AUGUST 2017

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM initiates rule discussions

AIM has published a discussion paper to generate feedback on proposed rule changes for AIM companies and nominated advisers. There is also consideration of additional supervisory powers and sanctions if the rules are not followed. There could be changes to the free float rules and the instigation of a minimum fundraising for all new admissions to AIM, not just non-revenue-generating investment companies.

One of the potential changes is formalising the process of early-stage discussions between the London Stock Exchange and a nominated adviser about proposed forthcoming admissions. Early discussions could reduce the risk of flotation delays if problems that could harm AIM's reputation are identified in the due-diligence process undertaken by the nominated adviser. The discussion paper asks for views on early notification and at what point it should be required.

There are also plans to incorporate in the nominated adviser rules a list of issues that could give rise to concerns. These include concerns about the character of directors, management and shareholders, the corporate structure and if the company has previously been denied admission to another stockmarket or trading facility. There are seventeen questions in total, including whether there should be any other changes to the disciplinary handbook. For more on the AIM discussion document see page 10.

Schroder UK policy amendment

Investment trust Schroder UK Growth has amended its investment policy so it can invest more in AIM companies. This is the latest investment trust to decide to increase its exposure to AIM and other smaller companies and this, plus funds being raised by VCTs, provides additional sources of investment for AIM companies.

Schroder UK Growth has removed the restriction on investment in smaller companies and AIM that limited investment to 5% of the portfolio. The maximum that can be invested in one company has been increased from 2% to 5% of the portfolio. Most of the investments are currently in the FTSE350 index.

Last year, VCT fundraisings were in demand and some VCTs are already launching fundraisings for this tax year. This includes Unicorn AIM VCT, which has published a prospectus to raise up to £30m with an over-allotment facility which will enable Unicorn to raise a further £20m if there is enough demand. The net asset value was £162m at the end of June 2017 so this could be a highly significant increase in funds to invest, with the money predominantly going into AIM-quoted companies. Unicorn AIM VCT raised £15m within one month of issuing its previous prospectus.

In this issue

general news

Arena Events structures cash call for expansion

A company whose history goes back to 1761 has joined AIM. Arena Events supplies temporary structures, seating and furniture to events that include Wimbledon and Aintree. The majority of the £59.3m (£54.7m after expenses) raised at 55p a share will go on paying off debt.

Arena has been loss-making because of interest costs on net debt of nearly £52m at the end of 2016. Loan notes and related interest totalling £31m will be paid off, as will £13.2m of senior debt. The rest of the cash will be used to finance the growth of the business, including acquisitions. The sector is highly fragmented and the focus of acquisitions will be the US, where the group is number three in its market with a share of less than 1%. Arena also wants to broaden the range of products and services it can offer.

Revenues grew from £85.8m in 2015 to £93.2m in 2016, with the majority earned in the second half. The UK and Europe generated 43% of revenues, the US 40% and the Middle East and Asia the remaining 17%. The top ten contracts account for one-fifth of group revenues.

Sporting events account for 50% of revenues and the company has been supplying the Wimbledon tennis championships for 67 years. The next longest relationship is with the Open Championship, which has lasted for 38 years. Initial contracts with clients tend to be for three to five years and management claims that it has never lost a multi-year client. Arena Events also provides structures to individual Olympic Games and World Cups. Other revenues come from concerts, cultural events and parties.

Redx Pharma to return

Redx Pharma is set to return to AIM later this year following the sale of a major part of the business by the administrator, which was appointed because the drug developer failed to pay Liverpool City Council the money it was owed. FRP Advisory raised $40m for the assets relating to Redx's BTK inhibitor drug programme for the treatment of blood cancers. This cash will pay off creditors and provide working capital for the rest of the group. If the management's business plan is approved Redx will be able to come out of administration and request resumption of share trading on AIM. Redx still owns other drug programmes, including RXC004, an oral Porcupine inhibitor used to treat difficult cancers that has approval to commence a phase 1 study.

Zimbabwe fast food flotation

Zimbabwe-based fast food restaurants operator Simbisa Brands wants to join AIM. It is already quoted on the Zimbabwe Stock Exchange, following a demerger from Innscor Africa in November 2015, although Simbisa has been trading for three decades. A secondary quotation on AIM may be timed with an international acquisition. Cash would be raised for the acquisition and to finance further openings in Zimbabwe and other countries – Simbisa currently operates in eleven countries in Africa. Simbisa has the franchise for Nandos in Zimbabwe and runs other outlets, including Pizza Inn and Chicken Inn. Regulatory approval will be required in Zimbabwe before Simbisa can move forward with an application to join AIM.

In the nine months to June 2016, revenues were $108.3m and pre-tax profit was $3.8m, although most of that profit was made in the first three months. Pre-tax profit jumped to $6.63m in the six months to December 2016. Net debt was $17m at the end of June 2016 and it fell to $14.5m at the end of December 2016.

ASX-listed Lucapa Diamond Company also wants a secondary quotation on AIM and has already appointed Panmure Gordon as its adviser. Lucapa was talking about gaining an AIM quotation last year. It appears that the company could join the junior market in the fourth quarter.

Lucapa is developing the Lulo mine in Angola and the Mothae mine in Lesotho and it wants to attract additional institutional investors. Lucapa is also exploring for kimberlites in Australia and Botswana. There was $7.83m in the bank at the end of June 2017 and there is also a loan facility of $4.14m. The estimated cash outflows for the current quarter total $10.1m, including $5.2m in consideration for the acquisition of Mothae.

advisers

Northland partners with Baden Hill

Northland Capital Partners, a sponsor of AIM Journal, has announced a co-operation agreement with London-based stockbroking partnership Baden Hill LLP. This deal will help Northland to broaden its reach into institutional investors and provide sales trading execution services, as well as giving access to the private equity market to existing Northland clients.

Baden Hill, which was formed in 2012, has nine partners with extensive experience in corporate finance, sales and advice. Northland chief executive Patrick Claridge says: "The (Baden Hill) team is highly capable, with decades of corporate finance, broking and sales trading experience across the large, mid and small cap sectors", while Baden Hill managing partner Patrick Harrington is "excited by the extra growth opportunities and potential synergy benefits that this deal will bring".

Over the past two years Baden Hill has been involved in equity raisings totalling £50m. These were done under an external regulatory umbrella. Earlier this year, Baden Hill was involved with N+1 Singer in raising £17.5m at 250p a share for analytics-as-a-service provider Actual Experience.

Northland has 42 quoted clients and was adviser/broker to £125m-worth of transactions during 2016.

■ Numis Corporation says that trading activity has been strong in the period since March 2017 and this means that revenues and profit for the year to September 2017 will be higher than the previous year when revenues were £112.3m and pre-tax profit £32.5m. The fundraisings by new and existing clients have been larger than previously and this means that average fees have been higher than in the first half. Finance director Simon Denyer, Lorna Tilbian and Marcus Chorley are stepping down from the board, although the latter stays on the Numis Securities board.

ADVISER CHANGES - JULY 2017

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Be Heard Group	N+1 Singer/Dowgate	Numis/Dowgate	N+1 Singer	Numis	03/07/17
Mountfield Group	Cairn	WH Ireland	Cairn	WH Ireland	03/07/17
Silence Therapeutics	Peel Hunt	Canaccord Genuity/ Peel Hunt	Peel Hunt	Canaccord Genuity	03/07/17
WANdisco	Peel Hunt/Stifel Nicolaus	Stifel Nicolaus/UBS	Stifel Nicolaus	Stifel Nicolaus	03/07/17
Ceres Power Holdings	Berenberg/Zeus	Zeus	Zeus	Zeus	04/07/17
Bezant Resources	Peterhouse/Beaufort	Beaufort	Strand Hanson	Strand Hanson	06/07/17
Accrol Group Holdings	Liberum/Zeus	Zeus	Zeus	Zeus	10/07/17
Fox Marble Holdings	Beaufort /Brandon Hill	Brandon Hill	Cairn	Cairn	12/07/17
Frontera Resources	WH Ireland	Cornhill	Cairn	Cairn	13/07/17
EQTEC	VSA/SVS	VSA/SVS	ZAI	Strand Hanson	19/07/17
Metal Tiger	RFC Ambrian/SI/VSA	SI/VSA	RFC Ambrian	Spark	20/07/17
Globalworth Real Estate Investments Ltd	Jefferies/ Panmure Gordon	Cantor Fitzgerald/ Panmure Gordon	Panmure Gordon	Panmure Gordon	24/07/17
LightwaveRF	Stockdale	WH Ireland	Stockdale	WH Ireland	24/07/17
Victoria	Berenberg/finnCap/ Cantor Fitzgerald	finnCap/ Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	24/07/17
ReNeuron Group	N+1Singer/Stifel Nicolaus	Stifel Nicolaus	Stifel Nicolaus	Stifel Nicolaus	25/07/17
Good Energy	Investec	Arden	Investec	Arden	27/07/17
President Energy	finnCap/ BMO Capital Markets	Peel Hunt / BMO Capital Markets	finnCap	Peel Hunt	28/07/17

company news

NWF invests in feed-milling capacity as milk price heads upwards

Animal feed, food and fuels *www.nwf.co.uk*

NWF made up for the lower profit of the feeds business through improved contributions from food and fuels distribution. The first-half group shortfall was made up for in the second half, so underlying pre-tax profit edged ahead from £8.3m to £8.5m in the year to May 2017.

The feeds division was hit by farmers spending less because of the low milk price and operating profit fell from £2.1m to £1.5m. The number of cows has declined so production fell by 5% last year. There were also increases in commodity prices. This came at a time when NWF was expanding mill capacity to 660,000 tonnes but it managed to maintain its market share. The milk price has improved to 26.9p a litre, a level where farmers should be profitable.

The Boughey food distribution business continues to operate at high capacity utilisation and service levels. Palletline provides a potential area of growth for this division and it made a contribution of £150,000 last year. This enables NWF to gain work from small local businesses, as well as in sectors other than food. The food division's operating profit improved from £2.7m to £3m and new Mercedes trucks are improving fuel efficiency. Some business has been lost so this will have to be replaced this year.

NWF was expanded mill capacity to 660,000 tonnes

Fuels reported growth in operating profit from £3.9m to £4.5m as 500 million litres were sold in the period. Two start-up depots made smaller losses than expected. The pace of growth of new start-up depots is dependent on finding depot managers that understand the operating model.

NWF GROUP (NWF)			147.5p
12 MONTH CHANGE %	-9.2	MARKET CAP £M	71.7

Net debt increased from £9.9m to £13m at the end of May 2017 due to an unusually high level of capital investment on feed milling capacity. Capital investment will fall this year so debt should reduce unless add-on acquisitions are made. There are total bank facilities of £65m that last until October 2019. The pension deficit increased from £18.3m to £19.9m and there will be news of the latest triennial valuation before the end of 2017 and this may require contributions to be raised.

Personalised ticket purchase for accesso

Ticketing technology *www.accesso.com*

Ticketing and queuing technology provider **accesso Technology** has acquired US-based The Experience Engine (TE2) for £62.3m in cash and shares. This deal follows on from the acquisition of digital ticketing firm Ingresso in March and will enable accesso to provide additional ways for its theme park clients to increase their revenues.

TE2 provides personalisation and data analysis software, which models and anticipates consumer behaviour and preference before, during and after a visit to a theme park. This technology complements the existing product range offered by accesso and can be offered to existing clients. TE2 has a customer base that includes SeaWorld, Merlin Entertainment and Carnival Corporation. The existing management team intend to stay with TE2.

ACCESSO TECHNOLOGY (ACSO)			1635p
12 MONTH CHANGE %	+ 13.1	MARKET CAP £M	430.7

A placing raised £58.8m at 1620p a share. The cash consideration for TE2 is just over £51m and the rest will be used to pay down existing debt. Despite the large share issue, the acquisition should be marginally earnings enhancing in the first full financial year.

The existing business continued to trade strongly up until May but this is a weaker part of the year. TE2 has also grown its revenues in the first five months of 2017. Accesso has been one of the best AIM performers of the past decade.

company news

Earnings-enhancing acquisition brings in-house distribution team to Surgical Innovations

Surgical instruments *www.siggroupplc.com*

Keyhole surgery instruments manufacturer **Surgical Innovations** has had a troubled few years but the new management has turned around the business so that it can seek acquisitions to grow faster than it could organically. The first acquisition is Elemental Healthcare, which distributes Surgical Innovations' SI brand laparoscopic instruments in the UK and a complementary product called Microline plus other specialist surgery products. This deal will be significantly earnings enhancing, with the current-year earnings estimate raised by one-third.

Surgical Innovations is paying £9.375m for Elemental – £7.5m in cash and £1.875m in shares. A placing raised £5.5m at 3p a share – a one-fifth discount to the market price at the time. Four out of the five existing directors bought additional shares.

The 2017 earnings estimate was raised by one-third

The Elemental management are becoming group development director and group commercial director so the deal is not just financially beneficial; it also helps Surgical Innovations to enhance its management team with two men who have been selling the company's products for a decade.

Elemental generated revenues of £6.5m in the year to March 2017, which is slightly more than Surgical Innovations' 2016 revenues, and a pre-tax profit of £1.1m, which is quadruple the level of the existing group profit.

SURGICAL INNOVATIONS (SUN)			3.73p
12 MONTH CHANGE %	+101.6	MARKET CAP £M	29.1

House broker WH Ireland has increased its 2017 pre-tax profit forecast from £590,000 to £1.16m and earnings per share by one-third to 0.2p. Next year's pre-tax profit forecast has jumped from £700,000 to £1.86m, with earnings per share pushed up from 0.15p to 0.24p. This does not assume any cost savings and bringing in a direct sales force could be useful for future acquisitions. The shares are trading on eleven times prospective 2018 earnings.

Focus set to yield partners for e-therapeutics

Drug discovery technology *www.etherapeutics.co.uk*

Drug discovery technology platform developer **e-therapeutics** has reviewed its strategy and decided to focus on its computer-based platform and two potential treatments, which are in the early stages of pre-clinical development. Management is trying to secure partnerships for further development of potential drugs.

The strategic review was set in motion by Dr Ray Barlow, who became chief executive earlier this year. The network-driven drug discovery platform is undoubtedly a valuable asset and e-therapeutics will continue to invest in its development and broaden the range of diseases that can be addressed. The platform can take nine months or less from concept to a potential treatment, whereas other methods can take more than two years.

E-THERAPEUTICS (ETX)			12.25p
12 MONTH CHANGE %	-8.4	MARKET CAP £M	32.9

The longer-term value will come from deals with potential collaborators. No revenues are assumed as yet for the next two years. This means that any early milestone payments from deals would help to reduce the expected cash outflow and there would be potential for much larger milestone payments as any treatment progressed towards becoming a commercial product. .

The company is focusing on two of the six existing development programmes. The two immuno-oncology programmes are at the medicinal chemistry stage. Two other programmes are available for out-licensing and data will be published on the remaining two programmes. There is scope for adding a third development programme.

This can be done within the current cash resources. Net cash was £14m at the end of January 2017 and there should still be cash left by the end of January 2019, even if no revenues are generated during the period, helped by R&D tax credits.

company news

Brave Bison moves toward profit as new boss takes over video content provider

Video content provider *www.bravebison.io*

Social video content provider and distributor **Brave Bison** has pared back its cost base, including the closure of a number of offices, and shed low-margin business. This has moved it near to breakeven and provides a sound base for the business as the new management team takes over.

Claire Hungate starts as chief executive at the beginning of August. She has experience in the television industry through Warner Brothers, which acquired former AIM company Shed Media where she was chief operating officer, and Princess Productions. Finance director Kevin Deeley is leaving and a replacement is being sought.

Brave Bison has opened its own production facility called Yellowstone Studios and has developed relationships with multinational brands, such as Procter & Gamble. The company can offer these brands specific content that does not have the drawbacks of advertising via online platforms where the advertising can be linked to inappropriate content.

There is scope for upgrades

In the six months to June 2017, revenues slumped from £9.69m to £6m but gross margin increased from 39% to 46%. The gross margin should improve further because there was still some low-margin business in the first half. Revenues grew in Asia Pacific and this was all higher-margin business. The overall loss fell from £3.57m to £2.17m but it was almost breakeven without the amortisation charge and restructuring costs. Net cash was £4.9m at the end of June 2017 and this provides a financial buffer for the new management.

House broker Stockdale forecasts a 2017 loss per share of 0.3p but there is scope for upgrades to that estimate. Next year's performance will be important but there is no forecast yet. That is not surprising because the new chief executive has just started with the group.

BRAVE BISON (BBSN)			1.27p
12 MONTH CHANGE %	-74.6	MARKET CAP £M	7.26

Quiz proves initial AIM success

Fashion retailer *www.quizgroup.co.uk*

Trading in the shares of fashion retailer **Quiz** got off to a strong start and by the end of July they were more than one-fifth higher than the placing price of 161p a share. Existing shareholders raised £92.1m from share sales while the company raised £10.6m. Quiz was valued at £200m when it floated.

Glasgow-based Quiz's target market is value clothing and footwear for women between 16 and 35 years old and it sells online and via 73 standalone stores and 165 concessions in the UK and Ireland. There are also 65 international franchise stores in 19 countries, which have been built up since the first was opened in Saudi Arabia in 2007. Last year, a 180,000 square feet distribution centre was opened. Revenues have grown by a compound annual growth rate of 21% between 2014-15 and 2016-17 with the fastest growth from online and international operations.

QUIZ (QUIZ)			197.38p
12 MONTH CHANGE %	N/A	MARKET CAP £M	245.2

Dresses and skirts account for 44% of group revenues of £89.8m. In 2016-17, pre-tax profit improved from £5.69m to £8.13m. Net debt was £2m at the end of March 2017. In the first two months of this financial year revenues grew by 37% but this rate of growth is not likely to be maintained. Further growth will come from opening international websites, broadening the online product range and adding stores. A bridal wear range has been launched. The cash raised will be spent on increasing marketing and advertising, particularly in Europe and the US. There are plans to pay a dividend for the second half of the year to March 2018.

dividends

Premier performance generates income for shareholders

Asset management *www.premierfunds.co.uk*

Dividend

Fund management group Premier Asset Management offered quarterly dividends to shareholders when it returned to AIM in October 2016 and the first dividend of 1.25p a share, for the three months to December 2016, was paid in March 2017. The second quarterly dividend was paid in June and the third of 1.25p a share will be paid on 1 September.

These three quarterly dividends will make up approximately 50% of the total dividend for the year to September 2017, according to Premier's management. That suggests a total dividend of 7.5p a share, which should be more than covered by earnings per share.

Shareholders voted for a capital reorganisation to cancel the share premium account and create distributable reserves to enable further dividend payments and share buy-backs. The distributable reserves are worth more than £50m so there will be no problem paying dividends as long as Premier generates the cash.

Business

Premier returned to AIM nine years after a management buyout that valued the business at £51.9m. In the intervening period, Premier acquired other investment funds and grew organically. It was valued at £139.7m at a placing price of 132p a share. Premier raised £44.3m, which was used to redeem preference shares and pay accrued dividends. Existing shareholders raised £16.3m from share sales.

The management team of chief executive Mike O'Shea, finance director Neil Macpherson and head of multi-asset funds David Hambidge have stayed in their roles over the past decade. This stability has helped the business.

PREMIER ASSET MANAGEMENT (PAM)	
Price (p)	159
Market cap £m	168.2
Historical yield	N/A
Prospective yield	4.7%

Premier had £5.84bn of assets under management at the end of June 2017. There were total net inflows of £636m in the rolling twelve-month period to June 2017. The latest quarter was the seventeenth successive quarter of net inflows. Premier gets its business through intermediaries and Premier's multi-asset funds have proved attractive to this customer base. Premier offers retail funds, investment trusts and two segregated mandates. The portfolio of investments offers income, growth and absolute returns. The retail funds have a good performance record relative to their peers.

In the six months to March 2017, revenues improved from £19.1m to £21.8m, while underlying pre-tax profit jumped from £4.72m to £6.25m. That improvement is mainly down to the sharp fall in interest charges to a negligible level following the receipt of the flotation proceeds with the rest of the growth coming from the benefit of the higher revenues. Net cash was £11m at the end of March 2017.

BlackRock recently increased its stake in Premier to above 12%. The share price has risen by one-fifth since flotation but the prospective yield is still 4.7%. Market uncertainty appears likely to continue for the foreseeable future but Premier has shown that it can prosper under these conditions.

Dividend news

Recruitment and training provider **Staffline** has raised its interim dividend by 5% to 11p a share, which is slightly ahead of underlying earnings per share growth but the dividend remains well covered. The full-year dividend is expected to rise from 25.8p a share to 28.4p a share and that would be more than four times covered by forecast earnings. Net debt was £32.1m but Staffline expects to have net cash by the end of 2017. This provides the financial strength to make acquisitions. The introduction of the Apprenticeship Levy should provide additional opportunities for Staffline.

Pottery supplier **Portmeirion Group** increased its interim dividend by 6% to 7.4p a share on the back of an 18% rise in pre-tax profit to £1.6m. Management wants to rebuild the cover for the full-year dividend to two times. Home fragrance products manufacturer Wax Lyrical was included for the full period against two months in 2016. This business has further increased the seasonality of the business, making the second half even more important than before. The US remains a tough market, with sales declining, but other international sales are growing.

Fashion brand owner **Joules** managed to beat upgraded forecasts for the year to May 2017 and this led to upgrades for the next two years. Revenues were one-fifth higher at £157m, as international revenues grew strongly, while underlying pre-tax profit was £10.1m. The final dividend of 1.2p a share took the total for the year to 1.8p a share. This is the first full financial year since Joules joined AIM. Earnings forecasts have been raised by 4% for this year and 6% for next year, while dividends are expected to increase to 2.2p a share and 2.5p a share respectively. The 2018-19 forecast dividend is covered six times by forecast earnings.

expert views

Expert view: The broker

ImmuPharma on fast track to Lupuzor approval

By Vadim Alexandre

As one of the few AIM drug developers with an advanced-stage pipeline programme, ImmuPharma* offers the possibility of high returns at relatively lower risk.

Recently, the company issued another positive trial update on its flagship drug, Lupuzor, a potential treatment for Systemic Lupus Erythematosus (SLE). The Phase 3 trial continues to progress to plan, with the drug showing a robust safety profile after over 90% of patients have been dosed for over six months (the drug remains safe after dosing all 200 patients in the trial for over three months and 184 patients for over six months). With enrolment and initial dosing now complete, we have good visibility of the trial's timetable. Given that the last patient dosed needs to undergo 12 month dosing, we expect the trial to read-out top line results in the first quarter of 2018.

Importantly, having received both Fast Track and Special Protocol Assessment designations from the US Food and Drug Administration (FDA), Lupuzor is in a strong regulatory position. Fast-Track designation accelerates the drug's approval process by shortening review periods, while the Special Protocol Assessment (SPA) effectively guarantees that the regulator will accept the results of the trials if they are positive.

Given the overwhelming market need for a novel Lupus treatment, and Lupuzor's strong safety record to date, ImmuPharma could secure a conditional market approval from the FDA on the back of a positive result in the current Phase 3 trial. Although a second Phase 3 trial will likely be required by the FDA for full market approval, there is a chance that the drug could be partially launched while this second trial progresses.

SLE represents a major unmet medical need. Individuals affected by the disease exhibit increased mortality and a lower quality of life when compared with the general population. The main driver of these outcomes is organ damage caused by the disease over time.

For the past sixty years, treatment of SLE mostly consisted of using corticosteroids or immunosuppressive drugs to modulate the patient's dysfunctional immune reaction. Although these treatments have proven useful in the short- to medium-term control of SLE, due to their non-specific targeting, their long-term use often has led to organ damage in its own right, or susceptibility to infections, often causing co-morbidity with the disease. As such, there exists a major need for better, more targeted, treatments for SLE.

Lupuzor is in a strong regulatory position

Limited competition

In response to this unmet need, a host of novel treatments are being developed in the hope of controlling SLE with a targeted approach and reducing the risks of undesirable side-effects.

Unfortunately, the first wave of these proposed treatments has had little success. Alongside Lupuzor, only a handful of treatments have had positive results in later-stage clinical trials to date. These include:

–– tabalumab: succeeded in one of two Phase 3 trials but failed in the other. Eli Lilly and company (NYSE: LLY) discontinued development of tabalumab in 2014.

–– anifrolumab: developed by AstraZeneca/Med-Immune, anifrolumab targets a type-1 interferon, a protein involved in inflammation. The treatment demonstrated an ability to reduce disease symptoms in over 50% of patients after one year of treatment. The drug is now being tested in Phase 3 trials.

–– sifalimumab: an anti-interferon-α monoclonal antibody. The treatment's efficacy and safety was assessed in a successful phase 2b study recently (April 2016) completed by academics at King's College London, demonstrating that the drug shows promise in treating SLE. However, the drug's original developer, AstraZeneca, has indicated that it does not intend to further develop sifalimumab for SLE.

–– belimumab: an antibody that inhibits B-cell activating factor. Approved in 2011, GlaxoSmithKline's Benlysta (belimumab) was the first new drug approved for SLE in more than 50 years. However, the treatment has proven to be a disappointment, in that it is only marginally effective while also being associated with significant side-effects. Nevertheless, the drug generated £277m in sales in 2016, with forecasts predicting annual sales to hit $1bn by 2020, demonstrating the level of unmet medical need in this area.

As such, we see very little competition on the horizon for Lupuzor, while the market is in need of a novel treatment. Should the current Phase 3 trial deliver positive results early next year, we would expect ImmuPharma's shares to re-rate.

**Northland Capital Partners acts as Nominated Adviser and Joint Broker to ImmuPharma*

VADIM ALEXANDRE is head of research at Northland Capital Partners

expert views

Expert view: The lawyer

Apparent absolute right to disallow an option exercise overruled by the High Court

By Simon Charles

A High Court judge has held that despite it being stated of an option that it "…may only be exercised with the consent of a majority of the board of directors of the company", the option holder was nevertheless entitled to receive its option shares despite the directors' refusal to grant such consent.

The case is Watson and others v Watchfinder.co.uk Limited. Watchfinder buys and sells high-end second-hand watches and appointed a company to help it develop its reach and sales channels. Watchfinder granted options to subscribe for new shares to three directors of the business-generation company. The option contained the provisio quoted above.

The option holders duly served notice of their exercise of the option. Watchfinder refused to issue the shares, asserting that its directors had not granted the consent required under the option agreement.

Argument

The option holders argued that the provision did not create an absolute right to not grant consent and argued that the consent had been withheld "unreasonably, capriciously or arbitrarily". They submitted that the directors should be deemed to have granted their consent to the exercise of the option and therefore, it followed, to the issue to the option holders of the resulting new shares.

The remedy of specific performance – that the contract be performed – was sought. Watchfinder, on the other hand, argued that the provision comprised an "unconditional veto" over the issue of the new shares.

> Watchfinder refused to issue the shares, asserting that its directors had not granted the consent

High Court finding

The High Court found for the option holders. Giving commercial effect to the option, the judge found that to find the restriction an absolute one would have given the option holders no meaningful rights whatsoever.

The judge found that the words were clearly meant to mean something and could not have been disregarded in their entirety, finding that some form of restriction was meant to be imposed on the exercise of the option. The words amounted to a discretionary power.

As a matter of law, a court can order than a discretionary power not be exercised arbitrarily, capriciously or irrationally – this relates to the exercise of the power, the actual process, rather than the decision itself.

The finding here was that the option holders had, as part of an overall framework of services to Watchfinder, contributed to the benefit of Watchfinder, which had simply not been taken into account when the board's decision-making process was undertaken.

The board's position was that it had an absolute right not to issue new shares. This basis and view was wrong. Accordingly, the process and, it follows, the decision arising from it, was flawed and the order for specific performance was granted. The option holders were allotted and issued their shares.

> The words amounted to a discretionary power

Conclusion

Parties to contracts which contain provisions as to the exercise of discretion should be mindful that, influenced significantly by their conduct, they may not always be afforded the unfettered discretion with which they believe they may act.

SIMON CHARLES is Partner and Head of Equity Capital Markets at Marriott Harrison LLP

feature

AIM launches discussion on rules and enforcement

A discussion paper launched by the London Stock Exchange could spark the most significant AIM rule changes for many years. Market participants have until 8 September to submit their views on the proposals.

In July, an AIM rules review was launched by the London Stock Exchange and it asked for feedback on its proposals, whichinclude changes to rules and the way the rules are enforced. The review covers both the AIM Rules for Companies and the AIM Rules for Nominated Advisers.

AIM has changed significantly over the past 22 years. The average size of company is approaching £100m, more than the total value of AIM when it opened, and for the first time the majority of companies are valued at more than £25m. ASOS is valued at more than the total value of the 312 companies on AIM at the end of 1998.

Many institutional investors are removing restrictions on AIM company investments and the increased size of many of the companies has probably helped with this, as has the lack of small company investment opportunities on the Main Market. However, it is important that AIM does not lose sight of the fact that it is a market for small companies.

Raising regulatory requirements is likely to lead to a rise in costs and put off companies at the smaller end of the scale joining AIM, thereby leaving a gap in funding opportunities for those small companies that really need cash to expand.

There are seventeen questions set out in the discussion paper. Some of the major topic areas are discussed below.

Free float

Liquidity is a key aspect of being a quoted company on any stockmarket. There is no specific percentage free float required for an AIM company. In theory, a company can join AIM and have no shares available for trading. In reality, that would be just a waste of money for a company unless a share issue were planned in the near future. There have been companies with a minimal free float but these have tended to fail to attract investors and ended up leaving.

The main problem with tightly held companies is that small numbers of transactions can have a significant effect on the share price.

One way of gaining a broader free float is via the fundraising at the time of joining AIM. There are minimum fundraising rules for investment companies but not for trading companies. This is an area where AIM is considering a change.

The suggestion is a minimum fundraising of between £2m and £6m. There is no indication that this has to be a new share issue, so presumably it could be satisfied by sales by existing shareholders. The AIM statistics, though, talk about new money raised and do not include money raised by selling shareholders.

Setting the figure at £6m might put off smaller companies that require a smaller amount of cash for their growth strategy. Getting a company to raise more than it needs in order to gain a quotation is not a good idea.

Companies moving from another market could be excluded from these requirements and AIM is asking if there are other exceptions that should be made.

Corporate governance

At the moment AIM companies do not have to follow the corporate governance rules that apply in the Main Market but they have to state whether they are following a corporate governance code or not. This is an area that is under consideration but it appears that AIM is content with the current flexibility.

The composition of boards is also an important topic. The directors are required to be assessed for their suitability but no composition of a board is specified. There is no stated requirement for any of the non-executive directors to be independent.

The roles of chair, finance director and non-executive directors are important for a well-balanced board. "It should only be in exceptional circumstances that a board of an AIM company does not contain these roles", argues the discussion paper. It is emphasised that the issues should at least be considered but flexibility is still preferred.

Rule breaches

Between 2013 and 2016 there were an average of 190 reviews a year relating to a failure to comply with rules and an average of 93 of these ended up with a recorded breach and an average of 16 received warning notices and private censures/fines.

AIM is considering bringing in automatic fines for any breaches of rules, including the non-publishing of accounts by the market deadline. Further details of this will be included in a consultation on changes to the AIM Disciplinary Procedures and Appeals Handbook and it is asking market participants what changes should be considered for this publication.

Responses should be sent to AIM Regulation at aimnotices@lseg.com. The deadline is 8 September.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	19	10.4
Financials	16.3	17
Industrials	15.4	16.4
Healthcare	12.9	9
Technology	11.4	12.4
Consumer goods	9.7	5.9
Oil & gas	6.4	10.8
Basic materials	6.7	14.4
Telecoms	1.3	1.1
Utilities	0.5	1.2

KEY AIM STATISTICS

Total number of AIM	963
Number of nominated advisers	33
Number of market makers	48
Total market cap for all AIM	£93.6bn
Total of new money raised	£102bn
Total raised by new issues	£42.2bn
Total raised by secondary issues	£59.8bn
Share turnover value (2017)	£32.3bn
Number of bargains (2017)	5.51m
Shares traded (2017)	495.3bn
Transfers to the official list	183

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	983.93	+30.2
FTSE AIM 50	5662.37	+31.2
FTSE AIM 100	4970.73	+37.2
FTSE Fledgling	10217.89	+28.5
FTSE Small Cap	5671.44	+18.8
FTSE All-Share	4046.2	+10.7
FTSE 100	7372	+9.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	172
£5m-£10m	102
£10m-£25m	183
£25m-£50m	157
£50m-£100m	134
£100m-£250m	131
£250m+	86

TOP 5 RISERS OVER 30 DAYS

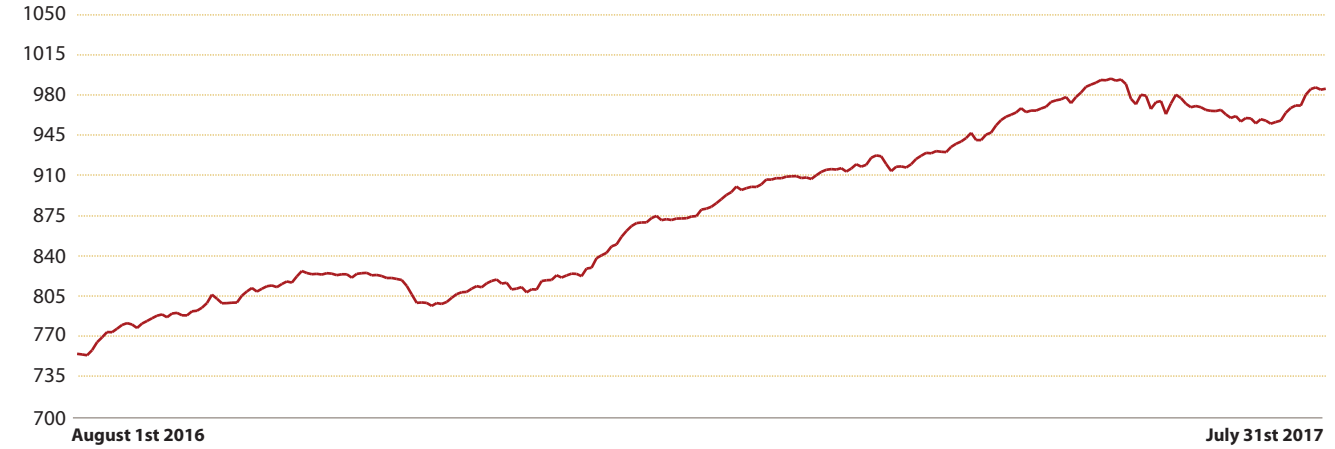
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Nu Oil & Gas	Oil and gas	1.32	+265.3
UK Oil & Gas	Oil and gas	6.05	+118
Angus Energy	Oil and gas	29	+116.8
Milestone Group	Technology	0.24	+104.4
Primorus Investments	Mining	0.26	+85.7

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Nyota Minerals Ltd	Shell	0.02	-50
Sound Energy	Oil and gas	39.5	-48.4
RM2 International	Industrial	7.5	-46.4
Clear Leisure	Leisure	0.78	-45.6
entu (UK)	Household goods	9.25	-43.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st July 2017, 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.

MOBILE / TEL: 07729 478 474 / 020 8549 4253

EDITOR: Andrew Hore

PRODUCTION & DESIGN: David Piddington

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