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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

US assesses MiFID II

US authorities are set to ask the SEC to study the provision of research for small companies to help them make a decision whether to adopt MiFID II-style regulation as has happened in Europe. The legislation relates to the unbundling of research, rather than linking it to trading volumes. The House of Representatives has passed a bill called the Improving Investment Research for Small and Emerging Issuers Act and it has been sent to the Senate.

Assuming the bill is passed the SEC will investigate availability and demand for research. It will also examine different payment mechanisms. The SEC will have six months to carry out the study.

Global fund managers would like a worldwide approach to payment for research. The SEC is concerned that adopting MiFID II in the US could lead to a reduction in research, particularly of small, growing companies. Asset managers appear to have cut their research budgets since MiFID II came into force. However, some US managers are keen to have the final choice in terms of what research they have to pay for so that they only obtain research that they want.

ROXi Music sets sights on AIM

Arden Partners has been appointed as nominated adviser and broker for the flotation of music-streaming technology developer ROXi Music on AIM. This is expected to happen before the end of the year.

ROXi is a music-streaming device for consumers that was originally known as the Electric Jukebox. It has a music library that includes songs released by labels such as Universal, Sony and Warner and it covers more than 35 million songs. The console includes karaoke and music-based games. A celebrity-based TV campaign at the end of 2018 generated £7 of income for each £1 spent, according to management, and ROXi wants to raise money to increase TV advertising spending. There will also be investment in further technology development.

AIM-quoted YOLO Leisure and Technology, which has a portfolio of media technology investments, owns 15.8% of Magic Media Works Ltd, which is the current name of the holding company for ROXi, prior to any fundraising and holds £500,000 of convertible loan notes.

It is unclear how much the stake in ROXi is currently worth. In 2016, YOLO invested an initial £1.4m in Magic Media and at that time Robbie Williams, Stephen Fry, Sheryl Crow and Alesha Dixon had "equity interests in the business", according to the release. In 2017, prior to a previous plan to float, YOLO acquired £500,000-worth of convertibles.

In this issue

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Sanderson recommends bid

Aptean has launched a recommended bid for enterprise software provider Sanderson. Aptean is a private-equity-backed consolidator of the software sector and generated revenues of $180m in 2018. Sanderson's board believes that Aptean will have the scale and financial backing to grow the business more rapidly in the UK and internationally.

The 140p a share cash bid values Sanderson at £90.1m. Sanderson joined AIM in December 2004 at 50p a share, although the share price slumped to 10p a decade ago, and it has regularly paid dividends. Interim revenues improved by 18% to £17.2m, with recurring revenues 55% of the total. Sanderson has already secured most of the revenues it requires to make the full-year revenues forecast of £35.3m, which is expected to generate pre-tax profit of £5.4m.

Sanderson is not the only AIM-quoted software company attracting potential bidders. Spend control software supplier Proactis has received a bid approach from a US-based investor and it is reviewing its options and finding out if there are other potential bidders. The board of Proactis believes it can be successful as an independent business, but the trading disappointments over the past year meant that the share price had slumped. The low valuation attracted interest.

Proactis is estimated to be the fifth-largest spend control software company in the world but integrating the Perfect Commerce acquisition has proved problematic. Net debt was £44.9m at the end of January 2019 and the dividend has been passed.

Staffline stake buy

Singapore-based HRnetGroup acquired a 25% stake in recruitment firm Staffline, following the sharp slump in the latter's share price due to its accounting problems. Prior to the stakebuilding, the Staffline share price had fallen by more than 90% this year. The latest purchase was at 180p a share, well above the market price. Staffline completed a £41m placing and open offer at 100p a share. Staffing firm HRnetGroup, which floated on the Singapore Stock Exchange in 2017, is focused on Asia, with offices in Hong Kong, Bangkok, Jakarta and Taipei. These markets are tough, with gross profit declining in the first quarter of 2019, although an increase in other income meant that pre-tax profit improved.

Founder unhappy with easyHotel bid

Founder Sir Stelios Haji-Ioannou is not happy with the recommended £138.7m bid for budget hotel operator easyHotel. He still owns 24.5% of the company via easyGroup Holdings, so he is in a strong position to stop the bidder doing exactly what it wants with the business if he continues to hold on to his stake.

The bid has been launched by Luxemboug-based property fund manager ICAMAP, which has a 38.65% stake, and Canada-based property fund Ivanhoe Cambridge, which is not an easyHotel shareholder. The offer is described as "fair and reasonable" by the board, but Sir Stelios does not believe it represents the true value of the business. The independent directors have accepted the bid. They own 0.7%.

The takeover offer is 95p a share, which is a 35% premium to the previous closing price. easyHotel joined AIM on 30 June 2014, when it raised £25.2m at a placing price of 80p a share. In September 2016, £38m was raised at 100p a share, while in February 2018 a further £50m was invested at 110p a share. That means that most easyHotel shares were issued at prices above the bid price, although ICAMAP invested £58m across those two most recent placings, so it has been the main loser.

The cash has been ploughed into building up the hotel chain. The first hotel was opened in South Kensington in 2005. easyHotel currently has 12 owned hotels and a further 26 that are franchised. A further nine owned and eight franchised hotels are planned. easyHotel had net cash of £25.5m at the end of 2018 and it still has cash of £12m – based on the stated enterprise value of £126.1m.

In 2018, total sales of the chain increased from £29.7m to £37.3m, while the revenues generated by the company jumped from £8.4m to £11.3m. The profit was flat at £872,000 after higher pre-opening costs.

HubInvest publishes AIM Journal
www.hubinvest.com

finnCap retains top AIM status

finnCap, which floated on AIM last year, remains the top nominated adviser and AIM broker in terms of number of clients according to the 25th Adviser Rankings Guide. The figures are for 3 July 2019. BDO is top auditor, with 166 clients and Pinsent Masons has extended its lead as the number one law firm, with 55 AIM companies.

finnCap has 89 nominated adviser clients, with Cenkos retaining second place with 73. N+1 Singer moved into third place, with 55 clients. However, finnCap remains eighth in the list based on market capitalisation. Numis clients are worth more than double those of second place Panmure Gordon. Numis is nominated adviser to 22 of the FTSE AIM 100 constituents.

There are the same top three AIM brokers, with finnCap having 102 clients, while Numis is the top of the list based on market value and it is broker to 28 companies in the AIM 100.

Link Asset Services is the top registrar, with 376 AIM clients, which is more than two-fifths of the total number of companies on AIM. FTI Consulting is the most active PR firm, with 56 AIM clients.

ADVISER CHANGES - JULY 2019

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
4D Pharma	N+1 Singer/ Bryan Garnier	Zeus/Bryan Garnier	N+1 Singer	Zeus	01/07/19
Access Intelligence	finnCap	Allenby	finnCap	Allenby	01/07/19
Belvoir Group	finnCap	Cantor Fitzgerald	finnCap	Cantor Fitzgerald	01/07/19
Telit Communications	finnCap	finnCap/Berenberg	finnCap	finnCap	02/07/19
Bango	finnCap	Cenkos	finnCap	Cenkos	04/07/19
Richland Resources	Peterhouse	Shore	Strand Hanson	Strand Hanson	04/07/19
Atalaya Mining	Peel Hunt/BMO/ Canaccord Genuity	BMO/ Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	05/07/19
Cluff Natural Resources	Stifel Nicolaus/Allenby	Allenby	Allenby	Allenby	05/07/19
Eden Research	Cenkos	Shore	Cenkos	Shore	08/07/19
Thor Mining	Hybridan/SI Capital	SI Capital/SP Angel	Grant Thornton	Grant Thornton	08/07/19
EVR Holdings	Arden	Investec	Arden	Investec	09/07/19
Serinus Energy	Arden/GMP FirstEnergy/ Numis	GMP FirstEnergy/Numis	Numis	Numis	12/07/19
IQE	Citigroup/Peel Hunt	Peel Hunt/Canaccord Genuity	Peel Hunt	Canaccord Genuity	22/07/19
Judges Scientific	Liberum/Shore	Shore	Shore	Shore	22/07/19
United Oil & Gas	Cenkos/Optiva	Optiva	Beaumont Cornish	Beaumont Cornish	23/07/19
ValiRx	SVS/Novum	Novum	Cairn	Cairn	23/07/19
MyCelx Technologies	Numis	Cantor Fitzgerald	Numis	Cantor Fitzgerald	26/07/19
Velocity Composites	Cenkos	finnCap	Cenkos	finnCap	26/07/19
Rockfire Resources	SI Capital	SI Capital/First Equity	Allenby	Allenby	29/07/19
Oracle Power	Shard/Brandon Hill	Peterhouse/Brandon Hill	Strand Hanson	Strand Hanson	31/07/19
Rosenblatt	Stifel Nicolaus	Cenkos	Stifel Nicolaus	Cenkos	31/07/19
Watchstone	WH Ireland	Peel Hunt	WH Ireland	Peel Hunt	31/07/19

Shield Therapeutics gains iron boost from a wider ranging US approval

Pharma *www.shieldtherapeutics.com*

Shield Therapeutics has gained FDA approval for iron deficiency treatment Feraccru. The approval covers the treatment of iron deficiency, with or without anaemia, thanks to its high tolerability. This wider approval was not expected and it doubles the potential market value for the treatment. Shield is in discussions with potential commercial partners.

Iron is critical for red blood cells, which transport oxygen around the body. Low iron levels cause defective production of red blood cells and that leads to anaemia. Feraccru is more tolerable than salt-based oral products and there is no risk of too high an iron dosage as there is with injectable treatments.

Feraccru, which is an oral treatment, will be marketed as Accrufer in the US. It can replace the more costly intravenous administration of iron, where it has been proved to be as effective. Shield believes that the iron replacement market in the US is worth more than $1bn a year. There are more than eight million anaemia patients and adding other iron-deficient patients could treble that number.

The US market is worth more than $1bn a year

Norgine has the rights to distribute Feraccru in most of Europe, Australia and New Zealand. Shield has received upfront payments and there should be more to come in sales royalties in the medium term. Shield should have enough cash until the middle of 2020.

SHIELD THERAPEUTICS (STX)	179.5p
12 MONTH CHANGE % +420.3	MARKET CAP £M 211.6

Management is drawing up a shortlist of potential US partners and believes that a deal can be secured before the end of this year, especially as it is a competitive situation, and there will be upfront cash payments in any deal.

finnCap increased its target share price from 200p to 350p because of the wider-ranging FDA approval. There is further potential in other markets, including China and Japan. Shield could reach profitability by 2021 if things go to plan.

Angle awaits FDA approval uplift

Diagnostics *www.angleplc.com*

Cancer diagnostics developer **Angle** could gain FDA approval for its Parsortix circulating tumour cells capture liquid biopsy technology early next year. The FDA submission relating to breast cancer will be in the autumn and clearance could be achieved by early 2020 – although regulatory approval does not always go to plan. The results of the ovarian cancer verification study should also be available in the first quarter of 2020.

Gaining FDA clearance will significantly boost the value of the company and it will provide an opportunity to sign up partners. This would be the first time that a method for harvesting tumour cells obtains FDA approval so there could be issues that require further clarification.

ANGLE (AGL)	77p
12 MONTH CHANGE % +41.3	MARKET CAP £M 132.9

The ovarian cancer trial is designed to prove that the technology can differentiate between benign pelvic mass and malignant ovarian cancer. The trial is using the HyCEAD Ziplex molecular analysis platform in tandem with Parsortix.

Revenues remain modest, coming from research use, and there was a £9.6m cash outflow from operating activities last year, although this was partly offset by an inflow of £2.3m from R&D tax credits. There was net cash of £11m at the end of April 2019 and since then £16.9m has been raised. Net cash of £12.8m is forecast for the end of April 2020 and there should still be a positive balance one year later. Cash outflows are likely to continue until 2023, unless deals with upfront payments are agreed.

Legal services provider Gateley combines organic and acquisitive growth

Legal services *www.gateleyplc.com*

Legal and professional services provider **Gateley** grew its full-year revenues by one-fifth. with the improvement coming from both organic growth and acquisitions. Gateley is set to continue growing strongly.

In the year to April 2019, revenues improved from £86.1m to £103.5m and pre-tax profit increased from £15.4m to £18.1m. Staff utilisation was maintained at 85%. Net debt was £3.2m, even though cash conversion was not as good as previously. The dividend was raised from 7p a share to 8p a share.

Since the results announcement, Gateley has acquired Persona Associates, which is a land referencing consultancy that works on large infrastructure and regeneration projects. The work involves compulsory purchase orders and development consent orders. There is already a relationship with property consultancy Gateley Hamer. Gateley is paying £250,000 in cash including deferred consideration based on the continual operations of the business. The deal should be immediately earnings enhancing.

> Staff utilisation was maintained at 85%.

This is part of the strategy to increase the contribution from non-legal business from the current 6.7% of revenues to 20%. Property has been one of the faster-growing parts of the group, helped by acquisitions.

GATELEY (GTLY)			167p
12 MONTH CHANGE %	-0.3	MARKET CAP £M	185.3

The other divisions – banking and financial services, employee benefits and pensions, corporate and business services – all increased their contributions last year. The spread of activities means that even if one of the divisions has a tough time then this can be offset by the performance of the others.

Prior to the acquisition, Gateley was expected to report a pre-tax profit of £19.5m in the year to April 2020, putting the shares on 12 times prospective 2019-20 earnings, falling to eleven the following year. The forecast yield is 5%.

K3 bets on much improved second half

Software provider *www.k3btg.com*

Enterprise software provider **K3 Business Technology** reported a lower interim profit for this financial year. That was down to the timing of software contracts and the shortfall should be made up for in the second half. K3 has changed its year end in recent years but, when it comes to software companies, it appears that the last quarter is always the most important whatever the year end. Management remains confident that K3 is on course to achieve its forecast for the year to November 2019.

In the six months to May 2019, revenues dipped from £41.4m to £38.2m, while pre-tax profit fell from £1.2m to £400,000.

K3 BUSINESS TECHNOLOGY (KBT)			216p
12 MONTH CHANGE %	+48.5	MARKET CAP £M	92.8

The strategy of generating more revenues from K3's own IP continues to progress and has helped margins, but interim own IP sales were lower and this hampered first-half profit. Recurring revenues are also becoming more important and they were 50% of total revenues in the period.

There is a natural second half weighting to SYSPRO software renewals and some software contracts were closed too late to be included in the first half. This gives some comfort to the argument that K3 can achieve full-year expectations. Second-half revenues need to be more than a quarter ahead of the same period last year. New product launches will also provide revenues in the second half but make a bigger contribution next year.

finnCap maintains its forecast of a full-year pre-tax profit of £5.2m, compared with £4m in the previous 12-month period. That would put the shares on 21 times prospective earnings. K3 should move into a net cash position by the end of November.

NWF focuses on consolidation of British fuel distribution sector

Fuels and food distribution, feed *www.nwf.co.uk*

NWF is focusing on growing its fuel distribution business via acquisition. The latest figures were accompanied by the purchase of Ribble Fuel Oils, which adds 75 million litres to annual sales. That would take pro forma total annual volumes to 627 million litres delivered from 23 depots.

Fuels revenues increased by 11% to £443m last year, but operating profit fell 19% to £5.6m. There were tough comparisons because of the harsh winter in the previous year, which helped profitability.

Management is keen on fuel distribution because it is a fragmented market and NWF has less than 2%. There are potential acquisition targets that are strong in their regions and where the owners may want to sell ahead of retirement. NWF retains the local brand name but centralises the back office operations. NWF targets a specific margin per litre and it is better at managing margin than the smaller businesses.

Fuel supply is a fragmented market

Last year, NWF acquired a business in Cornwall and Ribble Fuel Oils adds branches in the north of England. There are other opportunities to broaden the geographic spread of depots.

The food distribution business increased its operating profit by 257% to £1.8m as new customers were won to replace lost business and prices were raised. Offsite storage has been provided to clients for their short-term requirements, but this does little to enhance profitability. E-fulfilment is still a small part of the division, but it is a way of improving margins.

The feeds division had high demand in the summer because of a lack of forage but this was reversed in the second half. Volumes were slightly lower and commodity prices have been volatile. NWF is known for its agricultural operations because of its history of supplying farmers. However, non-agricultural businesses account for three-quarters of revenues.

NWF (NWF)	167p		
12 MONTH CHANGE %	-14.4	MARKET CAP £M	81.4

In the year to May 2019, group revenues were 10% ahead at £671.3m, while underlying pre-tax profit was 5% lower at £9.7m. Net debt was £10.4m. Management continues to increase the dividend, which is 5% higher at 6.6p a share. The yield is slightly below 4%. It is sensible to assume that pre-tax profit will be flat at best this year.

Lancaster provides good news for Hurricane

Oil and gas *www.hurricaneenergy.com*

Oil and gas explorer and producer **Hurricane Energy** says that initial production from the Lancaster field in the North Sea is better than expected. This has offset the disappointing news from the well at nearby Warwick Deep, where the oil flow was not at a commercial level.

The Lancaster early production system, West of Shetland in the North Sea, has been generating oil since June. The data generated has enabled Hurricane to increase its production guidance to 20,000 barrels of oil a day for 2020. Lancaster is 100% owned by Hurricane and further development of the field could be financed by finding a partner. Hurricane should still be able to retain a significant stake.

HURRICANE ENERGY (HUR)	43.5p		
12 MONTH CHANGE %	-13.2	MARKET CAP £M	880.8

Drilling has commenced at Lincoln Crestal in the Greater Warwick area, following the disappointing well at Warwick Deep.

Edison believes that Hurricane can generate operating cash flow of $23.4m in 2019, while net debt is likely to increase from $103.4m to $115.6m. Next year, operating cash generation could be in excess of $230m and this would be enough to put Hurricane into a net cash position.

NAV and income attractions at Circle Property

Property investor *www.circleproperty.co.uk*

Dividend

Circle Property floated in February 2016 and has paid a growing dividend ever since. There was a 2.4p a share dividend for the year to March 2016 and this was followed by 5p a share for the first full year as a quoted company. It was raised to 5.6p a share in 2017-18 and then increased by 12.5% to 6.3p a share last year.

Dividend growth is expected to be at around 10% a year, with 7p a share forecast for 2019-20.

Circle Property has taken the decision not to become a REIT because it wants to retain earnings to reinvest in the development of the property portfolio, rather than distribute 90% of earnings in dividends.

Business

Circle Property invests in regional offices, retail and industrial properties and it is run by an experienced management team. When the company floated on AIM it took on the property portfolio held by Circle Property Unit Trust, which was valued at £73.9m at the time. The placing price was 149p a share, which was equivalent to NAV.

Since then the EPRA NAV has increased by 86% to 277p a share at the end of March 2019. That is equivalent to a compound annual growth rate of more than 23%. The growth rate may slow, but the NAV should continue to increase, particularly if suitable acquisitions are identified.

The portfolio is dominated by offices and is valued at £124.6m and it has a running yield of 6.1% and a reversionary yield of 7.7%. Occupancy is 95% and contracted annual rental income was £7.61m in March 2019, with additional contracted rent of £340,000 secured since then. Admin costs and property expenses are forecast to be £3.7m this year.

CIRCLE PROPERTY (CRC)	
Price (p)	193
Market cp £m	55.1
Historicalyield	3.3%
Prospective yeld	3.6%

Management has replaced a £55m debt facility with one of up to £100m lasting until 2025 and with an interest rate of LIBOR plus 2.05 percentage points. Net debt was £45.4m at the end of March 2019.

This facility provides funds for further purchases in undersupplied regions, which have potential for improved returns through better management. The focus is properties valued at between £5m and £15m, where there is no competition from institutional investors. Management believes that there are property owners that are keen to sell properties that can be refurbished to improve the return.

Despite the strong track record that Circle Property has built up, the shares are trading at a 30% discount to current NAV, which is forecast to increase to 300p a share by March 2020. Non-executive director Michael Farrow appreciates the attraction of the shares and acquired an initial stake of 12,900 shares at 193.5p each after the results announcement.

Although there is a spread of shareholdings, there has been limited trading in the shares. There is more trading than three years ago, but it may be difficult to find shares to buy without pushing up the share price.

Dividend news

Arbuthnot Banking improved its underlying pre-tax profit from £2.7m to £3.4m in the first half of 2019. The interim dividend has been raised from 15p a share to 16p a share and the total dividend is forecast to increase from 35p a share to 37p a share. The recent residential mortgage portfolio acquisition came after the end of June. The strategy is to diversify the business and asset-based lending and specialist finance are being built up. The shareholding in Secure Trust Bank has been sold down to below 10%, which means it is no longer consolidated. The change from associate led to a write down and NAV declined to £13.21 a share.

Franchise Brands is improving the performance of its Metro Rod business, acquired in 2017. In the first half of 2019, Franchise Brands moved from a loss to an underlying pre-tax profit of £1.4m due to the better results of the drainage franchise. This enabled the company to raise the interim dividend from 0.21p a share to 0.3p a share and the full-year dividend is forecast to increase from 0.58p a share to 0.71p a share, which would still be covered five times by forecast earnings. There was a flat performance form the company's other branded franchises. There is more upside from the operational improvements and other initiatives at Metro Rod.

Document storage provider **Restore** increased its interim dividend by 20% to 2.4p a share, which was double the growth in underlying earnings per share. First-half revenues were 15% higher at £106.2m, while underlying pre-tax profit was 17% ahead at £20.1m, because of an improved operating margin. Net debt is £95m. The short-term focus is on organic growth, following the integration of previous acquisitions, with cash flow reducing debt prior to making further acquisitions.

AIM car dealers have better prospects than Lookers

Fully listed motor dealer Lookers is finding the car market tough, but its AIM peers are holding up much better.

All car dealers are finding trading tough in a UK market where new-car sales are well below their peak levels, but Lookers is doing particularly badly and has already warned on first-half trading. In contrast, AIM-quoted car dealers Vertu Motors, Cambria Automotive and Marshall Motor are managing to limit the dip in their profits and invest for the future.

An FCA investigation into Lookers' sales processes over more than three years does not help, but it is the underlying trading that is the problem. The FCA investigation is related to administration of operations and the problems may already have been dealt with. Lookers has reviewed its regulated activities and developed an improvement plan, as well as sharing the findings with the FCA.

The announcement of the FCA investigation was followed by disappointing trading news, with June a particularly poor month. Peel Hunt had already cut its 2019 pre-tax profit forecast from £56.3m to £53.1m, but news that interim profit is expected to be £29m has led to a further reduction to £38.7m. The dividend is likely to be cut from 4.1p a share to 3p a share. A minor pre-tax profit recovery to £39.9m is expected for 2020.

New-car sales continue to be weak and Lookers appears to be doing worse than the market. Used car prices are falling and Lookers is having to write down the value of its stocks.

AIM peers

Cambria and Vertu have the benefit of starting from scratch around a decade ago. They have been able to carefully choose the businesses they have acquired and the franchises that they have wanted to obtain from specific car manufacturers. They have also successfully adjusted their portfolios as markets have changed over the years.

For example, Cambria has more than 50% of its business with luxury car marques, including Bentley, Maclaren and Lamborghini.

The AIM companies have placed an emphasis on turning over their used-car stocks as quickly as possible, so they should be less susceptible to stock write-downs than Lookers. They have also focused on growing aftersales revenues.

Cambria has managed to improve its margins on used-car sales even though volumes have fallen. It has consistently made a better return on investment than the industry average. Vertu has improved volumes and profit on used cars.

All three AIM companies have strong balance sheets with good asset backing, particularly in terms of property. Vertu is trading at a discount to NAV of nearly a quarter.

The companies' cash positions have allowed them to make acquisitions or invest in new sites for franchise gains. The full benefits of this investment have not shown through in the figures yet.

There will also undoubtedly be further opportunities that come out of the tough UK car market and the AIM companies are in a good position to take advantage. This might be acquisitions or it could be gaining franchises from rivals.

> All three AIM companies have strong balance sheets

Despite the enormous levels of capital investment being made, the companies have grown, or at least maintained, dividends in recent years and this is set to continue.

The AIM companies are not immune to the problems in the sector but, so far, their managements have shown that they can limit the reduction in profit due to weak markets through careful management of their assets.

There may be short-term bumps in the road for the three AIM companies, but Cambria, Vertu and Marshall are well-invested businesses that should prosper over the longer term.

AIM tax break under threat from potential IHT changes

A review by the Office of Tax Simplification has questioned the validity of Business Property Relief and does not think it should continue. If the government agrees, that could hit the share prices of many AIM companies.

In January 2018, when he was Chancellor of the Exchequer, Philip Hammond asked the Office of Tax Simplification to carry out a review of all the aspects of Inheritance Tax (IHT) and provide recommendations on how it can be made more effective and how to simplify its operation.

The first part of the review covered administration and was published in November 2018. The second part of the review covering the design of IHT was published last month. Part of this report covers Business Property Relief (BPR), which enables investments in AIM-quoted companies to be exempt from IHT if they have been owned for at least two years before death.

Fewer than 5% of estates are liable to IHT, partly due to the various reliefs. The original idea behind BPR is that it would prevent the beneficiaries of the deceased having to sell a business in order to pay any IHT owed to the HMRC.

BPR has been around nearly two decades longer than the Alternative Investment Market (AIM). AIM qualifies because it is not deemed to be a designated recognised stock exchange, such as the Official List of the London Stock Exchange, and the shares are deemed to be unlisted.

In terms of London market segments, the Professional Securities Market is also classed as listed, whereas the High Growth Segment and the Specialist Fund Market (SFM) have the same unlisted status as AIM. The SFM is for investment companies so they would not be eligible for BPR.

Eligibility

BPR not only benefits outside shareholders in AIM companies; it also benefits families and executives that have been long-term shareholders even before the company joined AIM.

Advisers, brokers and fund managers that focus on AIM tend to offer IHT portfolio services

Trading businesses that conform to the qualification rules of IHT and farm assets are not liable to IHT. These trading businesses are still exempt when they are quoted on AIM, because they are classed in tax terms as unquoted, whereas if they are listed on the Main Market of the London Stock Exchange, they are not exempt.

However, if an individual owns a controlling shareholding in a company listed on the Main Market,there is a 50% relief on IHT.

One of the elements of the recommendations of the review is that the treatment of non-controlling holdings in trading companies should be reassessed. If a shareholding in a trading asset is held through a holding company that is classed as an investment company then that holding would not be eligible for BPR, whereas if it were held directly by an individual it would be.

AIM

The review recognises that investment in eligible AIM shares is marketed by financial advisers as a way of minimising IHT charges. It also understands that the availability of BPR can help to enhance the liquidity of some AIM shares.

It does argue that third party investors in AIM shares being able to benefit from BPR does not prevent the business from being broken up. This sparks the question: Is the treatment of AIM shares within the policy intent of BPR?

It is certainly not the original reason behind BPR. However, if a family business floats on AIM then those family members with significant stakes will know they will not lose the BPR they would have got if the company did not float. Removing BPR could change the decision making when it comes to flotations. There are few enough at the moment, but it could limit them further.

Once a company has floated, it is not necessarily practical to differentiate between original and new shareholders, especially when shares could have changed hands between different investors many times over the years.

Cost of relief

The report estimates that Agriculture Property Relief (APR) and BPR could cost the UK government £5.85bn over the next five years. Getting rid of the tax reliefs could enable the rate of IHT to be reduced from 40% to around 33.7% - based on the earlier figure.

It is not made clear how this is broken down between APR and BPR and there is no indication how much is lost because AIM shares are eligible for BPR.

Capital gains

Allied to the recommendation about BPR is another recommendation that the government should consider removing the capital gains uplift on the transfer of assets. Instead they should be deemed to be transferred to the recipient at the historical cost.

That could lead to enormous tax bills for the recipient if the asset/shares had been held for years, although presumably there would be no tax payable until the asset/shares are sold.

The review points out that requirements for trading activity differ between BPR and Capital Gains Tax (CGT) and it argues that this distorts decision making. The level of trading activity required for BPR is a lower level than for gifts or entrepreneurs' relief.

Future

The government does not have to accept all or any of the recommendations, particularly as Sajid Javid has taken over as Chancellor of the Exchequer and he did not request the review.

Members of the government have previously expressed their intention to retain the benefits of BPR to business owners and investors.

That suggests that it might be politically difficult to take away BPR from AIM shares, but that does not mean that there will not be a change of heart – especially if there is a change in government.

The Labour party commissioned a report that put forward ideas that would lead to the replacement of IHT with a lifetime gifts tax on the receipt of gifts totalling more than £125,000 during a lifetime. However, even this proposal recognises the need for some form of relief for agricultural assets and businesses.

Consequences

AIM is undoubtedly a spoilt market when it comes to tax relief. On top of BPR, there is the ability to put AIM shares in Individual Savings Accounts (ISAs).

Advisers, brokers and fund managers that focus on AIM tend to offer IHT portfolio services investing in AIM shares. There are millions of pounds invested in these portfolios and they tend to invest in more liquid AIM companies with a reasonable track record.

The track records of some of these portfolios is impressive. This is probably due to the fact that they concentrate on more solid investments rather than speculative and fashionable ones, where short-term gains are not necessarily sustained over a period of two years or more.

For example, the Octopus AIM Inheritance Tax service has tended not just to outperform the return on AIM as a whole, but also the total return of the FTSE All Share index. According to Octopus, the median performance between inception at the end of June 2005 and 31 March 2019 was a total return of 226%, compared with a total return of 153.4% for the FTSE All Share.

The type of AIM companies in these portfolios would probably trade on a high earnings multiple because of their track records. However, the ratings for some are probably higher than they would be and reflect the limited supply of shares and the relatively strong demand.

Floorcoverings supplier James Halstead is trading on nearly 30 times earnings. That multiple might not be as high if it were not a favourite in IHT portfolios.

If BPR were removed form AIM companies that are trading businesses, then it would undoubtedly affect demand for shares and potentially the ratings of some companies. However, these shares would still be in demand by investors and they would be good investments without any tax relief. The money invested in IHT portfolios would still require to be invested somewhere and the type of investors that take advantage of BPR would be drawn to put some of their cash in quoted companies.

It is too early to get worried about the potential loss of BPR for AIM shares and, even if some of the current investment in AIM shares were lost, it is likely that much of the cash would still be available for smaller companies.

> It is estimated that Business Property Relief could cost the UK government £5.85bn over five years

The Office of Tax Simplification review can be downloaded from www.gov.uk/government/publications/ots-inheritance-tax-review-simplifying-the-design-of-the-tax.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Industrials	18.3	17.3
Financials	18.2	16.3
Consumer services	14.2	10.8
Health care	12.9	10
Technology	11.7	12.9
Consumer goods	10.2	5.9
Oil & gas	7.7	11
Basic materials	5.1	13.3
Telecoms	1.3	0.7
Utilities	0.3	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	931.46	-14.8
FTSE AIM 50	5127.17	-18.6
FTSE AIM 100	4802.67	-17
FTSE Fledgling	9540.13	-14.9
FTSE Small Cap	5543.3	-5.7
FTSE All-Share	4134.03	-2.8
FTSE 100	7586.78	-2.1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	158
£5m-£10m	99
£10m-£25m	161
£25m-£50m	133
£50m-£100m	144
£100m-£250m	112
£250m+	93

KEY AIM STATISTICS

Total number of AIM	900
Number of nominated advisers	28
Number of market makers	48
Total market cap for all AIM	£100.2bn
Total of new money raised	£113.9bn
Total raised by new issues	£45bn
Total raised by secondary issues	£68.9bn
Share turnover value (June 2019)	£30.3bn
Number of bargains (June 2019)	5m
Shares traded (June 2019)	279.9bn
Transfers to the official list	190

TOP 5 RISERS OVER 30 DAYS

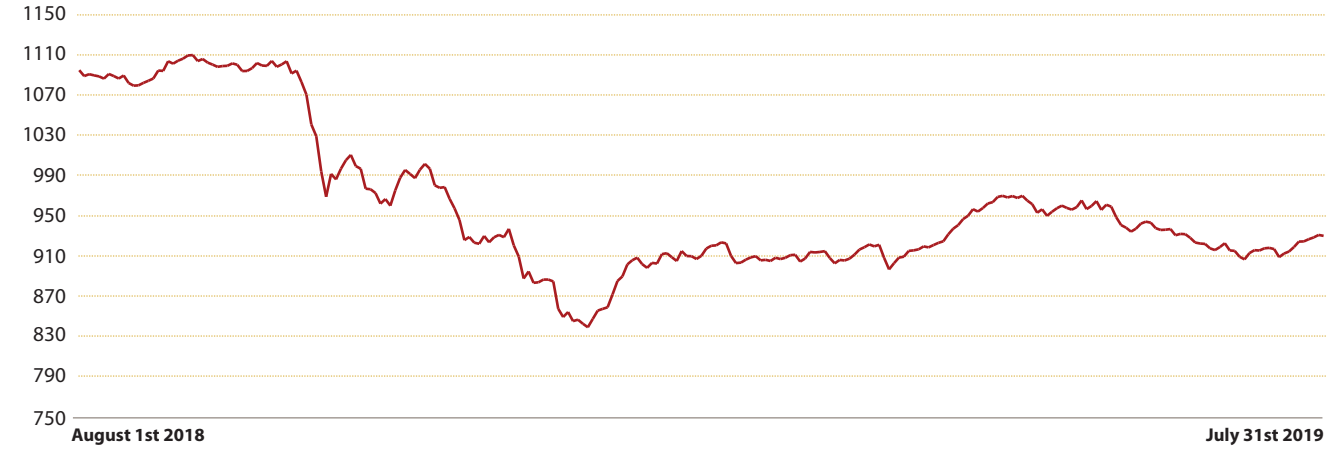
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
IDE	IT services	2.7	+248
Jersey Oil and Gas	Oil and gas	209.5	+225
Petrel Resources	Oil and gas	3.25	+210
Silence Therapeutics	Healthcare	180	+147
Feedback	Healthcare	1.925	+103

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Kubera Cross-Border	Financials	5.5c	-75.6
Nu-Oil and Gas	Oil and gas	0.12	-51
Trafalgar Property	Housebuilder	0.19	-49.3
Modern Water	Water	1.65	-49.2
LoopUp	Technology	138	-46.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st July 2019, 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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