APRIL 2016

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

In this issue

One51 plans dual quote

Rigid-plastic-products manufacturer and waste-management services provider One51 is holding a general meeting on 21 April to gain the shareholder approvals required to issue shares for a potential flotation on AIM and the Enterprise Securities Market (ESM).

In 2014, Ireland-based One51 paid 78p a share in cash for AIM-quoted Straight, which valued the wheeled-bins manufacturer at £10.7m. One51 subsequently bought a controlling stake in Canadian plastic-products business IPL. A flotation would trigger a deal to swap One51 shares for the one-third of IPL that it does not currently own. The plastics division is the main focus of expansion.

One51 is a substantial business. In 2015, revenues grew from €276.5m to €366m, while underlying profit almost doubled from €16.2m to €31.9m. A full 12-month contribution from IPL would have taken revenues to €473.5m and grown profit even more rapidly. Plastic products generate nearly two-thirds of revenues and a greater proportion of profit. Net debt was €120m at the end of 2015 and there is contingent consideration of more than €33m that could become payable.

Numis and Davy have been appointed as advisers for the flotation, which is still dependent on market conditions. Although One51 is unlisted there has been regular trading in its shares since 2007 and by the end of March the shares were changing hands at €1.70 each.

Capital gains tax changes

The extension of capital gains tax entrepreneurs' relief to external investors in unlisted trading companies is good news for AIM and ISDX shares. It will provide additional encouragement for long-term investors to put their cash into small companies. The investment will have to be held for a minimum of three years to be eligible.

The new rules cover newly issued shares that are bought on or after 17 March 2016. There will be a lifetime limit of £10m for these gains, which is separate from the annual capital gains tax limit.

The government is also consulting on possible reform of the substantial shareholdings exemption for corporate capital gains.

There has also been a reduction in the capital gains tax rate – down from 28% to 20% at the higher rate and from 18% to 10% for the basic rate. There is an eight percentage point surcharge for gains on residential property, so the new regime encourages investment in companies.

On top of this, small companies will benefit from the planned reduction in corporation tax to 17% by 2020.

general news

Eclectic acquires Brighton Pier

Late-night-bars operator Eclectic Bars is buying Brighton Pier for £18m in cash. This is partly funded by a placing raising £8.5m at 55p a share. The placing was backed by existing and new institutional investors.

Brighton pier was opened at the end of the nineteenth century and has a history of profitability, which is higher than that achieved by the existing Eclectic business if management charges and other payments to the previous owner are stripped out. In the year to October 2015, revenues were £13.3m and underlying EBITDA was £3.42m – more than three times the EBITDA of Eclectic, although that is after head-office costs. There is scope for additional investment to further improve the profitability of the pier.

Brighton Pier will be the basis of a new division for the group and Eclectic intends to become a consolidator in the leisure and entertainment sector. The original bars business continues to be rationalised, with costs reduced and unprofitable sites being closed. Eclectic already operates three bars in Brighton. Net debt was negligible at the end of 2015 and a £13m bank facility has been secured. Eclectic should be highly cash generative in its enlarged form.

Anne Martin, who has been general manager of Brighton pier for 12 years, will continue to run the business and join the Eclectic board. The Eclectic chief executive is stepping down and being replaced by the chief operating officer, Leigh Nicholson. Executive chairman Luke Johnson is bringing in his colleague Joseph Tager as a non-executive director so he can help with further acquisitions.

Winterflood decline

Lower trading activity led to a one-third decline in the interim operating profit of market maker Winterflood. The average number of trades has fallen from 54,900 to 51,400 each day, which indicates weak retail investor sentiment due to difficult global market conditions. Winterflood generated income per trade of £4.87, compared with £5.05 during the corresponding period. In the six months to December 2015, operating income fell from £41.9m to £35.2m, while operating profit slipped from £10.3m to £6.8m.

The corresponding figures exclude the German business, which was sold last year. However, this decline was exacerbated by profit relating to the disposal of shares in Euroclear. This contribution slipped from £3.4m to £1.9m, so the underlying decline was from £6.9m to £4.9m.

Maintel trebles in size

Telecoms services provider Maintel is nearly trebling in size through the reverse takeover of managed-services provider Azzurri Communications in a deal valued at £48.5m. The acquisition is being partly funded by a £24m placing at 700p a share.

Azzurri was originally backed by 3i, which sold its stake for £115m – nearly five times its initial investment – when Prudential undertook a buyout of the business in 2006. Azzurri subsequently got into financial difficulties and was forced into a debt for equity swap. The business has been restructured and the purchase consideration is going towards paying off the debt.

The acquisition provides further impetus to Maintel's strategy of increasing exposure to managed-services business and will help Maintel to add larger customers. Azzurri customers include city and county councils, Severn Trent, Savills, Carpetright and JD SportsThe deal also adds supplier relationships. The dependency on the top ten customers will fall from 33% of revenues to 30% of revenues.

The Maintel plan is to develop a unified communications as a service business and Azzurri has already developed a platform, which provides customers with a choice of vendors, such as Avaya and Mitel.

The deal will more than double Maintel revenues from £50.6m to £110.5m in 2016 and a full 12-month contribution in 2017 should increase revenues to £139.5m. Without the acquisition, Maintel revenues are likely to have been flat. Underlying pre-tax profit is forecast to improve from £7.3m to £10.8m this year, rising to £15.5m in 2017. Net debt of £25.4m is forecast for the end of 2016 but cash generation should reduce that to £17.7m a year later.

advisers

Sanlam clients find new homes

ADVISER CHANGES - MARCH 2016

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Greka Drilling Ltd	Smith & Williamson	Arden	Smith & Williamson	Smith & Williamson	01/03/16
Parallel Media Group	Stockdale	Sanlam	Stockdale	Sanlam	01/03/16
AB Dynamics	Cantor Fitzgerald	Panmure Gordon	Cairn	Cairn	02/03/16
Eagle Eye Solutions	Investec	Panmure Gordon	Investec	Panmure Gordon	02/03/16
Feedback	Allenby/Peterhouse	Sanlam	Allenby	Sanlam	02/03/16
Infrastrata	Allenby	Allenby/VSA	Allenby	Allenby	02/03/16
Braveheart Investment Group	Allenby	Sanlam	Allenby	Sanlam	03/03/16
Premaitha Health	finnCap/ Panmure Gordon	Panmure Gordon	Cairn	Cairn	07/03/16
Starcom	Peterhouse/Northland	Northland	Northland	Northland	07/03/16
Vipera	finnCap	Sanlam	finnCap	Sanlam	07/03/16
Windar Photonics	Cantor Fitzgerald	Sanlam	Cantor Fitzgerald	Sanlam	07/03/16
Work Group	Allenby	Sanlam	Allenby	Sanlam	07/03/16
React Group	Whitman Howard	SI Capital	SPARK	SPARK	08/03/16
Redx Pharma	Cantor Fitzgerald	Shore	Cantor Fitzgerald	Shore	08/03/16
Noricum Gold	Shard/SP Angel	SP Angel	SP Angel	SP Angel	09/03/16
PHSC	Beaufort	Sanlam	Northland	Sanlam	09/03/16
Panther Securities	Allenby/ Raymond James	Sanlam/ Raymond James	Allenby	Sanlam	10/03/16
PipeHawk	Allenby	Sanlam	Allenby	Sanlam	10/03/16
Slingsby (HC)	Allenby	Sanlam	Allenby	Sanlam	10/03/16
Specialist Investment Properties	Allenby	Sanlam	Allenby	Sanlam	10/03/16
Karelian Diamond Resources	Beaufort	Beaufort	Allenby	Sanlam	11/03/16
Norman Broadbent	Allenby	Sanlam	Allenby	Sanlam	11/03/16
PCG Entertainment	Beaufort	Beaufort	Allenby	Sanlam	11/03/16
Porta Communications	Allenby	Sanlam	Allenby	Sanlam	11/03/16
Walcom Group Ltd	Allenby	Sanlam	Allenby	Sanlam	11/03/16
Wishbone Gold	Beaufort	Beaufort	Allenby	Sanlam	11/03/16
Access Intelligence	Allenby	Sanlam	Allenby	Sanlam	14/03/16
Conroy Gold & Natural Resources	Hybridan	Hybridan	Allenby	Sanlam	14/03/16
Golden Saint Resources	Beaumont Cornish	Beaumont Cornish/ Cornhill	Beaumont Cornish	Beaumont Cornish	14/03/16
Sunrise Resources	Beaufort/Northland	Northland	Northland	Northland	14/03/16
Nostra Terra Oil & Gas	Cornhill/ Strand Hanson	Cornhill	Strand Hanson	Sanlam	15/03/16
Draganfly Investments	Beaufort	finnCap	finnCap	finnCap	18/03/16
Rex Bionics	Beaufort/ Stifel Nicolaus	Stifel Nicolaus	Stifel Nicolaus	Stifel Nicolaus	18/03/16
Bezant Resources	Beaufort	Strand Hanson	Strand Hanson	Strand Hanson	21/03/16
United Cacao Ld SEZC	Beaufort	VSA/Kallpa Securities	Strand Hanson	Strand Hanson	21/03/16
Eco City Vehicles	finnCap	Allenby	finnCap	Allenby	23/03/16
Safestay	Canaccord Genuity	Stockdale	Canaccord Genuity	Stockdale	23/03/16
Reconstruction Capital II Ltd	Panmure Gordon	Edmond de Rothschild	Grant Thornton	Grant Thornton	29/03/16
Cambridge Cognition	Hybridan/finnCap	finnCap	finnCap	finnCap	30/03/16
Adamas Finance Asia Ltd	WH Ireland	Edmond de Rothschild	WH Ireland	WH Ireland	31/03/16
Pacific Alliance China Land Ltd	Liberum	Edmond de Rothschild	Grant Thornton	Grant Thornton	31/03/16

company news

7digital secures Snowite and makes significant step towards profitability

Music streaming services *www.7digital.com*

Digital music streaming technology business **7digital** has completed the acquisition of French rival Snowite. Once the acquisition is integrated it will be earnings enhancing and help 7digital to move into profit. Next year annual overhead savings of more than £500,000 are being targeted. Music streaming is a growing market and last year music streaming revenues exceeded CD revenues for the first time.

7digital paid 7.32 million shares – valued at £650,000 – for Snowite and is taking on debt of €1.7m (around £1.3m), payable over eight years. Snowite was in French bankruptcy protection and that is why the deal took nearly three months to complete. The deal should add £1.2m of annual revenues, of which £864,000 is recurring. It also brings a platform that has been developed by Snowite, which adds to the functionality of 7digital's existing platform and will save time and money on additional development.

Snowite will be earnings enhancing

Revenues were flat in 2015 but there were a greater proportion of higher-margin revenues as download revenues reduce and are replaced by streaming revenues. The annualised run rate of monthly revenues is £5.8m, compared with £3.4m at the end of 2014. Reported group revenues were £10.4m and the underlying loss was reduced from £3.8m to £2.88m. The creative division, which makes radio programmes, continues to grow and generate cash for the group. Net cash was £1.66m at the end of 2015 after the sale of the stake in Audioboom.

7DIGITAL (7DIG)			8.38p
12 MONTH CHANGE %	- 50.6	MARKET CAP £M	9.7

7digital is expected to report a lower loss this year and it should be trading profitably by the end of the year. A 2017 profit is forecast and it could be as high as £700,000. If that profit can be achieved, 7digital will be on a relatively low rating for a business that has the potential to grow rapidly.

Mobile Taptica turns around its fortunes

Mobile-ad technology *www.taptica.com*

Last year was transformative for advertising technology provider **Taptica International Ltd** as its focus moved from display to mobile. Mobile accounted for 61% of 2015 revenues compared with 18% the previous year and it is likely to be higher this year. Israel-based Taptica has the expertise to collect data and use it to target users. The acquisition of AreaOne last year added social media expertise.

In 2015, revenues were one-fifth higher at $75.8m but underlying pre-tax profit fell from $8.95m to $5.56m. One of the reasons for the decline is that research and development spending more than doubled to $4.1m so that the mobile-ad technology could be developed further. Cash flow from operations dipped from $8.62m to $6.18m. There was $18.7m in the bank at the end of 2015. Taptica has a policy of paying 25% of post-tax earnings in dividends. The final dividend for 2015 was 0.784 cents a share.

TAPTICA INTERNATIONAL LTD (TAP)			72.5p
12 MONTH CHANGE %	- 48.8	MARKET CAP £M	49.3

Taptica says that it is retaining customers for longer and they are spending more money. America is the dominant market for Taptica at the moment but it wants to grow its exposure to Asia, which has already been boosted by the AreaOne acquisition.

River & Mercantile has increased its stake in Taptica to 7.2%. A forecast 2016 profit of $10.4m would eclipse the level of profit in 2014, although revenues would be much higher than in 2014. The shares are trading on nine times prospective 2016 earnings and the prospective yield should be well over 2%.

company news

Manx Telecom set to benefit from investment in new services

Telecoms *www.manxtelecom.com*

Isle of Man-based **Manx Telecom** has solid core operations in fixed-line and mobile telecoms plus faster-growing operations in terms of data centres and machine-to-machine (M2M) services.

Core telecoms operations continue to grow steadily but lower revenues from SMS termination services and equipment sales meant that overall revenues were flat at £79.6m in 2015. Underlying pre-tax profit improved by 28% to £16.6m, and that was boosted by a £334,000 net profit on interest rate swaps. Net debt was £52.2m at the end of 2015 and the loan facilities last until 2020. The dividend was increased from 9.9p a share to 10.4p a share.

High-speed broadband customer numbers are growing, although prices have fallen following the new wholesale pricing regime last autumn. There has also been a strong take up of 4G mobile services, while data centre revenues were one-fifth ahead as new customers move into phase two of the development. SMS termination revenues appear to have stopped declining but they are still likely to be lower in 2016.

High speed broadband customers are increasing

Revenues are set to grow this year but the pre-tax profit is expected to dip to £15.3m. That mainly reflects higher interest and depreciation charges following investment in the data centre. The dividend will continue to grow and 10.9p a share is forecast for 2016. Fidelity has trimmed its shareholding to 6.52%.

MANX TELECOM (MANX)	215p		
12 MONTH CHANGE %	+18.5	MARKET CAP £M	242.8

The shares are trading on 17 times prospective 2016 earnings following a strong share price performance since the flotation at 142p a share little more than one year ago. Manx continues to have a significant market share in its core markets in the Isle of Man and this is generating the cash to invest in faster-growing operations.

SalvaRx plans buy and build strategy

Immunotherapy *www.salvarx.io*

Pharma company **SalvaRx** has reversed into 3Legs Resources and raised £1.5m after costs from a placing. SalvaRx has one majority-owned subsidiary, iOx Therapeutics, and the strategy is to use the quotation to make further acquisitions of cancer immunotherapy products and businesses. The cancer immunotherapy market is forecast to be worth more than $70bn by 2020.

As part of the reversal, there was a 100-for-one share consolidation. At the placing price of 35.5p a share, the SalvaRx all-share deal is valued at £8.8m. There was pro-forma cash of £2.54m after the placing and costs of flotation. Dr Ian Walters is the chief executive. He has worked at a number of large pharma companies, including Bristol-Myers Squibb, where he was involved with developing cancer treatments. SalvaRx chief scientific officer Dr Bob Kramer also worked at Bristol-Myers Squibb. SalvaRx has a small but highly experienced management team. The board will cost just over £200,000 a year in terms of basic pay and central costs will be kept down so that more cash can be put into subsidiaries developing treatments.

SALVARX (SALV)	34.63p		
12 MONTH CHANGE %	+50.6	MARKET CAP £M	12.6

iOx is a spin-out from Oxford University and it is developing a pipeline of cancer treatments based on iNKT cells. iOx has a potential treatment using its patented iNKT agonists in metastatic melanoma and Oxford University is providing the funding for a phase I/II human trial for this first potential treatment.

Non-executive Jim Mellon (see interview on page 8) and Dr Greg Bailey own 73% of SalvaRx. The next phase of expansion will involve attracting institutional investors in order to finance future acquisitions for the buy and build strategy.

company news

K3 Business held back by one-off changes to the timing of revenues

Software *www.k3btg.com*

Enterprise software provider **K3 Business Technology** continues to grow strongly but it is not going to grow quite as fast as originally expected because of a move from one-off licences to subscription services. These subscription-based recurring revenues eventually generate more than one-off licences but they take time to build up, generally starting with a limited number of users, with additional users being added over time.

The interim figures were as expected, with revenues hardly changed at £42.3m, 47% of which were recurring revenues, and underlying operating profit one-quarter higher at £5.11m. The main growth in profit came from the retail division, where the more than doubled contribution of £2.51m reflects much better margins after cost cutting. Lower licence sales and increased investment held back the profit of the manufacturing and distribution division.

K3 is selling more of its own software

K3 is selling more of its own software products, which boosts margins. The retail product on Microsoft Dynamics AX has gained a number of orders. K3 has a good relationship with Microsoft and it is a member of the Microsoft Dynamics Inner Circle. This helps with relationships with global systems integrators.

Net debt fell 13% to £10.5m at the end of 2015. Cash generation is strong but additional investment in R&D will hold back profit. That net debt figure is likely to be maintained at the end of June but it should come down sharply the following year.

K3 BUSINESS TECHNOLOGY (KBT)	331p
12 MONTH CHANGE % +46.5	MARKET CAP £M 107

The 2015-16 profit forecast of £9.3m has been barely changed by house broker finnCap but its 2016-17 figure has been trimmed to £10.2m. The shares are trading on just over 12 times 2016-17 prospective earnings even though the tax charge is rising. That is relatively modest for a software company with significant recurring revenues and good growth prospects.

Acquisitions set to pay off for Tracsis

Transport software *www.tracsis.com*

Transport optimisation services and software provider **Tracsis** made good progress in the first half of its financial year but it should do much better in the second half. Higher contributions from acquisitions Ontrac and SEP Events, which is second-half weighted, underpin the expectations of a strong full-year outcome.

In the six months to January 2016, revenues increased by 19% to £14.3m, organic growth was 7%, with adjusted pre-tax profit flat at £3.2m, excluding the Australian business sold in the period. The growth came in the software and consulting operations. Sales of remote condition monitoring equipment remain flat because of a lack of demand from framework agreements. There is potential for significant sales in the US but this will not contribute significantly in the short term.

TRACSIS (TRCS)	510p
12 MONTH CHANGE % +36	MARKET CAP £M 140.1

The interim dividend was raised by a quarter to 0.5p a share but that will not put much of a dent in the cash pile of £8m. That cash figure was reduced due to acquisition spending but it should start growing without any additional acquisitions. Further acquisitions are likely, though, because Tracsis is a consolidator in the sector.

SEP, which was acquired last autumn, provides events management and parking services and business is strongest during the summer and the full benefits of the acquisition will not show through until next year.

Full-year profit is expected to improve from £5.6m to £6.8m, which puts the shares on 25 times prospective 2015-16 earnings. Tracsis tends to beat expectations.

dividends

Higher-margin activities boost AdEPT growth

Telecoms *www.adept-telecom.co.uk*

Dividend

AdEPT Telecom did not initially pay dividends after its flotation one decade ago preferring to use its cash to help finance acquisitions. This changed in the year to March 2012 when a maiden dividend of 0.5p a share was paid, rising to 1.5p a share the following year. The dividend has grown rapidly since then. Last year's total was 4.75p a share and this year 6.5p a share has been promised.

The forecast dividend will be covered nearly three times by earnings and strong cash generation makes AdEPT's dividends affordable. There have also been share buybacks. However, acquisitions meant that net debt rose from £1.5m to £6.2m by the end of March 2016. Deferred consideration will take up the spare cash in the financial year that has just started, so net debt is likely to be similar in one year's time.

Business

Telecoms services provider AdEPT provides traditional fixed-line services, broadband and WiFi and hosted cloud services to business and residential customers. Education, government and health are important sectors for the company.

One year ago the business was transformed when AdEPT bought Centrix for an initial £7m plus a performance-based deferred payout of up to £3.5m. Centrix provides Avaya telephony, hosting and managed services and recurring revenues account for four-fifths of the total. AdEPT needed the expertise that came with Centrix in order to offer a wider range of services to the customer base. Centrix brings smart building technology to the group.

ADEPT TELECOM (ADT)	
Price (p)	234
Market cap £m	52.7
Historical yield	2%
Prospective yield	2.8%

Centrix is responsible for the growth in last year's group revenues. The lower-margin, fixed-line operations have been hit by falling prices. Even before the Centrix acquisition, the growth was coming from data and other services, with data and broadband revenues 15% higher in 2014-15.

At least a quarter of revenues came from the public sector and healthcare in the first half and this figure is rising. Since it floated at 140p a share in February 2006, AdEPT has grown EBITDA every year. This is set to continue.

Revenues are expected to have grown from £22.1m to £28.7m in the year to March 2016, while pre-tax profit is estimated to have risen from £4.3m to £5.4m. Acquisitions have helped to boost gross margins from 37.6% to 43% and they should improve further this year. Managed services are around two-fifths of total revenues. The full figures will be published in July.

House broker Northland forecasts flat underlying pre-tax profit for the current year and slightly lower underlying earnings per share due to a higher tax charge. The shares are trading on 13 times prospective 2016-17 earnings. There are spare bank facilities that can be used to pay the deferred consideration for Centrix and finance other earnings-enhancing acquisitions.

Dividend news

Belvoir Lettings had a much stronger second half, which enabled it to report a full-year improvement in pre-tax profit from £1.8m to £2.2m. Uncertainty concerning last year's election meant that the first-half performance was weaker but this was more than made up for. The dividend is maintained at 6.8p a share and it is covered by underlying earnings per share in 2015. Demand for private-sector lettings continues to grow. A profit of £3.3m is forecast for 2016 when the two acquisitions made in 2015 will make a full contribution. The dividend could be edged up to 6.9p a share in 2016, which is expected to be covered 1.2 times.

Scientific instruments supplier **Judges Scientific** is continuing its policy of increasing its dividend by 10% a year. Profit recovered in 2015 after a disappointing performance in 2014. An increase in underlying earnings per share from 82.7p to 109.2p enabled Judges to increase the dividend to 25p a share in 2015. Following the results, Judges announced the £2.75m acquisition of Dia-Stron, which makes systems that test strength and properties of fibres. This is an earnings-enhancing deal – Dia-Stron made a profit of £660,000 last year– and the 2016 earnings per share forecast has been increased by 4% to 122.3p.

A 30% increase in the dividend announced by waste management services provider **Augean** was a positive surprise for the market. The 0.65p a share dividend is still covered more than seven times by 2015 earnings. Net debt has been reduced from £5.71m to £4.27m. The improvement in pre-tax profit to £6.03m was achieved despite the weak oil and gas sector, although this part of the business, which generates a quarter of revenues, remains profitable. The performance of the five divisions is likely to be mixed but 2016 pre-tax profit is expected to rise to £6.58m.

expert views

Expert view: The broker

Straight Talking with Northland

Patrick Claridge talks with Jim Mellon, investor and entrepreneur

In this edition of Straight Talking, Northland's CEO, Patrick Claridge, speaks to investor and entrepreneur Jim Mellon about the AIM market, its future if Brexit occurs and two AIM companies that he is involved with.

Patrick Claridge: You have been a prolific investor and a supporter of AIM over the years. How have you found the market for investor returns and is AIM still your market of choice?

Jim Mellon: Yes, AIM remains a preferred market. We have listed a number of companies successfully on the market and found it to be worthwhile. ISDX is another option, and it is possible that in the future we will use both. The costs on ISDX appear to be lower but the liquidity is not as good at the moment. Our latest listing is SalvaRx Group, which is the new name for 3Legs.

Patrick Claridge: Which sectors are you most interested in at the moment and why?

Jim Mellon: SalvaRx is engaged in the biotech industry, which for a number of years has been my favourite sector. The ever cheaper sequencing of human genomes and the ability to read them with increasing accuracy is changing the way medicine is conducted. Personalised therapies are on the cusp of making cancer a chronic rather than possibly terminal condition. This is the most exciting time ever to be involved in healthcare. SalvaRx is involved in immunotherapy, and has negotiated a very good deal with Oxford University to conduct its clinical trials. The management is experienced and I am hopeful that some great science will emerge from the company.

Patrick Claridge: We are familiar with your views on Brexit – you are in favour of the UK leaving the EU – but how do you see AIM in the future if the LSE merges with the Deutsche Börse, or even one of the US exchanges?

Jim Mellon: I imagine nothing will change either way. Brexit may or may not happen, but my own view is that this will have little impact on AIM or the City, which remains pre-eminent among financial centres. The LSE's likely merger with Deutsche Börse will have little effect on the way AIM operates, in my opinion.

Patrick Claridge: AIM is clearly going through a change as NOMADS review their client base. How can the market attract more entrepreneurs like yourself?

Jim Mellon: Probably more outreach to entrepreneurs through trade shows, seminars, and one-on-one meetings. AIM has some terrific things going for it, including tax advantages, ease of use, and the ability to project a company's image to a much wider audience. Undoubtedly the number of NOMADs will fall and the industry will consolidate. At the moment, there isn't really enough business to go around. I hope to do my bit by listing more companies in the near future!

Patrick Claridge: Where do you see growth coming from this year with so much uncertainty caused by factors such as China, falling commodity prices and the rising dollar? Against this backdrop, do you think investors will be able to make money this year?

Jim Mellon: Negative interest rates and monetary distortions are not helpful to long-term savings, and may not even be effective in generating economic growth. But I have recently begun to sense inflation in the air; starting in the US, and possibly coming to the UK. I think central banks should actually be raising interest rates more aggressively than they have indicated. The recent rise in oil prices is a precursor to generally rising prices (not yet in the eurozone, which is in trouble). This is a good thing, and as a result I think that a modest return in stocks is likely this year. A much bigger return can be expected in gold and silver, but I think bonds are way overpriced and are riding for a fall.

Patrick Claridge: You are a director and 8% shareholder in FastForward Innovations, which is quoted on AIM. Is the company a UK version of Google Ventures aimed at the private investor?

Jim Mellon: This is an exciting concept. The so called PayPal Mafia in the US controls a lot of the flows of money into exciting new companies, and retail investors rarely get a look in until valuations get racy and the venture capitalists are cashing out. FastForward, named after my latest book, buys positions in early-stage companies, helps them with their development, and pays reasonable prices for its positions. It is focused on med-tech, gaming and biotech. I am excited about its prospects.

expert views

Expert view: The lawyer

Case law on whether a binding agreement was concluded orally

By Simon Charles, corporate partner, Marriott Harrison LLP

In a case recently before the High Court,*, the court held that no legally binding agreement was entered into as a result of discussions which related to the provision by the defendant broker to the claimant of certain financial services. No new law was made but it reinforces the importance of ensuring that if a legally binding contract is intended to be entered into, as opposed to an agreement in principle, the parties should evidence the same.

The key issue is the absolute importance of making sure, when the intention is to create binding obligations on parties, that the intention to create legal obligations exists and that the discussions are not to be regarded as being subject to contract. The essential facts of the case were that the claimant alleged that it and the defendant had entered into a binding contract to provide "middle office support" to the defendant's structured products desk for a period of 24 months. These services related to compliance, legal and risk management functions. The defendant sought to deny that the parties had entered into a binding contract.

It was not disputed that the parties had been in discussions about the possible provisioning of middle office support. The claimant had set out a proposal to the defendant. The parties met and discussed the proposal in detail and the parties went so far as to discuss a start date. This was the only material departure from the contents of the proposal.

The claimant subsequently contacted the defendant as follows: "I have set out below the terms… agreed in the meeting… I am happy to sign whatever additional documents ICAP (the defendant) requires to record this agreement."

The email chain set out the various services the claimant would provide and the fee of £50,000 plus VAT per month and £2 million annual credit for securities trading facilitation fees.

The High Court was asked to rule whether or not a binding agreement had been reached during or immediately after the meeting the parties held.

Judgement

Mr Justice Knowles found that no binding agreement had been reached. He confirmed that the legal principles on the area were not in doubt and that whether or not a binding agreement had been reached was determined by the parties' words and conduct to see whether, objectively, they intended to create legal relations and agreed all the essential terms for agreement to be reached.

A representative of the claimant said at the meeting that the parties were "done", or similar. However, the judge accepted evidence of the defendant that he had in fact overridden that statement by saying that things had next to go to the lawyers. The judge said he was quite sure that the defendant's response was intended to make it clear to all, and would have made it clear to an objective observer, that although all points had been agreed in principle in the sense that no commercial issues remained outstanding, a legally binding agreement had not been concluded between the parties.

The judge held that the parties had at no stage contemplated that a legally binding agreement would be entered into orally. The parties had not entered into an agreement in writing. Even if the emails between the parties which contained the material terms of the proposed services were capable of acceptance then they had not actually been accepted. Whilst the parties might not have contemplated significant subsequent documentation, some form of particularised documentation had been foreshadowed.

**JAS Financial Products LLP v ICAP Plc [2016] EWHC 591*

> **The High Court was asked to rule whether or not a binding agreement had been reached**

> **A legally binding agreement had not been concluded between the parties**

SIMON CHARLES is a corporate partner of Marriott Harrison and advises public and private companies, NOMADs, sponsors, brokers and private and institutional investors.

feature

Crowdfunding dips its toe in AIM

AIM companies are starting to embrace crowdfunding as a way of raising incremental cash.

Crowdfunding platforms, such as SyndicateRoom and PrimaryBid, are trying to offer AIM companies the chance to raise additional funds from small investors. It is early days and the platforms still need to build up demand for issues from their members.

SyndicateRoom is authorised by the FCA and has become a member of the London Stock Exchange. In 2014, it raised £1.5m for Mill Residential REIT prior to its short stay on AIM. SyndicateRoom can now raise money for existing AIM companies and helped immunotherapy company Scancell supplement the money it raised from institutions and existing shareholders. The placing price was 17p a share, which was a 16% discount to the Scancell share price before the fundraising announcement so other shareholders were able to buy shares at the same discount.

The cash call was done in two stages. There was £3.4m raised from institutions thereby assuring Scancell that it would get a minimum level of funds. Existing shareholders were given the chance to subscribe for up to £3.8m-worth of shares on the basis of a one-for-ten open offer with the chance to apply for more than their own entitlement. The open offer was announced on 9 March and closed on 30 March. On 24 March members of SyndicateRoom were given the chance to apply for shares available under the offer. However, by that time the Scancell share price had fallen to 18p so the discount to the market price was not as large as it had been.

Subscribers took up 73% of the shares on offer and Scancell raised a further £2.8m before expenses. It is unclear how much cash came from existing shareholders and how much from SyndicateRoom investors but it certainly provided a top-up for the cash raised from existing investors. Total costs for the £6.2m fundraising were estimated at £500,000. That cash should keep Scancell going until 2018.

Teathers Financial has a crowdfunding app that enables investors to participate in flotations and placings while there are other models of AIM crowdfunding which do not involve fundraisings that have already been announced by the company. Primarybid.com was recently relaunched with investors able to bid to acquire new shares in most AIM companies via the website. The first company to raise money after the relaunch was Pathfinder Minerals.

Additional ways of raising money for small companies are always appreciated

The model enables investors' to bid for shares at a specific price and this enables Primary Bid to approach companies with the offer of funding from these investors. A company can choose whether or not it wants additional cash or if the price on offer is to its liking. There is no obligation to take the money although the potential investors do agree to come up with the money if the offer is taken up by the company.

Gas resources developer Ascent Resources has raised money via Primarybid.com three times in 12 months. Prior to the latest placing in early April there had been a bid approach for Ascent from Cadogan Petroleum but the enormous spike in the Ascent share price put off Cadogan, which withdrew on 1 April. The share price fell back and the following Wednesday Primary Bid approached Ascent with the information that investors on the platform were willing to offer £500,000 at 1.4p a share. A board discussion was held the same day and the placing, which after costs raised £477,500, was announced the following day. This shows that the model can operate efficiently but, of course, it may not always be the companies that need the money that get offered it.

Ascent requires cash to finance its costs while it waits for the IPCC permit in Slovenia that will allow it to build a processing plant. A decision on the permit could be made by the end of June. Tenders are being sought for a metering and monitoring station.

Additional ways of raising money for small companies are always appreciated, especially if it can be achieved at a lower cost. The lack of rights issues and open offers compared with 20 years ago tends to be blamed on cost and timing. Providing access to open offers to outside investors at least increases the potential money that can be raised. Scancell shows that it does not necessarily mean that all of the cash will be raised, though.

Demand is likely to be there from many AIM companies as long as money is offered at the right price. The crowdfunding platforms need to find the supply and that will take time to build up.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	23.2	18
Consumer services	16.6	11.1
Industrials	15.4	17
Healthcare	13.9	8.3
Technology	9.8	10.9
Consumer goods	7.8	5.7
Oil & gas	5.8	15.3
Basic materials	5	11.2
Telecoms	1.7	1.4
Utilities	0.8	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	710.78	-0.8
FTSE AIM 50	3901.29	+5.9
FTSE AIM 100	3337.51	+3.5
FTSE Fledgling	7631.02	+3.7
FTSE Small Cap	4542.82	-1.2
FTSE All-Share	3395.19	-7.3
FTSE 100	6174.9	-8.8

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	262
£5m-£10m	133
£10m-£25m	191
£25m-£50m	155
£50m-£100m	125
£100m-£250m	97
£250m+	66

KEY AIM STATISTICS

Total number of AIM	1029
Number of nominated advisers	34
Number of market makers	48
Total market cap for all AIM	£68.6bn
Total of new money raised	£96bn
Total raised by new issues	£40.7bn
Total raised by secondary issues	£55.3bn
Share turnover value (2016)	£4.3bn
Number of bargains (2016)	0.87m
Shares traded (2016)	55.2bn
Transfers to the official list	179

TOP 5 RISERS OVER 30 DAYS

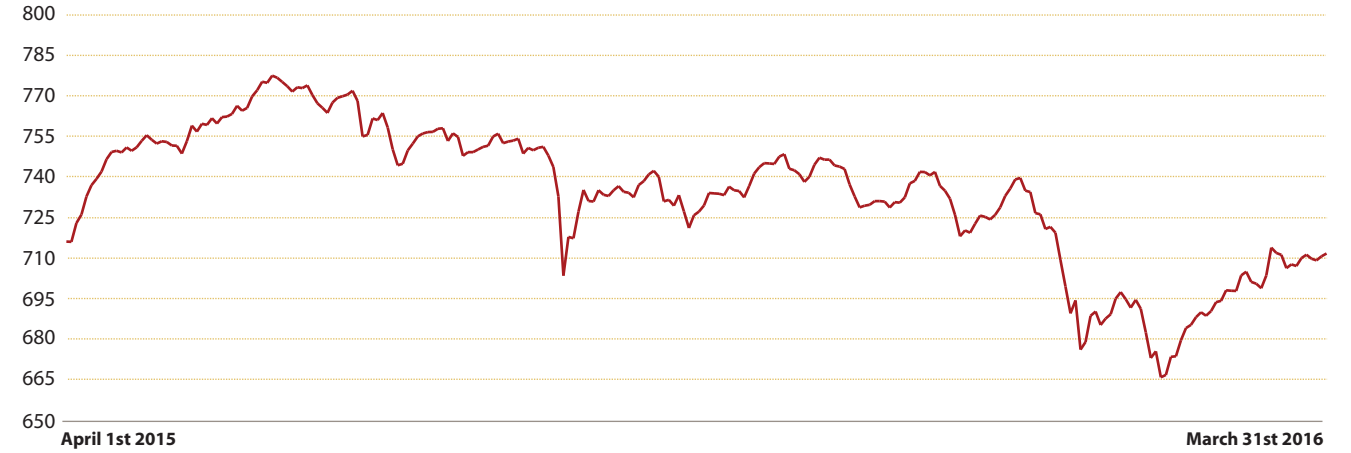
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Ascent Resources	Oil and gas	5.97	+443.2
Metal Tiger	Resources	3.8	+216.7
Alexander Mining	Mining	0.43	+214.8
Asiamet Resources Ltd	Mining	3.75	+206.1
Origo Partners	Financials	1.68	+205.5

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
SeaEnergy	Energy services	1.5	-58.6
fastJet	Transport	28.75	-57.3
Edge Resources Inc	Oil and gas	0.18	-53.3
Regency Mines	Mining	0.43	-52.8
Madagascar Oil Ltd	Oil and gas	0.45	-52.6

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st March 2016, and we cannot accept responsibility for their accuracy.

sponsors

Northland Capital Partners

Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It has excellent connections with investors, providing them with equity research, advice and trading services. Northland has assembled a team of highly motivated and experienced professionals that aims to deliver unparalleled service to our clients.

Northland has a strong track record in advising and raising funds for growth companies. We always aim to provide innovative ideas and solutions that will enable our clients to fulfil their long-term growth ambitions in a wide range of sectors, including healthcare, TMT, consumer, resources and support services.

As the most successful growth market in the world, AIM is an important platform for helping small companies raise capital. At Northland, we see the AIM Journal as an opportunity for investors to learn more about the many great companies quoted on AIM.

Northland Capital Partners is a privately owned company managed and controlled by its employees.

Marriott Harrison LLP

Marriott Harrison LLP is pleased to be sponsoring the AIM Journal. We are firmly embedded in the AIM community as legal advisers to nomads and brokers, investors and public companies, with a well-respected team of partners and associates with good experience and strong track records in the market. The backgrounds of our 12 corporate partners with Magic Circle, other significant City and international law firms stand us in good stead in advising on legal issues arising out of corporate finance transactions. Two of the partners in the team, Simon Charles and Andrew Williamson, formerly worked as nomads and Main Market sponsors. The team has international capability, with particular expertise in the film and television production, healthcare and life sciences, leisure and hotels, technology, music, recruitment, renewables and cleantech, resources, retail and telecoms sectors.

We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to AIM Regulation as a result of discussions held.

PUBLISHED BY: Hubinvest Ltd,

ADDRESS: 1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.

SPONSORSHIP & ADVERTISING aimjournal@hubinvest.com or telephone 020 8549 4253

MOBILE / TEL: 07729 478 474 / 020 8549 4253

EDITOR: Andrew Hore

PRODUCTION & DESIGN: David Piddington