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AIM JOURNAL

Frontier IP gets Exscientia uplift

Frontier IP investee company Exscientia has joined the Nasdaq Global Select Market after a $304.7m offer at $22 per ADS, which values the pharmatech company at $2.6bn. Exscientia is issuing American Depositary Shares (ADS), which each represent one share. Frontier IP's stake is worth $34.4m (£25.5m), which is nearly four times the book value. There are other investments in the Frontier IP portfolio that are maturing and could provide further uplifts in value.

The ADSs ended at $27.10 each on the first day of trading on 1 October. The closing price values the Frontier IP stake at £31.3m. There is no certainty that this level will be maintained, but the share price should settle down in the coming weeks. Also, the £/$ exchange rate has moved in the company's favour in recent days.

At 113p a share, Frontier IP is valued at £62.2m. At the end of June 2020, the Exscientia investment was valued at £4.41m, and there was a subsequent uplift of £1.87m with the interims, so the December 2020 valuation was £6.28m.

Oxford-based Exscientia is a spin-out from the University of Dundee and uses artificial intelligence to help drug discovery. Exscientia originated the first three AI-designed precision drug candidates to enter human clinical trials. Internally developed cancer drug candidate EXS21546 began phase 1 clinical trials at the end of 2020 and there should be data by the end of 2022.

AIM Awards dinner returns

After its cancellation last year, the AIM Awards dinner is back at Old Billingsgate in London on 14 October. There are six companies in the running for AIM company of the year.

Market research services provider YouGov and floorcoverings supplier James Halstead are back on the company of the year shortlist having lost out to identity and data intelligence services provider GB Group in 2020.

This category is one of four nominations for video games services provider Keywords Studios at this year's awards. Andrew Day, who has stepped down as chief executive due to ill-health, is on the shortlist for entrepreneur of the year, while the company is also in the running for best use of AIM and the corporate governance award.

Audio equipment supplier Focusrite and contract pharma research provider Ergomed are in the running for growth business of the year as well as company of the year. The final company on the list is vets practices operator CVS Group, where like-for-like sales increased by 17% last year, reflecting an acceleration in growth in the second half.

In this issue

Made Tech set to accelerate

Made Tech Group is a rapidly growing provider of digital transformation services to the UK public sector and joining AIM should help it to grow even faster. A placing at 122p a share raised £13.2m after expenses and £1.25m of that cash will be used to repay a bank loan. Existing shareholders sold shares equivalent to 39% of the enlarged share capital and that raised £70.4m before expenses. Founder and chief executive Rory Macdonald still owns 28.2% of the company, having raised £37.6m.

Over the past three years annual revenues have grown at a compound rate of 89% and this growth has been financed without seeking shareholder investment. In the year to May 2021, revenues were £13.3m.

There was a swing from profit to loss last year, despite the more than doubled revenues. A new sales team was recruited and that increased overheads. Last year, administrative expenses nearly trebled from £1.97m to £5.79m.

Made Tech helps public sector organisations to modernise their systems and accelerate their move towards digital operations. Projects tend to last 12 months with potential for further work after the contract period. Made Tech has operations in London, Manchester, Bristol and Swansea. Additional offices are planned in Scotland, the Midlands and northern England. The company is addressing a market that was worth £3.15bn in the year to March 2021 and it is set to grow substantially over the next few years.

First-quarter revenues are more than double the same time last year and there were sales bookings of £11m during the period. The order pipeline is £51m. The share price ended the first day of trading at 135p.

Tortilla on AIM menu

Tortilla Mexican Grill is on course to join AIM in early October. A placing at 181p a share will raise £5m for the company and £23m for existing shareholders. That values Tortilla Mexican Grill, the UK's largest fast-casual Mexican restaurants group, at £70m. It specialises in California-inspired Mexican food. There are 50 company operated sites in the UK, two UK franchised sites at transport hubs and ten franchised sites in the Middle East. The cash raised will be used to accelerate the UK roll-out of restaurants and help develop franchise opportunities. There are also plans to grow the delivery business. Tortilla Mexican Grill should end 2021 with net cash and a debt facility of up to £10m.

GreenRoc buys Alba's Greenland assets

GreenRoc Mining was set up to acquire the Greenland-based mining assets of Alba Mineral Resources in return for shares that provide the AIM-quoted mining company with a majority stake. A placing at 10p a share enabled GreenRoc to raise £4.25m after expenses when the minerals explorer joined AIM at the end of September. This cash will finance the development of the assets over the next couple of years.

The assets that have been acquired had a net asset value of £1.64m, including £1.45m of intangible assets. They were acquired for £5.95m in shares. Alba retains a 54% stake and has appointed two board directors.

The Amitsoq graphite project will attract the attention of many investors. This has graphite suitable for using in the manufacture of lithium-ion batteries, for which demand will increase as more electric vehicles come on to the market. The graphite grade of 28.7% is the highest grade of the major graphite projects around the world. The project is in southern Greenland close to ice-free waters and there was mining at the site a century ago. Structural and resource drilling has commenced.

The asset that could come to fruition the earliest is the Thule Black Sands project in north-west Greenland. This appears to be a continuation of the Dundas mineral sands project being developed by AIM-quoted Bluejay Mining. This ilmenite project has a JORC resource of 19Mt@ 43.6% THM with in-situ ilmenite grade of 8.9%.

The initial deposit is on the shore and is easily mineable. The existing JORC resource would last more than 12 years, and further drilling will add to the figure. Once the drilling and environmental studies are completed,a pre-feasibility study will be commissioned.

The less-advanced assets owned by GreenRoc are the Melville Bay iron ore project and the Inglefield multi-metal prospect.

Peel Hunt returns to AIM

Peel Hunt has returned to AIM two decades after a brief spell on the junior market was ended through a takeover by Belgian bank KBC. The Guernsey-registered company has chosen to gain a quotation after a period of bumper profit, although profit will fall this year. A placing at 228p a share raised £40m for the company and valued it at £280m. The share price ended September at 233p.

London-based Peel Hunt focuses on small and mid-cap companies, and it has prospered in recent years. Peel Hunt has 157 corporate clients. Fundraisings during the original Covid-19 lockdown last year boosted activity levels and flotation and takeover activity has accelerated this year. Part of the growth strategy is to establish an office in an EU country.

Peel Hunt originally joined AIM in February 2000 and it had an opening valuation of £137.5m. Belgian bank KBC acquired the business for £265.7m in a deal announced in late 2000 and completed in early 2001. There was a management buyout of the broker in November 2010 when markets were recovering from the credit crisis – KBC needed to sell assets following its bailout by the government in Belgium. Management paid £74m for the business.

Simon Hayes was chief executive at that time, and he currently chairs the board. Existing shareholders raised £72m in the placing that accompanied the flotation. Four directors sold a total of more than 11.4 million shares. Simon Hayes was one of these directors and he generated £12m from selling shares – he still owns 1.8% of Peel Hunt.

In the year to March 2000, the business made a pre-tax profit of £16m with the subsequent interim profit doubling to £5.54m. That reflects the peak of the initial internet boom.

In the year to March 2021, Peel Hunt Ltd revenues more than doubled, from £95.5m to £196.9m, while pre-tax profit jumped from £34.2m to £120.1m. That reflects another bumper trading period. Because of the reorganisation of the group, the illustrative, adjusted pre-tax profit is £73.6m, up from £19.4m.

Revenues for the five months to August 2021 fell from £82.5m to £63.3m. Trading revenues more than halved, but research and investment banking revenues were higher. Operational gearing means that profit will decline faster than revenues.

Net cash was £82.4m at the end of March 2021. The flotation has raised a further £36m after expenses. Peel Hunt intends to pay 40% of post-tax profit in dividends. If management believes that there is excess cash a special dividend could be paid.

ADVISER CHANGES - SEPTEMBER 2021

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
City Pub Group	Peel Hunt/Liberum	Liberum	Liberum	Liberum	9/1/2021
Premier Miton	Investec	Numis/Liberum	Investec	Numis	9/1/2021
Real Estate Investors	Liberum	Allenby/Liberum	Liberum	Liberum	9/1/2021
WANdisco	Panmure Gordon/ Stifel Nicolaus	Stifel Nicolaus	Stifel Nicolaus	Stifel Nicolaus	9/2/2021
Active Energy Group	Panmure Gordon/ Allenby	Allenby/SP Angel	Allenby	SP Angel	9/7/2021
Orcadian Energy	Shore/WH Ireland	WH Ireland	WH Ireland	WH Ireland	9/16/2021
Alba Minera Resources	ETX Capital	ETX Capital	Spark	Cairn	9/23/2021
Spectra Systems	Allenby/WH Ireland	WH Ireland	WH Ireland	WH Ireland	9/27/2021
AFC Energy	Peel Hunt/MC Peat/ Zeus	WH Ireland/ MC Peat/Zeus	Peel Hunt	WH Ireland	9/28/2021
Gateley	Liberum	finnCap/Singer	Liberum	finnCap	9/28/2021
ASOS	Berenberg/JPMorgan Cazenove/Numis	JPMorgan Cazenove/Numis	JPMorgan Cazenove	JPMorgan Cazenove	9/30/2021

City Pub Group sales continue to recover after Covid-19 lockdown

Pubs operator *www.citypubcompany.com*

Considering that pubs were not allowed to open in the first quarter, **City Pub Group** has done well to be on course to make a small profit in 2021. In fact, if the recovery meets expectations, the profit in 2022 could be the highest the group has ever made.

Even when pubs were allowed to open it was not commercially viable to open all the group's sites. Those with outside space were allowed to trade in the middle of April, while the opening of others was delayed.

Interim revenues fell from £12.1m to £8.9m, while the operating loss was reduced to £1.57m, after the benefit of a £1m insurance claim. Like-for-like sales are improving, although London is taking longer to recovery because of the reduction in commuters. Since 17 May, sales have been more than 90% of 2019 levels. Occupancy levels on the group's 200 plus letting rooms are much higher than in 2019.

City Pub owns 50 sites

Management has taken advantage of the closure of the pubs to streamline its supply chain in order to improve margins. This will also help to offset any cost inflation. Communications between the head office and individual pubs is also being improved. There are also negotiations to reduce rents on some leases.

City Pub Group owns 50 pubs and development sites, most of which are freehold. NAV is £93.1m. Net debt was £15m at the end of June and there are £15m of unused bank facilities. The latest acquisition is the Cliftonville Hotel in Cromer, Norfolk, for £1.7m. Management wants to grow to more than 100 pubs.

A 2022 pre-tax profit of £8m could be achieved - if there are no more lockdowns or other impediments to trading. Based on consensus forecasts, that would put the shares on 20 times prospective 2022 earnings. City Pub Group could also restart dividend payments next year.

CITY PUB GROUP (CPC)			120.5p
12 MONTH CHANGE %	+100.8	MARKET CAP £M	125.2

Demand returns for Escape Hunt immersive experiences

Escape rooms operator *www.escapehunt.com*

There was a rapid return of demand for immersive escape rooms operator **Escape Hunt** when lockdown was eased, and the escape room sites reopened on 17 May. New sites opened in Kingston-upon-Thames and Watford when lockdown ended and there are plans for more. Trading has remained strong since the end of June, with like-for-like sales 19% ahead of the same period in 2019. The like-for-like growth has risen to 31% in the nine weeks to 5 September.

Interim revenues were £1.18m, through a combination of £151,000 from downloadable and play at home games, a contribution from Dubai and the £936,000 generated from six weeks of trading in the UK. During the period the master franchises were acquired in France and Belgium. The interim loss was £2.34m.

There are 17 owner operated sites in the UK and three overseas. A lease has been signed for a site in Milton Keynes and one is planned at Lakeside. Other sites are in the pipeline, including one in central London. Sites are maturing faster than in the past. There are plans to grow the franchise operation in the US but travel restrictions have held back progress.

There was £1.4m raised at 17.5p a share in January and the share price has almost doubled since then. There was £2.4m in the bank at the end of June. All the owned sites are currently profitable before central overheads.

ESCAPE HUNT (ESC)			33p
12 MONTH CHANGE %	+325.8	MARKET CAP £M	29.2

SourceBio International progress scuppered by changes to travel testing requirements

Pathology and diagnostic services *www.sourcebiointernational.com*

SOURCEBIO INTERNATIONAL (SBI)			140p
12 MONTH CHANGE %	N/A	MARKET CAP £M	103.9

SourceBio International has grown revenues sharply on the back of its move into the Covid-19 testing market. This proved a good hedge for its businesses involved in pathology and healthcare diagnostics, which were hit be the lack of elective surgery and other hospital activity. However, the ending of the requirement for inbound fully vaccinated people to take PCR tests on days two and eight will hamper volumes and reduce utilisation levels at the UK laboratory. SourceBio is trying to build up lateral flow test business and it is expanding into the US market.

The daily average number of PCR tests was less than 4,000 in June but the daily number has reached more than 19,000 during September. That will fall significantly when the regulations change in October.

Covid-19 testing demand will fall

In the first half of 2021, revenues jumped from £10.6m to £37.3m, which includes £28.4m from Covid-19 testing, up from £2.2m. Genomics and stability storage activities grew revenues, while the reduced non-Covid hospital activity meant that healthcare diagnostics revenues fell. Group operating profit soared from £803,000 to £10m.

The 2021 figures were always going to be unusually high and a drop off in Covid-19 testing demand was assumed for 2022. The 2021 pre-tax profit forecast has been cut from £55.3m to around £19m, while the 2022 figure has been reduced from £14m to around £6.5m. This shows the operational gearing of the Covid-19 testing business.

Cash generation will be much lower than previously expected, but SourceBio should have net cash of more than £20m at the end of 2021. This can be used to make earnings-enhancing acquisitions for the core business. The focus is cellular pathology and precision medicine businesses in the UK, Ireland and the US.

Continued improvement of Judges Scientific order books

Scientific instruments *www.judges.uk.com*

JUDGES SCIENTIFIC (JDG)			7610p
12 MONTH CHANGE %	+56.6	MARKET CAP £M	480.6

Strong order intake has helped **Judges Scientific** bounce back this year. The scientific instruments manufacturer did not get the full benefit of these orders in the first half, and they will show though in the second half, which has prompted profit forecast upgrades.

In the six months to June 2021, revenues increased from £37.4m to £43m – the 2019 figure was £40.2m. Underlying pre-tax profit improved from £6.4m to £8.5m, which is slightly higher than 2019 interim figure.

To put this in perspective, there have been three acquisitions since the first half of 2019, but it does show a strong recovery. UK and European demand returned earlier than in North America. There have been shipping delays in China.

Orders from universities have recovered earlier than those from corporates, where capital investment was kept on a tight rein for longer. The order book was equivalent to 17.6 weeks of business at the end of June and that increased to 20.1 weeks by the end of August. Judges is not immune to difficulties in getting hold of some components, but this situation is being managed.

Net debt, excluding leases, is £1.7m and there should be net cash by the end of the year. During May, a new five-year £60m bank facility was secured. This leaves plenty of scope for more acquisitions.

Full-year pre-tax profit could improve from £13.7m to £16.8m. The interim dividend is 15% higher at 19p a share and a similar increase in the final would mean a total dividend for 2021 of 63.25p a share.

Low online penetration in building products market is opportunity for CMO Group

Online builders' merchant *www.cmogroup.com*

CMO was founded in 2008 and the core business was acquired in a management buyout in 2017. It is the UK's largest online retailer of building materials and offers a wide range of products via websites selling specific products, such as roofing, drainage and insulation. The share price has risen by 50% since flotation on 8 July. CMO announced the acquisition of a plumbing business alongside its interims.

Plumbing was not an area of the building materials market where CMO previously had a presence. The plumbing market is worth £795m a year. JTM Plumbing will cost up to £5.7m and made a pre-tax profit of £600,000 on revenues of £5.9m in 2019-20. The online presence will be relaunched as plumbingsuperstore.co.uk in a few months.

Organic growth was 20%

In the six months to June 2021, revenues rose by 63% to £38.2m, or like-for-like growth of 27% excluding Total Tiles, which was acquired at the end of 2020. An interim loss of £651,000 in the first half of 2020 was turned into a pre-tax profit of £522,000. The £23.8m raised after expenses in the flotation has been used to reduce debt and that will cut interest charges in the second half. Like-for-like growth in revenues remains strong.

Prior to the plumbing acquisition, full-year revenues were forecast to rise by 18% to £79m. CMO made a loss in 2020, but it should be profitable for the full year – although forecast profit would still probably value CMO at more than 90 times earnings. Profit should rise faster than revenues, but the shares are trading at more than 40 times forecast 2022 earnings. The relatively low online share of the building materials market means there is potential for enormous growth. However, the current share price already assumes significant profit growth.

CMO GROUP (CMO)			198p
12 MONTH CHANGE %	N/A	MARKET CAP £M	142.5

Lords Group Trading seeks consolidation opportunities

Builders' merchant *www.lordsgrouptradingplc.co.uk*

Builders' merchant **Lords Group Trading** wants to increase revenues to £500m a year by 2024. That will require acquisitions and that is why it joined AIM on 20 July and raised £27.7m after expenses at 95p a share. The plan is for three to four acquisitions each year – three have been made so far this year.

The customer base is local tradesmen, hardware stores, plumbing merchants and building companies. Plumbing and heating accounts for nearly two-thirds of revenues. Customer service and product knowledge is important. Demand for building materials continues to be strong despite the price inflation of some products, such as timber.

Interim revenues increased from £124m to £179m, and the group moved from a small loss to a pre-tax profit of £4.5m. Digital sales increased by 42% in the first half and this online expertise can be used to enhance the revenues of acquisitions where online business is not as advanced.

Cash is being generated and that will help to finance acquisitions. Outside of the top four builders' merchants this is a highly fragmented market and Lords Group Trading already has expertise in consolidating the sector at sensible valuations.

Management eventually plans to pay dividends that are covered three times by earnings. The interim dividend is 0.63p a share and the total dividend for 2021 is expected to be 1.6p a share. That would be covered four times by forecast 2021 earnings. Lords Group Trading shares have a prospective 2021 multiple of 21, falling to 18 next year.

LORDS GROUP TRADING (LORD)			136.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	215

Central Asia Metals builds its cash reserves

Mining *www.centralasiametals.com*

Dividend

Central Asia Metals has been paying dividends since 2012. That year the total dividend was 7p a share and the dividend increased in subsequent years, reaching a total of 16.5p a share in 2017. The following year the dividend fell to 14.5p a share and in 2019 there was an interim of 6.5p a share. The 2020 total dividend was 14p a share.

The latest interim dividend is 8p a share and the total dividend for the year is expected to be 16p a share. The aim is pay 40% of free cash flow to shareholders.

Cash generation will cover the dividend and increase the cash pile, so Central Asia Metals can finance the acquisition of additional mining projects.

Business

Central Asia Metals is a base metals producer. It produces copper at the Kounrad operation in Kazakhstan and zinc and lead at the Sasa mine in North Macedonia. Both mines are lower cost producers than many of their peers.

At Kounrad copper is recovered from waste dumps that were built up from seven decades of open pit mining at the Kounrad mine. In May 2014, Central Asia Metals took 100% control of Kounrad. The main market for the copper cathode produced is Turkey.

In 2020, copper production was 13,855 tonnes. In the first half of 2021 there was a fall in production from 6,607 tonnes to 6,214 tonnes. The cash cost of production increased from 48 cents/lb to 57 cents/lb – partly due to lower production. Full-year copper production is expected to be in the range of 12,500 tonnes and 13,500 tonnes.

CENTRAL ASIA METALS (CAML)	
Price (p)	221.5
Market cap £m	389.9
Historical yield	6.3%
Prospective yield	7.2%

The Sasa mine was acquired in 2017 and it has reserves and resources that should last until 2037. By the end of June, zinc concentrate production was 11,292 tonnes, down from 12,203 tonnes, although sales were lower at 9,419 tonnes. Lead concentrate production fell from 15,140 tonnes to 13,807 tonnes, with a slightly smaller amount sold. Full year production guidance is between 23,000 tonnes and 25,000 tonnes of zinc concentrate and between 30,000 tonnes and 32,000 tonnes of lead concentrate.

High prices for copper, zinc and lead are behind a sharp increase in revenues, even though production volumes have been lower. The copper price has been particularly strong. Interim revenues increased from $70.8m to $100.8m and free cash flow more than doubled from $21.2m to $48.9m.

The $10m debt facility was repaid early and there should be net cash by the end of the year. There will be up to $19m spent in 2021 and 2022 on developing the Sasa mine. That should be covered by ongoing cash generation. Management is keen to acquire another mine. They have been investigating opportunities.

A full-year pre-tax profit of $102.6m is forec st. The shares are trading on seven times forecast 2021 earnings, although the exact figure will depend on the sterling/dollar exchange rate.

Dividend news

Employee benefits services and insurance provider **Personal Group** is building up the revenues of its SaaS-based business. Transactional spend via the Hapi online platform increased from £8.5m to £13.4m and the partnership with Sage is starting to generate more significant revenues following a free pilot stage. However, group revenues fell because of the lack of face-to-face insurance sales, and, although they have restarted, it will take time to return to growth. Pre-tax profit fell from £4.2m to £3.2m. Personal has moved from four to two dividend payments each year. The interim dividend is 5.3p a share and the total for the year is expected to be 9.6p a share – down from 18.4p a share in 2020.

Engineer **Avingtrans** has returned to paying dividends following the sale of Peter Brotherhood, which meant that the net cash was £23.3m at the end of May 2021. The 4p a share dividend is higher than the total dividend of 3.8p a share paid in 2018-19. Revenues from continuing operations were 7% ahead at £98.5m, with strong demand from the nuclear sector. Underlying pre-tax profit nearly trebled to £7.6m. The Magnetica MRI business continues to develop its helium-free MRI technology but there will not be a significant payback on that investment in the short term.

Cosmetics supplier **Warpaint London** is benefiting from the roll out of products in Tesco stores and next year there will be a further boost from a Boots stores roll out. Interim revenues rose from £13.5m to £18.4m even though there was a decision to reduce close out activity. There was growth in the UK and internationally. Profit quadrupled to £1.6m and it was higher than the 2019 figure. The interim dividend is 2.5p a share. The total dividend for 2020 was 3p a share and it could increase to 5.6p a share.

Expert view: Registrars

The role of the receiving agent

By Samiul Siddique

Samiul Siddique, Head of Capital Markets at Avenir Registrars, looks at the role played by a receiving agent both during an IPO and beyond.

Avenir offers a fully comprehensive suite of receiving agent services. These critical functions include working with issuers to ensure the initial enablement of a security in CREST, delivering share certificates at IPO, distributing dividend or coupon payments and managing voting processes at general meetings. Many of these tasks can be readily outsourced, easing the burdens faced by company secretaries but ultimately a receiving agent should always help ensure that an issuer adheres to the necessary conditions of maintaining its listing throughout the security's entire lifecycle.

Pre IPO

Before a security reaches market, the receiving agent should be assisting with the production of the share certificates, developing the capitalisation table, which shows the ownership of the shares, and liaising with the Central Securities Depository, i.e. Euroclear UK & Ireland, to arrange admission of the security to the CREST system.

These actions cascade into IPO distribution (be that an intermediaries offering/placing or full public offering). This ensures that securities are tradable at the time expected by investors, helping provide a high quality, liquid market from the outset.

Post IPO & ongoing requirements

On the day of the listing's market debut, securities need to be available for settlement in the CREST system. As secondary market transactions take place, securities record keeping will commence for both certificated and uncertificated holders alike, with these - sometimes cumbersome - processes being supported by registrars.

> This ensures that securities are tradable at the time expected

Pre-corporate action announcement

Even the most routine of corporate actions can prove burdensome for issuers to deal with. Ahead of any such action taking place and regardless of its complexity, the receiving agent will consult with the issuer over the event timeline and ensure that all relevant documentation is prepared and distributed as necessary. Again, this ensures that listing rules are adhered to and that processes can be completed within the necessary timescales.

Meetings & proxy voting

When it comes to physical meetings, the receiving agent can ensure that details of the event are added to the CREST system. They can also take responsibility for collecting votes – both physical and proxy – for annual, ordinary, and extraordinary general meetings alike.

Post corporate action announcement

In the wake of any corporate action, a series of processes are necessary to ensure the outcome is correctly communicated to all involved parties. A receiving agent can take responsibility for these steps, again ensuring the highest levels of transparency with future and prospective investors alike.
These processes include liaising with Euroclear UK & Ireland to get the corporate action added to the CREST system, allowing any uncertificated holders to electronically participate in the voting process; managing shareholder enquiries in relation to the event itself; or managing any voting process relating to corporate actions.
For voluntary and mandatory with options corporate actions, we collect holder responses and ensure that holders are credited according to their elected preference.
The receiving agent will also keep the issuer fully appraised of the take-up level of corporate actions.

At/Post corporate action payment date

Again, the receiving agent can take on the burden of managing any investor enquiries in relation to the corporate action, whilst after the event, they will also calculate the relevant proceeds and distribute these to the beneficiaries as necessary. That can take place either directly within the CREST system for those with electronic holdings or outwith for any certificated holdings.

SAMIUL SIDDIQUE, Head of Capital Markets at Avenir Registrars (www.avenir-registrars.co.uk).

Grant Thornton fined and reprimanded for auditing role at Patisserie Holdings

The executive counsel of the Financial Reporting Council has published its final decision notice concerning the role of auditor Grant Thornton in the collapse of Patisserie Valerie owner Patisserie Holdings, where entrepreneur Luke Johnson was chairman. It has been severely reprimanded and fined. There is still potential litigation against Grant Thornton for its handling of the Patisserie Holdings audits.

Patisserie Holdings, the owner of the Patisserie Valerie café chain, started out as an AIM favourite and within two years of the May 2014 flotation, via a placing at 170p a share, the share price had more than doubled. The share price peaked at 492.5p in June 2018. Four months later financial problems led to the suspension of the shares at 429.5p and the subsequent administration of the business.

As well as Patisserie Valerie, Patisserie Holdings owned Druckers – Vienna Patisserie, delicatessens operator Baker & Spice, artisan bakery Flour Power City and sandwich retailer Philpotts.

Management announced that "significant, and potentially fraudulent, accounting irregularities" had been discovered and it impacted the company's cash position. Later the company admitted that "the misstatement of its accounts was extensive, involving very significant manipulation of the balance sheet and profit and loss accounts" - involving thousands of false entries in the books. Yet, the company's auditor had not picked up on this.

Three years later the Financial Reporting Council (FRC) has announced sanctions against Grant Thornton and David Newstead, the senior statutory auditor, relating to the collapse of Patisserie Holdings. The charges relate to the audits for the 2015, 2016 and 2017 accounts. These were the three sets of accounts published when Patisserie Holdings was quoted on AIM. Grant Thornton had been auditor of the owners of the Patisserie Valerie chain for more than a decade.

> Grant Thornton was severely reprimanded and fined £2.34m by the Financial Reporting Council

The FRC points out that the failures of the auditing process adversely affected investors, suppliers, employees, pensioners and creditors.

Red flags

The FRC says that Grant Thornton and David Newstead failed in their audit planning by not requiring the testing of large receipts of revenue at year end. Revenues had been identified as an area of significant risk, but nothing was done. They should have spotted the red flags relating to disproportionately large receipts and they failed to use professional scepticism.

For example, in the 2016 financial year the entire annual revenues from vouchers from a third party was supposed to have been paid in one payment at the end of the financial year. The company would sell vouchers for afternoon teas and other products via third parties, which would charge a commission. This was a major part of the company's wholesale revenues.

In 2016, 67% of wholesale revenues were listed as received at the end of September and this period accounted for more than two-fifths of revenues in 2015 and 2017.

Documents purporting to be evidence of cash transactions had misspellings, missing logos and incorrect addresses.

There is evidence that one member of the audit team did raise concerns to a more senior colleague, but it is unclear how the concerns were handled. They were not reported to David Newstead.

Cash

In 2015, cash was £6.1m, rising to £13.3m by the 2016 year end and £21.5m by the 2017 year end. Grant Thornton received information from Patisserie Holdings and its banks. There were many inconsistencies in the information.

Reconciling items were a significant part of the accounts. They were £3m in 2015, £17.3m in 2016 and £11.1m in 2017. This involved recognising hundreds of reconciling items in the cash balance that were cash receipts recorded and received at the bank after the year end.

There was a failure to investigate

the dates of certain transactions and whether they should be counted as cash or reclassified as debtors, which would have reduced the cash figure.

There were also errors in the categorisation of fixed assets, with motor vehicles classed as plant, equipment, fixtures and fittings. The FRC says that there were multiple serious breaches of auditing standards over the relevant period, and many were repeated in each year.

> Grant Thornton is being sued for £200m due to its handling of the auditing of Patisserie Holdings

Each of the audits failed in the objective of providing assurance that the accounts were free of material misstatement.

Sanctions

There were 32 adverse findings in the report. The FRC says that the breaches of auditing standards undermined the confidence in financial statements, however, it believes that they "were not dishonest, deliberate or reckless".

The FRC has declared that the audits did not satisfy the relevant requirements and it has issued a severe reprimand to Grant Thornton. A financial sanction of £4m was issued. Aggravating and mitigating factors, including "an exceptional level of co-operation" led to a 10% reduction. A further reduction of 35% relates to admissions and early disposal. That leaves a fine of £2.34m.

There are also non-financial sanctions. Grant Thornton will have to report to the FRC's executive counsel and executive director of supervision for a period of three years. At the end of this period the auditor is expected to come up with a root cause analysis of the reasons for the breaches of standards.

Grant Thornton also has to review its own culture and propose actions. It will then report on the impact of those actions each year. The auditor will also undertake additional monitoring of bank and cash work on a selection of audits. A summary of the outcomes and remedial actions will be reported to the FRC each year.

David Newstead was given a severe reprimand and fined £150,000, but similar reductions to those given to Grant Thornton mean that the amount payable is £87,750. He is prohibited from carrying out statutory audits for three years.

Litigation

This is not the end of the Patisserie Holdings affair for Grant Thornton. Earlier this year, it was announced that Grant Thornton is being sued for £200m due to its handling of the auditing of Patisserie Holdings, by that company's liquidator FRP Advisory. The case is being underwritten by litigation funder Balance Legal Capital.

The liquidator and solicitors Mischon de Reya have agreed to make 25% of their time costs contingent on success. Mischon de Reya will also be entitled to a success fee. Unsecured and even preferential creditors may not get any money if the litigation is not successful.

> Creditors may not get any money if the litigation against the auditor is not successful

FRP, which was initially appointed as administrator to replace its predecessor KPMG in January 2019, claims Grant Thornton was negligent in its preparation of financial statements for the three financial years up until September 2017 and the FRC findings appear to agree with that. An earlier investigation by KPMG found that the company's financial position was overstated by £94m.

FRP says that Grant Thornton's failures meant that the Patisserie Holdings directors were not aware of the poor financial state of the company. Grant Thornton's argument is that there was a sustained and collusive fraud at Patisserie Holdings, and this included widespread deception of the auditors.

History

Grant Thornton has been fined and/or reprimanded on more than one occasion in the past few years and it has also had to settle litigation.

Last year, Grant Thornton paid £28m in damages to AssetCo for the negligent audit of the fire safety company's accounts in 2008-09 and 2009-10. In 2017, it was fined £3.5m – discounted to £2.275m – by the FRC for these failings.

In 2018, Grant Thornton was severely reprimanded for the loss of statutory independence in its audit of AIM-quoted soft drinks maker Nichols.

Last summer, the FRC fined Grant Thornton £3m (discounted to £1.95m for admissions and early disposal) for its handling of the audit of AIM-quoted convenience stores operator and drinks supplier Conviviality Retail, which like Patisserie Holdings went bust. The FRC says that there were numerous breaches of ethical standards and requirements between 2014 and 2017.

Grant Thornton seconded one of its senior employees, Natasha Toy, to help Conviviality prepare its accounts. The accountant then provided an unqualified audit opinion on the accounts.

This conflict of interest was criticised by the FRC, although it said that it did not believe that Grant Thornton lacked objectivity or that the accounts were not a true and fair view of Conviviality's financial affairs. However, under the circumstances the FRC believes that Grant Thornton should have resigned as auditor.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	28.3	16.5
Healthcare	15.9	10.8
Industrials	15.5	16.5
Technology	12	12
Financials	9.1	11.5
Energy	7.3	11.1
Basic materials	5.4	14.5
Property	3.3	2.9
Telecoms	2.1	2
Utilities	1	1.3

KEY AIM STATISTICS

TTotal number of AIM	836
Number of nominated advisers	27
Number of market makers	47
Total market cap for all AIM	£151.9bn
Total of new money raised	£126.8bn
Total raised by new issues	£47bn
Total raised by secondary issues	£79.8bn
Share turnover value (Aug 2021)	£68.3bn
Number of bargains (August 2021)	14m
Shares traded (Aug 2021)	720.1bn
Transfers to the official list	193

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1243.82	+29.6
FTSE AIM 50	6624.5	+24.5
FTSE AIM 100	6099.35	+24.6
FTSE Fledgling	13392.2	+53.6
FTSE Small Cap	7457.55	+48
FTSE All-Share	4058.96	+23.7
FTSE 100	7086.42	+20.8

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	60
£5m-£10m	97
£10m-£25m	129
£25m-£50m	131
£50m-£100m	115
£100m-£250m	171
£250m+	133

TOP 5 RISERS OVER 30 DAYS

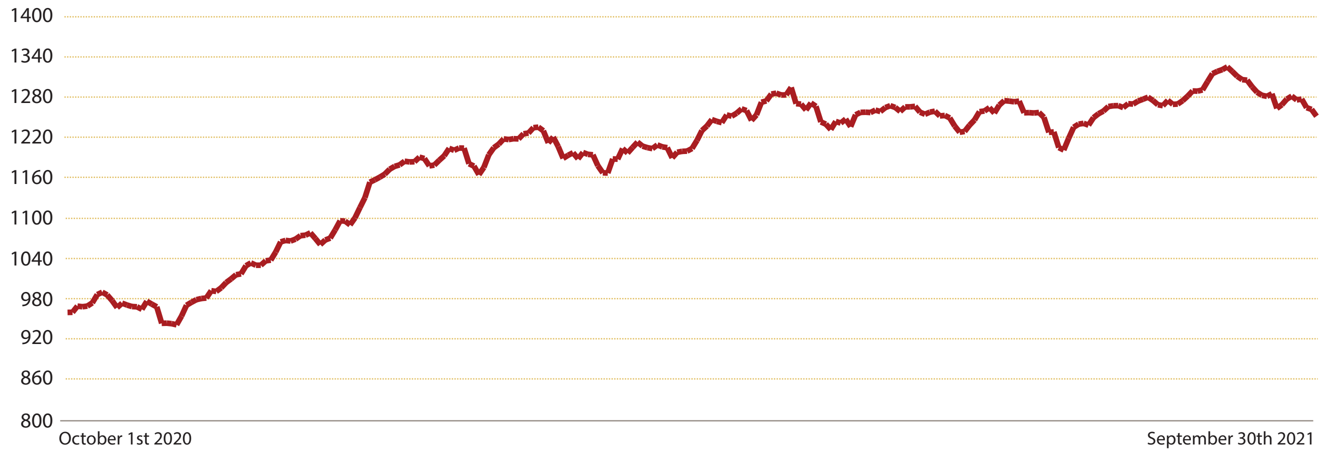
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Mobile Streams	Telecoms	0.65	+171
ValiRx	Healthcare	41	+104
Aura Energy	Mining	10.9	+89.6
Arecor Therapeutics	Healthcare	420	+81.8
Falcon Oil & Gas	Oil and gas	9.25	+79.6

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Parsley Box	Food	61	-51.8
Simec Altantis Energy	Cleantech	2.55	-51
Genedrive	Healthcare	24.875	-48.2
MyHealthChecked	Healthcare	2.14	-43.7
Nanosynth	Healthcare	0.715	-43

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st August 2021, and we cannot accept responsibility for their accuracy.

AIM Journal

AIM Journal is a monthly publication that focuses on the Alternative Investment Market (AIM) of the London Stock Exchange and the companies and advisers involved in the junior market.

Each month the publication includes information about AIM-quoted company news, changes to the brokers and nominated advisers, AIM statistics and general articles concerning AIM.

AIM Journal has been published for nearly a decade. There is no other publication of its type with a pure AIM focus and a sponsorship model, making it free to readers.

The pdf-based publication has an email database of company directors and advisers and an email with a link to the latest edition is sent out each month when the AIM Journal is published. The AIM Journal can also be accessed via http://www.hubinvest.com/AimJournalDownload.htm.

The readership via the email is predominantly a professional one. One-quarter of readers are company directors, one-fifth solicitors and accountants, one-fifth brokers and 15% PRs. The rest of the readership is made up of investors, journalists and other individuals.

AIM

The Alternative Investment Market (AIM) was launched on 19 June 1995 with ten companies that had a total market value of £82.2m at the end of the first day's trading. The total amount of money raised by new and existing companies in the remainder of 1995 was £96.5m.

More than 3,800 companies have joined AIM since then, although it should be remembered that some of these are the same companies readmitted after a reverse takeover. These companies have raised more than £112bn either when they join AIM or while they are trading on the junior market.

In 1995, there were 29,099 trades with a total value of £270.2m. These days it is unusual if there are not that many trades in a single day, although their total value tends to be less than £270m.

Companies that started out on AIM include online gaming operator GVC, healthcare properties investor Primary Health Properties, self-storage firm Big Yellow, animal genetics provider Genus, online gaming technology developer Playtech and student accommodation developer Unite Group – all of which are FTSE 250 index constituents.

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