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MAY 2020

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

In this issue

AIM bounces back

In April, AIM continued the recovery started in late March and the FTSE AIM All Share index improved by nearly 19% during the month. At 810.34, the index is still more than 15% down on the start of the year, when the market was benefiting from the post-General Election boost.

There were 34 AIM companies where the share price at least doubled during April. Online fashion retailer ASOS was one of the companies whose share price doubled and rival boohoo (see page 5) increased by 69%. These two companies have significant weightings in the AIM All Share index and the FTSE AIM 100.

AIM has shown that it can be a source of funds at a time when strengthening balance sheets is important for smaller companies. Some companies, particularly those that are pre-revenue, are not eligible for government assistance or have found it hard to obtain.

More than £600m-worth of major fundraisings were announced by AIM companies during April. This covers cash calls of £5m or more and there were also many smaller, but highly important, fundraisings. ASOS raised £247m, pharma products supplier Abcam £110m and robotic software provider Blue Prism £100m.

Aquis consultation

Aquis Stock Exchange, which is owned by AIM-quoted Aquis Exchange, has launched a consultation paper to gain opinions about potential enhancements to the market. One of the proposals is that AIM nominated advisers will be immediately eligible to be corporate advisers on the market. Responses are requested by 15 June.

Aquis plans to create two segments of the AQSE Growth Market. APX (Apex) and AXS (Access). APX would be aimed at larger, more established companies with a strong growth strategy that would enable retail participation in a fundraising. AXS will focus on earlier stage companies that are riskier and less liquid.

In order to be eligible for APX, a company would have to have a two-year track record, at least 25 shareholders, 35% or more of its shares in public hands and maintain a market capitalisation of £10m or more. The prospectus for an APX company will not be as complex as a full prospectus but it will have to be approved by the FCA. This will enable the company to gain access to a wider range of investors. Aquis says it will try to come up with proposals to reduce the cost of producing a prospectus.

Aquis is keen to encourage more institutional involvement in the new segments. Aquis is also reviewing the trading systems of the market.

Attracting companies

Research firm Hardman believes that the shrinking number of quoted companies needs to be addressed. It has published a paper that argues an increased regulatory burden and the relative attraction of debt in a low interest rate environment have contributed to the lack of new companies coming to the London market. There is also increasing competition from private equity firms that either buy the companies before they float or take quoted companies private.

Hardman points out that Main Market numbers have been declining in the past two decades, although AIM was increasing for the earlier part of the period. What this does not take into account is the flood of companies that switched from the Main Market to AIM as the majority of the smaller companies on the Main Market were attracted by the tax benefits of AIM. Some of the larger companies on AIM, such as James Halstead and Nichols, had previously been quoted on the Main Market for decades. Since 2000, the number of companies moving the other way has fallen. A significant minority of the reduction in the number of Main Market companies between 2000 and 2007 will have been the net movement to AIM.

Reducing the regulatory burden, particularly when it comes to requirements for prospectuses, and encouraging pension funds to invest more in smaller companies are put forward as ways of improving the situation. The percentage of pension money invested in smaller companies has fallen significantly over the decades. Liquidity is another problem that needs to be addressed. Hardman also believes that the open offer process should be speeded up.

Wynnstay stake buy

DBAY Advisers is building up a stake in feed supplier and agricultural products retailer Wynnstay and it has reached 6.47%. This follows DBAY's rescue deal with Eddie Stobart Logistics. DBAY is taking advantage of the decline in the Wynnstay share price, although it has rebounded strongly in the past few weeks. Investec has sold most of its stake. Trading was difficult last year, pre-tax profit fell from £9.5m to £7.9m, and it has been subdued in the current financial year. Lower farmgate prices and wet weather made farmers cautious even before COVID-19 became a significant factor. The 9.4p a share final dividend was paid, although holders of 13.6% of the company opted to take it in shares.

Inland improves balance sheet foundation

Residential property developer Inland Homes has raised cash so that it can resume housebuilding projects as restrictions are lifted. Inland has secured a development agreement with Homes England that provides expansion potential over the long term.

COVID-19 led to five transactions, valued at £46.2m, failing to go ahead. They would have led to a significant reduction in net debt, which was £150.3m at the end of March 2020. The second interim dividend of 2.25p a share has been cancelled.

Executive directors and senior management have taken a 50% pay cut, while non-executive directors have reduced their fees by a quarter. Staff working remotely and earning more than £40,000 are also taking pay cuts. Discretionary spending is being kept to a minimum.

Inland raised £9.9m at 47.5p a share, which includes a contribution from retail investors via PrimaryBid.com. The cash will strengthen the balance sheet and make sure that Inland can structure payments to its subcontractors and suppliers. There will also be a cash buffer to provide reassurance while the uncertainty continues.

Directors and senior management have acquired more than 790,000 new shares with chief executive Stephen Wicks subscribing for 526,316 shares and finance director Nish Malde buying 105,263 shares.

Inland management has put a lot of effort into developing the relationship with Homes England. The agreement involves the development of more than 600 homes and community facilities on a site in Basildon owned by Homes England. Inland paid an initial consideration of £100,000 and will acquire land in phases as planning consent is obtained. The whole site is 54 acres and has a gross development value of around £200m. Management knows the area because it is developing a project nearby.

WH Ireland seeks Cantor deal

AIM broker and nominated adviser WH Ireland is in talks to acquire part of Cantor Fitzgerald's UK broking business as part of the continued consolidation of AIM brokers. If the deal happens, the combined operation could have a similar number of AIM clients to rival Cenkos Securities. finnCap would still be the largest broker in terms of number of clients.

WH Ireland chief executive Philip Wale joined the company from Cantor Fitzgerald in August 2018. He originally joined Cantor Fitzgerald in 2010 when the broking business was still known as Seymour Pierce and became chief executive the following year before leaving to become boss of Panmure Gordon. That was prior to Seymour Pierce going into administration and some of its assets being acquired by Cantor Fitzgerald. He went back to Cantor Fitzgerald in 2016, but he was head of fixed income (Europe), so he was working for a different part of the company's business.

The broker says that the discussions are regarding "the possible acquisition, transfer or introduction of certain assets of CFE's Mid Cap and AIM corporate finance business".

According to the London Stock Exchange website, Cantor Fitzgerald has 22 nominated adviser clients and 29 AIM broker clients, although both totals include RedX Pharma which is being taken over.

WH Ireland has 52 nominated adviser clients and 53 AIM brokerships. The WH Ireland figure won't include its recent appointment as joint broker to James Halstead.

A deal would require regulatory approval, so if it does go ahead it probably won't be completed for many months.

■ Cenkos Securities experienced a slump in revenues in 2019. They fell from £45m to £25.9m, while pre-tax profit declined from £3.2m to just above breakeven.

Cash has fallen from £33.6m to £18.3m at the end of 2019. Cenkos has decided to pay a 1p a share final dividend, which is down from 2.5p a share the previous year. An unchanged interim dividend of 2p a share has been paid.

The fixed cost base should be £3m lower in 2020. That will come in handy as Cenkos copes with the effects of COVID-19 on its business. Trading activity has been strong so this part of the business should do well.

There have also been fundraisings by companies requiring cash to provide a buffer under current trading conditions. Mergers and acquisitions and flotations are likely to be delayed, though. This comes at a time when it had been hoped that flotations would start to pick up. Cenkos says that it has a good pipeline of potential deals.

ADVISER CHANGES - APRIL 2020

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
MySale Group	Zeus/N+1 Singer	N+1 Singer	N+1 Singer	N+1 Singer	01/04/20
Avacta Group	Zeus/finnCap	finnCap	finnCap	finnCap	02/04/20
SigmaRoc	Peel Hunt/Liberum	Liberum	Strand Hanson	Strand Hanson	09/04/20
VR Education	Shard/Davy	Davy/Shore	Cairn	Cairn	14/04/20
Catenae Innovations	Brandon Hill	Turner Pope	Cairn	Cairn	16/04/20
Kingswood Holdings	Peel Hunt	finnCap	Peel Hunt	finnCap	20/04/20
Genedrive	finnCap/Peel Hunt	Peel Hunt/Stanford Capital	Peel Hunt	Peel Hunt	22/04/20
Pelatro	Cenkos	finnCap	Cenkos	finnCap	28/04/20

Greater scale pays off for CentralNic as Kestrel increases stake

Internet domains services *www.centralnic.com*

Internet domain name registry and services provider **CentralNic** is one of the few companies that is doing well. There appears to be little negative effect on the business from COVID-19 and CentralNic is benefiting from the greater scale provided by acquisitions.

CentralNic is an international business which is a consolidator in the internet domain registry sector. Its direct customers are the retailers of domain names and CentralNic also has some retail operations of its own. There has been a move into added-value services, but this is still a small, but fast-growing part of the business.

Last year, recurring revenues were 92% of the total of $109.2m, which nearly doubled thanks to contributions from four acquisitions. This indicates the improved quality of revenues, which had been boosted in earlier years by one-off deals.

Recurring revenues are 92%

A dividend has been put on hold. Management had indicated that one would be paid this year but believes that it is prudent to conserve cash.

Net debt was $76m at the end of the year, which is predominantly the bonds quoted on the Oslo Stock Exchange that were used to finance acquisitions.

The acquisition of domain name monetisation services provider Team Internet AG appears a good one and it should be earnings enhancing this year. There was a small contribution last year while CentralNic's strong first quarter performance has been helped by a full contribution from this business.

CENTRALNIC (CNIC)			89.5p
12 MONTH CHANGE %	+90.4	MARKET CAP £M	169

Revenues should jump to $200m and earnings per share are expected to be flat at 6.7 cents a share in 2020. The share price has nearly doubled over the past year yet the prospective multiple of 16 remains attractive due to the quality of the recurring revenues. Kestrel Partners has increased its stake to 17.4%, up from 13.4% earlier in the year.

Lok'nStore continues dividend growth

Self-storage sites operator *www.loknstore.co.uk*

Self-storage company **Lok'nStore** did well in the first half and this continued with March self-storage revenues 8.5% higher than the year before, although there are more stores open.

In the six months to January 2020, revenues from continuing operations were 5% ahead at £8.97m. The growth came from increased occupancy because charges were flat.

Net debt was £31.9m at the end of January 2020. There is plenty of headroom in the bank facility and investment in new stores continues. Full-year capital expenditure is likely to jump to £14.8m, although it should more than halve next year.

LOK'NSTORE (LOK)			590p
12 MONTH CHANGE %	+20.4	MARKET CAP £M	174

Although its progress will be hampered by COVID-19 in the second half, Lok'nStore is still proposing an increased dividend. The interim dividend was raised by 9% to 4p a share. The total dividend is expected to increase by 1p a share to 13p a share. Although that is not covered by earnings per share it is covered by cash available for distribution, which is underlying EBITDA minus finance costs, capitalised maintenance costs and tax.

All of the storage sites remain open but there will be the negative influence of COVID-19 in the last few months of the financial year and at the start of the next.

Full-year pre-tax profit could dip from £4.4m to £4.2m, with a further small fall likely next year depending on how lockdown measures change. Underlying NAV is 532p a share. The premium to NAV of 11% is lower than listed rivals, such as Big Yellow.

Cash pile increases at online retailer boohoo although trading gets tougher

Online fashion retailer *www.boohooplc.com*

Online fashion retailer **boohoo group** continued its rapid growth in the year to February 2020, although the latest quarter is much tougher. Net cash is £240.7m, so the balance sheet is strong enough to cope with the problems caused by COVID-19.

Full-year revenues jumped by 44% to £1.2bn and pre-tax profit improved from £76.3m to £108.3m. Capital spending was £45.6m and there are plans for further investment in the distribution centres this year. The initial benefits of investment showed through in the second half with distribution costs as a percentage of sales reduced by 1.5 percentage points.

Active customers increased by 31% to 13.9 million, while average order value improved from £41.20 to £43.50.

Revenues should rise this year

The core boohoo brand increased revenues by 38% to £600.7m and PrettyLittleThing sales improved by the same percentage to £516.3m. Nasty Gal revenues doubled to £98.8m. There was a £19m contribution from recent acquisitions, including Karen Millen, where there were set-up costs in the period.

The UK is still the largest geographic market, with US revenues increasing by 59% to £263.6m. Continental European revenues were 64% ahead at £188.4m. Sales to the rest of the world were one-fifth higher.

Kath Brown was going to join the board as a non-executive director, but JD Sports Fashion, where she is a non-executive, withdrew its consent. Sara Murray is leaving the board.

BOOHOO (BOO)	323p		
12 MONTH CHANGE %	+31.5	MARKET CAP £M	3,944.5

Sales are thought to have fallen by up to 50% in early March, but they have recovered since then. The main concern is that less successful rivals may try to dump stock on the market.

boohoo is expected to increase revenues this year, but pre-tax profit is likely to be lower and earnings per share are forecast to halve to 3p. Earnings should get back near to previous levels next year.

Destiny cash will last until 2021

Antimicrobial drugs developer *www.destinypharma.com*

COVID-19 restrictions have held back the progress of the phase 2b clinical trial that **Destiny Pharma** is undertaking to assess the effectiveness of XF-73 in addressing antimicrobial resistance. An independent expert review of data by a professor at Oxford University indicates that there is a low potential for MRSA and other superbugs to evolve resistance to XF-73 relative to antibiotics. These superbugs cause nearly three million infections in the US each year.

The phase 2b trial for post-surgical infections commenced last April and

DESTINY PHARMA (DEST)	39.5p		
12 MONTH CHANGE %	-51.2	MARKET CAP £M	18

68 patients had been recruited when the decision was made to pause the study. The target number of patients is 200. A non-irritant classification has been awarded to the XF-73 nasal gel.

There are other potential XF-73 related treatments. A version has been developed with Medpharm for diabetic foot ulcers and burns wounds. This could enter clinical studies next year. XF-73 could even be used as a COVID-19 related treatment, because secondary bacterial respiratory infections have been a cause of additional deaths.

In 2019, the cash outflow was £4.6m which was similar to the previous year. This benefited from a £820,000 R&D tax credit. There was £7.5m in cash at the end of 2019. This should last well into 2021,which should provide enough time for Destiny to make further progress with the phase 2b trial before raising more money. There is also the opportunity to find a partner, which could lead to potential milestone payments.

Volkswagen cases provide enormous upside potential for Anexo

Credit hire and legal services *www.anexo-group.com*

Credit hire and legal services firm **Anexo** could generate significant business in the medium term as the result of a recent High Court ruling concerning car manufacturer Volkswagen's manipulation of air pollution tests. This ruling in favour of a class action provides a framework for settling similar cases. Liberum believes that Anexo could generate at least £5m in cash from successful litigation and says that it could generate as much as £47m.

Legal subsidiary Bond Turner has a team of lawyers working on around 8,000 cases against VW. The average claim value could be £3,000. The cash generated from the claims will depend on the level of commission. If it is 25%, the revenue would be £750 a case.

The average claim could be £3,000

Some of the costs related to these cases has already been expensed in previous financial periods. However, VW is set to appeal the judgment. Revenues are unlikely to be generated before 2021.

Currently, the credit hire division accounts for 56% of revenues and legal services 44%. Anexo focuses on credit hire claimants that do not have savings to immediately replace a damaged vehicle. The cost of the credit hire services is obtained from their insurer. The legal services business recognises the majority of its revenues when the cash is received.

ANEXO (ANX)	134.5p		
12 MONTH CHANGE %	-17.2	MARKET CAP £M	148

Liberum believes that there could be a dip in sales this year. That will have a knock-on effect on profit, which could fall from £25m to around £19m on current, albeit tentative, projections before bouncing back the following year. The potential VW revenues are not included in the forecast.

The backlog of more than 21,000 cases provides some backing for expected revenues, although the reduction in car travel could hold back business levels in the aftermath of the COVID-19 lockdown.

Billington still operating at full capacity

Structural steel supplier *www.billington-holdings.plc.uk*

Steel structures supplier **Billington** achieved a one-fifth increase in pre-tax profit to £5.9m in 2019, which was in excess of the previously upgraded forecast. Revenues were 35% higher at £104.9m.

Structural steel enquiry levels are strong but new business could be delayed. There could also be some delays in existing contracts. There is some pricing pressure on contracts. The fall prevention products provider easi-edge had its best year, as did the reusable construction site hoardings supplier hoard-it. The structures business is currently operating at full capacity, but safety products utilisation has declined.

BILLINGTON (BILN)	338p		
12 MONTH CHANGE %	+13.4	MARKET CAP £M	41.4

Net cash was better than expected at £16.4m. The dividend has been suspended. It was 13p a share in 2018, which is the highest it has been. The balance sheet is strong, although timing of payments flattered the year-end cash figure. Billington will return to paying dividends, but how soon will depend on how quickly construction activity recovers.

Delays to construction projects are likely. The longer-term outlook for infrastructure expenditure is positive, though. The market had been expected to grow by more than 3% a year for the next two years, although this will undoubtedly be revised downwards in the short term. Billington has a strong balance sheet and it will be around when the recovery happens, whereas some of its less financially stable competitors may not.

The historical multiple is just over eight and, while 2020 is likely to produce a lower profit, there should be potential to increase that profit level in subsequent years.

Anpario confirms dividend payment

Animal feed ingredients *www.anpario.com*

Dividend

Anpario has confirmed that it is paying the 2019 final dividend of 5.5p a share announced in March. That takes the total for the year to 8p a share, up from 7.2p a share the previous year.

Anpario started to pay two dividends a year in 2017. Previously there was one dividend each year and there was a steady increase from the first dividend of 0.92p a share (adjusted for a 23-for-one share consolidation in 2010) in 2008.

Total dividends of 8.4p a share are currently expected for 2020. That would be covered 2.1 times based on the 2020 earnings forecast.

Business

Anpario develops natural feed additives for animals and aquaculture and it is an international business. The company was initially quoted on Plus Markets, now Aquis Stock Exchange, as Kiotech International before moving to AIM in October 2010. The current share price is four times the level it was when the switch was made to AIM.

There is a portfolio of products for livestock and aquaculture. There are four main areas to the business. Health and performance includes products that maintain the gut health of an animal. The feed quality operations enable high-quality and safe feeds to be produced. Toxin management includes binding products that can mitigate the risk of feed deteriorating and control secondary fungal metabolites. Hygiene and insect control products are used to prevent pests.

Anpario recently filed an international patent application for a natural essential oil composition that could reduce the presence of certain antimicrobial resistant bacteria in the gut of young cattle. The research programme was undertaken with the University of Reading.

ANPARIO (ANP)	
Price (p)	370
Market cap £m	85.4
Historical yield	2.2%
Prospective yield	2.3%

In 2019, revenues edged up from £28.3m to £29m and gross margins improved, but there was a dip in pre-tax profit from £4.56m to £4.39m due to higher administration costs. Cash improved from £12.9m to £13.8m. Since then, £1m has been spent on buying back shares. Anpario continues to assess potential acquisitions.

Anpario had been hit by Asian Swine Flu which had led to a halving of the pig herd in China. This meant that the effects of COVID-19 on the Chinese operations earlier this year were less than they might have been.

So far, there has been no significant disruption to production or supply. Inventories have been built up and there are split shifts in the production plant.

There was a strong first-quarter performance as customers increased their stock levels and new customers have been added after they found it difficult to secure deliveries from other suppliers. Management believes that Anpario can continue to add to market share via remote sales calls.

Profit might be slightly lower this year. The shares are trading on just over 20 times prospective 2020 earnings.

Dividend news

Residential property developer and manager **Sigma Capital** is paying an unchanged final dividend of 2p a share. In 2019, pre-tax profit increased from £12.2m to £13m. The NAV is 67.6p a share. Future profit is dependent on the timing of development deals although there is a base of recurring revenues from PRS REIT and other property management contracts. More housing needs to be built and, although COVID-19 could delay progress, the demand will still be there. Construction is starting again in England. There was £27m in the bank at the end of April, so the balance sheet is strong.

Pensions provider **STM** has announced a second interim dividend of 0.75p a share and this goes ex-dividend on 4 June. This means that the total for the year of 1.5p a share is below the 2p a share paid for the previous year. In 2019, there was a rise in reported pre-tax profit but if the £2.12m accounting gain on acquisition is excluded there was a decline from £3.75m to £2.57m. That level of profit should at least be maintained this year even though interest income will be lower. Recurring revenues underpin the forecast revenues of £24.3m and a dividend of 1.7p a share is currently forecast for 2020.

Transport and logistics business **Xpediator** is paying a dividend for 2019 but it is not in cash. A scrip dividend of 1.05p a share has been declared. Last year, revenues grew but lower freight forwarding margins and higher overheads hit pre-tax profit and it fell to £5.2m. First-quarter trading was reasonable, but the second quarter, which is the weakest of the year, has been hit by the COVID-19 lockdown. Cost-cutting measures have been put in place. The full-year outlook will depend on the recovery in activity in the second half.

Expert view: Registrars

The debate over shareholder pre-emption rights masks a bigger issue

By Simon Griffin

The current economic climate has resulted in a growing number of companies seeking fresh capital, either simply to survive or otherwise in a bid to make the most of the distressed market conditions. This has re-ignited the debate about shareholder pre-emption rights potentially disenfranchising and diluting smaller shareholders.

Initiatives to streamline involvement in capital raising rounds and preserve pre-emption rights for smaller shareholders are to be applauded, but in a world where investors are demanding a more hands-on role in how companies are run, this only addresses a part of the question.

Data from the Office of National Statistics has shown that private investors directly own 9.5% of FTSE100 companies and 19.4% of smaller UK listed companies. Whilst these are clearly overshadowed by institutional holdings, on the basis that shareholders have a democratic right to help shape the direction of a company, does more need to be done?

Corporate stewardship

So, whether that's on matters of remuneration, director appointments, dividend policy, environmental concerns or indeed any other issue, can the refreshed debate about pre-emption rights have a broader reach into encouraging further improvements to corporate stewardship? Especially when set against the recent backdrop, where environmental, social and governance concerns have, for a range of very distinct reasons, each found themselves in the spotlight, it's difficult not to question why shareholders fail to exert more influence over the activities of the very companies they part own.

Even just taking a look at what is happening right now, as the COVID-19 pandemic causes untold disruption to businesses globally, a minority of companies can clearly be labelled as not acting as the good corporate citizen and instead are still pursuing the mantra of 'short term profit at any cost'. And presumably this means that at least some shareholders are now less than comfortable with the actions of directors.

> Helping shape the business of larger companies with diverse shareholdings can prove challenging

Exerting influence

In reality, amongst all but the smallest of businesses, the ability for shareholders to exert real influence and engage with boards can be challenging. Not least because all too often, those shares are held via an intermediary, such as a pension or investment firm. And whilst investors can go to a retail stockbroker to build their own portfolio of shares, evolution in financial markets over the last few decades means that -in the vast majority of cases ≠– these holdings will be registered against a nominee, either the broker, or one of its counterparties.

So, whilst the investor still stands to receive the financial benefit, helping shape the business and its operations in those larger companies with diverse shareholdings can prove challenging.

Investors do have the option of materialising holdings into physical share certificates and so appear on the register in that way, but this comes with the challenge of having to dematerialise the shares before a trade can then be made.

Alternatively, some may choose to use the CREST personal account as another mechanism that allows their name to appear on the shareholder register, but again this is far from convenient. This option can only be facilitated at the discretion of those brokers who elect to provide the service, and the accompanying charges increase the cost of share ownership too.

With arrangements for certificated holders set to be further tested by the ongoing implementation of CSDR (Central Securities Depositories Regulation) does this create the opportunity for real change in accurately recording share ownership structures?

By 2025, CSDR dictates that all securities will then need to be held in a dematerialised format, so should we be using this as the catalyst to see all individual shareholders named on a central electronic register?

COVID-19 has put the spotlight on corporate citizenship, whilst the rush for recapitalisation underlines the fact that issuers ought to be able to communicate with all shareholders in a swift and frictionless manner. Add to this the impending regulatory change and now more than ever is the perfect time for the association between shareholders and companies to be revisited.

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Sentiment declines as COVID-19 hits the confidence of AIM companies

The QCA has published the 24th edition of its survey of the confidence of smaller and medium-sized companies. COVID-19 has unsurprisingly led to a sharp downturn in sentiment in the latest results.

The latest Quoted Companies Alliance Small & Mid-cap Sentiment Index is released at a time of enormous uncertainty and it is no surprise that optimism has taken a hit. The level of optimism of companies and their advisers has fallen to the lowest levels since the survey began a decade ago.

The research also covers expected cash-raising requirements, expectations for jobs and views on the COVID-19 pandemic's effect on the companies.

Market

In a period when a few days can make a difference, it is important to note when the survey was done. It was conducted by AIM-quoted market research firm YouGov between 2 and 15 April 2020.

The FTSE AIM All Share index had reached its low point of 589.63 on 18 March and recovered to 664.97 by 2 April. By the 15 April it had recovered further to 733.94 and ended the month at 810.34.

This means that there was some recovery during the period of the survey, but the AIM All Share index was still below the level at the beginning of March and much lower than the 2020 peak of 975.18 on 20 February. The index started the year at 958.26.

This shows an improving stockmarket background to the responses. However, while there was a recovery during the period it probably felt a fragile one at the time. It is impossible to judge but the responses might have been slightly more optimistic if the survey had been undertaken at the end of April.

Responders

The number of companies in the small and mid-cap category on the London market is around 1,200. This is an online survey and an email was sent to the relevant companies on the QCA database inviting them to take part.

There were 137 quoted company respondents and 100 of those were quoted on AIM. There were also 45 advisers that took part in the survey. There were more companies and advisers interviewed than in the previous survey at the end of 2019, which was done just before the General Election. At that time, there was also the backdrop of the demise of Woodford Investment Management, which had a negative effect on the ability of smaller companies to raise cash in order to finance growth.

The majority of the companies that responded to the latest survey were valued at less than £500m. A handful were valued at more than £1bn. They are involved in a range of sectors, although financials accounted for around one-third of the number. Industrials and technology were the next biggest grouping.

Among the advisers, there were 12 lawyers, plus stockbrokers, accountants and corporate finance professionals. There were also two institutional investors.

Sentiment

The level of optimism about the UK economy was the lowest in the decade that the survey has been running. That is not surprising given the unprecedented nature of the COVID-19 pandemic. The company index figure fell from 46.3 to 26.2, while the adviser figure slumped from 49.2 to 30.5. In these figures anything under 50 is pessimistic, so the latest figures are highly pessimistic.

> The majority of the companies responding were valued at less than £500m

What is more surprising is that the companies are more optimistic about their own prospects. The figure has fallen from 66 to 50.9, but that is still slightly optimistic overall.

Advisers though are not optimistic about the general prospects for smaller companies. The index figure has slumped from 50.9 to 32. To put this in perspective, advisers are always more pessimistic than the companies themselves. Many of the more significant past downturns in adviser sentiment tend to be sharper than for the companies in that period.

Six months ago, in the previous survey,there was an expectation that turnover would grow by more than 14%, but it is currently expected to fall by 5.5%. Even that could be relatively optimistic if trading activity does not recover significantly for many of the companies in the third quarter.

Jobs

Companies have never expected a reduction in jobs in previous surveys, but in the latest the mean expectation is a a 4.2% decline in jobs.

For the first time since the end of 2012, advisers expect a decline in jobs. The mean expected change in jobs is -10.6%.

Raising money

There are 49% of the smaller companies responding that are planning to raise cash over the next 12 months, with 29% of those companies expecting to raise funds in the next three months.

The mean amount the companies want to raise is £15.7m, although the majority of the companies want to raise less than £10m.

Most of the companies want to raise cash via public share issues and 8% via a combination of more than one method. Issuing shares in order to build up the company's cash position enables management to concentrate on running the business in the knowledge that there is cash to cover any eventualities in the medium term. Once the money is raised it is in the bank and there are no worries about bank covenants or changes in lending policy.

One-fifth of the companies expect to obtain bank debt. Others, though, believe that it is dangerous to take on debt at the moment. They also believe that bank covenants are too onerous and government guarantees do not sufficiently change the position.

There is an acknowledgement by companies that it may be more difficult to raise cash through a share issue. In the survey at the end of 2019, 46% of companies believed that it would be easy and 18% thought it would be hard. This time 28% still think it would be easy to raise cash, while 41% thought it would be difficult.

Strangely, advisers seem slightly more optimistic than before.
In the previous survey, 59% of adviserstthought it was hard to raise money via the stockmarket and this figure has fallen to 49%. Only 7% believe it would be easy to raise cash for their clients compared with 10% previously.

Of course, cash can be raised but the decline in share prices combined with potentially large discounts to the market price can make it unattractive and highly dilutive. Under current market conditions companies appear to be more willing to put up with the dilution of a fundraising because it can ensure that the business will be able to cope with the problems and reduced activity that has occurred due to COVID-19.

Pharma reagents supplier Abcam, which is one of the largest companies on AIM, managed to raise money at a 1.5% premium to the market price, although it had already slumped before the cash raising.

Smaller companies, though, may have to accept a much larger discount when setting a placing price. Residential property developer Inland Homes (see page 2) raised cash at a 10% discount to the market price, as did City Pub Company when it raised money one month earlier. Both share prices had fallen sharply prior to the fund raisings.

Both companies and advisers would like the regulatory burden of raising money to be eased. A quarter of companies and two-fifths of advisers would like the rules on prospectuses changed so that a greater amount of money can be raised without having to issue a prospectus.

Companies do not think that bank finance will be as easy to obtain as it might have been last year. Those companies believing it would be easy has fallen from 48% to 36%. One-quarter believes it will be difficult.

This shows a lack of belief in the proposals by the government to get banks to lend to businesses, although those proposals have been updated since the survey.

COVID-19

The majority of the companies surveyed have furloughed staff and 28% have laid-off employees. So far, 30% have applied to a government support scheme, with a further 28% planning or considering applying for support. One-third of companies have talked to their landlords about rent payments.

Nearly two-thirds of companies believe that they are getting enough guidance and information from regulators, although one-fifth disagree.

The companies were generally happy for the government to take stakes in smaller companies in order to help them through the current crisis. They are particularly keen for Enterprise Investment Scheme and Venture Capital Trust investment rules to be relaxed so that it is easier to obtain funds from this source.

COVID-19 has made companies take a hard look at their business and 47% says that they have identified areas that can be improved. Remote working and lower office occupancy could be here to stay.

More information on the survey is available at www.theqca.com.

49% of the smaller companies are planning to raise cash over the next 12 months

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	24.9	16.6
Industrials	16.9	17.1
Healthcare	15.6	10.2
Technology	13.3	11.9
Financials	9.3	12.6
Energy	6.1	11.3
Basic materials	5.6	14.4
Property	5.2	3.3
Telecoms	1.9	2.4
Utilities	1.3	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	810.34	-16.4
FTSE AIM 50	4471.47	-20.2
FTSE AIM 100	4150.8	-19.9
FTSE Fledgling	7442.07	-17.9
FTSE Small Cap	4680.75	-17.5
FTSE All-Share	3262.51	-19.8
FTSE 100	5901.21	-20.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	194
£5m-£10m	100
£10m-£25m	171
£25m-£50m	114
£50m-£100m	103
£100m-£250m	92
£250m+	69

KEY AIM STATISTICS

Total number of AIM	843
Number of nominated advisers	28
Number of market makers	48
Total market cap for all AIM	£74.4bn
Total of new money raised	£116.6bn
Total raised by new issues	£45.4bn
Total raised by secondary issues	£71.1bn
Share turnover value (Mar 2020)	£19bn
Number of bargains (Mar 2020)	3.5m
Shares traded (Mar 2020)	162.1bn
Transfers to the official list	191

TOP 5 RISERS OVER 30 DAYS

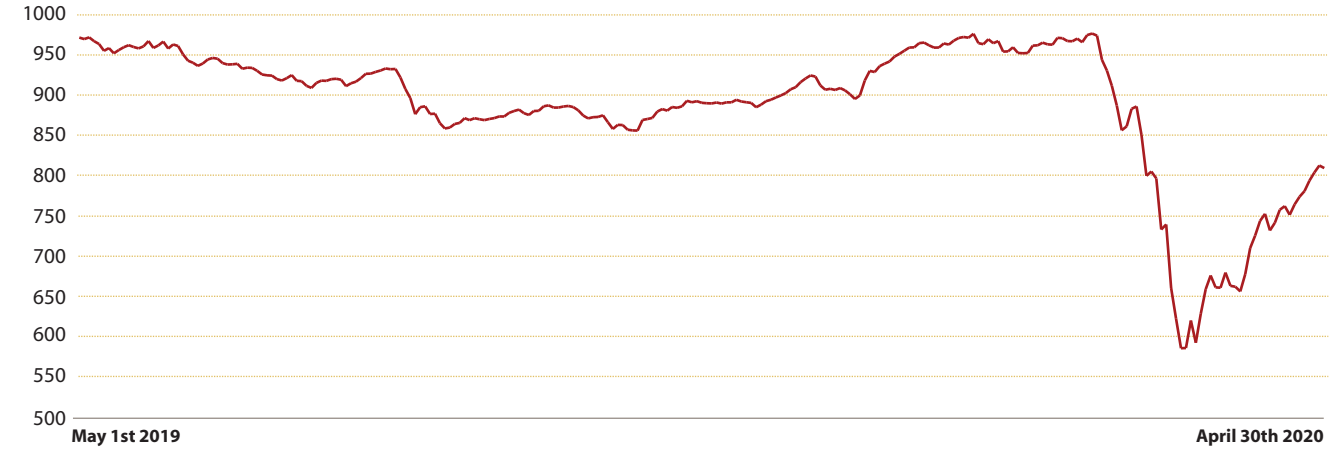
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Catenae Innovation	Technology	5.35	+723
Omega Diagnostics	Healthcare	56.5	+641
Avacta	Healthcare	95.5	+339
Genedrive	Healthcare	109	+289
ValiRx	Healthcare	13.125	+228

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
88 Energy	Oil and gas	0.245	-77.2
APQ Global	Financials	20	-70.6
Pacific Alliance China	Financials	22c	-69
Malvern International	Education	0.15	-57.1
Nakama	Support services	0.25	-54.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2020, and we cannot accept responsibility for their accuracy.

AIM Journal

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

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

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

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

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

AIM

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

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

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

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

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