MAY 2010

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM remains a positive choice

Most AIM companies are pleased with their decision to join the junior market, according to the latest Taking AIM survey.

The Taking AIM survey is published every year by accountants Baker Tilly and lawyers Faegre & Benson. AIM companies were asked: "If you had known about the market conditions over the last two years, would you still have listed?" Responses were received from 104 companies, all of them floated in 2007 or earlier. More than two-thirds of the respondents said that they would either definitely or probably have joined AIM.

Eleven percent that said that they would definitely not have floated and the same percentage said that they would probably not have done. The other 8% did not know.

When asked about the main pressures that market conditions have put on their businesses, the companies mentioned raising cash much more than anything else. The number mentioning raising cash was 45%, which was higher than the 36% that mentioned it in 2009. Getting access to bank debt has become more difficult so issuing shares is an increasingly important way of raising finance.

More than three-quarters of the AIM companies surveyed said that they benefited from the higher profile and credibility of being on AIM, up from 60% in 2009. One-third of the companies thought that the additional credibility was a major benefit.

Exit for GSH minority shareholders

Majority shareholder Ian Scarr-Hall is offering minority shareholders in energy and facilities management services provider GSH a way of selling their shares following last August's cancellation of the AIM quotation.

Scarr-Hall is offering 190p a share via a tender which is open until 21 May. GSH had talked of a tender offer of 190p a share prior to the ending of its time on AIM but did not manage to arrange the facilities it required.

Scarr-Hall owns 84.04% of GSH and Duncan Hall owns 0.01%. The company's employee benefit trust owns 11.7%. There are just over 50 other shareholders.

Any small shareholder who does not accept the tender offer could still end up with no shares if they own fewer than 30,000 existing shares. Every 30,000 shares will be consolidated into one new share. GSH will purchase fractional entitlements and hold the cash for 12 years when it will revert to the company if it is not claimed.

Scarr-Hall first announced that he wanted GSH to ditch its AIM quotation in March 2009. Management were not keen on the idea but Scarr-Hall's majority shareholding made it a foregone conclusion.

Since the cancellation of the AIM quotation on 10 August 2009 the whole board of GSH has changed.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Decline in AIM numbers starts to slow down

The decline in the number of AIM companies appears to be slowing even if it has not come to an end. The number of net cancellations in April was the lowest for nearly two years. This was a combination of fewer companies leaving AIM and more new entrants.

Fourteen companies left AIM in April, which includes three reverse takeovers. Those reversals are included in the nine companies joining AIM in the month. That makes a net decline of five companies. That is the lowest figure since June 2008 when there was a net reduction of two AIM companies.

The only other month since then when the decline was less than 10 was February 2010, when a net nine companies left AIM.

The number of new entrants remains relatively modest but there does appear to be an increasing number of companies willing to take the risk of going public although the General Election appears to have temporarily stemmed the flow. The latest is advanced materials company Ilika (see page 4).

The last time the number of AIM companies rose over one month was December 2007. One company left AIM in the first ten days of May so there is a chance the monthly decline might fall again this month.

However, there could be fewer new entrants so there probably won't be an increase in company numbers just yet.

Cancellations will continue to be at a significant level over the medium term but there is unlikely to be the flood of leavers there was last year.

Climate Exchange accepts ICE bid

IntercontinentalExchange Inc has launched an agreed bid of 750p a share for Climate Exchange. This values the operator of carbon trading exchanges at £395m.

The strategy is to bring together the emissions markets run by Climate Exchange with ICE's futures and over-the-counter energy markets. The two companies are already working together with ICE providing electronic trading and clearing services. It is estimated that Climate Exchange paid ICE £7.3m for its services in 2009.

In 2008, the Climate Exchange share price edged over £20. In June 2009, ICE took a 4.8% stake in the company at a price of 645p a share.

Broker KBC Peel Hunt believes that there is little chance of a counter-bid because of the contracts that ICE and Climate Exchange have in place. The broker believes that there is a mutual non-compete clause in the event that there is a change of control.

Rurelec waits for Bolivian compensation offer

South America-focused power plants developer Rurelec's Bolivian assets have been nationalised. The company is confident that it will receive compensation but it is difficult to know how much Rurelec will get.

Bolivia's President Evo Morales chose 1 May to declare that the government would take over Rurelec's 50.001% interest in Empresa Guaracachi as well as nationalising two other private power companies. The stake has been transferred to state-owned power company ENDE, which will be required to pay compensation according to the Supreme Decree issued by the President. ENDE has 120 days to come up with a proposal.

Guaracachi owns and operates 487MW of generating capacity and produces around two-fifths of Bolivia's electricity.

Rurelec believes that a fair value of the assets is at least $70m (£46m). The book value of the assets is $65m (£42.5m) and Rurelec says its subsidiary which held the shares in Guaracachi is due $5m (£3.6m) in dividends.

Rurelec's managing director Peter Earl believes that the company's interests are "protected by the United Kingdom - Bolivia Treaty".

The book value of the assets is equivalent to 22p a share. That is more than the Rurelec share price prior to the announcement of the nationalisation and double the recent price. Rurelec had net debt of £53.3m at the end of June 2009.

Rurelec still has its Argentine generation interests. It owns 50% of Energía del Sur, which has 136MW of generating capacity. There are two possible Rurelec projects in Buenos Aires and Salta in the north of Argentina near the border with Bolivia. There are also potential projects in Chile and Peru.

advisers

Westhouse commences market making

Broker Westhouse launched its market making operation at the end of April. Westhouse, which was formerly known as Hanson Westhouse, will initially make markets in its clients and companies it researches and believes that it can generate revenues from this activity without significantly increasing risk.

Simon Doyle has been employed to manage the new operation. Doyle has previously worked for Seymour Pierce and Altium. He joined Westhouse last October and it took six months to gain the required regulatory approvals. Westhouse believes making markets will enable it to offer an increased level of service to institutional and corporate clients.

Former Hichens Harrison head of research Jeremy Chantry has taken over as head of research at Westhouse. This is part of Westhouse's plan to widen its research capabilities into new sectors, which is designed to increase commission income.

A number of recent results announcements from AIM brokers have shown an improvement in trading in recent months. Westhouse is no exception. Revenues moved ahead from £4.48m to £4.78m in 2009. That masks a sharp improvement in the second half. Corporate finance income fell due to a lack of flotations but equity commissions grew.

Wages were temporarily reduced during the period and this helped the business to effectively break even in 2009. A loss of £709,000 was turned into a reported profit of £1.17m, but this figure includes a notional gain of £1.24m because the reverse acquisition of SovGEM was done at a discount to net asset value.

Westhouse reversed into investment company SovGEM in June 2009. The figures cover Westhouse for the whole of both periods but just six months of SovGEM. Westhouse still has an investment portfolio worth £4.36m.

There was a cash outflow from operations in 2009 but cash of £1.23m raised from asset sales helped increase Westhouse's cash pile from £610,000 to £1.75m.

One of SovGEM's main assets is its stake in Russian Timber, which had planned a flotation a few years ago. This investment has been written down by 50% to £233,000. However, Westhouse's auditors say that it is not possible to put an accurate valuation on this investment so the accounts have been qualified.

Following the results announcement Westhouse chief executive William Staple acquired 17,000 shares at 59.96p a share, taking his stake to 8.93%. Non-executive director Andrew Beeson bought 50,000 shares at the same price. Beeson owns 1.31% of the company. Management owns two-fifths of the company.

Staple believes that there are signs that there will be an improvement in the AIM new issues market. So far this year, Westhouse has floated the ASX-listed Scotgold Resources.

ADVISER CHANGES - APRIL 2010

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Aurelian Oil & Gas	Oriel/ Macquarie	Macquarie/ Jeffries	Ambrian	Ambrian	06/04/2010
Xtract Energy	Cenkos	Smith & Williamson	Cenkos	Smith & Williamson	06/04/2010
MediaZest	Hybridan	Astaire	Astaire	Astaire	06/04/2010
Clinical Computing	Cairn	Astaire	Cairn	Astaire	07/04/2010
Mercator Gold	Daniel Stewart/ Old Park Lane	Cenkos/ Old Park Lane	Daniel Stewart	Cenkos	08/04/2010
Clapham House Group	Altium	Execution Noble	Altium	Execution Noble	13/04/2010
Frontera Resources	Arbuthnot	Canaccord	Strand Hanson	Canaccord	13/04/2010
Sweet China	Rivington Street/ZAI	ZAI	ZAI	ZAI	14/04/2010
AIM Investments	Astaire	ZAI	Astaire	ZAI	15/04/2010
Driver Group	WH Ireland	WH Ireland	WH Ireland	Zeus	15/04/2010
Falkland Islands Holdings	Altium	KBC Peel Hunt	Altium	KBC Peel Hunt	16/04/2010
Lombard Risk Management	Allenby	Execution Noble	Allenby	Execution Noble	16/04/2010
European Islamic Investment Bank	Arbuthnot	Evolution	Arbuthnot	Evolution	20/04/2010
Tricorn Group	Arbuthnot	Collins Stewart	Arbuthnot	Collins Stewart	21/04/2010
Xcite Energy Ltd	Arbuthnot	Arbuthnot	Arbuthnot	Strand Hanson	21/04/2010
Cinpart	Rivington Street/Jendens	Rivington Street/Mirabaud	Merchant John East	Merchant John East	22/04/2010
Petards Group	WH Ireland	Collins Stewart	WH Ireland	Collins Stewart	22/04/2010
Vyke Communications	Allenby/ Daniel Stewart	Daniel Stewart	Allenby	Daniel Stewart	22/04/2010
DQ Entertainment	Seymour Pierce	Religare	Seymour Pierce	Religare	26/04/2010
Invista Real Estate Investment Management	Collins Stewart	JPMorgan Cazenove	Hawkpoint	JPMorgan Cazenove	27/04/2010
Randall & Quilter	Numis/Shore	Numis/Execution Noble	Numis	Execution Noble	28/04/2010
International Brand Licensing	Matrix/Zeus	Zeus	Zeus	Zeus	29/04/2010

company news

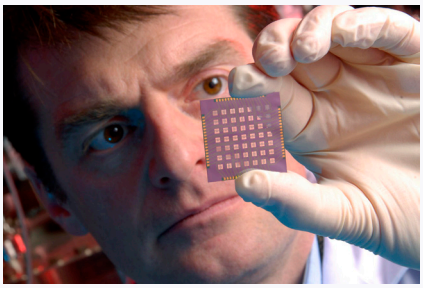
University of Southampton spin-out Ilika speeds to AIM

Advanced cleantech materials *www.ilika.com*

Advanced cleantech materials developer **Ilika** invents materials that enable its customers to commercialise products more quickly and it hopes that joining AIM on 14 May will speed up its own development.

It can take between seven and 10 years to move from discovery to commercial prototype but Ilika says that it can help clients to do this up to 100 times faster. The high throughput technologies make it easier to scale up production of the materials.

Ilika is raising £5.2m gross from a placing at 51p a share. Taking off the expenses of the quotation, Ilika should be left with £4.4m to finance the development of materials it has already identified as having a use in the energy, electronics and biomedical sectors. Projects include developing new materials for lithium-ion vehicle batteries for Toyota and hydrogen storage materials with Shell and Johnson Matthey.



Ilika was spun out of the University of Southampton in May 2004 and it has been headed by chief executive Graeme Purdy since then. There have been three fundraisings prior to the flotation including a £7m cash injection in August 2007. Shareholders already included Nomura, the owner of Ilika's nominated adviser and broker Nomura Code, Artemis, Invesco, IP Group and AIM-quoted St Peter Port Capital.

ILIKA (IKA)			51p
12 MONTH CHANGE %	N/A	MARKET CAP £M	18.7

St Peter Port Capital invested £2.5m in 2007 and at the time said that it understood that Ilika would float within 12 months. The weak stock market did not make this possible. St Peter Port is increasing its stake from 8.5% to 16.5% following the placing.

Revenues are generated from milestone payments and royalties paid by development partners and through sales of the company's own biomedical products. Ilika has been selling cryoskin and myskin woundcare products and the cash raised will help it to start clinical trials of a corneal bandage.

Next Fifteen's international recovery

Technology PR *www.nextfifteen.com*

Technology PR firm **Next Fifteen Communications**' figures recovered in the latest six-month period and management says that trading is running at pre-recession levels. Next Fifteen is an internationally diversified business and the US is showing a strong recovery.

Revenues were 2% ahead at £34.2m in the six months to January 2010 when compared with the first half of last year but there was a 7% improvement on the second-half figure. Recent acquisition Upstream Asia made an initial contribution to revenues. Cost reductions helped interim pre-tax profit improve 44% to £2.08m.

NEXT FIFTEEN COMMUNICATIONS (NFC)			69p
12 MONTH CHANGE %	+75.8	MARKET CAP £M	37.9

The company is investing in its digital communications consultancy, Project Metal, but it has yet to see the benefits in its figures.

Next Fifteen is cash generative but payments for acquisitions meant there was net debt of £1.4m at the end of January 2010. Net cash of £1m is forecast at the end of July 2010 and, assuming no more acquisitions, could rise to £3.7m by July 2011. That figure is after an estimated £2m of deferred consideration so it gives an idea of just how cash generative Next Fifteen can be.

A full-year profit of £6.6m is forecast, rising to £7.1m in 2010-11. The shares are trading on less than nine times prospective 2009-10 earnings and there is scope for the earnings forecast to be beaten.

company news

Faroe gives small shareholders the chance to participate in cash call

Oil and gas explorer and investor *www.faroe-petroleum.co.uk*

Oil and gas explorer **Faroe Petroleum's** chief executive Graham Stewart (pictured right with chairman John Bentley) was keen for all shareholders to have a chance to participate in its latest fundraising and that is why Faroe opted for a rights issue rather than a placing, which would be open to institutions and not smaller shareholders. Faroe is raising £69.8m via a two-for-three rights issue at 100p a share and this cash should finance its exploration programme for the next three years without Faroe having to sell any of its developing assets.

Faroe will receive £65.1m after expenses

Faroe will receive £65.1m after expenses and this will take its net cash to nearly £90m. The sale of Faroe's interest in the Breagh field brought in £27.3m last year. A Norwegian tax rebate of £12.6m is due at the end of 2010 so Faroe will have an even stronger cash position.

Faroe will drill eight new wells over the next two years, at a cost of approximately £36.5m. If exploration wells are successful then additional appraisal wells will be required. Faroe also intends to enhance existing reserves and increase its production. Faroe made discoveries at Glenlivet and Tornado in the UK North Sea in 2009 and earlier this year made a further discovery in the Norwegian sector of the North Sea at Fogelberg.

FAROE PETROLEUM (FPM)	122p		
12 MONTH CHANGE %	+79.4	MARKET CAP £M	212.9

Faroe will apply for more exploration licences in the UK, Norway and Greenland. It is setting aside £12.3m for this.

Faroe could also farm-in to existing wells in the North Sea, which would enable it to generate higher revenues in the short term. There are accumulated tax losses of more than £50m that could be utilised.

Revenues increased from £2.28m to £7m in 2009. The post-tax loss fell from £20.61m to £6.91m – after a £17.7m gain on the Breagh sale. That shows that revenues need to be much higher in order to cover the costs of the company.

Production from five North Sea fields was 1,500 barrels of oil equivalent per day during the first quarter of 2010.

Natasa moves to Cayman Islands

Mining investments *www.natasamining.com*

Natasa Mining Ltd is changing its domicile from Australia to the Cayman Islands and returning surplus cash to shareholders. It is retaining its AIM quotation but dropping the ASX listing.

Natasa says that 80% of the share capital is owned by shareholders with addresses outside Australia. The strategy of the company is to make more investments outside Australia and management believes it will be more efficient to have a non-Australian holding company. Natasa has not invested in any Australian mining projects for five years and its chief executive Chrisilios Kyriakou is based outside Australia.

NATASA MINING LTD (NSN)	98p		
12 MONTH CHANGE %	+28.9	MARKET CAP £M	28.7

Natasa has an agreement to acquire an 85% interest in Vostok Mining, which owns the rights to two gold exploration project areas in central-eastern Kazakhstan. This is subject to due diligence and should be completed before the end of June.

Shareholders will swap each of their existing Natasa Mining Ltd shares for a share in Natasa Mining Ltd, a company registered in the Cayman Islands. Natasa will also return just over $10m to shareholders – equivalent to 35 cents (23.5p) a share. Natasa will still have $42.8m in the bank.

The plan is to carry out the change in domicile and readmission of Natasa, along with the cash distribution, on 7 June.

company news

Sable builds cash pile for investment in African coal assets

Coal miner *www.caledonresources.com*

Sable Mining Africa has raised £81.2m ($125m) from a placing at 28p a share so that it can build up a coal mining operation. This cash is on top of the £27m raised at 10p a share at the end of 2009 and gives Sable more than £100m to invest.

The cash will be used to finance the acquisition and development of Delta Mining Consolidated, which has a portfolio of coal assets in South Africa and Botswana. Sable had built up a 36% stake in DMC and is completing the acquisition of the rest for $61.7m. These are in established coal mining regions and include the Rietkuil coal deposit in South Africa which could be brought into production in a relatively short period of time. The metallurgical and thermal coal resource at Rietkuil is 200m tonnes. This is dwarfed by the 2bn tonnes of coal estimated to be at the Springbok Flats project, while the Limpopo project could have as much as 400m tonnes of coal in the ground. There are a dozen greenfield blocks in Botswana.

Sable has more than £100m to invest

Sable is run by former cricketer Phil Edmonds and Andrew Groves, who previously built up AIM-quoted CAMEC, which was acquired by Eurasian Natural Resources Corporation for £584m. Their contacts in Africa will help them to develop the company.

SABLE MINING (SBLM)	33.5p		
12 MONTH CHANGE %	+1,118.2	MARKET CAP £M	310.7

Having cash to offer potential sellers will make it easier to make acquisitions.

Sable started out as BioEnergy Africa and joined AIM on 1 September 2008 with the intention of producing ethanol from sugar cane grown in southern Africa. BioEnergy raised £8.6m at 12.5p a share when it joined AIM. One year later it changed its name to Sable and said it would focus on early stage exploration and development mining businesses in southern Africa. Management says that it is looking at iron ore projects.

Caledon agrees in principle to Polo bid

Coal miner *www.nanotechnologies.com*

Coal projects investor Polo Resources and **Caledon Resources** have reached agreement in principle for an all-share offer by Polo for the Australian coal miner.

Polo will offer 11.4 of its shares for each Caledon share. The Polo share price was 5.4p a share prior to the bid announcement. That values each Caledon share at 61.56p. Polo already owns 25.8% of Caledon. Polo is providing Caledon with a short-term loan of up to $18m to help it finance the repurchase of convertible loan notes in July 2010. Polo will also provide $4m to Caledon so it can secure slots at the Wiggins Island terminal.

CALEDON RESOURCES (CDN)	49.75p		
12 MONTH CHANGE %	+57.9	MARKET CAP £M	104.7

Caledon's main asset is the Cook mine in Queensland, Australia. It also has exploration concessions in nearby Minyango. The enlarged group will have a more geographically diverse portfolio of coal assets. Polo has a number of investments including a joint venture in Mongolia. The deal is still dependent on due diligence.

Caledon's first-quarter figures showed a year-on-year reduction in coal production from 175,000 tonnes to 151,000 tonnes in the first quarter of 2010. Both coking (metallurgical) and thermal coal production have fallen due to lower manning levels and increased difficulty of production. Coking coal prices have increased to more than $180/tonne compared with $107/tonne last year. Prices are now set quarterly rather than annually.

Caledon believes it can produce 700,000 tonnes of coal in 2010. Most of that will be coking coal.

dividends

Concurrent set for sixth straight dividend increase

Ruggedised computer products *www.cct.co.uk*

CONCURRENT TECHNOLOGIES (CNC)	
Price	39p
Market Cap £m	27.9
Historic Yield	3.6%
Prospective Yield	3.8%

Dividend

Ruggedised computer products developer **Concurrent Technologies** has increased its dividend for the fifth year in a row. The final dividend of 0.9p a share took the total dividend for 2009 to 1.4p a share. Back in 2004 Concurrent paid a total dividend of 0.5p a share.

Cash of £4.91m at the end of 2009 was barely changed from one year before. This gives Concurrent plenty of scope to continue to raise the dividend. The 2009 dividends cost just over £1m.

House broker Brewin Dolphin forecasts an increase in dividend to 1.5p a share in 2010 and 1.6p a share in 2011. The 2010 dividend would be covered just over 2.5 times by forecast earnings.

Business

Colchester-based Concurrent designs and manufactures high-performance embedded computer products for the defence, telecoms, aerospace and health sectors. The products are based on Intel technology and can withstand extreme cold and/or extreme heat. Concurrent has been quoted on AIM for nearly 14 years.

A £279,000 bad debt stopped Concurrent producing a fifth year of growth in profits. The bad debt relates to a telecoms customer that has moved its operations to another country. It is highly unusual for Concurrent to be hit by a bad debt because most of its customers are governments or large defence and electronics firms working on projects for governments.

Pre-tax profit slipped from £2.95m to £2.8m after the bad debt charge. Investment in product development rose 60% to £3.25m, with the Indian operation becoming increasingly important. Most of this was capitalised but the expensed development spending did increase. The tax charge was reduced by R&D tax credits.

Concurrent's development centre in Bangalore, India, is enabling it to develop new products in a cost-effective way. Concurrent could not find enough qualified engineers in the UK and it is already employing 20 people in India.

Exports account for 87% of revenues. The defence market remains the most important one for Concurrent but the telecoms and industrial markets are showing signs of recovery. Demand in the homeland security markets is likely to become more significant.

Brewin Dolphin forecasts a rise in profit to £3m this year, followed by an increase to £3.5m in 2011. The shares are trading on just over 10 times 2010 forecast earnings, falling to less than nine in 2011.

Dividend news

Telecoms services and consultancy provider **Alternative Networks** says it will be paying a final dividend of at least 3.5p a share for the year to September 2010. Alternative Networks has paid an early interim dividend of 5p a share, of which 3p a share was a special dividend. Excluding the special dividend, the interim was increased by 25%. Cash generation is strong enough to finance acquisitions as well as increase the dividend. Revenues are currently ahead of expectations as Alternative Networks increases its market share. Interim figures will be published on 8 June.

Franchised estate agency chain **M Winkworth**, which joined AIM in November 2009, intends to pay quarterly dividends. The first quarterly dividend is 1p a share. Because the business is a franchise operation there is little need for capital expenditure. M Winkworth raised £1.1m at 80p a share when it floated and the share price remains around this level. The company says it will pay the dividends "subject to the commercial needs of the company". As the residential market is recovering in the South East it should be able to continue for the time being. The total dividend for the year could be 4p a share. That puts the shares on a 5% yield.

Niger Uranium has followed up its 20.4p a share cash special dividend with a distribution of most of its remaining holding in uranium explorer Kalahari Minerals. Niger Uranium proposed a distribution of most of its Kalahari shares last year but shareholders did not agree. It sold around half of its holding in February and used the cash to pay the special dividend. The share distribution is on the basis of 9.63 Kalahari shares for every 100 qualifying Niger Uranium shares. That makes the distribution worth the equivalent of 16.8p a share. Niger Uranium will retain around 2.77m shares in AIM-quoted Kalahari.

expert views

Expert view: The broker

Solidly financed recovery story

By DAVID STODDART

Ideal Shopping Direct has had what might politely be called a chequered history. The home shopping channels operator has therefore fallen off the radar screen of many investors. What's more, the shareholding structure, unlike the company name, is not ideal. On the other hand, the business has shown in the past that it is capable of generating attractive returns.

Ideal has been through a rough patch, not unconnected to several years of boardroom turmoil. That period appears to be solidly behind the company since the founders Paul Wright (current chairman) and Val Kaye (non-exec) rejoined the board last year. Ideal has returned to profit earlier than expected and we look for a rapid recovery in profitability over the next couple of years.

We look for a rapid recovery in profitability

Freeview contract

The key point in the history of Ideal was the launch of the Ideal World channel on Freeview in 2004, one of only four shopping channels on Freeview at that time. The Freeview customer base was a much better fit for Ideal than the Sky customer base it had relied on hitherto. Sales accelerated in response to the addition of the Freeview channel.

In 2006, the access deal to Freeview was extended to 2018. Under the terms of the original deal, the rate paid by Ideal was to increase. There were concerns in the market that the renewal rate, based on amounts paid by entertainment channels, would be upwards of £13m. The actual fee is the subject of a confidentiality clause. However, we believe that the renewal and extension was for a figure in the vicinity of £8-9m that will rise with RPI until 2018. Importantly, it is a flat fee and not based on revenues (as the previous deal had been).

Margin recovery

For almost five years, Ideal has operated without a united board focused on an agreed strategy. The view on financial controls and systems developments has changed every couple of years or so. Small wonder, then, that margins have failed to approach the mid-teens levels that we believe a business of this type should generate.

On the other hand, a period of stability should allow margins to beat the peak achieved a full eight years ago. Chief executive Mike Hancox and team have made a good start on this.

Market expectations at the start of 2009 were for Ideal to reduce its losses from £4m in 2008 to something nearer £2m. In the event, Ideal reported a profit of £1.3m. An £8.4m sales improvement generated a £5.2m pre-tax profit improvement. This highlights the inefficiencies within the previous model that have limited margins.

In January, Ideal acquired garden products retailer Lead the Good Life (LTGL), which had been started by Wright and Kaye after they left Ideal, for an initial £5m in cash and shares. There could be deferred consideration of up to £2.2m subject to the achievement of a pre-tax profit target of at least £0.8m and up to £1.8m for the year to 30 June 2010.

In 2010, we expect growth of 17.5% in H1, with LTGL supplying c.8 percentage points of that growth. Sales were broadly flat in the comparable period. However, they strengthened in H2 2009, so we expect to see a slowing of sales growth in H2 as the comparisons become more challenging. For the year as a whole, we see revenue growth of c.16%, driven partly by initial sales of craft products to overseas wholesale customers.

In the longer term we expect the running to be taken up by the online operations. In 2009 these represented under a quarter of revenues. We expect this to build progressively, perhaps reaching one-third by the end of this year alone. The beauty of online sales is that they eliminate the need for call centre staff and are therefore higher margin.

Ideal owns the freehold on its central facility and has net cash in the bank. Funding is not a constraint on growth.

Although we believe Ideal represents a compelling investment case, investors need to be comfortable with the founders controlling over 40% of the equity.

We model compound earnings growth of c.33% p.a. for the next three years. Ideal also offers the lowest gearing of any retailer we follow, offering a degree of protection against a tougher consumer economy after the election. It is therefore more defensive than the sector but offers faster growth.

DAVID STODDART is a Research Director specialising in retail at FinnCap.

feature

Directors' pay comes under scrutiny

Directors' remuneration is a major topic and AIM has put in place new regulations that require additional information to be provided to shareholders. PriceWaterhouseCoopers has published research showing the levels of remuneration enjoyed by AIM directors.

Directors' pay should not be out of kilter with the size and rate of growth of a company but it appears that that is not always the case in AIM companies. New AIM regulations will make it much clearer who is being paid what and investors will be able to judge whether it is warranted.

There are currently large variations in the ways that AIM companies approach directors' remuneration and there is not necessarily any relationship between size of company and salaries and incentives paid. Accountant PriceWaterhouseCoopers (PwC) has published a report called *AIM - The state of pay*. The research covers AIM companies that were quoted on 1 December 2009 and it shows that directors' pay has certainly not fallen – for the time being at least.

One of the main findings of the PwC research is that directors' remuneration of AIM companies incorporates a higher proportion of fixed pay and much lower contribution from variable pay such as bonuses than in the case of Main Market companies.

In terms of the AIM companies surveyed, 80% of board pay was found to be fixed and 20% variable. That is in sharp contrast to FTSE All-Share companies, most of which are much larger than AIM companies, where roughly 50% of pay was fixed.

PwC criticises remuneration committees of some AIM companies for not putting a greater focus on remuneration polices that emphasise performance-related pay.

Pay

PwC breaks up remuneration into four areas: salary, bonus, benefits/pension and equity.

Although chief executive salaries tend to be higher for larger AIM companies the differences are not as marked as could be expected. The median chief executive salary for companies worth less than £15m is £157,000, while it is £174,000 for companies capitalised at between £30m and £100m. Sharp share price falls for some companies over the past couple of years could account for such a high figure for the smallest companies as many used to be much larger. However, there has historically been a relatively narrow gap in salaries between small and medium-sized AIM companies.

AIM companies valued at more than £200m paid a median salary of £320,000. Some of the highest chief executive and finance director salaries are in the property and financials sectors, which is in line with Main Market companies.

PwC says that its research suggests that the rate of growth in salary is slowing and it expects this to be even more noticeable in the coming year. The accountant believes that there is little scope for significant increases in the current economic conditions especially when market capitalisations have been cut and the companies are making staff redundant. There is also encouragement for remuneration committees to look at a wider base of company attributes when setting a salary.

> AIM has already tightened up its regulations relating to disclosure of directors' pay

Bonuses

Bonuses are an important element of a pay package and they can sometimes be a large proportion of it. Setting a realistic target to trigger a bonus is a tricky thing.

PwC makes it clear that remuneration committees need to be sure that the bonuses paid reflect the additional performance over and above that required for the base salary. Median maximum annual bonus payments as a percentage of salary are 60% but they can be as high as 100%.

Bonus payments are likely to be lower as corporate performance will make it difficult to argue for high bonuses under current market conditions. A bigger proportion of the bonus may become payable in shares instead of cash, which would make institutions happier.

Option headaches

The area of remuneration that is covered at most depth in the research is share options and other equity incentives. Nearly all AIM companies

feature

granted share options to directors in 2006-07. The percentages have fallen over the past three years but more than two-thirds issued share options in 2008-09. The share option prices relate to the share price at the time of issue, which is not always ideal.

Long-term Incentive Plans (LTIPs), which offer shares that can be taken up if certain performance targets are achieved over a three year period, are becoming more prevalent but only around one-fifth of AIM companies used them in 2008-09.

This is very different to FTSE All-Share companies, where few companies issue pure share options and if they do they are likely to also offer LTIPs. Around three-quarters of FTSE All-Share companies only offered LTIPs.

Share price declines mean that many companies have issued options where the exercise price is much higher than the current share price and they are unlikely to be taken up.

A company can re-price or exchange the options on a value-for-value basis but this is not always popular with shareholders. They believe that the directors are being protected from the share price decline in a way in which they are not. Alternatively, the company can start again by cancelling the old options and starting a new scheme but this may also be unpopular with shareholders. However, shareholders need to weigh up the benefits of incentivising the directors and the potential for adding to the company's growth.

Companies could do nothing and keep the options on their books even though they are unlikely to be taken up. However, this might limit the number of new options it can issue because the old ones will need to be covered by the shareholder approvals relating to the number of new shares that can be issued.

The Association of British Insurers guidelines state that companies should not issue more than 10% of their share capital through share schemes in any rolling 10-year period. When it comes to executive incentives the figure should not exceed 5% of the share capital, according to the ABI.

Option and LTIP grants can be a multiple of the base salary. The upper quartile of LTIP grants to chief executives is 159% of salary. The median is 101%. However, this is based on the face value of the LTIP so it does not necessarily reflect what the payment is worth to the individual.

PwC believes that there should be better shareholder consultation when it comes to the setting of remuneration levels. It argues that institutional investors might become less willing to invest in AIM companies that do not have remuneration policies in line with the market norms.

The accountant also argues that care needs to be taken in relation to the mix of elements in the reward package and the provision of flexible packages that are better at dealing with changes in the economy. As always, tax efficiency is an important factor.

PwC believes that remuneration expectations should be reduced and that remuneration committees should move from a "one size fits all" market-based approach to one that better reflects the strategy of the individual company.

The research covered AIM companies that were quoted on 1 December 2009

AIM regulations

AIM has already tightened up its regulations relating to disclosure of directors' pay. Previously, AIM-quoted companies have not been obliged to provide full disclosure of the pay and benefits of their directors. They would indicate how much the highest-paid director earned and the total paid to the board but normally little else. Some AIM companies have provided additional information in the past but most did not.

SALARY MEDIANS FOR AIM COMPANY DIRECTORS

YEAR	CHIEF EXECUTIVE	FINANCE DIRECTOR
2008-09	$172,000	$122,000
2007-08	$162,000	$109,000
2006-07	$153,000	$111,000
2005-06	$140,000	$107,000
2004-05	$133,000	$99,000

An amendment to rule 19 of the AIM rules requires an AIM company to provide disclosure in its annual audited accounts of "directors' remuneration earned in respect of the financial year by each director of the AIM company acting in such capacity during the financial year". In other words, anyone who has been a director during the year will have their pay and benefits revealed.

Directors' remuneration includes a number of items. The first is "emoluments and compensation, including any cash or non-cash benefits received". The consultation process led to the specification that both cash and non-cash benefits should be included.

The description also incorporates "share options and other long-term incentive plan details, including information on all outstanding options and/or awards".

The consultation process led to the adding of a third definition of directors' remuneration, namely the "value of any contributions paid by the AIM company to a pension scheme". The original wording did not make it clear what pension benefits needed to be disclosed.

These rules are not as stringent as for the Main Market but they will mean that shareholders will have a better idea of what is going on and what the directors' remuneration is made up of.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	25.5	24
Oil & gas	19.1	9.2
Basic materials	18.4	12.7
Industrials	11.1	18.8
Technology	7.8	10
Consumer services	7	11.8
Consumer goods	4.4	5.3
Health care	4.1	5.5
Telecoms	1.4	1.6
Utilities	1.2	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	729.09	+52.0
FTSE AIM 50	2765.9	+33.6
FTSE AIM 100	3347.45	+56.3
FTSE Fledgling	4369.55	+42.0
FTSE Small Cap	2960.77	+33.8
FTSE All-Share	2863.35	+31.8
FTSE 100	5553.29	+30.9

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	323
£5m-£10m	192
£10m-£25m	280
£25m-£50m	178
£50m-£100m	125
£100m-£250m	109
£250m+	51

KEY AIM STATISTICS

Total number of AIM companies	1,258
Number of nominated advisers	62
Number of market makers	47
Total market cap for all AIM	£61.97bn
Total of new money raised	£66.59bn
Total raised by new issues	£33.31bn
Total raised by secondary issues	£33.28bn
Share turnover value (2010)	£7.47bn
Number of bargains (2010)	834,640
Shares traded (2010)	45.05bn
Transfers to the official list	136

TOP 5 RISERS OVER 30 DAYS

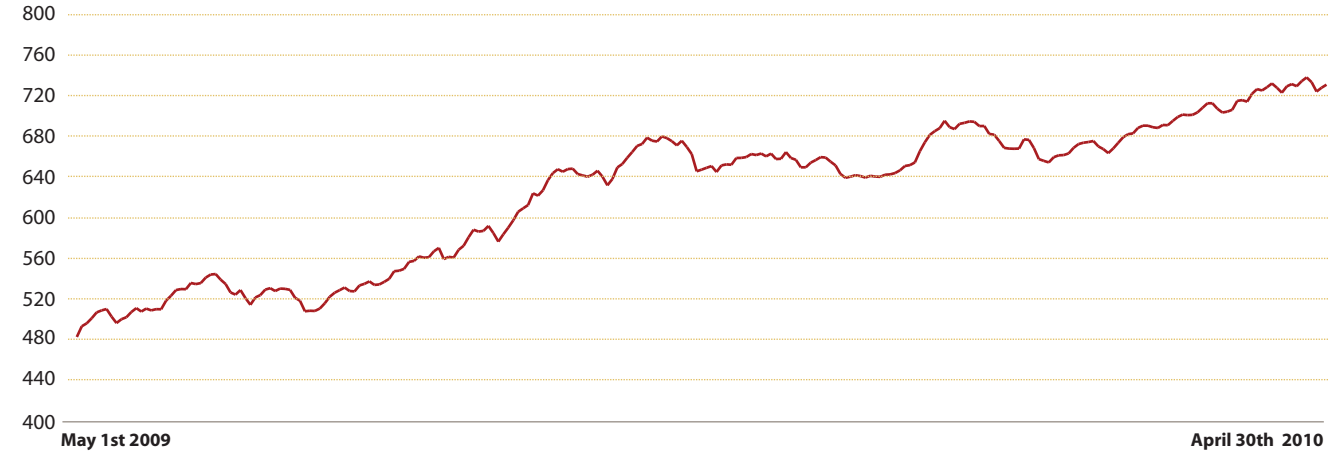
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Niche Group	Financials	3.42	+1041.7
Acta	Cleantech	45.5	+208.5
Lagan Capital	Shell	20.5	+141.2
Offshore Hydrocarbon Mapping	Oil services	13.5	+125
Twenty	Marketing	4.75	+123.5

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Insetco	Shell	56	-90.6
Emerging Metals	Mining	2.6	-65.9
ValiRx	Pharma	0.375	-62.5
Plant Offshore Group	Oil services	0.5	-55.6
Minorplanet Systems	Telematics	6.5	-53.6

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2010, and we cannot accept responsibility for their accuracy.

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finnCap

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

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

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In August 2007, private client stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

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

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