

MAY 2013

# AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

## Smart meter delays

A further delay to the roll-out of smart meters to the domestic market is bad news for Bglobal and Smart Metering Systems (SMS), although Bglobal says that the news is in line with its expectations. Energy Secretary Ed Davey says that the smart metering project will commence in the autumn of 2015 rather than the summer of 2014. Davey argues that the industry requires more time to design and test the communications infrastructure. This means that the roll-out will not be completed until 2020.

There could be more than 50m meters that need to be installed over the coming years. Smart meters are already being

installed but the rate of installation remains disappointing. Smart meters installer Bglobal has already admitted it made a loss in the year to March 2013. Previous delays in smart meter roll-outs have held back its progress and it has tried to diversify its activities into additional services.

SMS is focused on gas meters and has a wider spread of activities than Bglobal but the delays will still be a disappointment. The smart meter roll-out has already started in the industrial and commercial markets but the smaller commercial customers have the choice to be included in the domestic roll-out.

## GW Pharma Nasdaq listing

Cannabinoid-based treatments developer GW Pharmaceuticals has joined the Nasdaq Global Market, with trading commencing on 1 May. GW raised \$31.2m (£20.5m) in an offer of American Depositary Shares (ADSs) at \$8.90 each. That is equivalent to just over 49p a share.

There is a strong appetite for biotech investment in the US and the cash raised will help to finance further trials for GW's treatments. The additional cash gives GW pro forma cash of around £42m and Edison estimates that it will still have £33m in the bank at the end of 2014.

Otsuka is GW's partner in the US. GW's main drug, Sativex, is in phase III trials

in the US for the treatment of cancer pain and the results of these trials should be reported during 2014. This will provide additional interest for the US investors. Even before these trials, Edison estimates a discounted cash flow valuation of 101p a share (\$18.90/ADS).

GW has received approval for the commercialisation of Sativex in Italy. The authorisation is for the "treatment of moderate to severe spasticity in Multiple Sclerosis (MS) patients who have not responded adequately to other anti-spasticity medications". This triggers a €250,000 milestone payment to GW.

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## general news

### Hydrodec refines US model with new partner

A strategic partnership with a major US-based electricity transformer oil recovery business will propel used transformer oil refiner Hydrodec nearer to profitability in the medium term by helping it to scale up its US operations. Edison believes that Hydrodec could move into profit in 2015 and this model could form the basis of geographic expansion.

The deal involves Hydrodec transferring its existing US refinery operations in Canton, Ohio, into a new holding company where it will own 50.1% and its partner, G&S Technologies, will own the rest. G&S will pay around \$7m for its stake, although the final figure is dependent on performance in 2013. G&S will provide a ready supply of used transformer oil for processing based on the prevailing market price, although third-party oil can also be procured, and plant

utilisation will improve from 72%.

Hydrodec will receive a recurring royalty of 5% of North American revenues from re-refined SUPERFINE branded oil. That was equivalent to \$700,000 in 2012. This will be a useful cash contribution to cover group overheads.

The new holding company will also seek a site for another refinery. The plan is to expand capacity by 140% to 65m litres a year by 2015. That is equivalent to 15% of annual US transformer oil consumption. Hydrodec's share of this investment will be funded from the sale proceeds.

Hydrodec has ended its strategic alliance in Japan because of the slow progress made. It has resumed exclusive ownership of the technology and Japanese patent and will look to licence the technology.

### Small cap winners

Rail optimisation software and services provider Tracsis was named company of the year at the inaugural Small Cap Awards. Post office software supplier Escher Group was given the accolade of international company of the year, while David Baynes, the boss of university IP commercialisation company Fusion IP, was named executive director of the year. Compliance-based information management software provider Ideagen's acquisition of Proquis at the beginning of 2012 was deemed to be transaction of the year. Judith Mackenzie of Downing was given the small cap fund manager of the year award. Fund manager Patrick Evershed received the main honour of the evening when he was named as outstanding small cap hero. This is given to the individual who has consistently supported the small cap markets and companies.

### Numis Smaller Companies Index shows AIM lagging in first quarter

Smaller companies have outperformed their larger counterparts in the first quarter of 2013, according to the latest Numis Smaller Companies Index (NSCI) figures. All sizes of company performed strongly in the period. However, AIM companies have not performed as well as their Main Market counterparts.

The index excluding investment companies increased by 11.8% in the first quarter of 2013 and this represents a 2.5% outperformance when compared with the FTSE All Share index. If AIM companies are included then the increase is 9.2%, which is

broadly in line with the FTSE All Share. This follows a strong performance in 2012 when the index including AIM outperformed the FTSE All Share by 11.2%, although this was still well below the 18% outperformance achieved when AIM was excluded.

The smallest companies in the index are slightly outperforming their larger counterparts. Over a five-year period the small companies have done better by around 1% compound per annum. There has been little difference, though, in the first quarter of 2013. Those companies with the most positive momentum going into 2013 have performed particularly well.

Interestingly, the trailing PE for the NSCI excluding investment companies is 13.6, which is not much lower than the PE of 13.9 times for the overall market. This is a discount of 2%, compared with a 30-year average discount of around 7%. These are historical figures and do not take account of potential profit growth for smaller and larger companies.

The index is compiled by Professor Paul Marsh and Professor Elroy Dimson of London Business School, and has been published since 1987, with data going back to 1955. The long-term average outperformance has been 3.6% per annum.

## advisers

# UBS gives up nomad status

Investment bank UBS has relinquished its role as an AIM nominated adviser while Numis has reported strong interim results.

UBS asked for its nominated adviser status to be removed and this happened on 8 May. UBS has not been particularly active on AIM in recent years so it is no great surprise that it no longer requires its nominated adviser status. Its most high profile activity in recent times was as the adviser to the bidder for Africa-focused oil and gas company Cove Energy. UBS was nominated adviser to investment manager Charlemagne Capital but it was

replaced by Singer in January 2011 and it stepped down as joint broker two years later.

Numis reported a jump in interim revenues from £23.3m to £32.4m, with all areas of the business increasing their contribution. Most of the growth came from institutional investor income and corporate transaction fees but corporate retainers were also higher. Staff costs rose but other costs were reduced. The underlying profit jumped from £2.6m to £9.2m. The balance sheet is strong, with net cash of £54.8m at the end of March 2013, up from £35.8m six months earlier.

Numis is not purely focused on AIM

and much of the improvement came from its three Main Market flotations. Numis had 59 AIM clients at the end of March and since then it has added Caledonia Mining Corporation and Avacta to the list.

AIM adviser VSA Capital Group has gained shareholder approval for leaving AIM, although it only just achieved the majority it required. VSA needed 75% of the votes at the general meeting and it ended up with 77.6%. The rebels mustered 6.55m votes, which is 13% of the company's share capital and 22.4% of the shares voted. VSA left AIM at the end of April.

### ADVISER CHANGES - APRIL 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
<b>Ultrasis</b>	finnCap/Marshall	Srand Hanson/Marshall	finnCap	Strand Hanson	02/04/2013
<b>African Eagle Resources</b>	Ocean	Canaccord Genuity/Ocean	Strand Hanson	Canaccord Genuity	04/04/2013
<b>Independent Resources</b>	Charles Stanley	Charles Stanley/ Seymour Pierce	Charles Stanley	Seymour Pierce	05/04/2013
<b>International Greetings</b>	Cenkso	Cenkso/Arden	Cenkso	Cenkso	05/04/2013
<b>Nakama Group</b>	WH Ireland	Seymour Pierce	WH Ireland	Seymour Pierce	05/04/2013
<b>Northacre</b>	finnCap	Daniel Stewart	finnCap	Daniel Stewart	08/04/2013
<b>Magnolia Petroleum</b>	Northland	Northland/Daniel Stewart	Cairn	Daniel Stewart	10/04/2013
<b>TomCo Energy</b>	Fox Davies	Numis/Fox Davies	Fox Davies	Numis	10/04/2013
<b>CAP-XX Ltd</b>	Cenkso	Seymour Pierce	Cenkso	Seymour Pierce	11/04/2013
<b>Mwana Africa</b>	Liberum/Peel Hunt	Liberum	Liberum	Liberum	11/04/2013
<b>Vatukoula Gold Mines</b>	Daniel Stewart/ WH Ireland	WH Ireland	WH Ireland	WH Ireland	11/04/2013
<b>UMC Energy</b>	Shore/HD Capital	HD Capital	Strand Hanson	Strand Hanson	12/04/2013
<b>Black Mountain Resources Ltd</b>	Westhouse/XCAP	XCAP	RFC Ambrian	RFC Ambrian	15/04/2013
<b>1Spatial</b>	N+1 Singer	Mirabaud	N+1 Singer	Strand Hanson	16/04/2013
<b>Infrastructure India</b>	Peat/Smith & Williamson	Smith & Williamson/ Investec	Smith & Williamson	Smith & Williamson	16/04/2013
<b>SocialGO</b>	Northland	First Columbus	Northland	Deloitte	17/04/2013
<b>Caledonia Mining Corporation</b>	Numis/WH Ireland	Canaccord Genuity	Numis	Canaccord Genuity	18/04/2013
<b>Coms</b>	Simple Investments	XCAP	Grant Thornton	Grant Thornton	22/04/2013
<b>Paragon Diamonds Ltd</b>	Sanlam/Fox Davies	Fox Davies	Fox Davies	Fox Davies	22/04/2013
<b>Serabi Gold</b>	Peel Hunt/Fox Davies	Fox Davies	Beaumont Cornish	Beaumont Cornish	22/04/2013
<b>Avacta Group</b>	Numis	Panmure Gordon	Numis	Panmure Gordon	23/04/2013
<b>Kedco</b>	Shore	N+1 Singer/SVS	Shore	Deloitte	23/04/2013
<b>Celtic</b>	Canaccord Genuity	Seymour Pierce	Canaccord Genuity	Seymour Pierce	25/04/2013
<b>HydroDec Group</b>	Peel Hunt	Numis/Cenkso	Peel Hunt	Cenkso	25/04/2013
<b>Altitude Group</b>	WH Ireland	Sanlam	WH Ireland	Sanlam	26/04/2013
<b>Noida Toll Bridge Co</b>	Libertas	Canaccord Genuity	Libertas	Canaccord Genuity	26/04/2013
<b>Tissue Regenix Group</b>	Jefferies	Peel Hunt	Jefferies	Peel Hunt	29/04/2013
<b>Falkland Oil and Gas Ltd</b>	RBC/Jefferies Hoare Govett	Jefferies Hoare Govett/ Oriol	RBC	Oriel	30/04/2013

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## company news

# Price cuts fuel international growth but ASOS distribution costs increase

Online fashion retailer

www.asosplc.com

Cutting prices by an average of 9% proved a successful strategy for online fashion retailer **ASOS** as revenues grew in all of its main markets. However, distribution costs have been growing much faster than revenues in the US and the rest of the world.

Providing additional service and next day delivery is costly and that is pushing these costs higher. In the US revenues rose from £23.1m to £35.6m but distribution costs more than doubled from £5.67m to £12.6m, which is higher than the UK distribution costs where revenues were £142.1m. This means that US distribution costs are more than one-third of revenues.

Management argues that the planned opening of a fulfilment centre in the US should help to reduce costs because returns will not have to go all the way back to the UK. It will be interesting to see

## US distribution costs grew much faster than revenues

what the full benefit of this will be. Growing revenues should also help to more easily cover the fixed elements of the cost base.

In the six months to February 2013, revenues were one-third higher at £359.7m, with UK revenues 26% ahead and international sales 39% higher. The price cutting reduced gross margins by around one percentage point. Even so, underlying profit improved from £23.1m to £25.7m.

ASOS has outlined plans to target the Russian and Chinese markets. The Russian website is about to be launched and the Chinese website launches in early 2014, although

ASOS (ASC)		3578p
12 MONTH CHANGE %	+ 148.5	MARKET CAP £m 2948

this business will probably be loss-making for the first three years as start-up costs of £4m-£6m are expected. The Chinese business will have its own fulfilment operations and require additional technology investment.

ASOS continues to generate cash with the main investment at the Barnsley warehouse already made. Net cash improved from £27.9m to £45.2m over the latest six-month period. Management believes that it will require a second warehouse in the UK in a couple of years.

Underlying 2012-13 profit is forecast to be around one-fifth higher at £53m. That still leaves the prospective multiple at approaching 70.

# Camkids promises growth and dividends

Children's outdoor clothing

www.camkids-ir.com

Branded children's outdoor clothing and footwear manufacturer and distributor **Camkids** reported a 23% increase in its 2012 revenues to RMB912.5m (£96.1m) as branded sales grew.

Camkids still makes footwear for two other brands but the vast majority of the revenues come from the Camkids brand. Only footwear is manufactured by Camkids and a second production line is being installed. The rest of the production is outsourced. There are more than

CAMKIDS (CAMK)		120p
12 MONTH CHANGE %	N/A	MARKET CAP £m 90.5

1,100 stores that exclusively sell clothing, footwear and accessories under the Camkids brand. More than 200 stores can be opened a year and there are still a lot of cities in China that do not have any stores.

Earnings per share rose by one-quarter to RMB2.63 (27.7p). That puts the shares on four times 2012 earnings, falling to nearer three on

forecast 2013 earnings. The spring/summer order book is 23% higher at RMB406.3m (£42.8m).

Camkids joined AIM at the end of 2012. Net cash was RMB130.8m (£13.8m) after the flotation proceeds of £6.4m reached the company's bank account. Debtors increased in 2012 because payment terms were increased from 90 days to 120 days.

Camkids plans to pay around one-fifth of its earnings in dividends. That suggests a dividend of 5p a share or more for 2013.



## company news

# Walker Greenbank international spread offsets European weakness

*Furnishing brands*

[www.walkergreenbank.com](http://www.walkergreenbank.com)

Growth in the US and UK helped to offset lower revenues in Western Europe for luxury furnishings supplier **Walker Greenbank** in the year to January 2013.

The company's main brands are Sanderson, William Morris, Zoffany, Harlequin and Scion, which is a new contemporary brand. The brands are targeted at distinct markets. Scion contributed revenues of £940,000 in the 10 months to January 2013 but it should be able to generate £5m a year. Sanderson Home is an extension of the Sanderson brand and this made a small contribution last year. Overall brand revenues grew 2.5% to £58.9m. Manufacturing revenues grew 5% to £30.1m.

Stripping out internal

## Walker Greenbank has net cash for the first time since 2000

manufacturing, group revenues edged up from £74m to £75.7m. Near 10% growth in brand profit and flat central expenses meant that underlying profit improved from £5.72m to £6.38m.

Walker Greenbank has net cash for the first time since 2000 and it reached £1.16m at the end of January 2013. Cash generation will be high enough to cover capital expenditure and for that cash pile to continue to grow. The pension fund deficit is

WALKER GREENBANK (WGB)		107p
12 MONTH CHANGE %	+ 42.2	MARKET CAP £m 63.1

£8.24m but this is expected to reduce over the next couple of years. The final dividend was raised by one-quarter to 1.25p a share, taking the total for the year to 1.48p a share.

Western European sales have recovered by 3% and management says that trading was strong in the first 11 weeks of this year thanks to a good contribution from manufacturing. A profit of £6.7m is forecast for 2013-14. The main focus is organic growth from existing and newly developed brands because it is difficult to secure suitable acquisitions at attractive prices.

# Clear strategy enables AIM Italia float

*Hotels, restaurants and theme parks*

[www.clearleisure.com](http://www.clearleisure.com)

Italy-based hotels, restaurants and theme parks operator **Clear Leisure** has gone a long way to refocusing its business and a planned flotation on AIM Italia could attract new Italian investors. Clear Leisure is trading at a significant discount to the value of its operations and with Luke Johnson becoming chairman it is a more attractive investment. The estimated NAV is just over 12p a share, so there is a three-fifths discount to NAV.

Clear Leisure was formerly known as Brainspark and chief executive Alfredo Villa has spent the past couple of years trying to clean up its portfolio. The main businesses

CLEAR LEISURE (CLP)		4.63p
12 MONTH CHANGE %	+ 75.4	MARKET CAP £m 9.22

are hotel chain ORH; Italy's largest waterpark, Ondaland; and So Sushi restaurants. Clear Leisure has majority stakes in these businesses. There are still some non-core assets but it may take a long time to realise them. That includes the 69.5% stake in Mediapolis, which owns a 450,000 square metre site near the Milan-Turin-Aosta motorway. At the end of 2012, Mediapolis had net assets of €27m, with the land included at €35m even though it has been

valued at €47m.

The balance sheet has been improved by share placings and a convertible loan note issue. This includes £1m invested by Luke Johnson. It may take time to change the attitudes of investors to the company. Clear Leisure will report a profit for 2012 but that is due to the £1.1m gain on the repurchase of debt at a discount to face value.

The process for the AIM Italia flotation will not start until these results are published. This means that the flotation is unlikely to happen until the autumn. Integrae SIM will be the nominated adviser.

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[www.cleantechinvestor.com](http://www.cleantechinvestor.com)

## company news

# DDD hopes to dine out on Chinese 3D software demand

3D software

www.ddd.com

3D software developer **DDD** made its maiden reported pre-tax profit in 2012, although it did make a profit in 2011 on an adjusted basis. The latest figures show that the company has a strong base from which to grow. DDD has been cash hungry for years but has changed.

The number of licences shipped increased from 9.1m to 15m in 2012 and additional licensees have been signed up. Samsung has signed a patent licence to enable offline conversion from 2D to 3D. More patent licences are likely. So far, the revenues have mainly come from demand for TVs but mobiles and tablets will be an increasing market – even though the ending of the life of a smartphone product hit last year's revenues from this area.

## DDD is targeting the Chinese I-Cafe market

In 2012, revenues jumped from \$5.53m to \$8.62m and a reported loss of \$96,000 was turned into a profit of \$1.31m. Excluding share-based payments, the profit improved from \$525,000 to \$2.05m. Enough cash was generated from operations to more than cover the capitalised development costs. Net cash improved to \$3.6m at the end of 2012 and there should be a further improvement in 2013.

There is a concern that the adoption of Windows 8 could slow 3D growth in the laptop market but there are other growth

DDD (DDD)		14.5p
12 MONTH CHANGE %	- 41	MARKET CAP £m 19.8

opportunities. In the longer term, the Yabazam 3D video streaming business should start to build up its revenues. DDD is also targeting the Chinese I-Cafe market. The main software supplier to this market intends to roll out DDD's software to all its installed base of 5m PCs. This will provide a good marketing tool for the software and help to boost consumer demand.

Edison forecasts a further improvement in profit to \$3.4m in 2013 as more of the additional revenues fall through to profit. That assumes that there will be little contribution from Yabazam this year.

# Toumaz pilot highlights healthcare potential

Ultra low power wireless technology

www.toumazltd.com

A pilot study at Saint John's Health Center in Santa Monica indicates that using Toumaz's SensiumVitals disposable wireless vital signs monitoring technology could save hospitals significant amounts of money. This year, though, will be another year of consolidation as a pilot programme is started in the UK and further pilots commence in the US.

The initial US pilot shows a saving of more than \$9,000 per patient because the average stay of the patients was six days fewer. This is because the technology enables early intervention and prevents the

TOUMAZ (TMZ)		4.63p
12 MONTH CHANGE %	- 58	MARKET CAP £m 52.7

escalation of problems.

Fabless semiconductor company Frontier Silicon was acquired in August 2012 in order to accelerate commercial development. Frontier was behind the growth in 2012 revenues from £2.3m to £8.7m. Pro forma revenues fell from £24.8m to £22.3m. Toumaz remains heavily loss-making and this will continue.

Digital radio remains the strongest

revenue generator for the original Toumaz business and it is being rolled out throughout Europe. The connected audio market for the wireless technology is still relatively new but it is expected to grow from 20m units in 2012 to 70m units in 2017.

Healthcare remains an enormous potential market but is unlikely to generate significant revenues until 2014.

The net cash outflow was £7.5m. Toumaz still had £15.3m in the bank at the end of 2012 thanks to the cash that came with Frontier. However, the cash outflow could be higher this year.

6 May 2013

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www.cleantechinvestor.com

## dividends

# Face-to-face growth for SpaceandPeople

Experiential marketing

www.spaceandpeople.com

## Dividend

SpaceandPeople has been a consistent dividend payer since it joined AIM. The experiential marketing firm pays one dividend a year and following its flotation it paid 1p a share for the 2005 financial year. The dividend has grown strongly, although there was no increase in 2009 dividend because of the global economic crisis. However, it was increased by 30% to 2.6p a share for 2010. The dividend was 3.5p a share in 2012 and a payout of 4.03p a share is forecast for 2013 by Equity Development and this is the bottom end of the range. Even at the higher end of the range, 4.3p a share, the dividend is covered more than two times by forecast earnings.

Cash generated from operations is normally slightly higher than the reported operating profit. Net cash is expected to increase from £10,000 to £1.11m by the end of 2013. Bad debts are minimal because clients have to pay in advance.

## Business

SpaceandPeople, which was founded in 2000 by chief executive Matthew Bending, agrees exclusive deals with shopping centre operators to sell space in high footfall areas in their sites. It sells the space to companies for promotional campaigns or to short-term retailers. This benefits its clients by bringing them additional revenues from underutilised space. Revenues are either generated via a revenue share with shopping centre owners or SpaceandPeople leases the retail space and then sub-lets it to promotional or retail clients.

The customer base includes Land Securities, Hammerson, Standard Life

SPACEANDPEOPLE (SAL)	
Price	103p
Market cap £m	20.1
Historical yield	3.4%
Prospective yield	3.9%

and Intu Properties, formerly Capital Shopping Centres. The deals cover 50 sites in the UK and 112 shopping centres and hybrid malls in Germany. Revenues and profit are growing at a double-digit rate. Revenues can be grown further through charging higher prices or taking a higher commission rate. The latest German deal includes 40% commission, against around 20% normally.

In 2012, underlying profit improved from £1.75m to £2.31m, as revenues increased from £10.7m to £13.1m.

SpaceandPeople still has plenty of growth to go for in the UK and Germany and it plans to move into another European country. Strong profit and dividend growth is forecast, with the main short-term driver being Germany. The small Indian business is likely to remain loss-making. Profit is expected to improve to around £2.8m this year, and £3.4m in 2014. The shares are trading on ten times prospective 2013 earnings, falling to less than eight next year. Given the company's track record this appears achievable even without a UK retail recovery.

Hargreave Hale has more than trebled its stake to 17.4% and other institutions have bought stakes following the sale of just over 4.1m shares by Michael Bennett and Maurice Bennett and non-executive director Maurice Helfgott – all at 86p a share.

## Dividend news

Site closures reduced revenues and profit was flat in 2012 but **Nationwide Accident Repair Services** has maintained its total dividend at 5.5p a share and the yield is 7.9%. Management reckons that the insurance crash repairs market as a whole declined at a faster rate than the 9% fall in Nationwide's revenues from this area. There are still growth areas, such as glass replacement and mobile repairs. Nationwide is also growing its fleet customer base. House broker Westhouse forecasts that profit will slip from £5.5m to £5.2m in 2013. Net cash was £5.07m at the end of 2012. The net pension deficit is £17.5m. An unchanged dividend and continued payments into the pension fund mean that the cash is likely to fall by the end of 2013.

Telecoms services consolidator **Daisy Group** says that it will pay a maiden dividend of 4p a share for the year to March 2013. This is higher than some analysts were expecting. The yield is 3.2%. Management is committed to 15% annual increases in dividend for at least two years. Better than expected cash generation helped management to set a generous base for the dividend, which is still just over three times covered – albeit by earnings after a nominal tax charge. Net debt of around £80m is forecast for the end of March 2013.

Voice and data telecoms services provider **AdEPT Telecom** will pay a trebled dividend for 2012. The final dividend will be 0.75p a share, taking the total to 1.5p a share, up from 0.5p a share in 2011, which is covered seven times by earnings. The yield is 1.7%. Underlying pre-tax profit will be better than last year's figure of £3m and better than forecast, while turnover will be in line with expectations. Net debt has been cut to £3.3m. A dividend of 1.75p a share is forecast for 2013.

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## expert views

### Expert view: The broker

## Strong momentum at Utilitywise

By MARK PADDON

**M**aiden interim results from energy procurement consultancy Utilitywise\* reflect sequential, half-on-half growth in revenue and EBITDA of 40% and 44% respectively, and an interim adjusted pre-tax profit marginally ahead of forecast at £2.1m.

The interim dividend per share was 0.8p, reflecting group policy to distribute one-third of net income. Net cash was £5m.

A positive current trading statement and a 25% increase in the secured revenue pipeline to £10.6m in the first two months of the second half confirm strong momentum and the group is on course for our full-year forecast. We raise our target share price to 125p.

We understand the attrition rate among new recruits has been relatively high at c.2% per month. A number of initiatives have been implemented to counter this and there is now evidence that this rate is declining.

New consultants take an average of five months to hit revenue target (and nine months to become cash neutral). There is therefore a dilution to overall average revenue per consultant from new recruits. We believe the group is booking c.£3m gross contract value per month, an average across the 259 consultants of c.£11,500. However, 144 of the consultants have been in place for longer than five months and are generating a monthly average of £16,700. It is this shift up the


payment is likely to be triggered.

Utilitywise continues to look for acquisitions that can enhance organic growth and broaden its product and service offering. At the time of the results, the group announced the acquisition of Aqua Veritas consulting, a leading supplier of water consultancy services. The acquisition will enable the group to reduce client's water utility costs and streamline the bill management process and includes the intellectual property (Osiris) which will be used to develop Utilitywise's multi-utility reporting platform. Initial consideration is £0.16m and there are no changes to forecasts.

### Visibility

The high level of revenue visibility afforded by the future revenue pipeline as well as the building momentum provides a high degree of confidence that the group is on course for our forecast. Our July 2013 and 2014 profit forecasts remain unchanged at £6.6m and £9.2m respectively. Our July 2013 revenue forecast has been reduced by £1m to £23.7m, reflecting the slight shift in the "go live" rate. This is a one-off effect and our 2014 revenue forecast remains unchanged. Our adjusted pre-tax profit forecast for 2013 remains unchanged because of lower than expected costs, primarily as a result of the lower number of consultants recruited following the acquisition of Clouds. Our earnings per share forecasts have been increased marginally by 1% and 3% as a result of a slightly lower forecast tax rate.

*\*Utilitywise is a corporate client of finnCap*

 MARK PADDON is head of research at finnCap.

### The secured revenue pipeline is £10.6m

Utilitywise is one of the leading UK energy management service companies. Whilst its origins and revenue model are based on energy procurement, the group has established a market-leading IT infrastructure and energy services portfolio which we believe is unrivalled in the industry and which is facilitating a strategic move from energy broker to a full service energy management consultancy.

### Expansion

The number of energy consultants has almost doubled over the past 12 months and increased by 38% in this six-month period from 188 to 259. This exceeds the initial expectation that the scale-up would stop at c.240, and reflects management's confidence in its ability to manage the growth. We now expect the number to go closer to 280 before a period of consolidation.

revenue generating maturity curve of the new recruits that will drive much of the forecast growth of this business, although our 2014 forecast conservatively assumes average revenue per consultant of only £12,000.

While the market opportunity in the SME sector remains enormous given the estimated market share of the group at less than 1%, Utilitywise plans strategic expansion in the higher value customer segment and the risk management and flexible buying segments.

The energy procurement trial in France is progressing well. A trial in the German market is due to commence shortly.

The Clouds Environmental acquisition has been integrated successfully and has broadened the group's energy service offering to include carbon reporting and legislative compliance services as well as providing additional consultants for audit and survey work. We understand the full earn-out



## feature

# AIM sector improves as resources dominance declines

AIM has been dominated by resources businesses in recent years but there are signs that this is changing. Mining companies are no longer in the ascendancy and other sectors are gaining in importance.

At the end of 2010, mining and oil companies accounted for nearly half of the capitalisation on AIM and they also dominated the money that was being raised at the time. How things have changed since then.

At that time the basic materials sector, predominantly the mining companies, accounted for 22.7% of the value of AIM, while the oil and gas sector accounted for 23.6%. By the end of March 2013, the oil and gas sector still accounted for 23.3% of AIM but the mining sector had declined to 11.3% of the junior market.

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The oil and gas sector has held up much better than mining and has found it easier to raise money. This is despite the fact that Falkland Islands-focused explorers were in fashion back in 2010 and they have fallen in value. Four out of the largest five firms on AIM are oil and gas companies and the largest mining company is African Minerals, which is the ninth biggest company. At the end of 2010, the two largest companies were in the mining sector, including African Minerals.

The total value of AIM has declined from £79.4bn to £63.4bn over the same period, while the number of companies has fallen from 1,195 to 1,092. However, the market value of the mining sector has not fallen because of a decline in the number

of companies in the sector. In fact, the number of companies has risen from 161 to 179. So in terms of the number of companies the mining sector has increased in importance from 13.5% of AIM at the end of 2010 to 16.4%. The percentage of the market accounted for by oil and gas companies has also increased, from 9.6% to 11.8%.

There have been large mining takeovers since the end of 2010. These include Western Coal Corporation and European Goldfields, which were each valued at in excess of £1.5bn. Even

so, there have been large takeovers in other sectors and some larger companies, such as investment bank Canaccord Financial Inc and gambling software provider Playtech, switched to the Main Market.

The underlying reason why the mining sector has declined in importance has been its poor performance, particularly over the past year.

Even when there have been new mining companies joining AIM in the past two years they have not always done well. A stark example of this is coal projects developer EastCoal Inc, which was already traded on the Toronto Venture Exchange when it was the last company to join AIM in 2012. Early in May, trading was

suspended in the company's shares because it is running out of cash.

Most of the mining companies that have joined AIM in recent months have been reversals or they already have a quotation on another Stock Exchange.

## Cash raising

It has been much tougher for mining companies to raise money in recent times. In 2010, they accounted for 29.5% of the total money raised by new and existing AIM companies and in 2011 it was still 28.4%. In 2012, there was a drop to 24.4% and in the first quarter of 2013 mining companies have accounted for 14.2% of the money raised on AIM. This is based on relatively modest fundraising levels so far this year.

Oil and gas companies have accounted for around 30% of the total in the past but the figure fell in 2012. So far this year, oil and gas companies account for nearly two-fifths of the money raised.

The technology sector has raised almost as much money as the mining sector this year. The technology sector could even overtake the mining sector as many of the proposed new entrants to AIM are technology-related businesses. They include cloud computing services provider Outsourcery, which is run by Piers Linney, who is taking over from Theo Paphitis in Dragons Den on the BBC, and slot machines technology developer Quixant.

## feature

### Trading

Despite the decline in market capitalisation, mining companies still account for around one-fifth of the total value of shares traded on AIM. This shows that investors are still interested in the sector. The value of shares traded in oil and gas companies has fallen from 38% in 2010 to 30.9% in the first quarter of 2013.

Technology and consumer sectors are attracting more trading interest. Technology has been accounting for less than 10% of AIM trading in the past three years but this has increased to 12% in 2013.

Consumer services and goods have become a more important part of the market in capitalisation terms. Online fashion retailer ASOS has increased in value from £1.21bn to £2.76bn over the past 27 months. This increase is greater than the overall increase in the value of the consumer services sector but this is due to the fact that Mulberry has switched from consumer services to consumer goods.

Technology and industrials sectors have also grown in importance. The biggest percentage increase in share has been achieved by the telecoms sector but it remains the second smallest sector. It has moved from 1.4% to 2.4% of AIM. This is due to a handful of growth businesses in the sector. More than £1.2bn of the current telecoms sector capitalisation of £1.5bn is accounted for by three of the 13 companies. They are satellite operator Avanti Communications, telecoms consolidator Daisy and, largest of all, mobile banking technology developer Monitise. The value of Monitise has risen from £130m to £569m.

### Spread

It is not a bad thing that AIM is no longer as dependent on the resources sector. A better spread of companies and sectors is much healthier for a general market. There will always be

#### SECTOR BREAKDOWN OF AIM IN PERCENTAGE TERMS

SECTOR	MAR 2013	DEC 2012	JUN 2012	DEC 2011	JUN 2011	DEC 2010
Basic materials	11.3	13.2	13	19.2	20	22.7
Consumer goods	6.5	5.3	6.3	5.7	4.2	3.9
Consumer services	10.8	10	7.8	6.2	8.4	6.9
Financials	18.5	18.4	17.5	17.9	19.4	19.2
Health care	5.5	5.2	6.1	5.9	5.2	4.8
Industrials	11.7	11.7	11.1	11.1	9.9	9.3
Oil & gas	23.3	23.7	26.4	23.9	22.8	23.6
Technology	8.9	8.6	9	7.8	7.6	7.4
Telecoms	2.4	2	1.9	1.5	1.4	1.4
Utilities	1.1	1	1	0.8	1	0.8

fashions in the stock market, though. These fashions have a mixed effect on markets. They will tend to attract investor interest but they also lead to a flood of less substantial businesses. The technology boom at the turn of the century is a great example of this and the focus on mining has led to a similar situation, with a number of, at best, marginal mining businesses with little chance of success joining AIM.

However, investor interest is still predominantly skewed towards the mining and oil companies. Greater promotion of companies from other sectors will help to change this. Once

£15m. Pyeroy reported a pre-tax profit of £4.4m last year and it has an order book worth £140m, which includes a major Royal Navy contract relating to two new aircraft carriers.

AB Dynamics, which is due to float on 22 May, supplies testing products for the vehicles sector.

The customer base includes BMW, Toyota and Ford, with more than 90% of its revenues coming from outside of the UK.

Advanced engineering materials developer Versarien was expected to float earlier in the year, pending the conditional acquisition of

### The technology sector has raised almost as much money as the mining sector this year

other sectors are viewed to have potential for gains, the interest will rise.

There have been a number of false dawns when it comes to the new issues market. A flurry of activity tends to be followed by a lull. Mining flotations have certainly become less prevalent and other businesses are getting a look in.

Industrial services provider Pyeroy ([www.pyeroy.co.uk](http://www.pyeroy.co.uk)) is planning a summer flotation. Gateshead-based Pyeroy started out four decades ago as a protective coatings applications business and has expanded into other services, most recently for the offshore energy market. Pyeroy wants to raise

sintered tungsten carbide wear parts manufacturer Total Carbide, which would provide Versarien with manufacturing capacity, from AIM-quoted Elektron. The acquisition has still to be completed and an early June flotation has been pencilled-in. Versarien was founded in 2010 in order to commercialise a process for the production of cutting edge porous metallic materials that had been developed by Liverpool University.

If AIM can continue to attract businesses such as these then it will provide a more interesting spread of companies for investors.

## statistics

# Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	23.3	11.8
Financials	18.5	20.6
Industrials	11.7	18.1
Basic materials	11.3	16.4
Consumer services	10.8	9.6
Technology	8.9	9.5
Consumer goods	6.5	5.5
Health care	5.5	5.9
Telecoms	2.4	1.2
Utilities	1.1	1.2

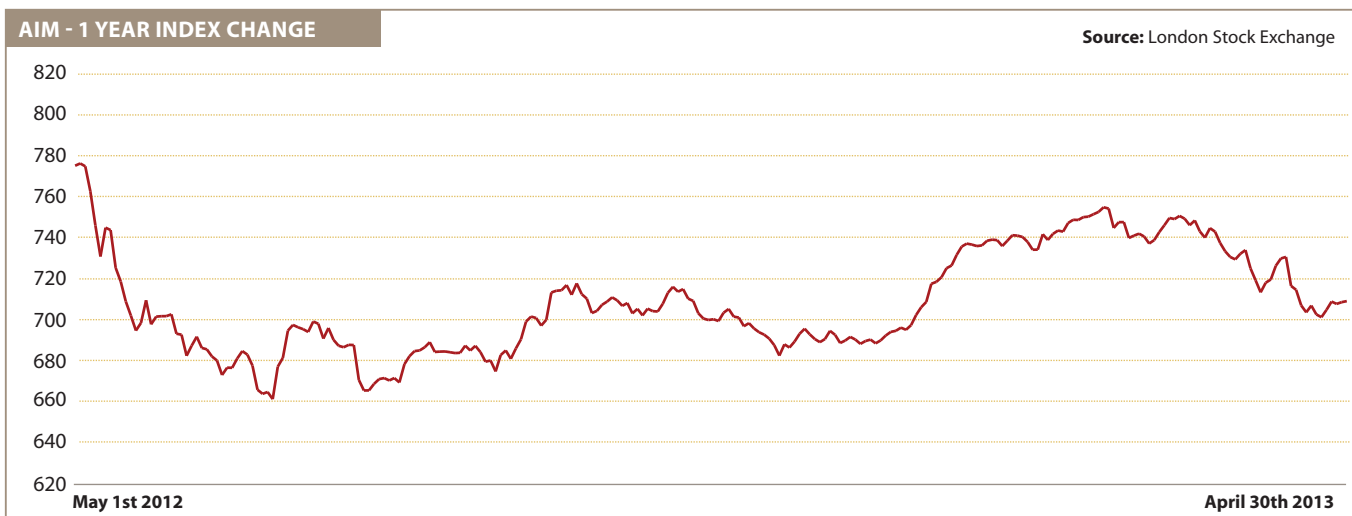
KEY AIM STATISTICS	
TTotal number of AIM	1092
Number of nominated advisers	51
Number of market makers	54
Total market cap for all AIM	£63.4bn
Total of new money raised	£80.8bn
Total raised by new issues	£35.7bn
Total raised by secondary issues	£45.1bn
Share turnover value (2013)	£7.5bn
Number of bargains (2013)	1.2m
Shares traded (2013)	68.3bn
Transfers to the official list	162

FTSE INDICES		
ONE-YEAR CHANGES		
INDEX	PRICE	% CHANGE
FTSE AIM All-Share	714.76	-7.7
FTSE AIM 50	3541.97	+12.2
FTSE AIM 100	3243.68	-8
FTSE Fledgling	5352.08	+17.8
FTSE Small Cap	3821.38	+22.5
FTSE All-Share	3435.66	+14.5
FTSE 100	6521.46	+13.1

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	281
£5m-£10m	132
£10m-£25m	220
£25m-£50m	177
£50m-£100m	129
£100m-£250m	102
£250m+	49

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Coms		2.33	+200
Synety Group		325	+174.3
Advanced Oncotherapy		2.27	+160
Resource Holding Management		15.5	+93.8
Pentagon Protection		20.25	+92.9

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Astar Minerals		0.25	-76.2
Tricor		4.75	-66.1
Wessex Exploration		1.57	-63.4
Silvermere Energy		2.12	-61.4
Energetix Group		14.25	-52.1



Data: Hubinvest Please note - All share prices are the closing prices on the 4th May 2013, and we cannot accept responsibility for their accuracy.

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finnCap won the Best Research award at the 2012 AIM Awards.

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