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AIM JOURNAL

Martin Graham plans AIM rival

Former Head of AIM Martin Graham is planning to set up a rival exchange to AIM next year in order to help new technology businesses gain investment. He is chairman and founder of CMX Capital Markets Exchange Ltd, which hopes to develop a worldwide network of angel investors in order to form a start-up fund that would operate alongside the new stock exchange.

Speaking at a meeting of start-ups and investors held in Cambridge by the St John's Innovation Centre at the beginning of September, Graham pointed to the large number of family offices around the world, which have trillions of pounds of assets. He believes that these investors would be keen to invest in early-stage companies but they find it difficult to obtain these opportunities.

CMX will help those investors to find the right opportunities by checking out the businesses on their behalf. Graham believes that having a market as well will enable the investors to exit their investments if they need to.

Graham left the London Stock Exchange in April 2009 after the appointment of Xavier Rolet as chief executive. CMX Capital Markets Exchange was formed in February this year.

HaloSource flotation pleases AIM investors

US water purification technology developer HaloSource is planning to join AIM this month and that should be good news for two existing AIM companies.

Mining and cleantech investment company Origo Partners invested $10m in the company's preferred stock in 2008 for a 16.5% equity interest.

St Peter Port Capital, which is chaired by serial investor Bob Morton, acquired its stake in HaloSource when it unwound a deal with FibreGen, which itself used to be quoted on AIM. At that time, FibreGen owned 1.2% of HaloSource but this was diluted by the 2008 fundraising. Seattle-based HaloSource has not given any indication of how much cash it wants to raise or what valuation might be put on the business. The cash from a placing of common shares will finance expansion plans, particularly in China and India. Liberum Capital is the nominated adviser and broker to the company.

HaloSource develops low-cost, anti-microbial technology for cleaning and disinfecting water. HaloSource offers four main products. HaloPure kills bacteria and viruses in drinking water and it appears that much of the cash raised in the flotation will go on building manufacturing plants for this part of the business. HaloShield uses chlorine to kill odour-causing bacteria on cloths and towels, SeaKlear helps to keep pools clean and StormKlear controls sediment from storm water and waste water.

HaloSource generated revenues of $11.8m in 2009 and expects them to increase by between 40% and 50% in 2010.

In this issue

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ASOS tries to repeat awards success

ASOS, which joined AIM nine years ago, is one of four companies up for this year's AIM company of the year award. The online fashion retailer won this award in 2008 and being nominated again so soon afterwards is unusual. This year's AIM awards are being held on 14 October 2010 at the Old Billingsgate Market in London.

ASOS, which is the eighth-largest company on AIM, is also up against the 2002 winner, wine retailer Majestic Wine. The other nominees are coal trader and miner Hargreaves Services and outsourced building services provider May Gurney Integrated Services.

Nick Robertson, the chief executive of ASOS, is also on the shortlist of the entrepreneur of the year award. He is joined by Abcam's boss, Jonathan Milner, who picked up the online antibodies retailer's company of the year award in 2009. The other candidates are Colin Bird of Jubilee Platinum and Matthew Riley of telecoms services consolidator Daisy Group, which is also up for the best use of AIM award.

The best newcomer award is contested by Bellzone Mining, Digital Barriers, Easydate and EMIS Group. All of these companies have joined AIM in the past seven months and they show that while new issues have been thin on the ground the quality has generally been good.

Shares in Bellzone have nearly doubled from their original 35p placing price in April. Cash shell turned security equipment supplier Digital Barriers is nearly 70% above March's 100p a share placing price, while Easydate is nearly 80% higher than June's 60p placing price. GP software provider EMIS is around one-quarter higher than its March placing price of 300p.

HMRC loses patience

HM Revenue & Customs (HMRC) is getting much tougher with small companies that haven't paid their tax bills and this is indicated by the administrations of three AIM companies in recent months.

Security firm Legion ran into trouble with the HMRC back in August and this provided the first signs that the HMRC was becoming less receptive to time-to-pay agreements and quicker to lodge winding-up petitions. Legion even paid £1.5m of the cash it owed in July and it says that the HMRC's attitude changed after this payment and it "became less receptive to subjecting the outstanding amount to a feasible payment schedule".

In hindsight, this appears to have been a warning signal for other AIM companies with large tax debts. Architect Archial and dental laboratories operator 1st Dental Laboratories both appointed administrators in September after the HMRC lodged winding-up petitions.

BHP pulls out of oil exploration in the Falklands

Rockhopper Exploration may have risen to further new highs in September but it has not all been good news for the Falkland Islands oil explorers. BHP Billiton has pulled out of its agreement with Falkland Oil and Gas.

BHP Billiton had a 51% interest in deepwater licences to the south of the Falkland Islands but it says that it does not want to continue with the second phase of the licences. That requires the drilling of at least one exploration well by 3 December 2015. The first phase involved the drilling of the Toroa well earlier this year, which went to a depth of 2,500 metres but failed to find oil. The Falkland Oil and Gas share price has almost halved since that disappointment.

BHP Billiton has bigger things on its mind because of its contested $40bn bid for Potash Corporation of Saskatchewan. The BHP Billiton stake reverts to Falkland Oil and Gas, taking its stake back up to 100%, as does the operatorship of these licences. Falkland Oil and Gas says it has identified a number of prospects in the licence area and remains optimistic.

Falkland Oil and Gas could not get a rig for its northern licence area so the Falkland Islands Government has granted a licence extension to the end of 2011.

Rockhopper's testing of the Sea Lion well did not go smoothly, either. A lack of equipment caused technical problems with the test. Rockhopper reckons that the well could have flowed at 4,000 barrels a day if the problems had not been encountered.

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XCAP quotation provides a base to win new clients

Recently launched AIM broker **XCAP Securities** has floated on AIM and it has been picking up new clients over the past couple of months.

XCAP joined AIM on 17 September and raised £5m at 4.5p a share. The share price had risen to 4.75p by the end of the month, which values the broker at £18.5m.

XCAP's operations cover stockbroking, market making, corporate advisory and asset management. The net flotation cash of £4.75m will provide regulatory capital and enable XCAP to build up trading books. XCAP previously raised £3.07m at 2.5p a share in a pre-IPO fundraising.

Proquote founder Daron Lee and former Evolution market maker Chris Potts were the founders of XCAP. Lee is the company's chief executive, while Potts is a consultant to the market making business. They each own more than 19% of the company. Former WH Ireland operations director Michael Frame is XCAP's finance director.

XCAP makes markets in 179 stocks and plans to increase this to more than 500 stocks in one year's time.

XCAP is broker to nine AIM companies, including itself. During September it won the joint brokerships of Pan Pacific Aggregates and Sirius Exploration. The previous month it gained the brokership of security systems and equipment supplier Westminster Group from Seymour Pierce.

The uncertainty in the smaller company broking market could provide opportunities for XCAP to add to its client list.

Elsewhere, **Panmure Gordon** is being stalked by fellow AIM broker Evolution. Qatar-based investment bank QInvest, which injected £23m into Panmure in 2009, owns around 47% of the AIM-quoted broker, so an agreed bid would appear to be needed.

Panmure's revenues fell from £28.4m to £17.1m in the six months to June 2010. Both the broking and corporate finance sides of the business reported reduced revenues. A reduction in admin expenses could not stop Panmure reporting an interim loss of £6.05m, up from £3.48m last time. Former Old Mutual Securities boss Edmond Warner has been appointed non-executive chairman.

At 30p a share, Panmure is valued at £43.6m. Cenkos has ruled itself out as a possible rival bidder for Panmure.

Fox-Pitt Kelton has changed its name to **Macquarie Capital (Europe)** following Macquarie Group's purchase of its parent company. Macquarie Capital (Europe) has become a nominated adviser with effect from 20 September.

ADVISER CHANGES - SEPTEMBER 2010

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Minera IRL	Collins Stewart	Arbuthnot	Collins Stewart	Arbuthnot	01/09/2010
African Eagle Resources	Ocean Equities/Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	02/09/2010
Chariot Oil & Gas	RBC/Ambrian	Ambrian	Ambrian	Ambrian	02/09/2001
Eastern European Property Fund	Liberum	Liberum	Liberum	Smith & Williamson	02/09/2010
Scancell	Matrix/Zeu	Zeus	Zeus	Zeus	06/09/2010
San Leon Energy	Macquarie/Arbuthnot/Fox-Davies	Arbuthnot/Fox-Davies	Arbuthnot	Arbuthnot	09/09/2010
Lonrho	Panmure Gordon	WH Ireland	Beaumont Cornish	Beaumont Cornish	10/09/2010
Sound Oil	FinnCap	Evolution/Religare	FinnCap	Smith & Williamson	10/09/2010
InterQuest Group	FinnCap/Cenkos	Cenkos	Cenkos	Cenkos	13/09/2010
Weather Lottery	Religare/SVS	SVS	Religare	Religare	13/09/2010
Millwall Holdings	Singer	Seymour Pierce	Singer	Seymour Pierce	13/09/2010
Pan Pacific Aggregates	XCAP/Matrix	Matrix	Matrix	Matrix	14/09/2010
Silence Therapeutics	Singer	Nomura Code	Singer	Nomura Code	14/09/2010
Hydro International	Arden	KBC Peel Hunt	Arden	KBC Peel Hunt	15/09/2010
Ila Group	FinnCap	Arbuthnot	FinnCap	Arbuthnot	15/09/2010
Hutchison China MediTech	Piper Jaffray / Panmure Gordon	Panmure Gordon / Investec	Lazards	Lazards	15/09/2010
Essendon	Mirabaud/Oriel	Oriel	Strand Hanson	Strand Hanson	15/09/2010
Peninsular Gold	Daniel Stewart	Astaire	Ambrian	Ambrian	15/09/2010
Brainspark	Arbuthnot	Allenby	Arbuthnot	Allenby	20/09/2010
Biofutures International	Daniel Stewart / Religare	Religare	Religare	Religare	21/09/2010
Strategic Natural Resources	Allenby / SP Angel	SP Angle	Allenby	Allenby	21/09/2010
Asian Plantations	Panmure Gordon	Mirabaud	Strand Hanson	Strand Hanson	22/09/2010
Helius Energy	Numis	Matrix	Numis	Matrix	23/09/2010
Sirius Exploration	XCAP / Daniel Stewart	Daniel Stewart	Beaumont Cornish	Beaumont Cornish	24/09/2010
Real Office Group	Cairn	Cenkos	Cairn	Cenkos	27/09/2010
Healthcare Locums	Jefferies/Fairfax IS	KBC Peel Hunt/Fairfax IS	Fairfax IS	Fairfax IS	27/09/2010
Nature Group	WH Ireland	Astaire	Astaire	Astaire	28/09/2010
RedHot Media International	Daniel Stewart /Allenby	Allenby	Allenby	Allenby	29/09/2010
Autologic	Collins Stewart	Panmure Gordon	Collins Stewart	Panmure Gordon	29/09/2010
President Petroleum	RBS Hoare Govett / Evolution	Evolution	Evolution	Evolution	30/09/2010

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company news

Public sector cost cutting should be good news for @UK

E-procurement software *www.ukplc.net*

E-procurement software and services provider **@UK** is hopeful that the government spending review in October will provide an impetus for the business. However, history shows that this is not guaranteed.

"I hope that 20 October will trigger an appetite for savings," says @UK executive chairman Ronald Duncan. Duncan knows that it will not necessarily be that straightforward, though. When @UK floated on AIM five years ago local authorities were supposed to be embracing online technology to cut costs but most of them lacked the underlying motivation to follow through with the investment. The more immediate need to save money should provide the motivation now. The company generates revenues from spend analysis and annual software licences.

The company's e-procurement platform, which makes sure agreed prices are paid for goods and eliminates paperwork and errors, already has more than one million users but revenues remain relatively modest. There are 35 local authorities and more than 100 NHS trusts signed up, as well as thousands of suppliers. One of the core parts of the business is providing e-commerce sites to those suppliers.

A deal with Barclaycard could be significant

A deal with Barclaycard means that a purchasing card can be embedded in the e-procurement system and in order to attract public sector customers Barclaycard has said that it will pay the setting-up costs. Using an embedded purchasing card has VAT advantages and some NHS trusts have already signed up. Barclaycard knows it will generate revenues from the embedded card and it will not need to send out individual plastic cards.

@UK (ATUK)	4.875p		
12 MONTH CHANGE %	+178.6	MARKET CAP £M	3.16

The company was one of the best performers on AIM in September. That was due to the announcement of its new green marketplace providing sustainability analysis and the carbon footprints of products, yet the Barclaycard deal is likely to be much more significant even if it has been slow in taking off.

Small amounts of cash have been raised from share placings in recent months. This is enough to finance short-term working capital. Breakeven is not expected until 2011-12.

GVC continues generous dividend policy

Online gaming *www.gamingvc.com*

Online gaming operator **GVC** had a busy first half, which included a change in domicile to the Isle of Man and fighting litigation with online gaming software supplier Boss. Profits fell but GVC remains a cash-generative, high-yielding business.

Net gaming revenue improved from €26m to €28.1m in the six months to June 2010. The underlying figure was flat because the South American business Betboo was not bought until the second half of 2009.

GVC increased its marketing spending on the Germany-focused CasinoClub business which helped to minimise its revenue decline.

GVC HOLDINGS (GVC)	108.5p		
12 MONTH CHANGE %	-50.1	MARKET CAP £M	33.8

Underlying EBITDA fell from £9m to £6.6m. This excludes exceptional costs of €3.31m, most of which were accounted for by redomicilation costs and one-off incentive payments to the chief executive and finance director.

Even after a 50 cents a share special dividend earlier this year, there is still cash in the bank. The interim dividend is 10 cents a share and the final will probably be the same. The strategy is to pay 75% of net cash generated in dividends. However, deferred consideration of €5.87m is payable for Betboo in October 2012 and GVC warns that it may have to pass the interim in 2012 in order to pay that.

GVC fell out with Boss because it believes the latter has made use of the GVC customer database without permission. This dispute cost €266,000 in the first half and it goes to court in October.

Trading improved in September. House broker Arbuthnot forecasts a 2010 pre-tax profit of €8.4m, down from €14m. The shares are trading on around five times prospective earnings and yield more than 15%.

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company news

Titan Europe wheels out improved trading performance

Construction and agricultural wheels *www.titaneurope.com*

Titan Europe, which manufactures wheels and undercarriages for construction and agricultural vehicles, returned to profit in the second quarter of 2010 and the improved sales trend is continuing in the second half.

There are signs that many of Titan's main markets are improving but they are still some way away from their previous levels of demand. Demand for agricultural vehicles is improving in Europe and South America – mainly for harvesting sugar cane in Brazil. There is also a recovery in the European construction vehicle market but some customers are finding it difficult to raise finance.

The North American market remains weak and it does not appear likely to improve significantly for the foreseeable future.

Revenues rose from £149.2m to £168.9m in the first half of 2010, with £95.1m of that coming in the second quarter. Steel price falls held back revenue growth but volumes increased. Undercarriages account for nearly three-fifths of revenues, with the rest coming from wheels. More than a quarter of the total revenues come from the aftermarket.

> There are signs that many of Titan's markets are improving

Titan has gone through significant restructuring and rationalisation in the past couple of years and this has enabled it to return to profit at the operating level even though it is still not covering all of its interest charges. The pre-tax loss fell from £11.4m to £2.4m, helped by a reduction in restructuring charges.

TITAN EUROPE (TSW)	68.5p		
12 MONTH CHANGE %	+106	MARKET CAP £M	56.8

There is a similar sales trend in the second half and margins should continue to improve.

Net debt remains high at £128.4m. It fell by nearly £20m during the first half but half of that was attributable to the movement of the euro.

Titan already has a strong presence in Europe, North and South America, Asia and Australia but it wants to fully globalise its business. In the longer term the manufacturing base in Europe is likely to shrink as Titan moves to locations nearer to its customers. They are increasing their capacity in Brazil, India and China, and Titan needs to follow suit. The new undercarriage factory in China has already got enough orders to cover its capacity.

Futura awaits clearance for product launch

Sexual health *www.futuramedical.com*

Futura Medical does not expect the takeover of its partner SSL by Reckitt Benckiser to hold back the launch of its CSD500 safety condom technology, which helps the maintenance of an erection.

A dossier has been submitted to the regulatory authorities but there are a number of minor things that need to be addressed. One of these is the shipping of the product from India. It is temperature sensitive so there are worries about shipments standing at the docks in the heat and losing their effectiveness. A dummy run is happening to check this. CSD500 should be launched under the Durex brand next year after the receipt of the CE mark. Tests suggest that CSD500 is even more effective than Viagra. Reckitt should make its plans for SSL/Durex clearer when it announces its third-quarter figures.

FUTURA MEDICAL (FUM)	52p		
12 MONTH CHANGE %	+62.5	MARKET CAP £M	35.1

Futura has other sexual health and pain relief treatments. Some of these are being assessed by larger partners. A development agreement has been signed with GlaxoSmithKline for the TPR100 topical pain relief technology. GSK will be spending the money on developing this treatment and will progress at an agreed speed.

The £1.32m Futura has in the bank should last more than 12 months – the first-half operating cash outflow was £468,000. Futura is minimising its development spending while it waits for CSD500 to be launched. A 1% global market share for CSD500 could generate around £2m a year for Futura. That would more than cover current annual overheads and help provide cash to invest in other treatments.

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company news

Australian acquisition boost for Northbridge's industrial rental operations

Industrial equipment rental *www.northbridgegroup.co.uk*

Patience proved a virtue for **Northbridge** when it finally secured the acquisition of Australia-based oil and gas equipment rental business Tasman during the summer.

The industrial equipment manufacturing and rental company originally tried to buy Tasman in 2008 but it could not raise the cash it needed to fund the deal.

In July, Northbridge paid A$16.8m (£9.7m) for Tasman and it raised £7m at 125p a share. Tasman generated an operating profit of A$3.5m (£2m) and revenues of A$11.5m (£6.5m) in the year to June 2010. Tasman's founder wanted to secure the management succession of the business although he will continue to run the company for the time being.

Tasman is attractive because it enhances Northbridge's product range in the oil and gas sector. It supplies smaller-scale equipment than Northbridge, such as blow-out preventers, drill pipes, and mud pumps. There are no significant synergies between the two businesses and Northbridge's focus is renting more products through Tasman.

> A full-year contribution from recent acquisition Tasman could push the 2011 profit to £5.4m

Northbridge's interim figures do not include Tasman. Revenues still increased from £6.1m to £7.83m in the first half of 2010. Pre-tax profit improved from £1.12m to £1.43m. There was no contribution from the Jabal Salab zinc project in Yemen and the contract has been terminated. Northbridge hopes to secure the minimum agreed payment from the contract. Net debt was £2.35m at the end of June 2010 but the Tasman acquisition was just after the balance sheet date. The net debt figure is expected to be £4.62m by the end of 2010. Northbridge has to continue investing in its rental fleet but if it does not make any more acquisitions that debt figure should be much lower by the end of 2011.

NORTHBRIDGE INDUSTRIAL SERVICES (NBI)	190p		
12 MONTH CHANGE %	+53.2	MARKET CAP £M	29

Northbridge is looking for more add-on acquisitions that will increase the product range. Larger equipment for niche markets would be the preference. House broker Arbuthnot forecasts a rise in full-year profit from £2.2m to £3.9m in 2010. A full-year contribution from Tasman could push the 2011 profit to £5.4m. The shares are trading on eight times forecast earnings for 2010 with a modest increase in earnings expected for 2011 because of the additional shares issued.

Solomon jumps on positive exploration results

Mining *www.solomongold.com*

Shares in **Solomon Gold** rose more than 800% in September following high-grade results from the latest assays that have been assessed for the Fauro Island gold project in the Solomon Islands.

Brisbane-based Solomon owns 100% of the Fauro Island project. These are the final assays of the exploration programme that Solomon undertook earlier this year. More than two-fifths of the sample results showed at least 0.5g/tonne of gold with some showing more than 100g/tonne.

SOLOMON GOLD (SOLG)	46.75p		
12 MONTH CHANGE %	+379.5	MARKET CAP £M	129.1

Management believes that the area has similarities to the Lihir Island deposit in Papua New Guinea and it could host a world-class gold deposit. There are further high tonnage porphyry-style targets for copper, gold and molybdenum.

Another exploration programme commenced at the end of September. This covers northern prospects at Piru and Masa Masa Islands. A valuation of £129m is pretty hefty for a business that is still some way away from production. So far the results have come from surface sampling rather than exploration drilling. One thing that has to be taken into account is the remote location of the prospect.

The Solomon share price has almost returned to the original placing price of 50p a share when it joined AIM around four years ago. Back in July, Solomon, which also has exploration interests in Queensland, raised £1.65m at 5p a share.

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dividends

Staffline surpasses its former dividend peak

Onsite recruitment services *www.staffline.co.uk*

Dividend

Outsourced temporary recruitment services provider Staffline Group has consistently paid dividends since it floated in 2004 but the 2008 total dividend was reduced from 3.8p a share to 2.9p a share because of tough trading conditions. The dividend is rising again and it is on course in 2010 to surpass the previous high.

The latest interim dividend was increased from 1.4p a share to 2.4p a share, which shows Staffline's confidence in its current trading. The total dividend for 2010 is forecast to increase from 3.1p a share to 5.5p a share. That dividend is still four times covered by forecast earnings per share for 2010. A total dividend of 5.8p a share is forecast for 2011 and that is four times covered by earnings for that year.

Little more than 18 months ago, Staffline shares were yielding more than 10% even after the reduction in dividend. The share price has risen 500% since then.

The business is strongly cash generative and net debt edged down from £5m to £4.8m at the end of June 2010, even though two acquisitions cost a total of £1.27m in the period. Bad debts remain rare because Staffline has strict credit criteria.

Business

Nottingham-based Staffline had already told the market that its interims would be much better than expected but the share price still soared on their release. Revenues rose 70% to £83.4m in the six months to June 2010. Acquisitions made a strong contribution to that growth but there was also organic growth. Pre-amortisation profit improved from £1.38m to £2.35m, helped by ongoing cost savings.

There are 135 OnSite locations where clients have Staffline employees on their premises to handle their staffing needs. Additional business is being won with Tesco and recent acquisitions brought new customers, including Ginsters owner Samworth Brothers and Cranswick. Food is an important growth sector for Staffline and most of the new contract wins have come from this area. There are also signs of a recovery in demand from the automotive and industrial sectors. This is a good time for business because companies are still cautious about the future and prefer to take on temporary rather than permanent staff.

Staffline is looking for more acquisitions in industrial recruitment, training and related areas. Changes in government funding have led to a number of training companies being put up for sale.

House broker Altium forecasts a rise in full-year profit from £3.6m to £6.7m, increasing to £7.2m in 2011. The shares are trading on less than eight times 2010 earnings.

STAFFLINE GROUP (STAF)	
Price	162p
Market Cap £m	36.4
Historic Yield	1.9%
Prospective Yield	3.4%

Dividend news

Instrumentation supplier **Judges Scientific** almost doubled its interim dividend from 1.3p a share to 2.5p a share. The percentage increase in the final dividend may be lower but house broker Shore Capital still believes that Judges is on course to increase its total dividend from 5p a share to 7.5p a share. That dividend would still be five times covered by recently upgraded full-year earnings. Judges has a strong order book and has benefited from competitive exchange rates. Shares in Judges have nearly doubled this year and have a prospective yield of 3.3%.

Asset manager **City of London Investment Group** increased its final dividend from 10p a share to 15p a share, taking the total for the year from 15p a share to 22p a share. City of London reported a 93% increase in pre-tax profit to £10.4m in the year to May 2010. The company has set 29 October as the date of its move from AIM to the Main Market. Funds under management were $5.4bn at the end of September, up from $4.38m at the end of May 2010.

Telecoms and IT recruitment firm **Networkers International** is paying an interim dividend of 0.324p a share. Last year, it paid a special dividend of 2.1p a share out of the cash from the disposal of a Middle East joint venture. At that time, Networkers declared a dividend policy of paying 25% of retained earnings. The expected total dividend for 2010 is 0.7p a share, which would be nearly four times covered by forecast earnings. Trading is better than it was in 2009 but it is some way off a full recovery. Underlying profit increased by 23% to £2.32m in the first half of 2010, while net fee income was 5% higher at £12.1m.

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expert views

Expert view: The broker

Abcam's slowing growth rate

By DR KEITH REDPATH

As growth slows, the premium that Abcam shares have enjoyed is no longer warranted and we have reduced our recommendation from hold to sell.

The online retailer of research antibodies raised £10m at 167p a share when it joined AIM in November 2005. The shares are around ten times that level now.

Antibodies are proteins produced by white blood cells when they are exposed to an antigen. Antibodies can mark and identify specific cells and proteins. Abcam offers its own antibodies as well as those produced by third parties.

Prelims precis

The full-year results were pretty much in line with our forecasts. Revenues grew from £56.8m to £71.1m in the year to June 2010. Pre-tax profit jumped from £17.4m to £25.8m but an increase in the tax rate from 23.1% to 25.6% meant that the rate of growth in earnings per share was slightly lower – from 41.5p a share to 60.8p a share. New offices were opened in Hong Kong and San Francisco.

In a key policy change, the proportion of post-tax profits to be distributed as a dividend was increased from 35% to 37.5%. The total dividend was increased from 12.11p a share to 20.03p a share. The cost of that total dividend is just over £7.2m.

However, the company added £15m to its cash pile despite the increase in dividend and we continue to wonder when this cash, now more than £40m, will be put to work. Even with the higher dividend distribution percentage, we forecast that Abcam will have net cash of £54.9m by the end of next June.

> Not unsurprisingly, Abcam cannot continue to grow organically at the rates it has done in the past

Key changes include reduced gross margins going forward and an increased tax rate. Both of these are a result of the increasing contribution to Abcam's growth from the Far East, notably Japan and China.

Margins on products in these geographies are lower and tax on locally generated earnings is higher than the standard rate of UK corporation tax. Gross margins are expected to fall from 66.7% to 65.5% in the year to June 2010. The tax rate could rise again to 26.8%.

Slowing growth

We have reviewed and refined our forecasts following the preliminary results. Not unsurprisingly, Abcam cannot continue to grow organically at the rates it has done in the past. We forecast a 2010-13 compound average growth rate in earnings per share of 14%.

That is admirable, but in the 2007-10 period earnings per share grew at a compound annual growth rate of 61%. Historically earnings growth outstripped sales growth – the compound annual growth rate of sales was 43% between 2007 and 2010 – on our analysis earnings growth will track growth in sales to 2013.

It has been argued that Abcam deserves its premium rating because of its high growth rate. Historically we have agreed. However, if our thesis of slowing top-line growth, eroding margins and increasing blended tax rates holds true, the stock should trend towards lower multiples to reflect this.

> If our thesis of slowing growth, eroding margins and increasing blended tax rates holds true, the stock should trend towards lower multiples to reflect this

Price target

We have maintained a valuation on Abcam of 23 times forecast basic earnings per share since our initiation of coverage, and it has been proven to be about right. On that multiple, after increasing our earnings per share forecast for the year to June 2011 from 67.3p to 69.8p, we raise our price target to 1386p. Albeit Abcam is a well-run company, the shares are ahead of themselves and we reduce our recommendation to sell.

We initiated our coverage of Abcam in November 2007 when the shares were 320p each. Investors who followed us into the stock at that time have seen a return of more than 400%.

DR KEITH REDPATH is a research director specialising in health care and pharmaceuticals at FinnCap

feature

Study recognises AIM's economic contribution

Grant Thornton's study of the economic impact of AIM companies shows what an important contributor they are to the UK economy and how it is crucial that AIM continues to provide finance to growing companies.

It has always been clear that AIM has been a significant benefit to the UK corporate sector but these things can be difficult to quantify. Grant Thornton was commissioned by the London Stock Exchange to produce a report on the economic benefits of AIM and it makes interesting reading.

It is estimated that AIM companies and the businesses that they trade with account for more than £21bn of the UK's GDP. They directly employ more than 250,000 people and their suppliers employ another 150,000 people. Grant Thornton even estimates that the spending by those people possibly supports a further 170,000 jobs.

Giving tax incentives for investment in AIM companies through Venture Capital Trusts and the Enterprise Investment Scheme does mean that the Treasury loses out on some potential revenue. However, the tax revenues generated from the investment in these companies can be much more than any revenue that has been forgone. Grant Thornton calculates that AIM companies contributed more than £1.8bn to UK tax revenues in 2009. Not all of that will have come as a result of tax incentives but a large chunk of it will have. The calculation does not take account of any potential tax losses or capital allowances that could be used by the companies but the real figure is unlikely to be significantly lower.

The tax forgone on VCT and EIS investment over a four-year period would be little more than one year of tax revenues from AIM companies. It is difficult to assess how much of the tax raised is directly attributable to those incentives but the continuing corporation tax revenues from those companies and the tax paid by their employees will make those forgone revenues worthwhile.

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Even the HMRC's own research has shown that more than half of the cash invested via these schemes would not have been invested in the companies without them.

Financial companies will always try to find loopholes in these schemes, which can have the effect of discrediting them in some people's eyes, but they do raise cash for the companies that need it.

Small growth

A lot of people love to moan about the number of very small companies there are on AIM. Yet the report's figures show just how much benefit these small companies can get from raising money on AIM. Firms with a turnover of less than £5m showed an average growth in turnover of more than 160% in the first year after admission. They also doubled the number of people they employed.

Larger businesses showed good growth in turnover and employment in their first year but it is more modest. Companies that had turnover of between £5m and £20m grew their turnover by an average of around 50%. The overall average is 37%.

AIM companies consistently grew much faster than other companies over most of the past decade. This trend was reversed in 2007 and 2008, when non-AIM companies grew faster. This was around the time when investment in AIM flotations started to decline, although secondary share issues were still strong until 2008.

Financing proposals

Grant Thornton sets out five proposals that will help to lower the cost of capital by making investment in AIM companies more attractive to investors.

1. Allow VCT participation in the secondary market

Venture Capital Trusts (VCTs) have to invest in new shares in qualifying companies in order to remain eligible for their tax status. If they buy existing shares of qualifying companies in the market this does not count towards the 70% of money that needs to go into eligible investments.

Grant Thornton argues that this would help liquidity in the aftermarket but not cost the government anything in lost tax revenues. The government would need to set a maximum percentage of funds that could be invested in the secondary market or else VCTs might not put enough cash into new fundraisings.

More than £3.6bn has been raised

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feature

by VCTs since 1995. VCT share issues raised £340m in the 2009-10 tax year, which is more than double the £158m raised in 2008-09. There are only four previous years when more cash has been raised by VCTs. Most of the cash did not go into AIM VCTs but many of the other VCTs do invest some of their cash in AIM shares.

2. Increase the gross assets and employees test limits for VCTs
This has been one of the key problems for AIM in recent years. The range of companies that a VCT can invest in was narrowed substantially by rule changes in the 2007 Budget. The investee companies must have no more than 50 full-time employees and gross assets of £7m or less when the money is being invested. The gross assets can't be more than £8m after the VCT investment. Prior to that change they were able to invest in companies with gross assets of up to £15m.

Grant Thornton wants the gross assets limit to go back up to £15m and employee number to go up to 250.

This is an area where EU rules impinge on what can be done. It could even be argued that the gross asset figure should be more than £15m but that might be asking too much. VCTs would be more attractive as an investment if they could invest in a wider range of companies.

3. Reduce capital gains tax for smaller companies
Grant Thornton effectively wants a return to the old CGT regime – or something similar. It wants a reduced rate of CGT for smaller companies in order to increase investor interest. The tinkering with the CGT regime in recent years has not helped AIM. The old system of taper relief on investments in 'unquoted' shares, which meant that investors paid a reduced rate on shares held for up to two years, was a big attraction to investors. This was something that differentiated AIM from the Main Market, where the companies were not eligible for taper relief. The London Stock Exchange commissioned a survey that showed that 90% of small investors felt that taper relief was a large factor when they decided to buy AIM shares.

4. Protect the benefits of IHT relief
IHT relief is an attraction to a number of investors in AIM companies and helps to add liquidity to the market. An investment in a qualifying AIM company share that is held for at least two years is not subject to inheritance tax (IHT) on the owner's death.

5. Consider making AIM shares eligible for ISAs
This would make AIM shares more attractive to small investors and increase liquidity. Grant Thornton argues that small investors are well aware of the riskier nature of AIM shares.

If AIM shares were eligible for ISAs this would at least partly cover point three because there is no CGT on gains in ISAs. Admittedly, ISAs only really cater for small investors so there would still be no CGT benefits for anyone wanting to invest a large sum.

There is a concern that by making AIM shares eligible for ISAs they could lose their other tax benefits. IHT relief is one that comes to mind because it is dependent on the shares being unquoted in tax terms, yet unquoted companies are not eligible for ISAs. It could also complicate things when it comes to the shares eligible for investment via VCTs.

AIM companies contributed more than £1.8bn to UK tax revenues in 2009

Encouraging investment

If the government put in place any of these changes it would at least send a message that it wants to encourage investment in growing UK businesses.

There are signs of increasing interest in AIM companies – at least in terms of the 21% rise in the FTSE AIM All-Share index so far this year.

New-issue activity is starting to pick up, with a steady flow of potential new entrants to AIM. October has historically been a strong month in terms of new issues and it will provide a good indication of the current situation in the market.

One of the things that should concern AIM, and the government for that matter, is that few of the new issues on AIM are UK companies. There are a number of China and India-focused businesses in the pipeline and US-based water purification technology company HaloSource. There are some UK companies but the balance is skewed towards the international companies.

AIM needs to make sure that it does not lose its UK base and concentrate too much on building up the number of international companies on the market. To fulfil its remit AIM must provide cash and a market for UK companies. It won't have a significant part to play in the recovery of the wider UK economy if most of the cash is going into overseas businesses. A balance needs to be struck.

It is still extremely difficult to obtain finance from banks, so AIM is going to be an important way of financing the growth of UK businesses and thereby growth in UK employment.

Economic impact of AIM and the role of fiscal incentives by Grant Thornton can be found at http://www.grant-thornton.co.uk/pdf/AIM_Economic_Impact_2010.pdf

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	23.8	23.9
Oil & gas	21.3	9.2
Basic materials	17.5	13
Industrials	10.7	19
Technology	8.1	9.8
Consumer services	7.3	12
Health care	4.7	5.4
Consumer goods	3.9	5.2
Telecoms	1.8	1.4
Utilities	1	1.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	782.19	+21.1
FTSE AIM 50	3177.79	+18.4
FTSE AIM 100	3577.9	+24.5
FTSE Fledgling	4229.58	+5.3
FTSE Small Cap	2978.2	+3.1
FTSE All-Share	2867.58	+8.8
FTSE 100	5548.62	+8.1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	316
£5m-£10m	179
£10m-£25m	276
£25m-£50m	181
£50m-£100m	114
£100m-£250m	96
£250m+	50

KEY AIM STATISTICS

Total number of AIM	1,212
Number of nominated advisers	62
Number of market makers	49
Total market cap for all AIM	£58.56bn
Total of new money raised	£69bn
Total raised by new issues	£33.62bn
Total raised by secondary issues	£35.38bn
Share turnover value (2010)	£18.28bn
Number of bargains (2010)	2.19bn
Shares traded (2010)	85.78bn
Transfers to the official list	147

TOP 5 RISERS OVER 30 DAYS

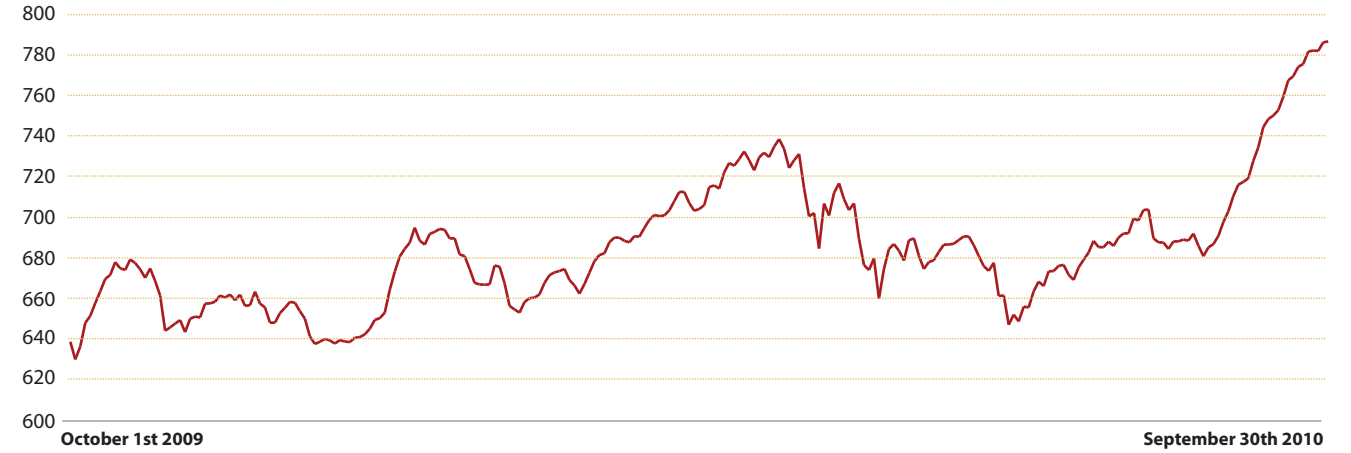
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Solomon Gold	Mining	46.75	+812.2
Davenham	Financials	1.62	+400
@UK	Software	4.88	+364.3
Triple Plate Junction	Mining	4.75	+287.8
Mobile Streams	Mobile	11	+183.9

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Wren Extra Care	Health care	1.85	-61.1
Eruma	Support services	4.62	-48.6
Environ Group (Investments)	Construction	7.25	-48.2
Phorm	Software	65	-44.7
Sterling Energy	Oil and gas	71	-40.8

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th September 2010, and we cannot accept responsibility for their accuracy.

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finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In October 2007, private client stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

In October 2010, finnCap employees and chairman, Jon Moulton, acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

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