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AIM JOURNAL

Pearson launches bid for EDI

Pearson is offering 200p a share for AIM-quoted Education Development International (EDI), which values the qualifications provider at £112.7m.

EDI says that the initial approach from Pearson was unsolicited. The board felt that EDI was unloved by the market because a large proportion of its business is in the public sector so it entered talks with Pearson and eventually decided to recommend the bid.

Pearson's education operations already include Edexcel, the largest qualifications award body in the UK, and former AIM company Melorio, which provides vocational training. The education and publishing company believes that EDI complements its existing vocational and academic operations and the combined business will offer a comprehensive range of these services in the UK and internationally.

The acquisition should be earnings enhancing for Pearson in 2012.

EDI floated 11 years ago when it was known as GOAL and it focused on online school assessments, a business that was loss-making and lacked critical mass. The business was transformed at the end of 2002 when the company bought the London Chamber of Commerce and Industry Examination Board business and took up its present name. The acquisition cost £2.22m in shares at the time. The shares issued are worth £48m at the offer price. That shows just how small EDI was back in 2002 and how much it has progressed since then.

Asian cleantech firms head to AIM

Two Asian companies are planning to float their cleantech subsidiaries on AIM this year. Hyderabad-based Surana Group wants its solar business to obtain a secondary quotation in London, while Malaysian biodiesel company Bionas Group is planning to spin off its UK subsidiary on AIM.

Surana Group is a conglomerate with operations involved in solar and wind power, telecoms, copper products, power cables and infrastructure. Surana Ventures (www.suranaventures.com) produces solar products ranging from photovoltaic modules to lighting systems. The business was started in 2008 and it floated in India on the BSE and NSE at the beginning of 2011.

Surana Ventures is profitable and it has a production capacity of 40 MW/year. It plans to raise money to increase its production capacity.

Bionas, which extracts oil from jatropha grown by local farmers in Malaysia, is thought to want to raise up to £500m when it floats Bionas Fuel (UK). The cash will be used to finance the cultivation of jatropha in Africa, which will be used to produce biodiesel for the European market. Bionas already has a plant in Birmingham that produces additives that are used with the jatropha oil to make biodiesel. Barclays is thought to be involved in the flotation.

In this issue

HubInvest publishes AIM Journal

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general news

Still some way to go for London and Toronto tie-up

The London Stock Exchange has announced a merger agreement with its Canadian counterpart, TMX, but there are still a number of regulatory hurdles to overcome.

London Stock Exchange shareholders would end up with 55% of the merged group. The announcement has sparked further merger activity among global stock markets. Deutsche Börse and NYSE Euronext are considering a tie-up and the Hong Kong Stock Exchange says it will consider alliances. The Singapore and Australian Stock Exchanges have already announced a merger. Meanwhile, BATS Global Markets, the third-largest US exchange, is set to acquire European trading platform Chi-X.

The Quebec and Ontario governments could have the final say on the London and Toronto merger. The stake in the London Stock Exchange held by Middle East investors has caused concern to the Ontario government. Borse Dubai owns 20.6% of the London Stock Exchange and Qatar Investment Authority owns 15.1%. A stake of more than 10% in the merged organisation needs to be approved and Borse Dubai would still own 11.3% of the enlarged company.

The Canadian Federal government will take up to 75 days to assess if the merger is of 'net benefit' to Canada but Quebec and Ontario each have a veto if they do not believe that the deal is in their interests. There is an election in Ontario in October and this could affect the thinking of the current government.

TMX owns AIM's rival, the Toronto Venture Exchange. Marcus Stuttard, the head of AIM, has been quoted as saying that "the complementary nature of those two (AIM and the Toronto Venture Exchange) mean that we have a very compelling and exciting offering for small caps going forward."

EnCore ponders spin-off

Oil and gas explorer Encore Oil is considering spinning off its North Sea exploration interests. The new company would join AIM and raise cash to finance drilling that would enable it to retain higher stakes in these exploration interests.

EnCore says that it wants to retain a significant stake in the spin-off but focus its own cash on developing its discoveries. These include the Catcher and Cladhan discoveries in the North Sea. EnCore also has interests in two undeveloped gas discoveries offshore of Ireland and a potential offshore gas storage project at Esmond, which EnCore has tried to sell. EnCore also has a stake in Egdon Resources.

EnCore had more than £30m in the bank at the end of 2010. Much of this will be spent on taking the Catcher and Cladhan projects through to Field Development Plan stage.

Chinese approach for Kalahari Minerals

State-owned Chinese mining company CGNPC Uranium Resources is in bid discussions with Kalahari Minerals that could lead to a 290p a share offer for Kalahari. The attraction of Kalahari is its 42.8% stake in ASX- and TSX-listed Extract Resources and the bidder will need to gain Australian regulatory approval to acquire a stake of more than 20% in Extract.

The Australian Securities and Investments Commission will make the decision and the Extract board wants its shareholders to be given the chance to accept an offer on equivalent terms to the Kalahari deal.

Charlie Long, Singer Capital Market's mining analyst, says that "this is effectively an acceptance of the CGNPC offer as it now stands by the Extract board".

At the end of 2010, Kalahari raised £41.8m at 232p a share in order to maintain its Extract stake. Extract is developing the Husab uranium project next to the Rossing uranium mine in Namibia owned by Rio Tinto. There has been talk of a possible partnership with Rio Tinto.

The indicated bid would value the fully diluted share capital of Kalahari at £756m. Kalahari's board says that it intends to recommend a bid on those terms.

There are a number of preconditions that need to be satisfied, including regulatory clearances, for the bid to go ahead.

CGNPC Uranium has developed relationships with Chinese and overseas manufacturers and suppliers of natural uranium and owning Kalahari will enhance these relationships and help it to reduce China's reliance on fossil fuels.

advisers

Seymour Pierce calls off US merger

The three-way merger including leading AIM adviser and broker Seymour Pierce has been called off. The plan was for Seymour Pierce to reverse into NYSE-listed reinsurer Gerova Financial but the latter's share price has slumped by four-fifths since the merger was announced at the end of 2010.

Trading in Bermuda-based Gerova shares was suspended on 23 February amid fears about the value of its assets, and the NYSE is assessing its suitability to be listed.

The other merger partner, Ticonderoga, has also pulled out and there is talk of Seymour Pierce continuing to pursue a merger with Ticonderoga, which was started by ex-Collins Stewart executives. However, this will not give the merged group a listing, which was the attraction of the tie-up with Gerova.

Fully listed fund management firm Brewin Dolphin is selling its corporate finance and broking operations to a Spanish company so that it can concentrate on its investment management business.

European financial adviser and asset manager N+1 is setting up a new entity called N+1 Brewin to acquire the corporate finance business, which has 47 AIM-quoted clients.

The sale values the business at £5m. Brewin Dolphin will receive £1m in cash and a 14% preferred interest in N+1 Brewin, which has a nominal value of £4m. Brewin Dolphin is promised an annual return of 6% on the stake and this will be paid in priority to distributions to other shareholders up until 2017. N+1 will own 51% of the acquisition entity and the management of the operations will own 35%.

Brewin Dolphin describes itself as a medium-term investor in N+1 Brewin and it hopes to benefit from any increase in the entity's value prior to the conversion of the stake into N+1 shares.

The corporate finance and broking business made an operating profit of £1.3m on turnover of £10.9m in the year to the end of September 2010. Brewin Dolphin's regulatory capital requirements will be reduced when it sells the business.

However, the disposal still requires regulatory approval and it is not expected to be completed until September.

Graeme Summers, who is currently head of the corporate advisory & broking division of Brewin Dolphin, is managing partner-elect of N+1 Brewin. Summers believes that his business will benefit from the international reach of the N+1 business in Europe.

ADVISER CHANGES - FEBRUARY 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Hephaestus Holdings	Shore Capital	Collins Stewart	Shore Capital	Collins Stewart	01/02/2011
Green Dragon Gas	Macquarie / Evolution / Smith & Williamson	Evolution / Smith & Williamson	Smith & Williamson	Smith & Williamson	02/02/2011
Strategic Natural Resources	Evolution / SP Angel / Allenby	SP Angel / Allenby	Allenby	Allenby	02/02/2011
Fitbug Holdings	Rivington Street / Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	04/02/2011
Hill & Smith	Investec	Arden	Investec	Arden	04/02/2011
Noble Investments	WH Ireland	Collins Stewart	WH Ireland	Collins Stewart	07/02/2011
Synchronica	Northland	FinnCap	Northland	FinnCap	07/02/2011
GCM Resources	Evolution / JPMorgan Cazenove	JPMorgan Cazenove	JPMorgan Cazenove	JPMorgan Cazenove	08/02/2011
Praesepe	Liberum	Oriel	Liberum	Oriel	10/02/2011
Sopheon	FinnCap	Seymour Pierce	FinnCap	Seymour Pierce	10/02/2011
Infrastructure India	Westhouse / Smith & Williamson	Smith & Williamson	Smith & Williamson	Smith & Williamson	11/02/2011
Raven Russia	Matrix / Singer	Singer	Singer	Numis	14/02/2011
SQS Software Quality	Arbuthnot	Altium	Arbuthnot	Altium	14/02/2011
Clean Air Power Ltd	Seymour Pierce	Charles Stanley	Seymour Pierce	Charles Stanley	15/02/2011
Hutchison China MediTech Ltd	UBS / Panmure Gordon	Panmure Gordon	Lazard	Lazard	15/02/2011
Cyril Sweett Group	Arbuthnot	Brewin Dolphin	Arbuthnot	Brewin Dolphin	16/02/2011
Biome Technologies	Daniel Stewart / First Columbus	Singer	Daniel Stewart	Singer	17/02/2011
Merchant House Group	Merchant Capital	Shore Capital	Cairn	Shore Capital	18/02/2011
Chalkwell Investments	Old Park Lane / Merchant Securities	Merchant Securities	Merchant Securities	Merchant Securities	22/02/2011
Premier Management	Rivington Street / Brewin Dolphin	Brewin Dolphin	Brewin Dolphin	Brewin Dolphin	22/02/2011
Sefton Resources	Rivington Street / Dowgate Capital	Religare	Religare	Religare	22/02/2011
Titanium Resources Group Ltd	Mirabaud / Arbuthnot	Arbuthnot	Arbuthnot	Arbuthnot	23/02/2011
Solo Oil	Shore Capital	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	25/02/2011
Accsys Technologies	Numis / Matrix	Matrix	Matrix	Matrix	28/02/2011
ITM Power	Nomura Code	Panmure Gordon	Nomura Code	Panmure Gordon	28/02/2011
Tiger Resource Finance	FinnCap	Davy	FinnCap	WH Ireland	28/02/2011

company news

Craneware maintains growth record and continues to win new contracts

Hospital revenue calculation software *www.craneware.com*

Scotland-based **Craneware** continued its impressive growth in the six months to December 2010.

Craneware, which provides US hospitals with software that ensures that they charge the correct fees to patients and insurance companies, increased its rate of growth in the first half and continued to generate cash. Revenues grew by a quarter to $16.6m, with pre-tax profit 31% higher at $4.3m. Newer products are generating the majority of revenues.

Net cash was $31.2m at the end of 2010. Craneware is rebasing its dividend payments. It paid a total of 8p a share in 2009-10. The latest interim has been cut from 4.7p a share to 4p a share but the total dividend for 2010-11 will be higher. House broker Peel Hunt forecasts a dividend of 8.8p a share for 2010-11.

Craneware says that its sales pipeline has never been stronger.

Craneware paid an initial $15m for ClaimTrust, which supplies audit and revenue recovery software. The maximum consideration could be $19.5m. More than two-thirds of ClaimTrust's $8.5m of annual revenues are recurring.

There is still uncertainty about the US healthcare sector but this does not seem to be hampering Craneware. Hospitals still want to make sure that they are claiming all the revenue that they are entitled to and recharging for all the drugs provided. Craneware says that its sales pipeline has never been stronger.

CRANEWARE (CRW)	563p		
12 MONTH CHANGE %	+ 53.2	MARKET CAP £M	149.1

There is still plenty of scope for cross-selling to a customer base of 1,500 hospitals. Fewer than two-fifths of customers take two or more software products. In fact, many hospitals still do not have the type of software that Craneware offers.

The group revenue under contract is $87.9m, which stretches out over 10 years. That figure is 22% higher than 12 months ago and does not include any contribution from ClaimTrust.

Peel Hunt forecasts a rise in full-year profit from $7.4m to $9.6m.

System C Healthcare agrees £87m US offer

Healthcare IT services *www.systemc.com*

Healthcare IT provider System **C Healthcare** is recommending an offer of 70p a share in cash from US-based McKesson Corporation.

McKesson already has acceptances totalling 33.3% of the System C share capital. System C joined AIM in June 2005 at a placing price of 54p a share, which valued the company at £47.7m at that time.

The shares were trading at 46.5p before the announcement of bid talks. The bid values AIM-quoted System C at £87m. System C has net cash of £15.7m in its balance sheet. Shareholders on the register on 25 February will still receive the interim dividend of 0.25p a share.

SYSTEM C HEALTHCARE (SYS)	70p		
12 MONTH CHANGE %	+ 57.3	MARKET CAP £M	81.5

McKesson is a US IT business that has been involved in the healthcare IT sector in the UK since 1999. It is valued at more than $20bn and has annual revenues of $108.7bn. As well as providing IT services and software it distributes drugs and other healthcare products.

The combined business will be able to provide a wide range of software and services to the NHS and private healthcare operations. The release of NHS trusts from central procurement of IT will provide opportunities for the combined group to gain market share.

System C has been finding it tough in the past year or so as it changes its focus from services to products. The development of new software and declining revenues from older products pushed the company into loss into the six months to November 2010. That is why management believes that the longer-term prospects of the business will be enhanced as part of a financially stronger business. This will make it easier to compete for large-scale NHS contracts.

company news

Investor takes ToLuna private in order to increase pace of growth

Online market research *www.toluna-group.com*

Online market research firm **ToLuna** has followed rival Research Now into private ownership. ToLuna has agreed to a bid backed by its 14% shareholder Verlinvest.

ITWP Acquisitions Ltd is offering 102p in cash, 116 ITWP shares, 79p of B loan notes and 23p of C loan notes for each AIM-quoted ToLuna share. Alternatively, shareholders can opt for a 320p a share cash payment. They could even take purely shares or loan notes. The bid values ToLuna at £161.6m. Before the bid was launched the ToLuna share price was 245p.

ToLuna was valued at £25m when it joined AIM and raised £5.6m at 70p a share in 2005. Verlinvest became a shareholder in July 2009 when US-based rival Greenfield Online ISS was acquired. That was the deal that won ToLuna the AIM Transaction of the Year award at the 2009 AIM Awards.

> Verlinvest became a shareholder in July 2009 when US-based rival Greenfield was acquired

Verlinvest wants to inject more cash into the business and provide "new strategic direction" in order to accelerate growth. There are plans to grow in Asia Pacific. ToLuna founder Frédéric-Charles Petit will become chief executive of ITWP.

AIM-quoted investment company Eurovestech holds 14.9m ToLuna shares and it expects to own 9.8% of the buy-out vehicle ITWP, as well as having £35m B loan notes and £2.19m C loan notes. Eurovestech expects at least £22.5m of its B loan notes to be redeemed on 30 June 2011 – ITWP has agreed to redeem a total of £25m of B loan notes on that date. There is no interest payable on the loan notes and any not redeemed will be converted into ordinary shares on the basis of one share for each 1p of loan stock after 30 June 2012.

TOLUNA (TOL)	313.5p		
12 MONTH CHANGE %	+ 25.9	MARKET CAP £M	158.4

Eurovestech's final stake in shares and loan notes depends on how other shareholders take their consideration, and some of its consideration might be paid in cash. Eurovestech originally invested £2m in ToLuna and even before the bid had raised £14.9m from share sales.

Brightside buys price comparison software firm

Insurance distributor *www.brightsideplc.co.uk*

Insurance distributor **Brightside** is buying a price comparison technology supplier in order to enhance its distribution capabilities because insurance sales depend more and more on price comparison sites. Quote Exchange designs and builds technology which is used on these sites.

Brightside is paying an initial £2.7m in cash and 1.39m shares, with up to £1m more payable based on the performance of Quote Exchange in the year to February 2012. In the year to February 2010, Quote Exchange, which has 16 customers, generated revenues of £1.2m. The company's clients' sites generate 5.9m price comparison quotes a month.

BRIGHTSIDE (BRT)	37.62p		
12 MONTH CHANGE %	+44.7	MARKET CAP £M	171.7

Brightside has a number of focused insurance brands for individuals and businesses. The online brands include eLife, eHome, eCar, eVan and eBike. Last year, Brightside said that its eLife product "experienced accelerated lapse rates" in the second half of 2010 from internet leads it had purchased. Brightside has stopped purchasing those leads and is using affinity referrers. The Quote Exchange technology could also help to produce better leads.

Brightside sold 330,800 annual insurance policies in 2010, a 68% increase on 2009. This growth was better than expected. Motor rates rose by 35% in 2010 and Brightside expects them to harden further this year.

House broker Evolution estimates a 2010 profit of £9.1m, rising to £14.3m in 2011. The shares are trading on 13 times 2011 forecast earnings.

company news

Toumaz signs up partners for move into healthcare market

Low-power wireless technology *www.toumazholdings.com*

Toumaz has products for the healthcare market and now it has plenty of cash in the bank following its latest fundraising. Home healthcare technology partner Quanta Computer has subscribed £1.2m for shares in order to take its stake to 2.22%. At the same time an institutional investor invested £600,000 at 8.83p a share.

In February, Dr Patrick Soon-Shiong invested £1.3m. He is developing Toumaz's technology for use in the sport sector. There was £2.75m in the bank at the end of 2010.

Toumaz has developed ultra low power wireless technology and its initial focus is on the consumer and healthcare sectors. Consumer offers earlier revenues but healthcare is likely to be a more lucrative market. The platform technology is called Sensium.

In the case of healthcare the analogue information provided by the body has to be analysed digitally and Toumaz has managed to combine the two through what it calls its AMx engine. Toumaz has designed a 'digital plaster' that includes its technology and this can be used to measure heart rate, respiration, etc. The 'digital plaster' can last for five days.

> Toumaz has licensed the hospital-based uses of its technology to CareFusion

Toumaz has licensed the hospital-based uses of its technology to CareFusion, which is owned by Cardinal Health. The 'digital plaster' will be pre-launched in the second quarter and the full launch will be at the end of the year. CareForce will sell 'digital plasters' plus Sensium gateways – one will be needed for each ward that uses the 'digital plasters'. Toumaz will receive revenues from the sale of Sensium chips as well as a share of gross margin from product sales.

TOUMAZ (TMZ)			7.25p
12 MONTH CHANGE %	+3.6	MARKET CAP £M	45.6

Toumaz has linked up with Asia-based electronics manufacturer Quanta to enter the homecare market. The first product is likely to be a monitor for Type 2 diabetes, which transmits data via mobile phone.

This year the majority of revenues will come from digital radio and internet connectivity applications but healthcare will become an increasingly important revenue generator from 2012 onwards.

New Lo-Q boss wants to widen markets

Queuing technology developer *www.lo-q.com*

Virtual queuing technology developer **Lo-Q** produced another good set of figures in the year to October 2010 and new chief executive Tom Burnet believes that it could grow even faster by moving into new markets.

Burnet took up the post in October. He joined from Serco where he was managing director of the defence operations. Lo-Q also changed its broker from Arbuthnot to Canaccord Genuity.

Lo-Q has concentrated on theme parks but Burnet believes that there are other markets that involve queuing that could be tapped with the company's technology. There could also be potential for buying in additional technology.

LO-Q (LOQ)			148.5p
12 MONTH CHANGE %	+70.7	MARKET CAP £M	24.2

Last year, revenue rose 16% to £20.3m and pre-tax profit was 18% higher at £2.32m – based on pro forma comparative figures. Cash flow from operations was strong but Lo-Q capitalised £741,000 on intangible asset investments during the year – more than double the previous 12-month period. Even so, there was more than £6m in the bank at the end of October 2010.

US park operator Six Flags, which is Lo-Q's main customer, emerged from bankruptcy last year. Lo-Q is signing up more new attractions in Europe, including Blackpool Pleasure Beach.

Two trials of Lo-Q's Q-credits wristband based devices ran in water parks in the UK and Spain during the summer season.

Former boss Jeff McManus, who is taking Lo-Q to an employment tribunal, sold 310,500 shares just after the results were announced. He still owns 4.57% of Lo-Q.

dividends

Hargreaves Services confirms progressive payout policy

Coal miner and supplier, transport *www.hargreavesservices.co.uk*

Dividend

Hargreaves Services has a progressive dividend policy and, although it has a high level of net debt, it can afford to continue to grow its dividend payout. The latest interim dividend was increased from 4.4p a share to 5.1p a share, providing an indication of the company's confidence in its prospects.

The dividend for the year is expected to rise from 13.5p a share to 15.5p a share in the year to May 2011. A dividend of 18p a share is forecast for the year to May 2012. The 2010-11 dividend will be covered by earnings well over six times and more than enough cash will be generated from operations to pay it.

Business

Revenue grew from £211.6m to £253.9m in the six months to November 2010, with all four divisions of the group contributing to the growth. The coal-supply operations have driven the revenue growth because of the rise in coal prices. The main contributors to the growth in pre-tax profit from £14.7m to £16.1m were coal production and coal supply.

The Maltby colliery has resolved its equipment problems and is running more efficiently. There are plans to change shift patterns to get more hours of production each week. The Monckton coke works is performing well even though its contract prices are well below the current coke prices. This provides scope for further profit improvement next year.

HARGREAVES SERVICES (HSP)	
Price	965p
Market cap £m	258.7
Historical yield	1.4%
Prospective yield	1.6%

The coal supply business has 60% of the UK market and is expanding in Europe. A joint venture with Russian coal supplier MIR Trade commences in the second half.

Transport is underpinned by long-term contracts but the bulk transport market remains difficult. The industrial services division has been retendering for some existing contracts but has not won major new contracts in the period.

Net debt was £99.6m at the end of November 2010. Cash tends to be generated in the second half so the year-end figure should be lower than the May 2010 net debt figure of £88.2m. Brewin Dolphin forecasts year-end net debt of £72m.

There was a sharp rise in the debtors figure at the end of November but this appears to be due to a combination of timing and increased volumes. This has kept net debt relatively high but is not a major concern. The debt levels have put off some investors but chief executive Gordon Banham says that he is comfortable with the debt level and so is the company's bank.

Hargreaves' main operations are underpinned by contracted income. Both house broker Brewin Dolphin and Panmure Gordon have held this year's profit forecast but increased their 2011-12 forecasts by around £4m – the former to £47.4m and the latter to £48m.

Dividend news

Pet treatments supplier **Animalcare** is paying a maiden interim dividend of 1p a share. The disposal of the non-core livestock products business means that revenues are no longer seasonal and that means that Animalcare can afford to pay an interim dividend as well as a final. Animalcare reported a 12% increase in revenues to £5.99m in the six months to December 2010. Underlying pre-tax profit jumped from £1.03m to £1.44m. The disposal also helped Animalcare to move to a net cash position of £425,000 at the end of 2010. House broker Brewin Dolphin forecasts net cash of £1.9m by the end of June 2011.

Trading systems supplier **Patsystems** has a progressive dividend policy. The 2010 dividend was 0.55p a share, up from 0.425p a share. A dividend of 0.65p a share is forecast for 2011, which provides a prospective yield of nearly 3%. The £9.3m of cash in the bank makes these dividend increases easily affordable even if the dividend grows faster than earnings. Stripping out movements on hedging instruments, goodwill amortisation and share option costs the underlying profit dipped from £3.92m to £3.75m in 2010. Edison Investment Research forecasts a rise in profit to £4m in 2011.

Temporary staff provider **Staffline Group** doubled its pre-tax profit from £3.5m to £7m in 2010. Acquisitions have helped but there is organic growth as well. Dividends have also been doubled from 3.1p a share to 6.2p a share. This is a record dividend payout for Staffline. The company paid 3.8p a share for 2007 before cutting the payout for 2008. Management expects another good year of trading, with market share growing and clients increasingly outsourcing the management of production lines rather than just staff provision. Staffline is expected to make a profit of more than £8m in 2011.

expert views

Expert view: The broker

Not an And/Or but a Must!

By DAVID BUXTON

Digital camera technology developer Andor Technology reported results in December that were comfortably above expectations, prompting a further spurt of share price outperformance. A full contribution from recent acquisitions and product introductions should drive earnings per share further in the current year.

Andor has developed a strong track record of sales growth through investment in product development, gaining market share via technology leadership. Forecasts appear conservative and should see some upside.

New product introductions, such as the important sCMOS camera, will continue to drive the group's growth profile over the next two to five years.

The group has positioned itself in several higher-growth scientific research market segments as well as pursuing a strategy of expanding into the mid-priced scientific camera market; eventually it can turn its attention to adjacent segments such as defence and industrial scientific cameras. Andor has increased its presence in China, where growth is running at an estimated 60%.

Spin-out

Andor was formed as a spin-out from the Physics department of Queen's University Belfast in 1989 and was floated on AIM in December 2004. It was frustration with existing equipment providers that resulted in Andor's founders forming the company and it also provides the group's ongoing strategy to provide equipment at the leading edge of technology.

Over the past 10 years Andor has built up a world-leading position in scientific imaging equipment, such as high-specification digital cameras, spectroscopy and microscopy systems. It now has over 80 products.

Detecting and accurately measuring light at very low light levels, extremely quickly, drives ever more sophisticated imaging systems. The group can measure down to a single photon and within 1 billionth of a second. Systems now usually involve deep cooling and vacuum sealing of camera equipment to improve accuracy and longevity.

> Andor has a history of over-delivering on conservative guidance

Target markets

The total addressable market is worth £1.3bn, and Andor currently focuses on the £312m high-end camera market. Andor has strong market shares in Scientific Research and Instrumentation OEM segments.

Andor currently sells 85% of its turnover into the high-end camera market (defined as being over $15,000 a camera).

There is an opportunity of moving into the mid-range market or other high-end camera applications markets, such as industrials and defence, where Andor currently has minimal exposure.

The launch of the sCMOS addresses the mid-range market segment and demonstrates that even in lower-priced cameras Andor can demonstrate both scientific innovation and also attractive gross margins. It is a potential market three times the size of the high-end market.

Growth rates

Full-year results were ahead of expectations and showed strong growth, with turnover up 29% and earnings per share up 32%.

Guidance for this year is for 13% sales growth. This appears substantially lower than the group's 24% CAGR at a time when momentum appears strong and an uplift is expected from well-received new products and new distribution arrangements. Andor has a history of over-delivering on conservative guidance. We think it is easy to construct a scenario when sales growth is higher than current guidance, where 20% sales growth would result in a 2011-12 PE of around 15.

After strong outperformance the shares trade on a healthy premium to peers and may appear a little frothy. We consider the current valuation is justified by its growth and quality of earnings over the next few years. We have a fair value price target of 535p.

We believe further evidence of strong trading is likely, as we think that the sCMOS is gaining market acceptance and achieving sales targets. This would provide potential to increase forecasts, justifying both the current rating and potentially further share price rises.

DAVID BUXTON has around 20 years' experience in analysis, having covered a variety of sectors, but having concentrated on the industrials, electronic equipment, engineering, defence, automotive components and alternative/green engineering sectors. David has worked in several broking firms including UBS Warburg, Panmure Gordon, Crédit Lyonnais and Daniel Stewart.

feature

VCT season is in full swing

VCTs remain a good source of finance for smaller AIM companies and the AIM specialists should have a little more money to invest this yea

It appears that this tax year is going to be a particularly successful one for Venture Capital Trust (VCT) fundraisings. In fact, it could be one of the best ever years in terms of raising money.

That should be good news for AIM companies because this is cash that could be used to finance their expansion. There are other areas where the VCTs invest their money so it will not necessarily be invested in AIM companies, though. Some VCTs specialise in unquoted companies and others that invest in a broader range of businesses do not always put their cash into AIM. Generalist and planned exit VCTs have raised most of the money in recent years and that is set to continue.

According to Tax Efficient Review (www.taxefficientreview.com), £158.1m had been raised by VCTs by 13 March 2011, which is around one-quarter of the money that they are seeking. The total raised last year was £350m, and in 2008-09 it was £135m. The next couple of weeks are among the most important in the year so the latest figure should rise substantially.

The AIM specialists are raising money so there will be additional funds for the junior market. They have raised £14.5m, so far, out of the £66m they would like.

However, the VCT rules limit where the cash can be invested. Number of employees, gross assets and other tests rule out many AIM companies that would otherwise benefit.

Tax breaks

VCTs offer investors the chance to claim 30% of their investment against their income tax bill, as well as tax-free dividends and no capital gains on disposal of shares if they are held for at least five years. Up to £200,000 can be invested by an individual in VCTs each tax year.

VCTs have been around for 16 years and Stuart Veale of Beringea, who manages the ProVen VCTs, believes that they have come of age and have become an accepted asset class by IFAs. By having a portfolio of investments the risk is smoothed out and one of the things that attracts investors is the consistent dividend income that VCTs can provide.

Cash in the bank hardly generates any income and many VCTs can offer tax-free yields of 5% or more even before the income tax relief is taken into account.

Veale recognises that some VCTs have underperformed but he believes that VCT performance is improving as the industry consolidates around the best management groups. Older VCTs that have underperformed have tended to change managers and two-thirds of VCT funds under management are with the top 10 fund managers.

That is not always good news for AIM companies, though. Bluehone AIM VCT 2 has appointed Maven Capital Partners as its new investment manager. A general meeting will be held on 30 March so shareholders can vote on a proposal to allow the VCT to invest in companies not traded on AIM and the new manager will be selling existing AIM investments in order to reinvest the proceeds. That could hit the share prices of some of the AIM companies in its portfolio.

Cash raisings

Many fund managers, including Veale, believe that this could be the best year for fundraisings since the income tax relief was reduced from 40% to 30%. However, Andrew Garside of Baronsmead VCTs disagrees and does not think it will necessarily be a bumper season because he says that the better fund managers are not raising substantial funds.

> AIM VCTs have raised £14.5m so far in this tax year

"The proportion of money raised in the last week of the tax year is normally high but this year if people leave it too late there may be less choice", says Garside.

There were worries that solar VCTs would mop up a significant amount of the cash put into VCTs this year but the government's decision to review the feed-in tariffs for solar projects means that these VCTs are not as attractive any more. This is especially true because the solar review is not likely to be finished before the end of the tax year.

Even so, these solar and other cleantech VCTs have already raised nearly £40m – around a quarter of all VCT funds raised – with £20.5m of that invested in Foresight Solar VCT.

Paul Jourdan of Amati VCT, an AIM specialist, reckons that the government's solar review will mean that more of the available money will be diverted to other VCTs. He believes that there is more interest from investors in smaller-company

feature

investment and points out that the main AIM VCTs are raising money. That is a change compared with recent years when very little has been raised by AIM VCTs and Amati has accounted for a significant proportion of it.

Amati VCT is raising up to £20m. Jourdan does not necessarily believe that Amati will raise that much this year but it would take the fund to £50m, which he feels is the perfect size for this type of VCT.

Jourdan has increased the minimum value of an AIM company that he will invest in because the relatively larger companies provide the better investments and it can be difficult to sell holdings in very small companies. "I am confident that we have a strategy that works well," he adds.

Although the VCT rules state that the money has to be invested in UK companies many do have international exposure. Jourdan reckons the majority of his portfolio is exposed to international markets.

Jourdan says that older VCTs have an advantage over new VCTs and he does not think that it makes sense to launch new VCTs in the AIM arena. This is because the size of companies that a VCT can invest in has reduced, thereby cutting the number of companies that are eligible for investment. However, older funds can invest the original money they raised under the old rules.

Discounts

A downside of VCTs can be that they trade at a large discount to net asset value. Share buy-backs are used by many VCTs, including Amati, to reduce the discount.

Share buy-backs are used by many VCTs to reduce the discount to NAV

Baronsmead has a policy of maintaining a 10% discount to NAV through its buy-back strategy. Garside says that investors should be aware of the buy-back policy of a VCT they are considering investing in.

Future

The Chancellor of the Exchequer, George Osborne, has made comments questioning whether VCTs provide real venture capital and there is talk about a re-examination of the tax incentives of VCTs.

This sounds ominous but it is more likely that planned exit VCTs are the target for these comments rather than the AIM and generalist VCTs.

The Association of Investment Companies commissioned research called "Closing the finance gap: VCT funding for SMEs". The paper made a number of recommendations.

These recommendations include increasing the £7m gross assets test to a £15m balance sheet total test, increasing the maximum number of employees from 50 to 250, increasing the amount of cash that can be invested in a single company in one year from £2m to £5m and raising the limit on the amount of money that a VCT can invest in a single company in any one year from £1m to £1.5m.

The AIC also says that the pending change to the split between equity and debt investments will hamper activity. The AIC wants the rules to revert to a potential 30/70 split between equity and debt to make it easier to reach funding arrangements with investee companies.

The UK government will have to get the agreement of the European Commission if it wants to change the VCT rules because these schemes are classed as "State Aid".

The proposed changes would certainly bring many more companies into the investment orbit of VCTs and this would be good news for AIM. Even if the government does make all or some of these changes, and there is no guarantee that it will make any changes, it will take time for them to come into force.

AIM VCT FUNDRAISINGS

COMPANY	MAXIMUM RAISING (£M)	MINIMUM INVESTMENT (£)	LATEST NAV (P)	SHARE PRICE (P)
Amati VCT	20	3,000	88.81	88.5
Downing Distribution VCT 2	1	5,000	106.9	87
Hargreave Hale AIM VCT *	7	3,000	68.85	62.25
Hargreave Hale AIM VCT2 *	3	3,000	108.24	97.5
Octopus AIM VCT	10	3,000	94.1	84.75
Octopus Second AIM VCT	10	3,000	71.9	65.5
Unicorn AIM VCT	15	5,000	110.76	98.5

Source: Tax Efficient Review

* Original offer closed after 28% of maximum figure raised. New joint offer of £2.65m.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Basic materials	24.4	13.5
Oil & gas	23.4	9.6
Financials	18.5	23.5
Industrials	8.8	18.7
Technology	7.4	10.2
Consumer services	6.9	11.8
Health care	4.5	5.5
Consumer goods	3.8	5.1
Telecoms	1.4	1.1
Utilities	0.9	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	938.22	+37.5
FTSE AIM 50	3598.23	+33.4
FTSE AIM 100	4281.94	+37.0
FTSE Fledgling	4972.27	+21.6
FTSE Small Cap	3273.9	+15.6
FTSE All-Share	3109.26	+10.1
FTSE 100	5990.39	+8.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	250
£5m-£10m	147
£10m-£25m	245
£25m-£50m	205
£50m-£100m	152
£100m-£250m	105
£250m+	78

KEY AIM STATISTICS

Total number of AIM	1,182
Number of nominated advisers	62
Number of market makers	50
Total market cap for all AIM	£82.79bn
Total of new money raised	£73.33bn
Total raised by new issues	£34.30bn
Total raised by secondary issues	£39.03bn
Share turnover value (2011)	£3.85bn
Number of bargains (2011)	0.53m
Shares traded (2011)	21.04bn
Transfers to the official list	151

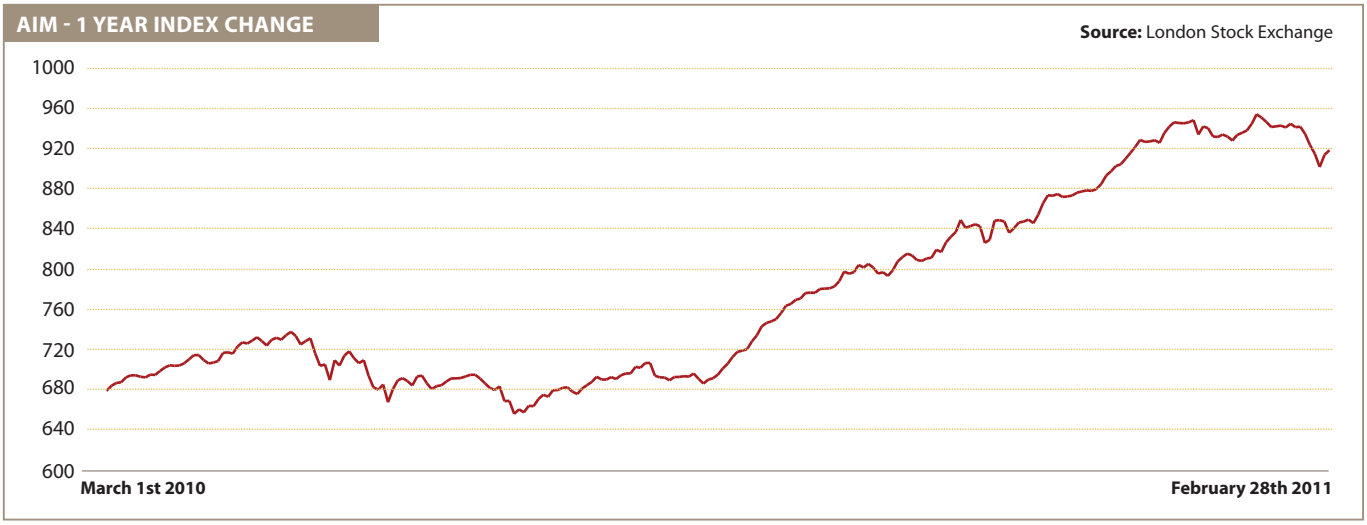
TOP 5 RISERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Sareum Holdings	Health	2.38	+796.2
NextGen Group	Health	0.34	+191.3
cScape Group	Internet	170	+151.9
Sierra Rutile Ltd	Mining	27.5	+150
Range Resources Ltd	Mining	20	+132.8

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Gas Turbine Efficiency	Cleantech	0.45	-89.4
AssetCo	Support services	12.62	-79.5
Churchill Mining	Mining	26.5	-77.7
Oxus Gold	Mining	1.7	-62.6
Trans Balkan Investments	Financial	7.5	-62.5

AIM - 1 YEAR INDEX CHANGE



Data: Hubinvest Please note - All share prices are the closing prices on the 4th March 2011, and we cannot accept responsibility for their accuracy.

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finnCap is a client focused institutional broker and corporate advisor, with astrong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

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

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets. In 2007, private client stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

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

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