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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Bid activity continues on AIM

AIM declined a further 3% during August, but continued takeover activity suggests that there is value on the junior market. Some companies, such as Glantus and Osirium Technologies (see page 10), have disappointed investors, but others have been successful companies where the share price has fallen back this year. Pharma software company Instem (see page 2) is an example of the latter, where a bidder has spotted value.

Instem is making good progress, but there might be short-term challenges, and the share price had declined over two years. There are other examples of share prices that have drifted lower and that have been hit by short-term concerns. Bidders and investors willing to take a longer-term view can benefit from this. For example, maritime tracking technology developer Windward has a comfortable cash position and growing annualised recurring revenues underpinning forecasts. It is moving towards breakeven, yet the share price remains depressed.

The FTSE AIM UK 50 index has performed slightly better than AIM as a whole mainly because of a 31.8% gain by healthcare IT provider EMIS, where it appears that after competition concerns the bid is likely to be allowed to go ahead. This has a much higher weighting in the narrower index.

Venus on the horizon

Venus Minerals appears to be on course for an AIM flotation in the autumn, making it one of the few new AIM admissions on the horizon. Ariana Resources currently owns 58% of Venus Minerals and it is likely to be diluted to 35%. The plan is to develop a European supply of copper for the expected increase in demand for renewable energy uses.

Venus Minerals (www.venusminerals.co) wants to raise £3m and it is currently marketing the share issue. The cash will finance further exploration of a portfolio of copper/gold assets north west of Larnaca in Cyprus. These 100%-owned assets have a combined JORC indicated and inferred resource of 17Mt @ 0.45% to 1.1% copper. That excludes gold, silver and zinc.

The focus is to push ahead with work on the Magellan project and complete a PFS by the middle of 2024. That may depend on how soon the cash is raised. The greenfield exploration on other licences will target areas similar to the Mavrovouni copper mine in Cyprus.

Ariana Resources announced that its 23.5%-owned Kiziltepe mine produced 9,646 ounces of gold in the first half of 2023 and it is still on course to produce 18,000 ounces of gold for the full year. These are gross figures.

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Instem recommends bid

Pharma software supplier Instem is recommending an 833p/share cash bid by Ichor Management, which is controlled by funds managed by Archimed SAS. The share price jumped by two-fifths to 825p on the news. The bid is still below the share price peak of 905p in September 2021. Instem is valued at £203m.

Instem joined AIM on 13 October 2010 when it raised £9.15m at 175p/share. The market capitalisation was £20m. In June 2020, £15.8m was raised at 435p/share to help finance acquisitions.

There have been previous approaches from the bidder which were rebuffed. The board believes that the current bid provides a full price and private ownership will provide greater access to capital to fund acquisitions and growth.

Prior to the bid, Instem updated the market on trading in the first half of 2023. Annualised recurring revenues reached £41m by June. Interim revenues from continuing operations should be 10% ahead at £29.7m. Newer products are yet to make a significant contribution and the short-term outlook is mixed.

Singer forecasts a full year pre-tax profit improvement from £8.2m to £8.8m. The bid is equivalent to 30 times prospective 2023 earnings. Net cash of £13.5m is forecast for the end of 2023 and there is an unused bank facility of up to £20m. Profit and cash generation are expected to accelerate. The prospective 2024 multiple is forecast to fall to 24, and then reduce to less than 19 the following year. That potential rate of growth makes the bid appear less generous. There could also be net cash of £34m by the end of 2025.

Abcam takeover

Former AIM company Abcam is recommending a $24/share bid from diagnostics company Danaher Corporation, which values the Cambridge-based life sciences research tools supplier at $4.5bn. There were more than 20 potential bids assessed before agreeing to the Danaher bid. Abcam was founded 25 years ago and joined AIM on 3 November 2005 at a market value of £57.5m at 167p/share (equivalent to 33.4p after a share split). At the end of 2022, Abcam decided to drop its AIM quotation and focus on the Nasdaq listing, which was obtained in 2021. In the six months to June 2023, Abcam revenues improved from £185.2m to £203.2m, while higher margins enabled underlying operating profit to rise from £42.6m to £54.8m.

Kinovo rebuffs undervalued approach

Rx3 Holdings made a non-binding bid approach of up to 56p/share in cash for compliance and maintenance services provider Kinovo. The Kinovo board says that it would not be able to recommend a bid at that level. Tipacs2 Ltd owns nearly 30% of Kinovo. Rx3 and Tipacs2 are both owned by Tim Scott.

Kinovo was previously known as Bilby, and it ran into problems under previous management. The new management team has turned around the business, but there is more to go for. Part of the reorganisation was selling DCB Kent, but the buyer went bust and Kinovo had guaranteed work.

Rx3 points out that there remains uncertainty due to the spending requirements relating to commitments made when DCB Kent was sold. Currently a loss of £4.3m is provided for. The total contracts are worth £18m and they will not all be completed until the end of 2025.

Canaccord Genuity forecasts a further recovery in pre-tax profit from £4.9m to £5.8m in the year to March 2024. That assumes no additional costs for DCB Kent. The proposed 56p/share bid values the company at eight times prospective 2023-24 earnings. Net cash is expected to be £300,000 at the end of March 2024, even after a cash outflow relating to DCB Kent, but if Kinovo is going to continue to grow it will need cash and any additional provisions could hold back progress. The uncertainty concerning DCB Kent will continue to hamper the share price.

At the recent AGM, shareholders voted against the special resolutions to disapply pre-emption rights generally and to disapply pre-emption rights to finance acquisitions and capital investments. There were nearly 18.6 million shares voted against, which is similar to the number of shares owned by Tipacs2. The next biggest shareholder is Ruffer with 7.06%, while Nicholas Slater holds 4.96%.

advisers

JP Jenkins links with Winterflood Securities

Matched bargains facility operator JP Jenkins is linking up with smaller companies market maker Winterflood Securities to match buyers and sellers of shares in UK growth businesses. JP Jenkins will utilise technology from InfinitX to link it with Winterflood systems. This will enable institutional investors to access shares in these growth companies.

JP Jenkins was founded in 1991 and it was behind the formation of Ofex (now Aquis Stock Exchange). It runs a matched bargains market for a mixture of companies that have dropped their AIM quotation or have never been on the London Stock Exchange or any of its markets. These companies tend to be fairly small, so that could limit the institutional interest.

JP Jenkins hopes to double the number of companies on its matched bargains market to around 100 by next year. It is hoped that companies that do not want to come to official markets will use the trading facility instead.

The companies will have to be attracted to the trading facility and it is uncertain how this will be done. Fast growth companies are talked about, but it will be interesting to see what type of company will join. The potential liquidity provided by linking with Winterflood could be the thing that will attract companies that have not been traded on JP Jenkins previously.

■ finnCap Group is changing its name to **Cavendish Financial** and the stock ticker will become CAV. This follows the merger with fellow AIM broker Cenkos Securities, which is expected to be completed by the issue of the consideration shares on 8 September.

■ **Canaccord Genuity** reported an 8% increase in revenues to C$343.3m in the three months to June 2023. The net loss was reduced from C$3m to C$268,000. Cash has fallen from C$1bn to C$600m over the quarter and the common share dividend is C$0.085. Cost savings are being made in Canada and the US and this will lead to restructuring charges of C$10m in the second quarter.

Canaccord Genuity Capital Markets year-on-year revenues decreased by 11% to C$145.7m. UK advisory revenues fell, but trading revenues were 188% higher. A loss in the UK contributed to the division's loss of C$4.1m.

Management led by chief executive Dan Daviau bid C$1.13bn for Canaccord Genuity earlier this year, but there were regulatory problems with a subsidiary. In June, the board recommended rejecting the offer. The bid was C$11.25/share and the current share price is C$8.42.

■ **Marechale Capital** fell back into loss in the year to April 2023. That is because there was a £2.72m gain on investments in the previous year, compared with a loss of £52,000 this time. Corporate finance revenues were lower and there were higher third-party commissions. The corporate finance adviser has exited its Future Biogas investment and another investment, Burgh Island, is for sale. There are unused capital losses of £770,000 to offset against any gains. Net cash was £250,000 at the end of April 2023 and £236,000 was subsequently raised at 2.25p/share.

ADVISER CHANGES - AUGUST 2023

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Steppe Cement Ltd	Strand Hanson	RFC Ambrian	Strand Hanson	RFC Ambrian	8/9/2023
boohoo	HSBC / Zeus / Jefferies	Zeus / Jefferies	Zeus	Zeus	8/14/2023
DX (Group)	Panmure Gordon / Liberum	Liberum / finnCap	Liberum	Liberum	8/14/2023
Edenville Energy	Peterhouse / Tavira	Tavira	Strand Hanson	Strand Hanson	8/16/2023
City Pub Group	Panmure Gordon / Liberum	Liberum / Peel Hunt	Liberum	Liberum	8/17/2023
Nanosynth	Peterhouse / SP Angel	SP Angel	SP Angel	SP Angel	8/30/2023

James Cropper refocuses on core, higher margin areas including advanced materials for electrolysers

Technical fibres and paper *www.jamescropper.com*

Advanced materials are becoming increasingly important for **James Cropper** and the paper making activities are being reorganised and focused on higher margin business. Electrolysers provide potential growth prospects for the future energy operations.

Steve Adams took over as chief executive in August 2022 and he is reorganising the business into four business segments, all of which will be branded with the James Cropper name. They are creative papers, luxury packaging, technical fibres and future energy. The paper business is being reorganised with the number of paper machines reduced from four to three and exceptional costs related to this will be £2.1m. There will be continuous running of the three remaining paper machines.

Shore forecasts a jump in profit

The future energy business is focused on the hydrogen market and revenues have doubled in this area contributing one-third of the revenues of the current technical fibres division. The latest technology is the TFP Hydrogen Modular Production unit, which will help accelerate proton exchange membrane electrolyser manufacturing. The coating technology enhances the durability of components.

In the year to March 2023, revenues improved from £104.9m to £129.7m, while pre-tax profit dipped from £4m to £3.2m due to cost increases and higher interest charges. The paper activities made an increased loss. Technical fibre products improved operating profit from £8.68m to £9.24m.

JAMES CROPPER (CRPR)			700p
12 MONTH CHANGE %	-32.2	MARKET CAP £M	69.3

Net debt was £16.6m at the end of March 2023, while the net pension deficit is £12.1m. Investment in capacity means that debt could increase. The dividend is 6p/share.

The paper businesses should return to profit this year. Shore forecasts a jump in full year pre-tax profit to £5.9m, rising to £8.8m next year. That could reduce the prospective 2024-25 multiple to less than ten. The company is going to continue to have an element of cyclicality when it comes to profit, but this will reduce as advanced materials become a larger proportion of the business.

Regulatory changes set to hit Eneraqua Technologies

Energy and water efficiency *www.eneraquatechnologies.com*

Eneraqua Technologies will be hit by proposed changes to net nutrient rules for developers, and this could reduce its profit by up to £2m/year. The business is doing well and the overall order book has increased to £146.3m, including a £11.3m contract with the NHS to replace old boilers with a low carbon heat pump equipment.

Eneraqua Technologies supplies and installs technology that improves energy and water efficiency in multiple occupancy social housing and commercial projects. The net nutrient rules are designed to ensure

ENERAQUA TECHNOLGIES (ETP)			78p
12 MONTH CHANGE %	-70.9	MARKET CAP £M	27.1

that new property developments do not increase nitrate emissions by reducing the amount of water used. Eneraqua's Control Flow HL2024 technology is designed to perform this service. The change to a Natural England Nutrient Mitigation Scheme could provide opportunities, but there will be continued uncertainty for the next few weeks.

The current year's figures are underpinned by contracts, with revenues expected to improve from £36.2m to £55.1m. Singer has downgraded its 2024 pre-tax profit forecast by 28% to £5m, compared with £10.1m for 2023. Even so, revenues are likely to grow to £90m. There could be a recovery in pre-tax profit to £7m in 2025.

Eneraqua Technologies joined AIM in November 2021 when it raised £12m at 277p/share. The latest news has sent the share price to a new low. There may have been an overreaction, but the uncertainty will continue until firm proposals are published by the government.

Hargreaves Services continues to grow dividend as core businesses improve their performance

Infrastructure services *www.hsgplc.co.uk*

Hargreaves Services continues to make progress with its underlying business although that is masked by the falling contribution from German associate HRMS. The shares remain at a discount to their book value.

In the year to May 2023, revenues increased from £177.9m to £211.5m, while underlying pre-tax profit dipped from £30.4m to £27.3m. That is due to the reduction in HMRS contribution from £25m to £15.5m. The mineral trader's contribution will continue to decline, but it will not fall back to the previous levels because of greater trading activity than in the past due to the addition of the carbon pulverisation and metals recycling operations. Both services and land divisions made higher profit contributions.

Discount to NAV is 10%

HARGREAVES SERVICES (HSP)			475p
12 MONTH CHANGE %	+5.6	MARKET CAP £M	154.6

The final dividend is 6p/share, taking the total normal dividend to 9p/share. The additional 12p/share dividend continues to be paid.

A potential pension buy out could cost £15m but save £1.9m/year in pension contribution. The current pension surplus is included in the balance sheet. That means that the removal of the pension asset and the cash outflow from the buy out could reduce the NAV by around £20m.

Excluding that pension related figure and intangible assets the pro forma NAV is around £175m, or 528p/share. Gains on the sale of the renewable energy assets being developed should boost NAV, but those gains will be made over a number of years.

The pension buy out could happen in this financial year. That will use up some of the cash pile, but Hargreaves Services should still have net cash of around £10m by the end of May 2023.

A further decline in pre-tax profit to £23.1m is forecast for 2023-24. Again, the core businesses should contribute at least a maintained profit. A land disposal at Blindwells worth £18.5m is due to go ahead in January, but the payment will be in four tranches. The shares are still trading at a discount of around 10%.

Tribal recovers from NTU contract setback

Educational software and services *www.tribalgroup.com*

Education software and services provider **Tribal Group** reported a 2% increase in interim revenues even though the Nanyang Technological University (NTU) project has been cancelled. Annualised recurring revenues are 3% ahead at £51.9m.

The NTU project was delayed, initially by Covid travel restrictions, and there were also cost overruns. Tribal was in dispute with NTU, which terminated the project. Provision has been made for costs of the project, but not for any costs for litigation.

TRIBAL GROUP (TRB)			45.5p
12 MONTH CHANGE %	-46.5	MARKET CAP £M	96.5

In the six months to June 2023, revenues improved from £42.7m to £43.4m with growth in education services revenues offsetting the decline in software revenues. There was a dip in professional services revenues, which was caused by the lack of work on the NTU project compared with the year before. Elsewhere, revenues continue to improve except in support and maintenance, where there was a slight dip. There was a reduction in revenues from a contract with the Australian Depart of Education. Underlying, pre-tax profit recovered from £4.45m to £6.25m.

The NTU project is still the subject of dispute, but there will be no more non-legal costs. Second half trading is expected to be better and pre-tax profit is forecast to recover from £3.7m to £9.1m, before falling to £8.4m as the Australian contract is completed. Further contract wins are required to return to growth. The dividend is likely to be unchanged at 0.65p/share.

Concurrent Technologies expands addressable market through acquisition of US rugged systems manufacturer

Embedded computing *www.gocct.com*

Ruggedised embedded computer products developer **Concurrent Technologies** is starting to benefit from the changes put in place by the new management team and it is making its first significant acquisition, that will enhance growth in the US market. The US government and other customers like to buy products that are seen to be manufactured in the US.

Chief executive Miles Adcock joined the board in 2021. He reviewed strategy and made changes to management. New products are being developed and commercialised more quickly. Concurrent Technologies is also moving up the value chain by offering systems that combine many plug-in cards and this is where the US business fits in.

Concurrent will expand US capacity

CONCURRENT TECHNOLOGIES (CNC)			70p
12 MONTH CHANGE %	-17.3	MARKET CAP £M	52.5

Concurrent Technologies is acquiring the aerospace and military divisions of Phillips Machine & Welding Company for $3.375m (£2.64m) in cash and shares. It supplies rugged systems that use plug in cards sourced from Concurrent Technologies. This market is expected to treble to $6.9bn by 2033. The customer base already includes Boeing, Northrup Grumman and Raytheon.

A placing raised £6.5m at 65p/share. A retail offer raised a further £300,000 and was oversubscribed. The additional funds will be spent on expanding the US production capacity in California and investing in product development and sales for the original business.

A trading statement in July revealed interim revenues were three-fifths higher at around £12m and pre-tax profit will be around £1m. The order backlog increased to £29m. The supply chain is improving, but waiting times for components remains relatively high. At that time, Cenkos upgraded its 2023 pre-tax profit forecast from £2.7m to £3.5m. A 2024 pre-tax profit of £3.9m was estimated. There has been no updated forecast, but the acquisition will provide further opportunities for the company.

Flowtech Fluidpower sets out performance improvement plans

Power systems distributor *www.flowtechfluidpower.com*

Power and control systems distributor **Flowtech Fluidpower** reported a decline in profit in the first half of 2023. New management is setting about improving the performance of the business and the benefits could show through next year.

The new chief executive Mike England published a plan for near-term performance improvement that should make the operations more scalable. There are also plans to trade under a single brand and grow revenues by increasing the size of the addressable market. Marketing and digital capability will be extended and there will also be a focus on improving customer service.

FLOWTECH FLUIDPOWER (FLO)			92p
12 MONTH CHANGE %	-22.6	MARKET CAP £M	57.8

In the six months to June 2023, revenues improved 3% to £59.1m, but pre-tax profit fell from £3.1m to £1.6m. Cost increases were only partly offset by savings. Net debt decreased from £16m to £15.4m over the period.

The services business increased its profit contribution offsetting some of the declines in the other two divisions. The main problems have been in the product distribution division, particularly in the UK, where there has been disruption as five businesses have been integrated. This is the highest margin business so the dip in revenues had a significant effect on profit.

Liberum forecasts a slump in underlying full year pre-tax profit from £7.4m to £4.6m on flat revenues, which is slightly lower than the forecast prior to the interims. Next year a profit recovery to £8.5m is anticipated, which would put the shares on nine times prospective earnings with potential for further recovery. Investors are likely to want more reassurance that Flowtech Fluidpower can achieve these forecasts.

Profit fall will not hit James Latham dividend

Timber distributor *www.lathamtimber.co.uk*

Dividend

Hertfordshire-based James Latham has been a consistent dividend payer. The shares were traded on the Main Market from 8 March 1965 and switched to AIM on 31 December 2004. The total dividend for 2004 was 4.51p/share.

There have been special dividends on top of normal dividends. The total dividend in 2007-08 was 8.6p/share, but that was reduced to 6.25p/share in 2008-09. By 2010-11, the dividend was back up to 9.25p/share. By 2022-23, the total dividend was 28.05p/share and there was also a special dividend of 8p/share.

A total dividend of 28.5p/share is forecast for this year. That would be 3.4 times covered by forecast earnings.

Business

James Latham started importing hardwoods into Liverpool in 1757. The product range has widened to include panel products, joinery quality softwoods and hardwood flooring and they are sourced from around the world. Newer products include Honext, which is manufactured from recycled paper pulp. Subsidiary Advanced Technical Panels is the leading distributor of overlaid and pre-finished panels in the transport, access tower and playground sectors. There are 14 trading sites in the UK and Ireland.

The experienced management team enabled James Latham to negotiate the tough trading conditions in recent years. Relationships with suppliers have helped secure products at a time when there have been difficulties in the supply chain, particularly when replacing supply from Russia and Ukraine.

Trading has peaked. The construction market has been hit by higher interest rates and inflation. This has hit demand and the market volumes are falling. Gross margins had risen to short-term highs, but they have fallen back, while distribution costs are rising.

JAMES LATHAM (LSE: LTHM)	
Price (p)	1105
Market cap £m	222.8
Historical yield	2.5%
Prospective yield	2.6%

In the year to March 2023, revenues improved 6% to £408.4m, with a 5% increase in like-for-like volumes, although second half revenues were lower than those in the first half. Pre-tax profit slipped 23% to £44.5m.

The strong cash position enables the continued growth in dividends and the occasional special dividend. There was £62.6m in the bank at the end of March 2023. This provides fire power for acquisitions.

In the latest trading statement, James Latham reports a 12% decline in revenues to £128m for the first four months of the financial year. Commodity prices are declining with average prices down 2% over the period. There has been a shift to lower cost options by some customers.

SP Angel forecasts a reduction in full year revenues to £374.8m, while a higher tax rate means that earnings are expected to slump from 179.2p/share to 96.2p/share. Net cash could rise above £70m as inventory levels fall with the supply chain gets back to normal.

The shares are trading on 12 times prospective earnings. There is scope for a significant recovery in profit when the economy improves.

Dividend news

Somero Enterprises is maintaining its interim dividend at 10 cents/share despite the slump in pre-tax profit from $22.4m to $15.6m. Revenues declined in North America as construction projects were delayed, more than offsetting growth in other parts of the world, with group revenues 14% lower at $58.9m. High interest rates are likely to continue to hamper development activity. Management still believes the concrete levelling equipment supplier can achieve a full year pre-tax profit of $32.5m, down from $42.3m. finnCap forecasts the total dividend could be reduced from 35.5 cents/share to 27 cents/share. Net cash of $32m is expected at the end of 2023.

Pawnbroker **H&T** was held back by the need to clear slow moving jewellery stock in the first half of 2023. Even so, interim revenues increased from £77.8m to £101.7m, while pre-tax profit improved from £6.72m to £8.75m, helped by a lower impairment charge. All the main divisions increased their revenues, but there was a lower gross profit contribution from retail. The interim dividend was raised by 30% to 6.5p/share. The 2023 pre-tax profit forecast was trimmed from £32.5m to £29.5m because of lower retail profit and higher finance costs. The dividend is set to grow from 15p/share to 21.5p/share.

Camellia is maintaining its interim dividend at 44p/share even though it remained loss making in the first half of 2023. The underlying pre-tax loss for continuing operations was reduced from £17.6m to £12.5m. There was an increased operating loss by the agricultural operations. The engineering business made a smaller loss. The associates contributed a profit, although the stake in BF &M is being sold for $100m. Net cash was £26.8m at the end of June 2023. The second half is more important for the agricultural operations. The 2023 revenues are likely to be flat at around £297m and there will be a loss.

Expert view: Registrars

Why parallel registry systems offer a charter for digitisation success

By Hardeep Tamana

Last month we looked at the risks posed by the direction of travel the digitisation taskforce's interim review appeared to be taking. Securities certification and the historical rights associated with that form an inherent part the democratic values associated with investing in the UK.

As it stands the proposals all appear to be taking a distinctly binary approach, an irony which cannot be overlooked given this reform is being driven by the ability to leverage the benefits that come with modern, electronic, share registers. So is there a way of providing issuers and investors with a comprehensive choice, that delivers the long overdue flexibility of a flexible register whilst still reflecting the needs of what appear to be some fairly sizable minorities?

Whilst we can agree that change is long overdue to ensure efficiencies can be recognised at every step of the way, at Avenir we already have the technology available to offer investors and issuers the choices that they need to ensure that the symbiotic relationship they have shared for years can be maintained. The key reason we can offer this is the fact that our technology has been built from the ground up over the last decade. We haven't been encumbered by legacy systems which have been gradually adapted and enhanced as IT infrastructures – and volumes of data – have both grown.

What that means is that we already have systems configured which can operate Centralised Securities Depositary, a Corporate Sponsored Nominee, a Digital Register and Certificated System holdings concurrently. One master register that issuers and investors alike can interact with in a way that suits their needs whilst also achieving the long overdue digitisation of record keeping. This isn't an abstract concept or an MVP, we have the technology at our disposal today. Suggestions that this multi-faceted approach is impossible to deliver has to be questioned.

> Avenir already has the technology available to offer investors and issuers the choices that they need

There also needs to be a focus on enabling legislation. There are entire parts of the Companies Act 2006 that compel postal communication. This needs to be addressed to favour digital record keeping and communications. The reforms proposed are silent on the extent to which digitisation would extend private companies and it is important to consider a joined-up approach that allows scaling from start-up to IPO and ongoing fund raising.

Who should pay?

One key issue is also, who foots the bill? Whichever pathway adopted end users (the issuers and holders) will face a cost burden but even in this case democratising the approach appears to be most cost efficient, though some market participants may need to upgrade systems and then migrate the accompanying records at scale.

All parties stand to gain from an open market approach to digitisation, in the long term, from the reduced administrative burdens and processing times, higher quality access to registers for the issuers, more convenience – and potentially reduced holding costs - for investors. The approach that allows for a choice of holding methods, with an emphasis on digital channels, would make the UK that much more attractive as a capital raising venue mean the beneficiaries here are widespread.

This reform has the potential to be the "big bang" moment for securities registry in the UK. But it is no small feat. Back in 1986 when the operations of the London Stock Exchange were overhauled, the preparation work took seven years and cost many millions of pounds to deliver. Whilst the overhaul of the registry system certainly isn't as challenging, these numbers underscore the sheer cost and complexity of large scale reform.

More can certainly be done to give issuers and holders the ultimate choice when it comes to how securities are held and they are represented on the shareholder register. Big spending by central government on overhauling the financial system is unlikely to be much of a vote winner, but with financial services such a big contributor to the UK economy and there being no escaping the fact that the London market continues to contract on a global basis, suitable incentives need to be on offer. Taking shortcuts here will serve no one well in the longer term.

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

AIM's tenth anniversary of ISA eligibility

The tenth anniversary of the inclusion of AIM-quoted shares in Individual Savings Accounts (ISAs) was on 5 August. This helped to grow trading activity by smaller investors and improve the liquidity of individual shares.

A decade ago, AIM shares attractions were further enhanced by their eligibility for Individual Savings Accounts (ISAs). AIM shares already had tax benefits, the most significant being business property relief, which enables investors who hold eligible AIM shares for more than two years to pass them on to beneficiaries on their death without incurring inheritance tax (IHT) charges. However, not all AIM shares are eligible for business property relief, and it is not necessarily what an investor is interested in. ISAs provide immediate tax benefits for investors, whatever age they are.

The Quoted Companies Alliance (QCA) has published 'Ten years of AIM and AQSE shares in ISAs: A small change with a big impact'. Shares quoted on the Aquis Stock Exchange are also eligible. The QCA is highlighting the benefits of the move, which it had lobbied for.

Liquidity

There was certainly an immediate upturn in trading after AIM shares became eligible for ISAs. The value of trades on 5 August 2013 was £123.3m, nearly £50m above the previous day's level. On 5 August 2014 the value of trades was £116.8m.

For the first 12 months, the average daily number of trades in each month was higher than the corresponding period in the previous year. The level of trading in early 2013 was much lower than in the same period of 2012. Even comparing each month between January and July in 2014 with the same months in 2012, there is only one month where there is not an improvement. That is February, because in 2012 the average number of daily trades was 29,736, compared with 26,096 in February 2014 and 18,630 in February 2013. The same trends are true in terms of average daily trade volumes.

Since then, the average daily trades peaked at 80,267 in 2021 and, even though trading has been relatively week, the average for 2023 up until July was 42,234.

The value of trades on 5 August 2013 was £123.3m, nearly £50m above the previous day's level

Over the past decade, the number of AIM companies has fallen by more than one-quarter to 788 at the end of July. Even so, the market capitalisation of AIM of £85.6bn is higher than one decade ago.

ISA

Figures published by the QCA show that stocks and shares ISAs have significantly increased in value since 2012-13. There has been a small increase in the value of cash ISAs up until 2020-21, although that figure is lower than the previous tax year, which could reflect some switching from cash to shares. Innovative finance ISAs hardly register when it comes to the total value of ISAs, although the new subscriptions to this newer form of ISA have been more substantial in recent years.

What shares are being bought in ISAs is not trackable. An increase in the value of ISAs does not directly mean that there is more investment in AIM shares. It will have certainly helped in the growth in total values, though.

Anne Fairweather, head of government affairs and policy at Hargreaves Lansdown, is quoted as saying that around 4% of Hargreaves Lansdown ISA clients held AIM shares after they became eligible for the tax perk. The figure reached nearly 10% by 2014. This has increased to 15%, although that is down from just under 18% in 2021. That reflects the poor performance of AIM and investors potentially switching to larger companies that are deemed to be safer investments.

Even so, these figures do not show the percentage of the value of the ISA portfolio invested in AIM shares. Trading levels on AIM are weak and there could be a further decline in AIM shares in ISA in the short-term. However, the appetite for AIM and other smaller companies will return and this is the time to be seeking out opportunities with growth prospects and potential for increasing income.

AIM cyber sector bid activity

Osirium Technologies is the latest cyber security company to succumb to a bid at a share price well below its high. This provides a warning to investors not to get too excited by fashions and long-term potential that companies do not have the resources to take advantage of.

Osirium Technologies is the latest cyber security company to be taken over. At one time this was a sector that excited investors, but disappointing performances have meant that the companies are out of favour. In part, that is due to their cost bases being expanded rapidly ahead of expected growth which was never achieved.

The sector provides a warning to investors not to chase up share prices when they are in fashion. Market capitalisations can increase to levels that are never going to be realistic unless the timeframe is measured in a decade or more. If there is not sufficient funding, then these companies will not be able to achieve hoped for growth.

Bids

SailPoint Technologies UK is bidding 2.35p/share for Osirium Technologies, which may be nearly double the previous market price, which was an all-time low, but it is well below the share price peak of 201p during the 4 May 2016, less than one month after it joined AIM via a placing at 156p/share.

The bid values the cyber security company at £3.11m. When it floated Osirium Technologies was valued at £18m after raising £4m.

SailPoint Technologies believes that the business will fit well with the SailPoint Identity Security Platform. A unified platform will be developed for securing privileged and non-privileged identities for customers and there will be enhanced regional opportunities.

This follows the takeover of ECSC. Daisy Group made an agreed 54.02p/share, that valued the cyber security services provider at £5.4m. ECSC joined AIM at the end of 2016, when it raised £5m at 167p a share. The ECSC share price peaked at above 500p. Just like Osirium Technologies, ECSC was trading at its all-time low prior to the bid.

Francisco Partners II is making a recommended cash offer of 223p/share for e-waste and data erasure company Blancco Technology Group. The share price has not been as high as the bid for 18 months. Blancco is a much better financed and larger company than the other two. Even so, Blancco management believe that a backer with cash to invest and experience of growing technology companies will help to expand the business.

> The bid values the cyber security company Osirium Technologies at £3.11m and when it floated in 2016 it was valued at £18m

Cyber security

High profile cyber attacks bring the risks even more to the fore for organisations and alert investors to opportunities. The use of networked computers enables problems to spread and increased home working adds to the potential challenges. As technology continues to rapidly develop the cyber security needs to as well.

Back in 2015, the TalkTalk hack brought cyber security to the attention of people and a ransomware attack in the UK and other countries brought it back to attention five years ago.

Both Osirium Technologies and ECSC floated on AIM after the TalkTalk hack. There were other companies, such as Falanx and Corero Network Security that have been quoted longer and their share prices have also fallen. The weaker share prices make it more difficult to grow by acquisition.

There are some brighter signs. Cybersecurity firm Shearwater Group is another company that has been disappointing, but it believes that market conditions are becoming more favourable.

Crossword Cybersecurity is improving margins and interim revenues were £1.9m. Annualised recurring revenues are £2.7m. Management believes the cyber security company can achieve revenues of £6m in 2023 and £8m in 2024. The company is raising cash from a five-year, convertible loan note of up to £2.015m – shareholders have agreed to up to £2.5m of loan notes being issued. This will fund sales and marketing, plus product development. This could lead to cash breakeven in the second half of 2024.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	24.6	16
Industrials	18.1	16.9
Technology	14.9	12.9
Financials	11.9	10.8
Health Care	9.8	10.1
Basic materials	8.2	15.3
Energy	7.3	10.7
Utilities	1.8	1
Telecoms	1.8	1.6
Property	1.5	2.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	740.79	-16
FTSE AIM 50	3962.03	-17.9
FTSE AIM 100	3529.18	-16.2
FTSE Fledgling	10401.7	-14.7
FTSE Small Cap	6094.06	-4.3
FTSE All-Share	4063.59	+1.3
FTSE 100	7447.83	+2.1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	128
£5m-£10m	91
£10m-£25m	160
£25m-£50m	104
£50m-£100m	105
£100m-£250m	115
£250m+	85

KEY AIM STATISTICS

Total number of AIM	788
Number of nominated advisers	26
Number of market makers	21
Total market cap for all AIM	£85.7bn
Total of new money raised	£133.6bn
Total raised by new issues	£47.9bn
Total raised by secondary issues	£85.7bn
Share turnover value (Jul 2023)	£31.5bn
Number of bargains (Jul 2023)	6.27m
Shares traded (Jul 2023)	466.1bn
Transfers to the official list	201

TOP 5 RISERS OVER 30 DAYS

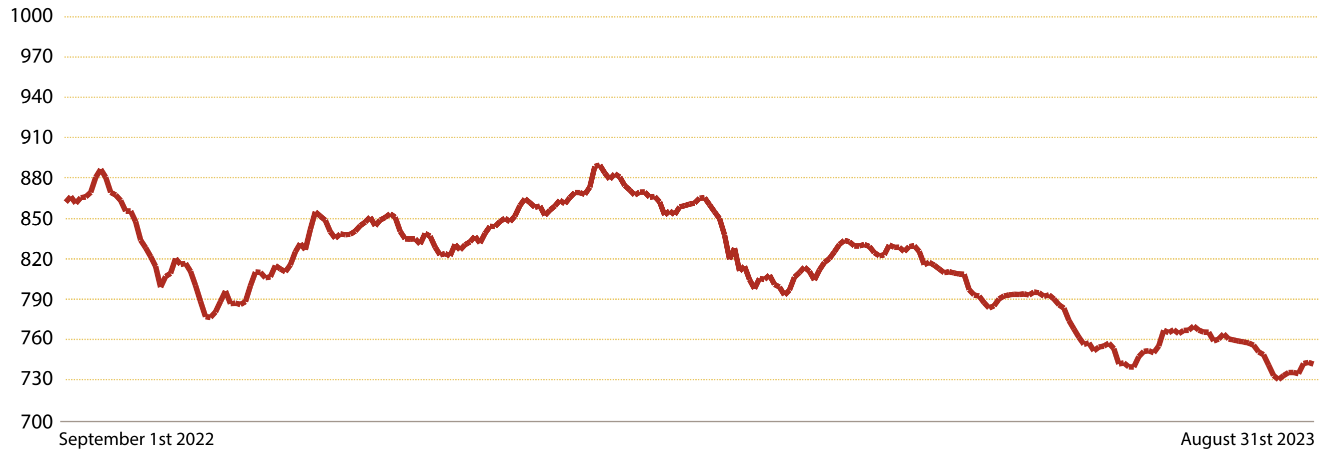
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Beacon Energy	Oil and gas	0.1975	+139
Pantheon Resources	Oil and gas	25	+131
Orcadian Energy	Oil and gas	5	+122
Plexus Holdings	Oil and gas	8.375	+107
Light Science Technologies	Cleantech	2.5	+88.7

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Deltex Medical	Healthcare	0.19	-84.2
Fulcrum Utility	Infrastructure	0.185	-77.6
Ovoca Bio	Healthcare	2.75	-66.7
Sondrel Holdings	Electronics	21.4	-63.7
Pelatro	Media	1	-62.7

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st August 2023, 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 downloaded from the website www.AimJournal.info/archive.

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

AIM

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

More than 3,800 companies have joined AIM since then, although it should be remembered that some of these are the same companies readmitted after a reverse takeover. These companies have raised more than £134bn 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 in the FTSE 100 that started on AIM include online gaming operator GVC, engineer Melrose Industries and student accommodation developer Unite Group. Healthcare properties investor Primary Health Properties, self-storage firm Big Yellow, animal genetics provider Genus, and online gaming technology developer Playtech are FTSE 250 index constituents.

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