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AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM numbers growing again

There is a steady flow of new entrants coming to AIM. They are starting to outnumber the number of companies leaving the junior market.

Online fashion retailer In The Style, video games company tinyBuild Inc, battery technology developer AMTE and management process automation software developer ActiveOps (see page 2) all went to premiums. Ambient ready meals supplier Parsley Box achieved a valuation of £83.8m at the placing price of 200p a share. However, the share price fell back to 187.5p after two days of trading.

Asset manager Team also joined AIM last month and it wasted little time in announcing a potential bid for fellow AIM company Tavistock Investments. This would be an all-share bid if it went ahead. So far, shareholders owning 14% of Tavistock have indicated support for the offer. Tavistock management believes the bid undervalues the investment manager and adviser and that it does not have any rationale.

There are more to come, including potash project developer Emmerson, which is moving from the Main Market. International payment services provider Cornerstone FS is joining AIM in order to undertake a buy and build strategy in its sector.

Blackrock increasing AIM exposure

Blackrock Smaller Companies Trust is considering removing its investment restriction that no more than 50% of its portfolio by value can be invested in AIM-quoted companies. This proposal may be put to shareholders at the AGM in June. There are plans to consult with the largest shareholders.

The strong recent performance of some AIM investments means that the portfolio is nearing the 50% limit. If there is no change to the restriction, then some of these investments may have to be reduced or the trust would not be able to make new AIM investments. The proposal is also a recognition of higher standards of corporate governance on AIM.

The fund manager wants to assess fully listed and AIM companies on the same merits and not have to be concerned about which market they are on.

At the end of February, Blackrock Smaller Companies Trust had gross assets of £960.9m. That suggests that there could be at least £480m more available for investment in AIM if the restriction is lifted. Of course, there will always be investment in fully listed companies so not all the cash will move to AIM investments. YouGov is the largest AIM investment and the third largest investment in the portfolio, accounting for 2% of the total valuation. The top four AIM investments contribute 7.2% of the portfolio value.

In this issue

Efficient AIM offer

Management process automation software provider ActiveOps helps improve the efficiency and consistency of back-office operations of organisations. The share price has risen from 168p to 190p in the first few days of trading since it joined AIM. Management process automation is expected to be worth £6.3bn in 2023 and ActiveOps addresses a segment including banks and insurers that is worth around £750m a year. ActiveOps is generating revenue growth from a combination of adding customers and existing users spending more.

No new money was raised in the flotation, although existing shareholders generated £75.7m from share sales. This includes Calculus Capital, which invested in 2014 and raised £21.8m. It retains 4.3 million shares. The other sellers were directors or employees, including founder and chief executive Richard Jeffery.

ActiveOps did not need to raise cash because of the 2019 acquisition of OpenConnect for £4.95m. The specific purpose of this deal was to acquire the WorkiQ software, which was integrated into the company's Workware+ platform. The rest of OpenConnect was sold at the end of last year for £14.6m. That meant that there was net cash of £8m at the end of January 2021.

ActiveOps has been losing money in the past two years, but it was around breakeven in the six months to September 2020. Advance payments help to increase deferred income and that is why cash inflows are ahead of the profit and loss figure. SaaS income was at record levels in the third quarter, while training and implementation revenues, which had been held back by the original lockdown, are recovering.

Inspired Wey bid

Inspired Education is launching a 47.5p a share cash bid for online education services provider Wey Education, which values the company at £70.4m. Inspired operates more than 60 private-pay K-12 schools with 48,000 students in 20 countries. In October, Inspired launched its own online service, King's College Online, which also offers the option of spending time at schools around the world. The enlarged group is better placed to expand its share of the online education market. Wey moved from ISDX, now Aquis, to AIM at the end of 2015 when it had a market capitalisation of £3.29m at the placing price of 3.5p a share. Wey was forecast to make a 2021-22 pre-tax profit of £2.6m on revenues of £16.5m.

Investor interest increasing

More than two-fifths of investors plan to increase their exposure to UK smaller companies according to the latest QCA/ Peel Hunt mid- and small-cap review. However, there is a view that the number of companies on the market available for investment is likely to decline. A new micro-cap market, where the maximum market capitalisation is £50m, is attractive to 48% of investors.

The number of quoted companies has been declining in the past decade or more. There are 21% of investors that believe there will be more quoted companies, while 37% believe there will be fewer. The disparity is even larger when it comes to companies. There are 5% that think there will be an increase in quoted companies and 53% think that the number will decrease. One respondent believes that the increasing automation of trading leads to short-term decisions and that puts companies off floating.

The burden of rules and regulation appears to be the most significant reason that companies decide against floating. Companies, in particular, believe that reducing regulations and costs will help to attract new admissions. On top of that, the view is that investors should be provided with more incentives to invest in smaller companies. Banning short selling - not allowed on the Aquis Stock Exchange - is suggested by 23% of companies and 10% of investors.

Nearly two-thirds of investors felt that the public equity market was effective last year, although the figure falls to 56% when it comes to companies. Even so, the percentage of companies believing they were very ineffective was low.

Companies were pleased with the flexibility shown by the regulator during the Covid-19 pandemic and nearly three-quarters believe that the flexibility concerning the holding of AGMs should continue.

Cenkos profit bounces back

AIM broker and nominated adviser Cenkos Securities raised more than £900m for its predominantly AIM-quoted client base during 2020 and the momentum is continuing into this year. The strategy is to form long-term relationships with entrepreneurial growth companies and investment trusts.

In 2020, revenues increased from £25.9m to £31.9m, while underlying pre-tax profit improved from £1.4m to £4m. This has enabled an increase in the full-year dividend from 3p a share to 3.5p a share, with a final dividend of 2.5p a share, up from 1p a share. Net assets improved from £24.7m to £25.6m.

Cash in the bank has jumped from £18.3m to £32.7m, even after spending £1.96m on share buy backs and £1m on dividends. There was a £14.5m surplus over Pillar 1 regulatory requirements at the end of 2020. The latest dividend will cost nearly £1.4m.

Julian Morse will take over from Jim Durkin as chief executive once FCA approval comes through.

Revenues and profit are still a long way from the levels back in 2017, when £2.5bn was raised for clients. Many of the clients from 2017 have been retained, showing the success in holding onto clients. Cenkos has capacity to handle more deals so that it can increase revenues and profit this year.

ADVISER CHANGES - MARCH 2021

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
e-therapeutics	SP Angel	Numis	SP Angel	Numis	01/03/21
Gama Aviation	WH Ireland	Jefferies	WH Ireland	Jefferies	01/03/21
Coral Products	WH Ireland	Cairn	WH Ireland	Cairn	04/03/21
Induction Healthcare	N+1 Singer	Numis	N+1 Singer	Numis	04/03/21
Horizonte Minerals	BMO/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	05/03/21
Thor Mining	WH Ireland/SI Capital	SI Capital	WH Ireland	Grant Thornton	05/03/21
Helium One	Canaccord Genuity/ Peterhouse	Peterhouse/Pello	Beaumont Cornish	Beaumont Cornish	10/03/21
Zambeef Products	finnCap	finnCap	finnCap	Strand Hanson	10/03/21
Ebiquity	Panmure Gordon	Numis	Panmure Gordon	Numis	12/03/21
Redx Pharma	Panmure Gordon/ WG Partners	WG Partners	Spark	Spark	15/03/21
Sterling Energy	Tennyson/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	16/03/21
CPP Group	Liberum	Investec	Liberum	Investec	18/03/21
Corero Network Security	Canaccord Genuity	Cenkos	Canaccord Genuity	Cenkos	22/03/21
Applied Graphene Materials	Allenby/N+1 Singer	N+1 Singer	N+1 Singer	N+1 Singer	23/03/21
LoopUp Group	Panmure Gordon	Numis/Panmure Gordon	Panmure Gordon	Panmure Gordon	23/03/21
Equals Group	Canaccord Genuity	Canaccord Genuity/ Cenkos	Canaccord Genuity	Cenkos	26/03/21
EQTEC	Arden/Canaccord Genuity	Arden	Strand Hanson	Strand Hanson	29/03/21
Faron Pharmaceuticals	Peel Hunt	Panmure Gordon	Cairn	Cairn	29/03/21

IT recycling provides growth opportunities for Restore

Business services provider *www.restoreplc.com*

Demand for document management services held up well at **Restore** and there was a growing requirement for recycling services as 2020 progressed. Restore is already the UK market leader in IT recycling, but there is plenty of potential to grow in a fragmented and increasingly important market.

In 2020, revenues fell 15% to £182.7m and underlying pre-tax profit was more than one-third lower at £23.2m – prior to £1.3m of restructuring and redundancy costs. Cash generation helped net debt decline by £22.4m to £66.1m.

Office relocation and shredding businesses were worst hit by the lockdowns during the year, while the digital business lost summer exam business. Document storage activity increased, but access difficulties knocked revenues.

UK market leader in IT recycling

Technology recycling revenues grew but again access restrictions deferred some work. Technology recycling is the largest of all the company's markets and it is estimated to be worth £525m and growing at 5-6% a year. Technology security awareness has been heightened by home working. Restore has 6% of the market. Double digit organic growth is being targeted and capital investment should help to increase margins.

Restore made one acquisition last autumn and two more since the year end. Last year's purchase was Euro Recycling, which is involved in IT asset destruction. This year's acquisitions are The Bookyard, an Apple recycling and spare parts business, and Computer Disposals, which provides IT recycling and asset disposition. Further acquisitions are likely in recycling, document management, and scanning.

RESTORE (RST)			356p
12 MONTH CHANGE %	+0.3	MARKET CAP £M	447.3

During this year, the divisions should all return to the run-rate they were achieving prior to Covid-19. A partial profit recovery to £33m is expected in 2021, before a jump to £41m next year. A dividend is likely for 2021. Cash generation could pay off debt by 2023. This will depend on the level of acquisition activity carried out.

Diurnal set to launch Efmody later this year

Drug developer *www.diurnal.co.uk*

Hormonal disease treatments developer **Diurnal** says the Committee for Medicinal Products for Human Use, which advises the European Medicine Agency, has issued a positive opinion on Chronocort, which will be marketed as Efmody. This means that approval of marketing authorisation is on course for the summer and that could enable a commercial launch in Europe in the third quarter. If the regulator believes that the treatment should have orphan drug status, then there will be ten years of market exclusivity.

Chronocort/ Efmody is a modified release hydrocortisone used to treat adult and adolescent patients with congenital adrenal hyperplasia, which is caused by a block in cortisol production.

DIURNAL (DNL)			83p
12 MONTH CHANGE %	+172.1	MARKET CAP £M	114.8

The next step would be US approval for Chronocort/ Efmody and Diurnal has requested a meeting with the FDA. This meeting would provide guidance on what a clinical study will be required to achieve. A phase III study could commence before the end of 2021.

Alkindi, a treatment for adrenal insufficiency aimed at children, has approval in the US and Europe. Alkindi sales reached £1.21m in the six months to December 2020. Potential sales for Chronocort / Efmody are greater than for Alkindi, which is aimed at children. It will take years to build up the sales of both treatments.

Edison has upgraded its valuation for Diurnal from 140p a share to 161p a share. However, Diurnal will need to raise at least £25m to finance further clinical trials for its portfolio of treatments.

Pharma and food sector focus helps Mpac to prosper

Packaging machinery manufacturer *www.mpac-group.com*

Packaging and automation equipment manufacturer **Mpac** has proved resilient in the past year. Demand for capital equipment tends to be cyclical and 2020 is the type of year whhen customers would be expected to put off investment and conserve cash. There was weaker demand in the second quarter, but the focus on the pharma and food sectors meant that business was not delayed for long. The international spread of activities also helped with Asia and American revenues weaker, while European revenues increased.

In 2020, revenues slipped from £88.8m to £83.7m – the like-for-like decline was 10%. Second-half revenues were 27% ahead.

Services revenues grew by 1% to £19.6m

Pre-tax profit fell from £7.5m to £6.3m, which reflects a second-half improvement. Net cash is £14.6m, helped by a working capital inflow and after paying £10.2m for US-based Switchback. There are £10m of debt facilities.

Services revenues grew by 1% to £19.6m and this is an important element in holding up revenues. Switchback, which was acquired last year, has given the group a presence in the craft beer sector but its services revenues are relatively low.

The order book is worth £55.3m.

MPAC (MPAC)			485p
12 MONTH CHANGE %	+104.2	MARKET CAP £M	97.8

This year there will be cost savings from moving the Coventry business into the Tadcaster site. A recovery in pre-tax profit to £7.6m is expected in 2021, although a tax charge, rather than tax credit, will hold back earnings growth. That puts the shares on 15 times prospective 2021 earnings. Cash generation will be back to normal levels, but there should be more than enough to cover expected investment. Further acquisitions are possible, though. The focus is on extending the product range and broadening the range of customers.

Avingtrans' Brotherhood gain

Engineering *www.avingtrans.plc.uk*

Engineer **Avingtrans** is receiving £35m for the sale of the Peter Brotherhood business that was part of the acquisition of Hayward Tyler for £52.7m, including debt, in September 2017. Peter Brotherhood, which has an oil and gas and defence sector customer base, was estimated to be £9.3m of that acquisition cost.

The core of the Hayward Tyler business makes up the engineered pumps and motors division. This division significantly improved profit at the interim stage.

Previously, Avingtrans bought JenaTec for £4m and sold it for £14.5m in 2013. Sigma Components was acquired for £22m and sold in

AVINGTRANS (AVG)			332p
12 MONTH CHANGE %	+54.4	MARKET CAP £M	106

the 2016 financial year for £65m. Following the Sigma sale, £19m was returned to shareholders. The cash raised from the latest disposal will pay back debt and be invested in the medical imaging division. The recent merging of the MRI operations with Magnetica, will enable MRI products to be developed for niche areas, such as orthopaedics and veterinary uses.

Net cash is expected to be £22m at the end of May 2021.That will also leave scope for further acquisitions.

Avingtrans pinpoints engineering businesses that are attractively valued and/or provide a good fit with existing operations. In many cases these are loss-making businesses. Investment is injected into the acquisition to help to improve performance ahead of a likely future sale once management feels it has done all it can with the business.

Excluding Peter Brotherhood, full-year revenues are expected to decline from £113.9m to £98.7m, with pre-tax profit improving from £5.9m to £7.4m. The profit forecast is barely changed from the pre-disposal level. The shares are trading on 16 times prospective earnings.

Aquis moves into profit and continues to gain exchange trading market share

Trading services *www.aquis.eu*

Aquis Exchange is generating cash from its core trading business and some of this can be ploughed into the Aquis Stock Exchange, where management has big ambitions to become a significant London market for fast-growing companies. The technology licensing business is also growing strongly, as have the data provision operations.

In the short term, the only part of the business that is growing more slowly than previously hoped is the Aquis Stock Exchange issuer fees. That is not surprising given the uncertainty in the markets last year and lack of new admissions until recently. However, the pipeline of potential new companies is significant, with ecommerce technology company Samarkad recently raising £17m.

A 2021 profit of £2.4m is forecast

Aquis moved into profit in 2020 even though it got little benefit from the exchange's change in tariffs last autumn. Exchange revenues grew 46% to £7.7m, while technology and data revenues grew even faster. There was also an initial contribution from Aquis Stock Exchange. Group revenues were two-thirds ahead at £11.5m. A loss of £1.13m was turned into a pre-tax profit of £470,000.

The capitalisation of development costs was £643,000, which was higher than the amortisation charge.

AQUIS EXCHANGE (AQX)			610p
12 MONTH CHANGE %	+90.6	MARKET CAP £M	165.7

Capitalised costs are expected to be lower than amortisation from this year.

Tax losses mean that there should be no tax charge for the next couple of years. A pre-tax profit of £2.4m is forecast for 2021 and a further rise to £4.23m next year. That should take the cash pile to £19.3m by the end of 2022.

Liberum believes that if Aquis can achieve a 10% share of exchange trading, then it could generate revenues of £16.3m before any contributions from the other businesses.

Rebranded Fintel continues to add clients

Financial support services *www.wearefintel.com*

SimplyBiz has changed its name to **Fintel** to reflect the increased significance of data and digital operations. Fintel provides support services to financial products providers, intermediaries and investors. The customer base is growing even though 2020 was a difficult year. Subscription intermediary clients increased from 3,056 to 3,133, while fintech contracts rose from 1,092 to 1,195.

In 2020, revenues dipped from £62.8m to £61m, while underlying pre-tax profit declined from £14.9m to £13.9m with most of the decline in the first half. Net debt was £19.4m at the end of 2020 and it will continue to fall, even after dividend payments. A final dividend of 2.85p a share was announced – the same as for 2019, although there was no interim last year. This is likely to be the base from which future dividends will grow.

FINTEL (FNTL)			219p
12 MONTH CHANGE %	+49	MARKET CAP £M	212

Intermediary revenues held up well and average revenues per client increased. Fintech and research revenues rose, although that was partly due to a full 12-month contribution from Defaqto.

Distribution was the toughest area and revenues fell by nearly a quarter. Surveyors were unable to visit properties, and this hit mortgage and valuation services revenues. The inability to hold physical events knocked the income from marketing services.

Fintel is expected to achieve a 2021 pre-tax profit of £16.3m, which would put the shares on less than 18 times prospective earnings. Net debt is forecast to fall to around £15m by the end of 2021. Gresham House Asset Management has taken a 9.4% stake and four directors bought shares - some at 206p each and some at 212p each - following the annual results.

CPP dividend returns after a decade

Financial products provider *https://International.cppgroup.com*

Dividend

CPP Group has returned to paying dividends for the first time in nearly a decade, when it was still fully listed and hit by an investigation by the regulator in the UK. A 25p a share dividend was declared for 2020. That reflects the confidence for the future and the net cash of £15.3m, because there are no earnings per share due to a high tax charge. Cash is being generated, though. The cash cost of this dividend is nearly £2.2m. The dividend has been set at a level where management believes it can steadily increase it.

Liberum is expecting a 30p a share dividend for 2021 and 35p a share the following year. Net cash is expected to decline in the medium term until profit reaches higher levels, and the tax position normalises. Even so, CPP can afford to pay these dividends that provide an attractive yield.

Business

CPP Group provides card protection, extended warranties, mobile protection, cyber protection, travel disruption cover and health plans to 11 million customers. Partners include Bajaj Finance, DenizBank, Tata Cards, BNP Paribas, Axis Bank and American Express.

Card protection remains the largest contributor, with £52m of the 2020 group revenues of £141.1m. The fastest-growing part of the business is health and wellbeing where revenues were 71% ahead at £22.5m.

Last year's revenues were 7% ahead and pre-tax profit improved from £1.1m to £2m. Tax wipes out this profit. Better indications of progress are EBITDA and cash flow. EBITDA rose from £5.4m to £7.2m, while cash generated from operating activities increased from £1.14m to £3.16m.

CPP GROUP (CPP)	
Price (p)	567.5
Market cap £m	49.6
Historical yield	4.4%
Prospective yield	5.3%

This is an international business, and it is split into high-growth business units and start-up business units. There is also a legacy business covering UK and Malaysia operations servicing legacy card and identity protection products. The contribution from these legacy operations, which are not allowed to take on new business, is steadily declining, and the ongoing businesses made a larger profit contribution last year for the first time.

India and Turkey are the businesses in the high-growth division. India is the largest part of the group, gneraing revenues of £108m after a strong start to the year. Business was back to the pre-Covid level by the end of the year.

Start-up operations lost £3.1m in 2020. There are earlier-stage businesses in Asia and the relaunched operations in the UK, where there are partnerships with the RAC and Gallagher. There are plans to integrate this business with the UK legacy operations. CPP has taken a 20% stake in KYND, which has developed technology to monitor and understand cyber risk. This will be a growth area in the UK.

Liberum forecasts a 2021 pre-tax profit of £4.9m and EBITDA of £8.7m. Profit growth will be helped by the reduction in loss by the newer operations.

Dividend news

Building software supplier **Eleco** maintained its revenues in 2020 and pre-tax profit was better than expected, rising from £4.3m to £4.9m. Recurring revenues are increasing. Net cash was £6.2m at the end of 2020 and this has enabled Eleco to start paying dividends again. A final dividend of 0.4p a share is proposed – there was a 0.3p a share interim in the previous year. Next year's dividend could return to the 2018 level of 0.68p a share. The revised strategy is based around a focused portfolio of products and developing new software that is required by the customer base. Eleco already has a significant market position and knowledge of the sector.

Michelmersh Brick reported better than expected 2020 figures, even though production was disrupted last year. There was a 16% fall in underlying pre-tax profit to £8m and it is set to rebound to £9.5m this year. The bricks manufacturer has moved to a net cash position and is paying a 2.5p a share final dividend. This is covered 2.5 times by earnings. A dividend of 2.8p a share is forecast for 2021 and that should be covered 2.8 times. The new year has started strongly, and the market still has capacity constraints.

Scientific instruments manufacturer **Judges Scientific** reported a lower profit in 2020 but it still increased its ongoing dividend by 10% to 55p a share. Pre-tax profit fell from £17m to £13.7m as lower revenues hit margins. The greatest decline in revenues was in North America, while China was the only region to grow revenues. Orders have recovered and are higher in the first two months of 2021 than they were in the same period last year, when trading was still strong. Pre-tax profit should recover to £15m and enable another 10% increase in dividend to 60.5p a share.

Expert view: Registrars

Why a broking background gives Avenir Registrars an edge

By Samiul Siddique

As part of a new generation of registrars, the team at Avenir has been put together with a deliberate focus on ensuring there is a skill set in place that reflects the needs of today's issuers. To illustrate why this works so well, Samiul Siddique, head of Capital Markets at Avenir Registrars, takes us through a few of the key touchpoints – as well as some occasionally overlooked factors – that make such a difference for clients.

At the very outset of setting up a security for CREST registration is the need for an ISIN. The application can be complicated as there should be no ambiguity in the information required for submitting an application. We work with the issuer to ensure that their documentation is up to date and appropriate for the application.

Our aim is to mitigate any risk of rejection, mindful of the fact that there is no appeals process or recourse – it is a one-time chance when making the application. With downside risks this great, we take the responsibility to ensure the application satisfies the demands of the ISIN body, who themselves will also be conducting due diligence. Ultimately, we make this process as efficient as possible.

CREST enablement

When a funding round is assured, issuers are typically keen to have firm time frames for the security to go live in CREST to ensure the funding is secured. Our experience in receiving a request to obtain an ISIN and then enable the instrument in CREST is about eight business days. This is of course subject to the prospective issuer proving all required due diligence information and meeting threshold requirements, but our approach of providing clients with comprehensive templates for every step of the journey means we can make this process as seamless as possible.

Issuances

There are a number of irrevocable procedural steps that require coordination between issuer, the corporate broker and the distribution chain of a security. Collectively we have a wealth of front line markets experience that gives us a very clear understanding of what brokers need from a registrar and in turn that helps us handle issuances with a great deal of efficiency.

We communicate easily with front office and back office alike, something that is critical when brokers themselves don't always see the relationships with many registrars flowing as seamlessly as they may hope for. Our carefully structured approach is designed to make those interactions feel very familiar to the brokers' experience of secondary markets.

We also know the importance of accuracy and speed when working with issuances, but at the same time take very seriously the permanence of such instructions. With that in mind, we have automated systems to ensure the maximum levels of speed, but with built-in checks that prevent lodging securities straight into CREST on the back of issuer instructions. A requirement for our business process is to ensure each subscription is confirmed prior to its issuance, ensuring that all parties adhere to CREST rules. Ultimately, we want to smooth the process but provide the utmost confidence to every party involved.

> We know the importance of accuracy and speed

Coupons and dividends

Many equity issuers pay regular dividends to holders and the bulk of our debt issuers pay regular coupons and ultimately repay the principal (other than zero coupon bond issuers). We are well versed in processing payments to CREST securities holders but take our involvement here seriously. We ensure value is added along the way by always sending the corporate actions teams at custodians pre-advice notes, informing them on an impending payment, the ex-date, record date and anticipated payment date.

This is a timely, more thorough approach and allows the 'event' to be noted on their systems so when payment is made, that can easily be distributed to beneficial holders. Vouchers then follow once payment has been made to allow reconciliations to occur and any resultant queries from a recipient can then be easily addressed and explained in full by us.

In short, because we understand the challenges faced by brokers and custodians on a day-to-day basis, we have been able to structure our procedures to account for this. It may seem a small part of the business process, but we are committed to ensuring every stakeholder we engage with gets the very best possible service.

SAMIUL SIDDIQUE is head of Capital Markets at Avenir (www.avenir-registrars.co.uk).

AIM's role ignored in Lord Hill listing review

Lord Hill's UK listing review appears to be suggesting changes that could provide increased competition for AIM, but the junior market has managed to adapt in the past and there will still be a place for it.

Lord Hill's UK listing review does not have much to say about AIM. It does describe it as "a hugely successful growth market" but AIM is broadly ignored. The focus appears to be predominantly on the standard segment of the Main Market of the London Stock Exchange and AIM is put to one side and the relationship barely considered.

Excluding notes, AIM is mentioned seven times in the report, which is 88 pages long. This includes a suggestion that the favourable tax treatment for AIM shares should be extended to other UK markets. The report claims that the loss of incentives can currently make foreign listings more attractive when a company graduates from AIM.

There is also a suggestion that there should be flexibility, along the lines of that offered by AIM, when it comes to free float requirements.

The Financial Conduct Authority (FCA) is undertaking a consultation on the review. The UK Listings Authority is under the control of the FCA, rather than the London Stock Exchange, and this will not change.

AIM needs to be taken into account because it forms part of the portfolio of London Stock Exchange markets, and it needs to retain a defined role.

Segmentation

The High Growth Segment was supposed to be a way of attracting fast-growing companies. It was launched in 2013 and there have been two entrants since then and both were in the early days. Admittedly, Just Eat was one of those two companies and it proved a success. Matomy Media cancelled its listing late last year.

The High Growth Segment is a segment of the standard listing. It is mentioned three times in the report.

The main criteria for the High Growth Segment are a minimum market capitalisation of £300m and a free float of at least 10%. The company must be revenue generating and have historical revenue growth of 20% a year over a three-year period.

This segment has failed to attract potential entrants. That may have been due to a lack of awareness about the potential route to market.

However, online pensions provider PensionBee plans to join the High Growth Segment in April. There will be an institutional offer and an offer to eligible customers – more than 9,000 have registered so far.

Much of the argument in the report revolves around rebranding and changing the standard list. If a rebranding decision is taken the suggested names in the report should be ignored.

Changing names appears to be an obsession with some but coming up with an exciting name is the least important thing. The standard list has been successful in attracting companies because it is deemed to be a full listing, even though AIM has stricter regulations in some areas.

The standard list has successfully attracted shells and special purpose acquisition companies (SPACs), but it does not always keep them after an acquisition. For example, Nomad Holdings raised $500m in 2014 and one year later announced the €2.6bn acquisition of Iglo Foods, whose brands include Birds Eye and Findus. A few months after completion, the company moved to the New York Stock Exchange.

Flexibility appears to an important word when it comes to the proposed revitalisation of the standard list. The report says that: "Rather than setting prescriptive requirements that are rules-based, rigid and difficult to evolve over time, the feature of the newly branded segment should be emphasised as being its flexibility".

> AIM is mentioned seven times in the Hill report, which is 88 pages long.

FTSE index inclusion

Standard list companies are not included in any FTSE UK index. Currently, only premium listed companies can be included in a relevant index. AIM companies have their own index series.

The report believes that guidelines should be drawn up that would enable the inclusion of standard list companies. FTSE Russell is a subsidiary of the London Stock Exchange and it is launching a public consultation "to help

determine whether associated changes to the eligibility criteria for the FTSE UK index series should be considered".

This includes minimum free-float, dual share structures and the inclusion of standard list companies, including SPACs. The consultation should be published soon after the FCA publishes its own consultation report early this summer.

Dual share structures

Founders are sometimes frightened of losing control of a business when going public and are concerned that this will hamper longer-term decision making. The report suggests that dual share structures could be used to assuage these fears and make founders keener to float their business. This would involve having A and B shares, with the latter having greater voting rights, thereby retaining founders' control after the flotation.

There have been dual share structures in the past, but many of these companies combined their share structures many years ago. Some remain, Young & Co's Brewery is a high-profile example of a company with a dual share structure which is quoted on AIM. Aquis Stock Exchange has brewer Adnams. As this suggests, old family brewers were fond of having more than one share class with varying votes.

There is a difference, though. These older share structures are not limited by time or any other factor and have been in force for more than a century in some cases. Shareholders were not happy with companies having voting and non-voting shares or shares with different numbers of votes. That is why these structures have become rarer in the past forty years.

The report suggests that the B shares should have a time when they automatically convert into A shares. In the US, many of the high-profile companies have dual share structures when they float and some of these can last for two decades.

That is a long time for shareholders owning most of the company to have little say in its corporate governance or how it is run. It might make sense to retain the team that initially ran the company in the early days after a flotation, but as the business gets bigger a different type of management team is likely to be required.

A maximum duration of five years is recommended in the report. The holder of the B shares should have to be a director of the company and there should be limitations on votes and transfers.

There is a recommendation that the ratio of votes between the two classes of shares should be specified. This could be set at a maximum of 20:1 according to the report.

The reception for the Deliveroo flotation suggests that dual share structures are still not favoured by institutional investors. There were other concerns, but the dual share structure was a major negative for some investors. Co-founder and chief executive Will Shu has 57% of the voting rights due to the share structure.

Deliveroo floated on the standard list because of this share structure. Lord Hill is suggesting that the dual share structure should be extended to a premium listing. Institutions, though, are keen to retain the principle of one share one vote.

This means that it may be difficult to get the proposal accepted. The flipside is that it could mean that UK growth companies decide to float in the US or on another market. The poor share price performance of Deliveroo may already have had an influence on that decision.

Investor information

There is a recognition that investors need as much information as possible when it comes to choosing whether or not to invest in a company. There is a suggestion that more forward-looking information should be allowed in prospectuses. That would require amendments to liability regulations. Improved availability of research on companies is also recognised as important.

Institutions believe that small investors are important for the ongoing liquidity of a share – three-quarters of those polled in the QCA / Peel Hunt mid and small-cap review felt this. Nearly two-fifths of institutions believe that all flotations over a certain offer size should have a requirement for a certain proportion to be offered to small shareholders.

PrimaryBid is already helping to make it easier for small investors to gain access to share issues on the same terms as institutions. These potential investors have access to the draft prospectus when making a decision, but other small shareholders have little access to information.

Putting more information in intention to float and subsequent pricing announcements would help investors. Most intention to float announcements are more like corporate adverts and provide little in the way of information to enable an investment decision to be made.

Flexibility appears to an important word when it comes to the proposed revitalisation of the standard list

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	28.9	15.8
Healthcaare	15.7	10.2
Industrials	14.5	16.8
Technology	11.2	12
Financials	8.9	12
Energy	8	11.3
Basic materials	6.6	14.4
Property	3.3	2.9
Telecoms	1.7	2.1
Utilities	1	1.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1197.87	+79.8
FTSE AIM 50	6437.09	+73.5
FTSE AIM 100	5911.43	+73.9
FTSE Fledgling	11695.58	+80.1
FTSE Small Cap	6779.8	+61.9
FTSE All-Share	3831.05	+28.1
FTSE 100	6713.63	+23.1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	71
£5m-£10m	91
£10m-£25m	141
£25m-£50m	138
£50m-£100m	123
£100m-£250m	132
£250m+	121

KEY AIM STATISTICS

Total number of AIM	817
Number of nominated advisers	25
Number of market makers	47
Total market cap for all AIM	£134.5bn
Total of new money raised	£122.4bn
Total raised by new issues	£45.9bn
Total raised by secondary issues	£76.4bn
Share turnover value (Feb 2021)	£21.5bn
Number of bargains (Feb 2021)	4.2m
Shares traded (Feb 2021)	201.6bn
Transfers to the official list	193

TOP 5 RISERS OVER 30 DAYS

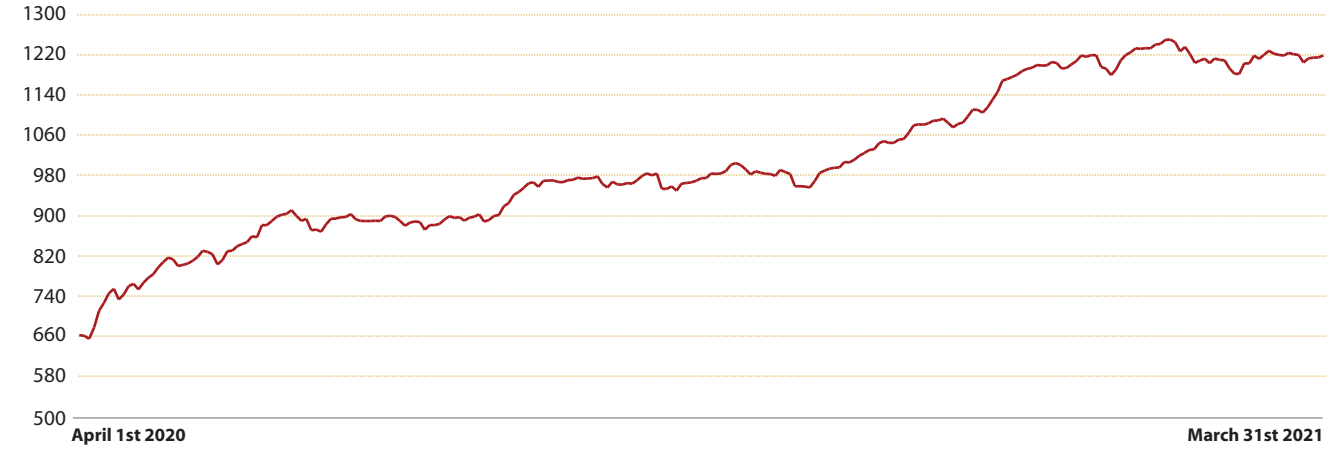
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
88 Energy Ltd	Oil and gas	4.05	+771
Futura Medical	Healthcare	50.5	+248
B90 Holdings	Leisure	13.75	+189
Webis Holdings	Leisure	5.65	+140
Echo Energy	Oil and gas	1.35	+125

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Marechale Capital	Financials	1.65	-66.7
Conduity Capital	Shell	1.05	-64.4
UK SPAC	Shell	0.225	-59.1
Simec Atlantis Energy	Cleantech	7.9	-52.1
Panthera Resources	Mining	10.5	-49

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st March 2021, and we cannot accept responsibility for their accuracy.

AIM Journal

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

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

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

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

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

AIM

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

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

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

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

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MOBILE / TEL: 07729 478 474

EDITOR: Andrew Hore

PRODUCTION & DESIGN: David Piddington

SPONSORSHIP & ADVERTISING aimjournal@hubinvest.com or telephone 07729 478 474