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AIM JOURNAL

FRC ponders AIM accounts

The Financial Reporting Council (FRC) says that it plans to consider what needs to be done about the standards of AIM company reporting and intends to include its conclusions in its 2014-15 plan and budget.

To put this in perspective, the FRC reviewed 264 sets of reports and accounts in 2012-13 and most of these companies were quoted in London. Nearly a quarter of the accounts were for AIM companies but nearly twice as many were for FTSE250 companies – more than two-fifths of the constituents of this index had their accounts reviewed.

In its Corporate Reporting Review Annual Report the FRC says: "We encourage the boards of the smaller listed and AIM-quoted companies, in particular, to consider whether they have access to the level of technical resource and expertise needed to prepare corporate reports and accounts to an acceptable standard".

The accounting body argues that when it reviews the accounts of AIM companies the issues that arise tend to be a result of a lack of resource and expertise when it comes to recognising and addressing accounting questions.

JQW on course for AIM

Chinese B2B e-commerce services provider JQW is on course to join AIM in December and it intends to raise between £10m and £15m in order to raise its profile, invest in technology and introduce new services, such as a trading platform.

JQW is currently focused on connecting buyers and sellers in the Chinese domestic market. Services offered include search engine optimisation, website design, advertising and information services. A range of membership packages are offered by the company, most of which last for 12 months and are paid for upfront. This means that cash flow is strong, with significant deferred revenues in the balance sheet which are due to be recognised as revenues over the coming months. Increasing internet usage means that there are still plenty of opportunities to grow in China but JQW also has plans to expand internationally. This will require further investment in its financial and trading platform.

JQW targets small businesses, so it has a wide customer base. There were 166,000 active paid members. In 2012, revenues doubled to RMB287.8m (£29.7m) and pre-tax profit jumped from RMB12m to RMB84.1m. In the six months to June 2013, pre-tax profit grew from RMB28.9m to RMB70.8m.

AIM-quoted Global Market Group is a similar business but it has a more narrow focus of bringing together Chinese manufacturers with international customers. GMG has just over 6,000 paying subscribers but growth in subscribers has been slower than expected in the past year.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Eurovestech set to be winner from Kalibrate flotation

Former AIM-quoted investment company Eurovestech is set to make a further significant gain on its investment in Kalibrate Technologies when it floats on AIM during November. Kalibrate supplies pricing and retail planning software and services to the petroleum retail sector and it wants to raise around £8m to finance growth, which could value the company at £35m.

Kalibrate was previously known as KSS Fuels and Eurovestech acquired the business a decade ago from the then fully listed Knowledge Support Services (KSS) for £1m. Last year, Eurovestech sold a 40% stake to Invesco for £7.2m so it has already more than covered that initial investment. At the end of 2012, the 60% stake in Kalibrate was valued in the Eurovestech balance sheet at £10.8m, out of a total NAV of £41.7m.

Eurovestech shares are traded by JP Jenkins (www.lmmx.co.uk). At 8p a share, Eurovestech is valued at £27.1m. If Kalibrate is valued at £27m before new money then the Eurovestech stake could be worth £16m.

Kalibrate has a large share of the pricing software market in the US and Europe. Consolidation and deregulation of fuel prices in markets is good news for Kalibrate. Kalibrate has more than 200 clients in 68 countries. In the year to June 2013, Kalibrate generated revenues of £15.5m and a pre-tax profit of £880,000. The global addressable market is estimated to be worth £300m.

Kalibrate plans to move into new geographic markets, such as Latin America, Russia, China and India, and increase marketing spending.

Oil sector recovery

Ernst & Young believes the final quarter of this year will be a busy one for M&A activity in the oil and gas sector. The accountant also says there is a pipeline of new AIM entrants from the oil and gas sector. The Oil and Gas EYE index rose 9.8% in the third quarter of 2013 as investor interest started to pick up, although AIM as a whole improved by 14% in the period. However, demand remains relatively weak and the sector accounted for less than 5% of the money raised by AIM companies in the third quarter. According to the experience of broker Peel Hunt "there has been virtually zero appetite for small, exploration-focused stocks over the past 12-18 months". The exploration sector has significantly underperformed the production companies.

Epic return to AIM for e-learning services provider

E-learning provider Epic has reversed into cash shell In-Deed Online, which has been renamed Learning Technologies Group. The deal marks a return to AIM for Epic eight years after it was acquired by Huveaux, now Dods Group.

Epic was acquired for 255m shares at a notional price of 5.88p a share plus £1.3m in cash, which is predominantly coming from Epic's own cash pile. The deal valued Epic at £16.3m. Huveaux paid £22.7m in cash and shares for Epic in 2005. The cash element of the offer was more than covered by £9.5m of cash in the balance sheet.

Huveaux was heavily indebted and in 2008 it sold Epic for £4.75m. Revenues had fallen in the intervening period and it was a good time to buy.

Epic made an operating profit of £1.58m on revenues of £8.1m in its last full year as an independent AIM-quoted company. This was an unusually good performance. Revenues subsequently declined, with 2010 marking the low point. In the three years to 2012, revenues have grown at a compound annual rate of 16.5%. In 2012, the operating profit was £800,000 on revenues of £6.9m.

Proposed chairman Andrew Brode and chief executive Jonathan Satchell, who has already built up and sold one e-learning business, have helped the liquidity of the shares by selling shares at 7p each. They will each be left with 113.2m shares, 41.05% of the enlarged group, so the shares will still be tightly held. Using shares to pay for potential acquisitions will improve liquidity. Brode and non-executive director Peter Mountford reversed patent translations business RWS into an AIM shell a decade ago.

The aim is to create a business through acquisitions which will have £50m of annual revenues.

advisers

Allenby Capital goes it alone

AIM adviser Allenby Capital has cut all of its links with HB Holdings. Allenby employees have bought HB's remaining 40% stake in the firm and this means that employees own 100% of Allenby.

Allenby was set up in 2008 to take on the corporate finance operations of HB, which retained an interest in the business. HB has subsequently been acquired by Beaufort Securities. Allenby received the best research award at the 2013 AIM awards and earlier this year moved from the West End to Bishopsgate. Allenby has more than 40 corporate clients. This includes Malaysia-focused mobile messaging services provider Macromac, which floated in September at 10p a share. In around six weeks the share price has trebled.

WH Ireland has come to terms with its former chief executive, Paul Compton, who left the broker at the end of last year, having become chief executive in January 2011. The settlement is subject to a confidentiality agreement. In its interim results announcement published in July, WH Ireland said that a former employee has commenced litigation for "unfair dismissal, wrongful dismissal and breach of contract regarding a share agreement".

Helium Special Situations has increased its stake in Shore Capital to 3.41%. In the six months to June 2013, Shore's equity capital markets division reported an 8% increase in pre-tax profit to £3.07m. Secondary commission revenues were 11% higher. An interim dividend of 0.4p a share was announced and the final will be at least 0.4p a share, compared with a total of 0.5p a share in the previous year.

Cenkos Securities founder Andy Stewart has cut his stake in the Aim adviser from 4.56% to 3.39%. Hargreave Hale's stake in Cenkos has jumped from 5.7% to 10.8%. Cenkos reported an improvement in interim profit from £2.7m to £3.1m.

ADVISER CHANGES - OCTOBER 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Gulfsands Petroleum	FirstEnergy/RBC	RBC	RBC	RBC	01/10/2013
Medgenics Inc	Oriel/SVS	SVS/Nomura Code	Oriel	Nomura Code	01/10/2013
Premier African Minerals	Shore	Shore	Beaumont Cornish	Cairn	01/10/2013
Rangers International FC	Daniel Stewart	Daniel Stewart	Daniel Stewart	Strand Hanson	01/10/2013
Weather Lottery	Allenby	SVS	Allenby	Allenby	01/10/2013
Tri-Star Resources	SP Angel/ Keith Bayley Rogers	SP Angel/ Keith Bayley Rogers	SP Angel	Strand Hanson	02/10/2013
Bellzone Mining	Investec	Investec/ Canaccord Genuity	Investec	Canaccord Genuity	04/10/2013
Mwana Africa	Peel Hunt	Peel Hunt/Liberum	Peel Hunt	Liberum	07/10/2013
Wentworth Resources Ltd	Investec/Panmure Gordon/FirstEnergy	Panmure Gordon/ FirstEnergy	Panmure Gordon	Panmure Gordon	07/10/2013
Proxama	Peel Hunt	SI Capital	Grant Thornton	Grant Thornton	08/10/2013
Michelmersh Brick	Cenkos	Westhouse	Cenkos	Westhouse	09/10/2013
Northcote Energy	Cornhill/Shore	Shore	Beaumont Cornish	Beaumont Cornish	09/10/2013
Touchstone Gold	finnCap/Peterhouse	Canaccord Genuity/ Northland	finnCap	Canaccord Genuity	09/10/2013
Sula Iron & Gold	Daniel Stewart	Northland	Cairn	Cairn	10/10/2013
WYG	N+1 Singer/WH Ireland	Numis	N+1 Singer	Numis	11/10/2013
Wishbone Gold	Northland/Beaufort	Beaufort/Shore	Northland	Shore	14/10/2013
Conviviality Retail	Panmure Gordon /Zeus	Zeus	Zeus	Zeus	16/10/2013
Dart Group	Arden/ Canaccord Genuity	Canaccord Genuity	Smith & Williamson	Smith & Williamson	16/10/2013
Falanx Group Ltd	Peterhouse/WH Ireland	Peterhouse/ZAI	WH Ireland	ZAI	16/10/2013
Westherly International	Numis/Shore	Canaccord Genuity	Numis	Canaccord Genuity	17/10/2013
Empyrean Energy	Cenkos	Shore	Cenkos	Shore	18/10/2013
Clear Leisure	Peterhouse/Westhouse	Westhouse	Westhouse	Westhouse	25/10/2013
Condor Gold	Numis	Ocean	Beaumont Cornish	Beaumont Cornish	25/10/2013
APC Tech Group	N+1 Singer/Northland	Northland	Strand Hanson	Strand Hanson	29/10/2013
Cambria Automobiles	N+1 Singer/Panmure Gordon	Canaccord Genuity	N+1 Singer	Canaccord Genuity	29/10/2013
GLI Finance Ltd	Panmure Gordon	Investec/Panmure Gordon	Panmure Gordon	Investec	29/10/2013
Petards Group	Hybridan/WH Ireland	WH Ireland	WH Ireland	WH Ireland	30/10/2013
Quadrise Fuels International	Peel Hunt	Westhouse	Smith & Williamson	Smith & Williamson	30/10/2013
Clean Energy Brazil	Peterhouse/N+1 Singer	N+1 Singer	N+1 Singer	N+1 Singer	31/10/2013

company news

Advanced Computer Software combines organic and acquisition growth

Software *www.advancedcomputersoftware.com*

Interim figures from software and IT services provider **Advanced Computer Software (ACS)** show the initial benefits of the £107m acquisition of Computer Software Holdings (CSH) but there is more to come. ACS chief executive Vin Murria previously ran CSH so she knew exactly what she was buying and it is already making a strong contribution.

In the six months to August 2013, revenues jumped 74% to £99.1m and excluding the acquisition organic growth was 8%. Underlying pre-tax profit improved from £11.8m to £18.8m while earnings per share grew by one-fifth to 3.4p a share. The £44m fundraising earlier in the year held back earnings growth because it was done prior to the CSH acquisition. Second-half earnings per share will grow at a faster rate.

The healthcare division produced organic growth of 16%. The acquisition of CSH has reduced the dependence on healthcare, with two-thirds of full-year revenues coming from the business solutions division. Even stripping out CSH, the division achieved 7% organic growth. The 365 managed services division grew organically by 5% on the back of the growth of the other divisions. There are revenues under contract totalling £60.9m over a number of years. Since August a five-year contract worth £14.5m has been won.

Organic growth was 8% in the first half

Net debt was £50.7m at the end of August 2013 and this is expected to fall to £45.7m by the end of February 2014 and it could halve after a further 12 months. The company's loan facility is £105m, so there is plenty of room for more add-on acquisitions. These are likely to be much smaller than CSH. ACS has acquired Avia Health Informatics' healthcare software operations for the £350,000 owed by Avia plus £50,000 in cash.

finnCap forecasts an improvement in full-year underlying profit from £24.1m to £35.6m. The shares are trading on less than 15 times prospective 2013-14 earnings. The tax rate remains low but it will begin to increase over the coming years. Marwyn, the backer of the original shell, has sold its stake in ACS and this has removed an overhang.

ADVANCED COMPUTER SOFTWARE (ASW)	92p		
12 MONTH CHANGE %	+ 50.2	MARKET CAP £M	437.6

Sphere sets sights on CE mark for Proxima

Medical equipment *www.spheremedical.com*

Medical devices developer **Sphere Medical** believes that it is on course to gain a CE mark for its Proxima blood gas analysis monitor by next summer. A Proxima usability study has been completed at Queen Elizabeth Hospital, Birmingham, and this indicates that the vast majority of users found it easy to use.

A patient's blood can be analysed in real time by Proxima rather than having to take blood samples to other parts of the hospital. This means the test is more accurate, quicker and cheaper. On 18 November, Johnson & Johnson's right of first offer will turn into a right of first refusal for the "exclusive rights to commercialise (including rights to sell, promote, market and distribute) Proxima 4".

SPHERE MEDICAL (SPHR)	28.5p		
12 MONTH CHANGE %	- 58.1	MARKET CAP £M	16.9

The Sphere share price has more than halved over the past year but it continues make progress and the price should recover when there is positive news. There was £10.7m in the bank at the end of July 2013 following a recent fundraising and a cash outflow of just over £2.6m during the first half of 2013. Revenues remain modest. Cash should last until the end of 2015 but Sphere is likely to require more cash because significant revenues are not expected until 2016.

company news

Investment strategy helps to cut international distribution costs for ASOS

Online fashion retailer *www.asosplc.com*

Online fashion retailer **ASOS** grew its revenues in all of its main markets in the year to August 2013 but international distribution costs continue to rise. Investment in local warehouse facilities should help to offset these cost increases.

Revenues increased by 39% to £769.4m, with UK sales 34% higher and international sales 44% ahead. Pre-tax and exceptional profit rose from £44.5m to £54.7m. Growth in pre-tax profit was held back by higher distribution costs and initial costs for the proposed operation in China.

Distribution costs in the UK are less than 10% of sales but in the US have been rising and they were 35% of sales last year. EU distribution costs are also rising faster than sales although they are a much lower percentage than for the US. Since the year end, an operation has been set up in Ohio to fulfil orders from returns. This has already reduced distribution costs and the facility will be expanded. There are also plans to open a distribution centre in northern Europe. These moves will help to reduce distribution costs in the US and EU so they are nearer to UK levels.

US distribution costs were 35% of sales

At the end of May, ASOS bought a further 45% of Crooked Tongues, an online retailer of trainers, for £1, taking its stake to 95%. The initial 50% stake cost £150,000. ASOS wanted to have more influence over the business, which lost £65,000 on revenues of £1.79m in the year to August 2013. A loss of £29,000 and revenues of £410,000 were consolidated by ASOS following the acquisition of the controlling stake. The site has recently been updated. Crooked Tongues is tiny compared with the rest of the business but it could provide a source of future growth.

ASOS (ASC)	5670p		
12 MONTH CHANGE %	+151.4	MARKET CAP £M	4730

The cash pile is building up, although £110m of capital spending is planned over the next two years – three-fifths on logistics and two-fifths on technology. Net cash was £71.1m at the end of August 2013 and cash flow is strong enough to cover this investment.

Management continues to resist paying any dividend. The shares are trading on more than 80 times prospective 2013-14 earnings.

Nanoco approaches Dow milestone

Quantum dots technology *www.nanotechnologies.com*

Non-cadmium quantum dots developer **Nanoco** is making progress with its 15-year global licensing agreement with Dow Chemical. This covers the displays sector and gives Dow the right to manufacture the quantum dots. The first factory will be in Asia, near the main manufacturing customer base for TVs and other displays. Dow will finance all of this investment and Nanoco will receive high-single-figure royalties.

In the year to July 2013, Nanoco generated revenues of £3.93m, up from £2.95m, with the increase mainly coming from a payment by Dow. The loss increased from £4.35m to £5.04m. There was a £6.18m cash outflow from operations and investment.

NANOCO (NANO)	162.5p		
12 MONTH CHANGE %	+ 146.2	MARKET CAP £M	351.8

LED lighting, solar power and bio-imaging are other potential markets for the company's technology. Nanoco has increased its own production capacity to 50kg a year. Plans have been completed for a further increase to 400kg a year.

Net cash was £9.72m at the end of July 2013. Nanoco subsequently raised £10m at 157p a share. Milestone payments could become due in the near future but it is difficult to know when the next milestone payment of $2m in cash will be received.

company news

Lekoil raises cash to finance offshore Nigeria hydrocarbon discovery

Oil and gas explorer *www.lekoil.com*

West Africa-focused oil and gas explorer **Lekoil Ltd** has raised £62m in a placing at 55p a share in order to finance the drilling, testing and development of its offshore Nigerian assets as well as the repayment of the loan facility provided by fully listed Afren.

The new shares are being issued at a 1.3% discount to the market price. Lekoil has to gain shareholder approval to issue the full number of shares and a general meeting will be held on 21 November. The new shares will account for just over one-third of the enlarged share capital.

Lekoil joined AIM on 17 May this year and it has raised more than £100m. In May, Lekoil raised £32m at 40p a share and a subsequent placing in July raised £13.2m at 39p a share. There was a $46.8m cash outflow in the first half of 2013, with the majority going on exploration on OPL310 licence area, offshore Nigeria, where Lekoil has a 30% economic interest. Two significant discoveries have been made since the July placing. The other partners in the exploration licence are Afren and Optimum Petroleum Development. Offshore drilling is expensive, so it is no surprise that Lekoil needs more cash. There was less than £4m in the bank before the July fundraising.

> Lekoil has raised more than £100m since joining AIM

LEKOIL (LEK)			56.75p
12 MONTH CHANGE %	N/A	MARKET CAP £M	135.2

Lekoil has missed the deadline to pay for a stake in the Aje oilfield in Nigeria. This is a near-term production asset. Lekoil was due to pay a total of $27m to Panoro Energy for a 6.502% participating interest in offshore block OML113. Lekoil wants to delay the payment until 25 November when it should have all of the placing funds. Panoro can cancel the deal and retain the $3m deposit and ask to receive the cash from the $3m bid bond.

Epistem pins hopes on Genedrive diagnostic device

Personalised medicine and research services *www.epistem.co.uk*

Personalised medicine company **Epistem** is on course to launch its Genedrive handheld molecular diagnostic instrument in the second half of 2014. This means that the benefits will show through in Epistem's next financial year.

The first use of the Genedrive will be for tuberculosis (TB) diagnostics in the Indian market. Epistem has partnered with Xcelris in this market. The collaboration is for more than five years, with escalating annual volumes included in the agreement. The result of the test is available within one hour – less than half the time for the main rival. Preclinical testing is about to begin in India and regulatory approval is expected in the second quarter of 2014. More than $1bn is spent each year on TB diagnostics and $326m of this is spent in Asia and Africa, with India the largest market. Other clinical testing of Genedrive will be undertaken next year, with future diagnostic uses including hepatitis C, malaria and HIV. An agreement with Becton Dickinson was terminated last year but it could still be revived.

EPISTEM (EHP)			337.5p
12 MONTH CHANGE %	- 40	MARKET CAP £M	32.7

The research services division generates profit and cash to help finance the personalised medicine and novel therapies divisions of the business. Group revenues slipped from £5.6m to £5.4m in the year to June 2013, while the loss increased from £726,000 to £1.46m.

A £4.2m placing last December means that there was cash of £5.4m in September, after returning a £600,000 technology access fee to Becton. This should last more than one year.

dividends

Next Fifteen raises dividend despite lacking Bite

Technology and consumer PR *www.next15.com*

Dividend

Although PR firm Next Fifteen Communications ran into accounting problems at one of its agencies it still increased this year's dividend from 2.31p a share to 2.56p a share. Despite a decline in earnings per share the dividend is still covered more than 2.4 times.

Next Fifteen has paid dividends nearly all the time it has been quoted. However, it did not pay a final dividend for 2000-01 following the ending of the technology boom but a final dividend of 0.9p a share was paid the following year. Since then the dividend has been increased by around 10% each year except for 2008-09 when it remained unchanged at 1.7p a share. Net debt was £1.81m at the end of July 2013 and this is forecast to fall to £1.24m by the end of July 2014 even after the payment of deferred and contingent consideration on past acquisitions.

Business

Next Fifteen owns a number of separate agencies, including technology PR firm Text 100, which was the original business. Over time, the company has expanded into consumer, corporate communications and digital.

Problems at two offices of the Bite technology agency led to a number of audit adjustments and they were the main reason for the disappointing annual figures. Finance director David Dewhurst has stepped down and Next Fifteen is seeking a replacement. The US businesses grew organically by 10% but there were client losses in the UK. Even so, in the year to July 2013 revenues improved from £91.6m to £96.1m. The problems at Bite, which cost £1.6m, meant that underlying profit slumped from £9.6m to £7.7m.

NEXT FIFTEEN COMMUNICATIONS (NFC)	
Price	73p
Market cap £m	43.6
Historical yield	3.5%
Prospective yield	3.9%

There were also additional investment costs for the expansion of the digital business. Digital-related revenues accounted for 45% of the total, up from 36% the previous year. European and African operations fell into loss, while Asia and the UK reported lower profits, offsetting the improvement in the US.

Next Fifteen has been a profitable business for more than a decade and although it is subject to the cyclicality of its markets it has generally performed relatively well. The main concerns are whether everything has been uncovered at Bite and whether there could be problems elsewhere. New business wins have provided a strong start to the financial year, though.

The flotation of Twitter could be good news for Next Fifteen if it prompts more technology companies to float. US-based subsidiary Blueshirt is an investor relations consultancy. Profit is forecast to recover to £9.8m this year, assuming all the problems have been identified. This puts the shares on less than eight times 2013-14 prospective earnings. It will undoubtedly take time for the share price to claw back recent losses but Next Fifteen has a good record and if there is no recovery then it might be subject to bid interest.

Dividend news

Self storage services provider **Lok'nStore** has increased its full-year dividend by one-fifth to 6p a share. Panmure Gordon had forecast 5.4p a share and 5.7p a share for 2013-14 but this has been upgraded to 6.5p a share. Lok'nStore has sold its Reading site for more than asset value. A new site with increased capacity is being developed in Reading and the £2.9m raised from the disposal will finance this. Net debt has been cut from £25.7m to £22.5m, after spending £1.65m on buying back shares. There is still plenty of headroom in the bank facilities. The NAV was 248p a share at the end of July 2013.

China-based logistics services provider **China Chaintek** has declared an interim dividend of 2p a share and a full-year dividend of 6p a share is forecast. Management believes that it can afford a progressive dividend policy as well as investment in expansion. China Chaintek is in talks with the local government in Jinjiang and expects to secure land for a new logistics centre before the end of the year. This should open in 2016. Demand remains strong for the company's services but capacity is a constraint. Online discount retailer VIPshop is the company's latest customer.

Compliance-based information management software provider **Ideagen** has announced that it will start paying dividends after it reports its interim figures on 14 January. The initial interim dividend will be 0.05p a share and house broker finnCap forecasts a full-year dividend of 0.15p a share. Revenues and adjusted EBITDA have increased significantly in the six months to October 2013, helped by the acquisitions of healthcare software provider Plumtree and MSS. There is cash in the bank and management is seeking further acquisitions. finnCap forecasts a 2013-14 profit of £2.6m.

expert views

Expert view: The broker

Gooch & Housego's photonics growth story

By DAVID BUXTON

Gooch & Housego* is using its improving technology leadership to drive up market share and the move towards more systems-based products is adding value and raising margins. G&H is also gaining success in diversifying its revenue base, in terms of end users, as well as geography.

The growth drivers make this a compelling long-term winner. Any cyclical recovery adds upside zest to our forecasts. Following recent share price outperformance the rating looks fairly full, but we suggest further upside is likely as earnings grow.

G&H has a strong commitment to R&D

G&H is a vertically integrated photonics business. It develops and manufactures a broad range of optical sensors, ranging from electro-optics to fibre-optics and acousto-optics, as well as optical coatings, light measurement equipment and instrumentation.

We regard G&H as a high-quality niche industrial technology company. It has successfully diversified from its dependence on its still important Q-switch product to other allied product areas. This greater spread of markets, customers and products gives the group a springboard for future growth. We expect its growth to be at a premium to its peers, given its exposure to some strong growth product niches and new products. The group intends to improve its competitive position through R&D.

Somerset-based G&H operates from nine manufacturing sites, with six in the USA and three in the UK.

Acquisitions have added expertise in key technology areas and broadened the group's exposure to the US market. G&H acquired Scotland-based precision lens manufacturer Spanoptic for £5.9m in October 2013. This is an opportunistic, profitable bolt-on acquisition that neatly fits the group's stated strategy and boosts its end market presence.

R&D

G&H has a strong commitment to R&D, which has been central to its strategic diversification and move up the added value ladder. It has been spending a rising proportion of its revenues on R&D, increasing from 6.3% in 2009-10 to 7.6% so far in 2012-13. This expenditure has been increasingly focused, but management has been frustrated by the often lengthy time it takes to move developments into commercial sales and has responded to this with the formation of the Systems Technology Group (STG) in February 2013.

The STG has the task to focus R&D efforts on customer-led programmes and to accelerate new developments in order to shorten the time to market commercialisation. Increasingly the STG is looking to identify areas of customer need and to engage them at an early stage in design and technical requirements. It is able to gain direct customer funding of development costs. For example the STG has successfully bid on two space photonic programmes valued at €500,000.

We see an important facet of the STG as boosting the group's direct ownership of IP and patents. Owning this IP is important as new products developed from customer funded projects in, say, the space area, can be quickly transferred to other market areas, enabling both rapid adoption of technology but also becoming a cheap and effective way of gaining technical leadership in its larger industrial markets.

Growth

The group has strong growth drivers. Management has a target to double sales over the next five years. Profit growth will exceed sales growth, due to operational gearing but also due to margin mix and the move up the added value ladder. All divisions are expected to grow but life sciences probably has the strongest growth potential.

The year-end trading update reported that profit is in line with expectations but some challenging market conditions exist. The order book is up 12% year on year to £27.8m, with the book-to-bill ratio being fairly steady. The recent acquisition of Spanoptic should enhance EPS by 5.9% EPS in 2013-14.

G&H is a high-quality, cash-generative, technology-driven group, with a strong track record and robust strategy to drive up its market share and margins. EPS growth should be above average over the next few years.

At 595p, the shares trade on a P/E of 17x in 2013-14, followed by 15.7x in 2014-15. Although they appear up with recent events, we believe improving economics and further acquisitions give EPS upside. We look for progressive outperformance as earnings grow, and have a target price of 680p, indicating a buy rating is still justified.

**finnCap provides research services to Gooch & Housego*

DAVID BUXTON is a research director at finnCap

feature

AIM volumes show signs of recovery

AIM trading volumes are improving but this recovery needs to continue for the market to prosper.

AIM trading volumes have picked up for the first time in more than a year, undoubtedly helped by the inclusion of AIM companies in Individual Savings Accounts (ISAs). However, trading volumes in money terms remain well below the levels reached in recent years.

In fact, the average daily volumes for 2013, so far, are the lowest they have been for nearly a decade. The average is £112.7m a day so far in 2013 and even the average for September 2013 of £134.6m is lower than the full-year average figure for six out of the past eight years.

Trading values remain well below the levels reached in recent years

The August and September average daily volumes are higher than the respective figures in the previous year. In each of the first seven months of 2013 the monthly figures have been lower than the corresponding numbers in the same month of the previous year. This is despite the fact that the figures in 2012 had already been declining.

There is a similar pattern in the average daily number of trades, with the same decline earlier in the year and an upturn in August and September. The average number of daily trades continues to hold up much better than the volumes in monetary terms. This has been going on even before AIM companies were allowed in ISAs, which by the very nature of the tax-free product is likely to attract more relatively small trades. The average daily trades for 2013, so far, of 18,645, is higher than in any year prior to 2011.

The fact that the improvement in volumes has continued into September suggests that this recovery is more than a one-off boost from ISAs but there is no certainty that it will continue.

Companies

The trading volumes of some of the larger companies are picking up although there are the expected changes in investor interest in some companies as well. For example, oil and gas company Xcite was one of the most traded AIM companies one year ago but it is no longer as popular. In contrast, the liquidity of the newly crowned AIM international company of the year, Optimal Payments, has improved significantly over the past year.

ASOS accounted for 16% of the value of trades on AIM in September

Different companies have different times of the year when trading volumes tend to be highest – normally around results and trading statements – so comparing with the same month the previous year rather than the previous months gives a better indication of liquidity. Perennial favourites ASOS, Monitise and Blinkx have been attracting more trading in recent months. ASOS is by far the biggest company on AIM and it accounted for 16% of the value of trades on AIM in September even though less than 11% of its share capital was traded.

The table of the trading volumes of the larger AIM companies includes companies with market values of more than £300m. It does not include the most traded AIM companies as a percentage of their market value. Many of these are very small companies where more than their market value was traded in September.

Some of these monthly figures can change significantly for one-off reasons. Document storage services provider Restore had 45% of its market value traded in September but that was attributable to Lord Ashcroft selling the 43.6% stake he held through Geraldton Services Inc at 131p a share. Just over 1% of Restore's share capital was traded in August. The higher free float in Restore shares should help volumes to increase in the future.

There are also companies where increased interest can be observed in the higher trading levels. For example, cloud-based trading exchange software and services provider @UK was not on many investors' radars one year ago. Deals with Visa and recently floated e-invoicing services

feature

provider Tungsten Corporation have not only led to a nine-fold increase in the share price, they have also improved monthly liquidity from 2.5% of market value a year ago to 13.5% of a much higher market value in September 2013.

New issues

New-issue activity is building up again and for this to continue there must be interest in the aftermarket.

Online trading firm Plus500 floated at the end of July and in August more than 13% of its share capital was traded. Internet domains provider CentralNic floated on 2 September and more than 5% of its share capital was traded during the month.

Science in Sport, which was spun out of functional foods developer Provexis in early August, has generated a large number of trades, probably helped by inheriting a wide shareholder base from its former parent as well as through raising new money. There were 956 deals between 9 August and the end of September. Shares worth more than 10% of market value were traded in each month.

More than three-fifths of the market value of Central Rand Gold Ltd was traded between its introduction to AIM on 18 September and the end of the month. Although Central Rand was an introduction it was already on the JSE so it had an existing shareholder base.

Retailer Bonmarché, Chinese B2B trading platform operator JQW and IT firms EU Supply and Mincon Group are among the companies lining up to come to AIM. If this pipeline of new AIM entrants continues to be replenished then this will be a strong indicator of improving market conditions.

AIM TRADING VOLUMES

	AVERAGE DAILY VALUE OF TRADES £M		AVERAGE DAILY NUMBER OF TRADES	
	2012	2013	2012	2013
January	179.6	117.5	24,660	19,036
February	262.4	114.2	29,736	18,630
March	219.5	132.9	28,794	21,133
April	193.7	106.1	27,350	18,237
May	155.6	118.8	24,837	19,829
June	124.1	103.2	21,132	16,571
July	164.5	90.9	19,587	14,201
August	79.6	98.8	16,078	18,536
September	115.4	134.6	20,392	22,056

MOST TRADED LARGER AIM COMPANIES

COMPANY	SECTOR	VOLUME AS % OF MARKET VALUE AUGUST 2012	VOLUME AS % OF MARKET VALUE SEPTEMBER 2012	VOLUME AS % OF MARKET VALUE AUGUST 2013	VOLUME AS % OF MARKET VALUE SEPTEMBER 2013
Monitise	Technology	8.39	11.2	11.95	27.98
African Minerals	Mining	21.21	15.77	21.09	23.45
Blinkx	Technology	6.97	7.36	10.33	13.56
Gulf Keystone Petroleum	Oil and gas	7.78	11.42	6.9	13.55
Optimal Payments	Financials	1.04	2.59	4	11.98
ASOS	Retail	4.54	9.92	8.18	10.64
Archipelago Resources	Mining	0.4	1.14	1.15	9.84
Quindell Portfolio	Support services	2.04	3.87	11.78	9.02
Ithaca Energy	Oil and gas	6.37	4.11	5.09	8.82
Rockhopper Exploration	Oil and gas	23.14	20.02	27.64	8.62
Nanoco	Technology	3.24	5.46	5	7.64
Xcite Energy	Oil and gas	22.8	40.96	4.73	6.83
Advanced Computer Software	Software	1.12	3.07	3.14	6.14
Dart Group	Transport	0.88	0.94	5.32	5.84
Vinacapital Vietnam Opportunities	Financials	3.7	4.81	2.94	3.44

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	20.7	12.2
Financials	17.8	20
Consumer services	13.1	9.3
Industrials	11.9	17.8
Technology	10.8	10.1
Basic materials	8.8	16.3
Consumer goods	6.7	5.7
Health care	6.2	6.1
Telecoms	2.7	1.1
Utilities	1.3	1.4

KEY AIM STATISTICS

Total number of AIM	1090
Number of nominated advisers	49
Number of market makers	53
Total market cap for all AIM	£69.4bn
Total of new money raised	£82.3bn
Total raised by new issues	£36.2bn
Total raised by secondary issues	£46.1bn
Share turnover value (2013)	£21.3bn
Number of bargains (2013)	3.52m
Shares traded (2013)	213.2bn
Transfers to the official list	164

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	808.39	+15.9
FTSE AIM 50	4283.79	+38.5
FTSE AIM 100	3667.19	+17.3
FTSE Fledgling	6371.84	+38.5
FTSE Small Cap	4362.44	+33.9
FTSE All-Share	3585.32	+18.6
FTSE 100	6731.43	+16.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	256
£5m-£10m	133
£10m-£25m	228
£25m-£50m	179
£50m-£100m	142
£100m-£250m	94
£250m+	58

TOP 5 RISERS OVER 30 DAYS

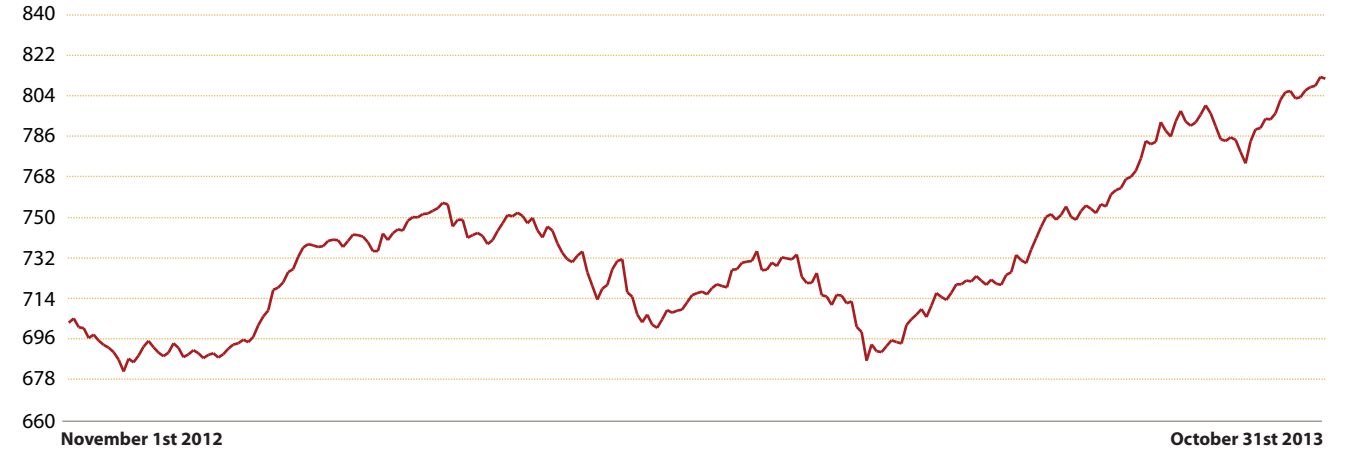
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Phorm Corporation	Internet	13.62	+319.2
Top Level Domain Names Ltd	Internet	11.5	+155.6
All Asia Asset Capital Ltd	Financials	18.5	+155.2
Vela Technologies	Technology	3.88	+121.4
Verona Pharma	Healthcare	4.62	+115.1

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Evocutis	Healthcare	0.53	-79.4
Avia Health Informatics	Shell	2.12	-71.7
West African Minerals	Mining	10.62	-58.3
Clear Leisure	Leisure	1.4	-52.5
Beacon Hill Resources	Mining	1.03	-47.7

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st October 2013, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus.

finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. finnCap has grown rapidly and in 2013 commenced market making.

At the end of 2012, finnCap became the top AIM broker by overall client numbers, according to research compiled by financial website Morningstar. The broker is also the number one adviser in the technology, industrials and healthcare sectors, number three adviser in the oil and gas sector and number five in the basic materials sector.

finnCap won the Best Research award at the 2012 AIM Awards. finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running.

In the six months to October 2013, finnCap reported a 22% jump in revenues to £6.9m and operating profit was 74% higher at £1.9m. finnCap has a strong track record of raising money and it raised more than £70m during the period.

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