company and the interests of minority shareholders are maintained.

A non-executive chairman is not there to run a business.

Sutton Harbour

Michael Knight announced that he was stepping down as chairman of Plymouth-based Sutton Harbour earlier this year. He had been chairman for six years, which included the global financial crisis which hit the property operations. The marine and property company started the process of seeking a replacement at the end of May. The company used an executive headhunter to find the right person. There was strong interest and a number of strong candidates.

"What we wanted was a hands-on chairman because we are a small management team", says Sutton Harbour chief executive Jason Schofield. "We already had accounting and property experience on the board," he adds. Sutton Harbour required someone with strong finance, City and governance experience. "We wanted a fresh pair of eyes," adds Schofield.

In the end, Sutton Harbour chose Graham Miller, a law and MBA graduate with experience at private equity firms, including 3i. He was also previously director of corporate development at fully listed Avon Rubber. This meant that he had the relevant financial and City experience.

Miller, who joined the board as chairman on 23 September, admits that he did not know Sutton Harbour before he was approached.

As he is based in Bath it is easy for Miller to visit the operations and spend time in Plymouth. Miller says that he has had plenty of opportunities to get to know the business. He has also met the bank and some of the major shareholders, which include AIM-quoted Crystal Amber. "I like to get involved", says Miller, although having been at the company little more than two months he is still getting up to speed.

Not all appointments work out even if an extensive recruitment process has been carried out. Alastair Gornall was appointed a non-executive director of political information publisher Dods (Group) ahead of taking over as chairman from Kevin Hand on 26 September. Gornall was chief executive of Reed Exhibitions for six years and he is chairman of unquoted corporate reputation consultancy Blue Rubicon.

The chairman also has an important role in protecting the interests of minority investors

A week after taking over as chairman, Gornall took over the role of chief executive from Keith Sadler, who retained his other role as finance director. Less than nine weeks later, Gornall resigned from the board. According to the company: "As a consequence of personal circumstances that were unforeseen when he first joined the company, Alastair has decided that he is not the appropriate person to carry forward the reorganisation that he has recommended and which the board has approved".

This means Dods has to seek a new chairman, having previously gone through the recruitment process. Andrew Wilson has been appointed interim chairman and Martin Beck, who has been with Dods for a decade, acting chief executive.

IPO

"The sooner you work with executive management on an IPO, the quicker you can get a feel of what is required," says Lewis. Many of the executives of a company that is coming to the stock market do not have experience of the quoted arena and they do not understand what will happen or how things will change after a flotation.

A chairman with experience of the quoted arena can guide the executive management and help to build the board. Investor relations advice can also be provided by someone who has experience of the process and knows how to communicate the attractions of the business to potential investors and the media.

"It is the task for the chairman to set the tone at the top and to say what you want the organisation to be, establishing good governance and making sure the business has the right corporate reputation in its community", argues Lewis.

"The chairman can be an unsung hero", argues Power. Like a referee at a football match, if everything is running smoothly then the chairman will probably go unnoticed. If a chairman is spending a lot of time with investors it tends to mean that something has gone wrong.

"At the end of the day, what defines a good chairman, is the ability to run an effective board, and to manage relationships with both shareholders and stakeholders", says Lewis.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	20.1	12.2
Financials	18.4	20
Consumer services	14	9.4
Industrials	11.8	17.7
Technology	10.7	10.1
Basic materials	8.4	16.5
Consumer goods	6.6	5.5
Health care	6.1	6.1
Telecoms	2.6	1.1
Utilities	1.3	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	827.42	+20.1
FTSE AIM 50	4375.23	+43.1
FTSE AIM 100	3757.08	+21.8
FTSE Fledgling	6442.11	+41.1
FTSE Small Cap	4332.3	+32.7
FTSE All-Share	3548.45	+15.7
FTSE 100	6650.57	+13.3

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	229
£5m-£10m	143
£10m-£25m	233
£25m-£50m	181
£50m-£100m	143
£100m-£250m	102
£250m+	59

KEY AIM STATISTICS

Total number of AIM	1090
Number of nominated advisers	49
Number of market makers	52
Total market cap for all AIM	£72.2bn
Total of new money raised	£82.7bn
Total raised by new issues	£36.4bn
Total raised by secondary issues	£46.3bn
Share turnover value (2013)	£24.7bn
Number of bargains (2013)	3.99m
Shares traded (2013)	244bn
Transfers to the official list	164

TOP 5 RISERS OVER 30 DAYS

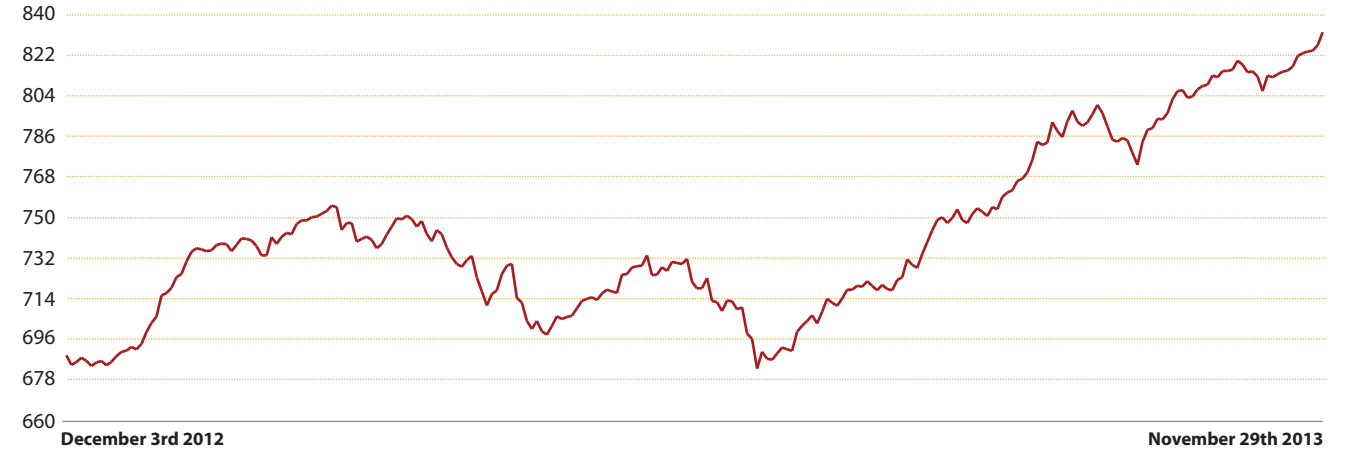
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Craven House Capital	Financials	0.56	+72.4
JSJS Designs	Technology	0.82	+73.7
Crawshaw Group	Retail	14.88	+95.1
Armadale Capital	Financials	0.25	+108.9
Clear Leisure	Leisure	2.5	+113.5

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Wessex Exploration	Oil and gas	0.42	-58.5
Albemarle & Bond	Financials	19.5	-56.9
Praetorian Resources Ltd	Mining	7.25	-50
Cyan Holdings	Technology	0.21	-46.8
Leed Resources	Oil and gas	0.06	-45.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th November 2013, and we cannot accept responsibility for their accuracy.

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In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

finnCap was presented with the Best Research award at the 2012 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running. finnCap is a sponsor of the AIM Awards, the plc Awards and the UK tech Awards.

In the six months to October 2013, finnCap reported a 22% jump in revenues to £6.9m and operating profit was 74% higher at £1.9m. finnCap has a strong track record of raising money and it raised more than £70m for clients during the period.

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