FinnCap finnCap www.finncap.com

APRIL 2010

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

EU changes could help cash calls

There are proposals to update the EU Prospectus Directive that include allowing a company to raise up to €5m without issuing a prospectus. The current limit is €2.5m and an increase would certainly help small AIM companies to raise cash at a lower cost.

This limit is calculated over a 12-month period so if a company raised €5m at any time it would have to wait one year before it could repeat the fundraising.

A change in the number of investors that can be approached without producing a prospectus, from 100 to 250, is another proposal that could reduce the cost of raising money.

There is even a suggestion that rights issues should be totally exempt from the obligation to publish a prospectus because information is already available to existing investors. It is estimated that reducing disclosure requirements for rights issues will save almost €80m a year.

Don't get your hopes up yet, though. According to the Quoted Companies Alliance the Prospectus Directive has moved into 'Trialogue'. That apparently is a debate between the European Commission, the European Parliament's Economic and Monetary Affairs Committee and the Swedish Presidency Working Party. This will bring up more amendments. The Trialogue will then come up with the legislation on which the European parliament will vote.

VCTs receive double boost

Venture Capital Trusts have succeeded in raising more than double the funds in the last tax year than they did in the 2008-09 tax year. This comes at a time when the government says that it is looking at widening the scope of venture capital schemes and allowing AIM shares to be put into ISAs.

According to Tax Efficient Review, £311m was raised by VCTs in the last tax year. In 2008-09, VCTs raised £135m. The vast majority of this year's cash went into planned exit VCTs but there was still significant investment in VCTs more relevant to AIM companies. AIM VCTs raised £6m, but generalist and sector specialist VCTs raised more than £120m between them and some of this cash could be invested in AIM companies.

The Chancellor in his recent Budget announced plans to consult on venture capital schemes, including the Enterprise Investment Scheme and VCTs. The consultation will concentrate on potentially increasing the limits on employee numbers to 250, returning the limit on gross assets to £15m before investment (£16m after investment) and raising the annual investment limit to £5m per company. The consultation will also consider whether gross assets are the best way to judge a company's size. The government is also consulting on the inclusion of AIM shares in ISAs. This might improve the liquidity of AIM companies.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Moulton's Better Capital makes first acquisitions

Former Alchemy boss Jon Moulton's new AIM-quoted investment company Better Capital has acquired Readers Digest UK through its feeder fund BECAP Fund.

The Readers Digest UK management team will take a 35% stake in the company, which is acquiring the trade and assets of the business from its administrator, Moore Stephens. The business ran into problems with its defined benefit pension scheme and this was why it went into administration in February.

Readers Digest UK is a direct marketing business with a customer base of more than 600,000 people. The company sells books, CDs and DVDs as well as publishing a monthly magazine.

No firm figure was revealed for the cost of the acquisition but BECAP says that it will invest a total of £13m to finance the acquisition and help the business to grow. The assets acquired had a book value of £7m at the end of March 2010. They generated £85m of revenues in the year to June 2008. The operating loss was £1m.

This is the second acquisition since Better Capital raised £142.4m and joined AIM just before Christmas. In February, the BECAP Fund acquired the share capital and indebtedness of aerospace components supplier Gardner Group. This used to be the core business of L Gardner, which was quoted on AIM before going into receivership at the beginning of 2003. Derbyshire-based Gardner has six factories in the UK and one in Poland and it again fell into financial difficulties last year.

BECAP intends to inject £20m into Gardner and it has already invested £15m of this cash.

Hertford International loses control

Provident Financial has taken back control of cheque cashing business Cheque Exchange from Hertford International. Trading in the shares of the AIM-quoted pre-paid debit cards company was suspended on 5 November 2009, when the board admitted that there was a dispute with Provident over deferred consideration.

According to Provident's 2009 annual report: "Following non-payment of the first instalment of the deferred consideration, the group exercised its charge over the ordinary shares and regained control of Cheque Exchange Ltd on 1 November 2009". A deferred payment of £1.4m was due in July 2009. Another £500,000 was due to be paid in two equal instalments of £250,000 in January 2010 and January 2011 respectively.

Hertford recently sold a majority stake in its low-cost international telephone calls business but there was no additional information about the suspension. The standard six-month suspension period will end at the beginning of May.

Osmetech drops AIM in favour of Nasdaq

Molecular diagnostics group Osmetech has unveiled plans to reorganise its corporate structure and switch its quotation to Nasdaq. The plan is to change the company's domicile to the US by setting up a new holding company called GenMark Diagnostics Inc. GenMark will acquire Osmetech via a share swap of one GenMark share for every 230 Osmetech shares and then raise cash in the US.

Osmetech originally tried to set up a listing of American Depositary Shares (ADS) on Nasdaq and raise £25m in the autumn of 2008 but it proved too difficult under the market conditions at the time. Osmetech's operations are all in the US and more than half of its shares are owned by US residents so a US listing does make sense. The GenMark shares will be traded on the Nasdaq Global Market.

GenMark intends to raise $40m when it becomes Osmetech's holding company. That will be highly dilutive because Osmetech is currently capitalised at less than £30m and existing shareholders will not have pre-emptive rights. If GenMark can't raise the cash it won't be able to join Nasdaq on 25 May as planned.

Osmetech's argument is that there will be a better understanding of the business in the US because there are a number of emerging healthcare companies on Nasdaq. One rival molecular diagnostics group, Nanosphere, joined Nasdaq near to the end of 2007 and its share price has fallen sharply since then – just like the Osmetech share price. The Nanosphere share price has slumped by more than two-thirds since flotation. Nanosphere is valued at around $140m.

advisers

Metals focus pays off for Ambrian

Ambrian Capital's focus on the natural resources sector paid off during 2009. Fund raisings by mining companies and increasing metals sales boosted Ambrian's performance.

Revenues rose 82% to £17.5m, while there was a swing from a loss of £16.3m to a profit of £4m. That was mainly attributable to a £12m swing in investment gains and losses but the businesses also performed much better.

The broking division performed strongly, raising £292m of new money for clients. The average size of client increased to more than £100m as Ambrian reduced client numbers by 10 to 32 during the year. The research side is expanding coverage to larger more liquid companies in other sectors.

A turnaround in the fortunes of the market making operations was a major reason for the improved figures from this division in 2009.

Ambrian is building up its exposure to the cleantech sector. Along with Numis it is in the process of trying to raise up to €1bn for Engyco as part of its flotation on the Main Market. Engyco plans to acquire existing solar power generating assets in Spain. Those generation assets up and running by September 2008 received a fixed price for electricity generated over the initial 25-year period. If the flotation succeeds it will be a strong fee earner for Ambrian.

Metals sourcing business Ambrian Metals benefited from strong demand for copper and it supplied more than 213,000 tonnes. Ambrian does not take the stock on its books and it generates revenues based on a copper premium. Ambrian Metals is trying to get its office in Shanghai upgraded to a "Wholly Foreign Owned Enterprise" so that it can trade with a wider range of Chinese clients.

Futures and options broker Ambrian Commodities remained profitable even though trading levels were lower.

There is £37.4m of cash in the balance sheet. The dividend is unchanged at 1.5p a share and, at 31p a share, the yield is nearly 5%.

ADVISER CHANGES - MARCH 2010

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Mirada	Rivington Street/Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	01/03/2010
NewRiver Retail	Cenkos/Morgan Stanley	BofA Merrill Lynch	Cenkos	BofA Merrill Lynch	01/03/2010
Resources In Insurance Group	Rivington Street	Daniel Stewart	Allenby Capital	Daniel Stewart	01/03/2010
African Medical Investments	Matrix	Seymour Pierce	Seymour Pierce	Seymour Pierce	02/03/2010
Crimson Tide	Arbuthnot	Seymour Pierce	Arbuthnot	Seymour Pierce	02/03/2010
Sable Mining Africa	Matrix	Seymour Pierce	Seymour Pierce	Seymour Pierce	02/03/2010
Gemstones of Africa	Zimmerman	Daniel Stewart	ZAI	Daniel Stewart	03/03/2010
Nyota Minerals Ltd	Ocean Equities/Ambrian	Ambrian	Ambrian	Ambrian	04/03/2010
Pentagon Protection	Rivington Street	Seymour Pierce	Seymour Pierce	Seymour Pierce	04/03/2010
Strontium Group	Cairn	Astaire	Cairn	Astaire	04/03/2010
Norseman Gold	Seymour Pierce/Ocean Equities	Ocean Equities/Astaire	Seymour Pierce	Astaire	08/03/2010
Crawshaw Group	WH Ireland	Investec	WH Ireland	Investec	08/03/2010
Epistem Holdings	KBC Peel Hunt	Piper Jaffray	KBC Peel Hunt	Piper Jaffray	09/03/2010
Avanti Communications	Jefferies/Cenkos	Cenkos	Cenkos	Cenkos	09/03/2010
Nanoco Group	Bank of America Merrill Lynch	Zeus	Zeus	Zeus	09/03/2010
Pan Pacific Aggregates	Matrix/VSA Capital	VSA Capital	Matrix	Astaire	10/03/2010
Circle Oil	Evolution/Fox-Davies	Fox-Davies/Collins Stewart	Evolution	Collins Stewart	11/03/2010
YCO Group	Arbuthnot	Religare	Arbuthnot	WH Ireland	12/03/2010
AFC Energy	Astaire/Allenby	Astaire/Allenby	Allenby	Astaire	17/03/2010
Marechale Capital	Marechale	Strand Hanson	Smith & Williamson	Strand Hanson	17/03/2010
Tandem Group	Cairn	Astaire	Cairn	Astaire	17/03/2010
Borders & Southern	Mirabaud/Panmure Gordon/ Ocean Equities	Panmure Gordon/ Ocean Equities	Panmure Gordon	Panmure Gordon	19/03/2010
Akers Biosciences Inc	Daniel Stewart	ArbuthMicaela Carosi not	Daniel Stewart	Arbuthnot	19/03/2010
LP Hill	Ocean Equities	Falcon	Strand Hanson	Strand Hanson	22/03/2010
Murgitroyd Group	Brewin Dolphin	Execution Noble	Brewin Dolphin	Execution Noble	23/03/2010
Datatec Ltd	FinnCap/Jeffries	Jeffries/Investec	Jeffries	Jeffries	23/03/2010
Advanced Computer Software	Singer/Mirabaud	Mirabaud/Seymour Pierce	Singer	Seymour Pierce	24/03/2010
Speymill Macau Property Company	Fairfax IS	Fairfax IS	Matrix	Smith & Williamson	24/03/2010
Prime Focus London	Seymour Pierce	Charles Stanley	Seymour Pierce	Charles Stanley	25/03/2010
Infoscreen Networks	Cairn	Astaire	Cairn	Astaire	25/03/2010
Baobab Resources	Astaire	Astaire	Strand Hanson	Grant Thornton	29/03/2010
Nighthawk Energy	Matrix/Westhouse	Westhouse	Westhouse	Westhouse	30/03/2010
Sirius Petroleum	Strand Hanson	Canaccord	Strand Hanson	Canaccord	31/03/2010
Intelligent Environments	Canaccord	FinnCap	Canaccord	FinnCap	31/03/2010
JSJS Design	SVS/WH Ireland	WH Ireland	WH Ireland	WH Ireland	31/03/2010

company news

Mobile repairs set to become increasingly important to Nationwide

Crash repair centres operator *www.narsplc.com*

Nationwide Accident Repair Services remained profitable in a tough trading period for the car crash repairs sector. It plans to use its market leading position and strong balance sheet to enhance its position in its core market and build up its mobile repairs business.

Revenues fell from £179m to £171m in 2009. The biggest customer is around one-fifth of revenues. Revenues from companies or end users rather than funded by insurers are growing. Claims volumes were lower during the year. Stripping out non-recurring items, profits slumped from £7.8m to £5.4m. A higher pension charge was a major factor in the profit decline. Cost cutting only partly offset the lost turnover.

The mobile division generated £700,000 of revenues in 2009. These

operations offer off-site cosmetic, glass, electronics and air-conditioning repairs. A director has been assigned the job of growing this business, which trades under the mobile restore and motorglass brands. The number of vehicles is expected to grow to more than 200 over the next three years.

There is net cash of £8.3m in the balance sheet so Nationwide has plenty of cash to spend on growing the business. Historically, capital expenditure is modest when

NATIONWIDE ACCIDENT REPAIR SERVICES (NARS)			82.5p
12 MONTH CHANGE %	-15.4	MARKET CAP £M	35.6

compared with the cash generated from operations. The additional spending on mobile vans will increase the capex but it is unlikely to increase sharply enough to use up all the cash generated.

The total dividend is unchanged at 5p a share and it is unlikely to increase this year. This costs £2.2m a year. The pension deficit remains a problem. It has increased from £11.9m to £14.6m over the past year.

Arbuthnot expects profits to remain flat at £5.3m in 2010. This is due to the additional investment being made in expanding the business - such as increasing the size of the mobile repair fleet.

Hardening insurance rates buoy up Brightside

Insurance broker *www.brightsideplc.co.uk*

Insurance broker **Brightside Group** reported better than expected 2009 figures and trading remains strong, with more policies sold and insurance rates hardening.

Revenues jumped by one-third from £33.2m to £44.7m as van insurer eVan and life assurer eLife contributed for a full 12 months. Pre-tax profit before exceptional write-offs rose from £6.19m to £6.67m – house broker Evolution forecast £6.5m.

Brightside raised £19.1m net at 22p a share at the end of 2009. That is why net cash was £20.7m

BRIGHTSIDE GROUP (BRT)			25.5p
12 MONTH CHANGE %	+37.8	MARKET CAP £M	106.8

at the end of 2009. Management intends to use this cash to grow the premium finance, life assurance and medical reporting businesses. The latter has made a strong start to the year, with 7,000 new instructions in January and February, compared with 3,000 in the first two months of 2009.

There are still plans to acquire the eCar and eBike policy books. The option agreements last until December 2014 so there is no immediate hurry.

Brightside sold 35,000 policies in the first two months of 2010 compared with 31,000 policies in the same period of 2009. Improving insurance premiums mean that Brightside should generate more revenue from each policy. The eLife life assurance business is due to launch online during the second quarter of 2010. Evolution forecasts profits of £9.7m in 2010 but earnings per share growth will be held back by the large share issue at the end of 2009.

Cambridge purchase widens Alliance Pharma's drug portfolio

Mature drugs supplier *www.alliancepharma.co.uk*

Alliance Pharma has transformed itself from a loss-making business into a highly profitable company in the space of two years. The recent purchase of Cambridge Laboratories for up to £16.4m has added cancer drugs to the product portfolio.

Alliance specialises in mature drugs and treatments that have a solid revenue base. Some of its drugs are more than 50 years old but they still have significant revenues because their markets are too small to be commercial for generic drug companies.

Alliance paid an initial £11.7m for Cambridge plus the value of its inventory. There are further deferred payments plus additional consideration based on the renewal of the licence for ImmuCyst, an immunotherapy for non-muscle-invasive bladder cancer. ImmuCyst is

> Alliance specialises in mature drugs with a solid revenue base

the main contributor to annual core product revenues of £10.6m in 2009. Cambridge also has a toxicology product where the government holds a stockpile and replaces it every two or three years. That can generate £5m-£6m every sales cycle.

Alliance has built up a strong record of acquiring products and the Cambridge purchase is one of the largest acquisitions. The business will be integrated with Alliance and there will be cost savings.

Alliance reported a 44% increase in revenues to £31.2m in 2009 thanks to a combination of organic and

ALLIANCE PHARMA (APH)			33p
12 MONTH CHANGE %	+355.2	MARKET CAP £M	75.2

acquisitive growth. Pre-exceptional profits jumped from £2.4m to £8.6m, although that doesn't include a £2.8m write-off mainly relating to the capitalised development costs of a drug that Alliance decided not to continue developing.

Pro forma net bank debt is £26.9m. There was also £6.8m of convertible loan stock, although a small amount of this has been converted in recent weeks.

House broker Numis forecasts 2010 profits of £13.5m. Despite the impressive performance over the past year, the shares are still trading at a relatively modest rating of around eight times prospective earnings for 2010.

Praesepe progresses consolidation strategy

Adult gaming centres operator *www.praesepeplc.com*

Adult gaming centres operator **Praesepe** is paying £45m, including debt, for Beacon Entertainments, which operates 26 adult gaming centres and six bingo clubs. This means that Praesepe will own 76 adult gaming centres, six bingo clubs and four family entertainment centres. This means that the company has a strong position in a fragmented market.

Praesepe started out as shell company, Aldgate Capital, and made its first acquisition in July 2008. Chief executive Nick Harding built up a similar AIM-quoted business called

PRAESEPE (PRA)			8.5p
12 MONTH CHANGE %	-22.7	MARKET CAP £M	25.5

Talarius before it was taken over in 2007. Adult gaming centres offer low stake high volume betting and gaming, normally in the form of slot machines. The doubling of prizes in these machines in 2009 has improved prospects.

The Beacon acquisition should more than double the revenues of Praesepe, although it is difficult to assess because Praesepe has not reported a full 12-month period for any of its previous acquisitions. Praesepe made a small loss in the 28 weeks to 12 July 2009.

Beacon generated operating profits before depreciation of £5.4m on revenues of £35.9m in the 56 weeks to April 2009. Praesepe expects to secure £2m of cost savings by the end of 2011.

Praesepe is taking on £40m of debt from Beacon and the facility is being extended for five years. The other £5m of the purchase cost is being financed by a share issue at 7.5p a share.

company news

Energetix launches Kingston boiler

Energy saving products developer *www.energetixgroup.com*

Energetix's subsidiary Genlec has unveiled its Kingston micro-CHP boiler. Genlec is launching the boiler to take advantage of the new UK cleantech feed-in tariffs and revenues could be generated from field trials of the Kingston by the end of this year.

The original idea was that Genlec would produce the internal component of the boiler and a partner would produce the whole boiler using that component. Genlec has been frustrated by the slow progress made with its partners. By taking control of the Kingston project Genlec has been able to get to the product stage in a relatively short period of time. CE approval is expected by September.

Genlec is looking to generate some form of commercial agreement with a utility before the end of 2010. Genlec is still developing products with its partners although progress remains slow.

AIM-quoted subsidiary VPhase has sold more than 400 units of its VX1 voltage optimisation product. VX1's trial with Scottish & Southern Energy has been delayed but the company has already won an initial contract with a social housing organisation. House broker Ambrian believes that the trial could be completed by the third quarter. If SSE is happy then it could start to roll out the VX1.

National Grid is trialling Pnu Power's back-up power technology in the UK and US. National Grid

ENERGETIX (EGX)			30.5p
12 MONTH CHANGE %	+7	MARKET CAP £M	16.8

alone could be a significant customer for Pnu Power and it has also supplied units to Telecom Italia and Eskom among others. Although Pnu Power is lower profile than the other two subsidiaries it could be just as significant.

Energetix's revenues grew from £32,000 to £255,000, with contributions coming from Genlec, back-up power technology business Pnu Power and VPhase.

Energetix had net cash of £3.97m at the end of 2009. Most of the company's debt of £1.69m relates to a preference debt which becomes payable when Genlec reaches certain milestones. VPhase has £1.69m of the group's cash. The group cash outflow from operations increased from £2.93m to £3.8m in 2009. There is enough cash for Energetix's immediate needs.

Nanoco lights up investor interest

Quantum dots technology developer *www.nanotechnologies.com*

Nanoco has already made strong progress since it reversed into shell company Evolutec at the beginning of May 2009. Nanoco is generating its initial revenues from its quantum dot technology in the LED lighting sector. The initial contracts are for LCD TV backlighting.

At this stage revenues are generally generated via milestone payments or from supplying materials. Revenues slipped from £1.78m to £1.6m in the six months to January 2010 due to the timing

NANOCO (NANO)			96.5p
12 MONTH CHANGE %	+289.9	MARKET CAP £M	177.6

of these payments.

There is £5m of cash in the bank while the cash outflow from the business remains modest. There was a total outflow of £1.5m in the first half. A $2m milestone payment from a Japanese client was triggered in March. That will help to cover costs in the second half.

Scaling-up manufacturing of quantum dots will be one of the big challenges for Nanoco. Nanoco has ordered equipment to increase production to 25 kilos by the end of this year. Mass production of 1,000 kilos plus is planned for 2013.

Nanoco held a beauty parade to choose a new broker and appointed Bank of America Merrill Lynch. The fact that such a high profile broker was interested shows that Nanoco is thought to have the potential to grow strongly over the coming years.

Group NBT increases interim faster than profits

Domain name management services *www.groupnbt.com*

Dividend

Internet domain name management services provider **Group NBT** increased its interim dividend by 40% to 1.4p a share. This was a faster rate of growth than profits and the dividend remains well covered. Group NBT paid a total dividend of 3p a share for the year to June 2009 when house broker Numis's underlying earnings per share figure was 20.2p.

Analysts forecast a total dividend of 3.8p a share for 2009-10. That represents slower growth in the final dividend so there is scope for that figure to be surpassed.

There are no worries about being able to afford these dividends. The business is strongly cash generative. Net cash was £8.83m at the end of 2009 and it is expected to exceed £10m by June.

Business

Group NBT grew its underlying profits by nearly one-third to £3.22m in the six months to December 2009. Revenues grew 13% to £21.7m – on a constant currency basis the growth was 8%. Corporate brand services grew fastest and the company is European market leader in the sector. Numis points out that one of the main drivers of the growth in the first half was buying existing domain names for clients. Group NBT takes a commission on these deals and this business can be volatile.

Brand protection services are currently a small part of the corporate brand services division but there is scope for faster growth. This business has added 34 customers so far this year. They are trying to protect themselves from counterfeiting by stopping the goods being sold online rather than trying to stop the manufacturers. The UK market alone is expected to grow by 30% to £60m this year.

Managed hosting and the Ascio Partner business also grew but the basic online operations declined in line with the company's strategy to concentrate on higher margin business.

New customers are being signed at a slower rate than in the past but Group NBT can continue to grow organically. It is also keen to make acquisitions. Europe and Asia are likely to be the main focus for these acquisitions. The US is also an area where Group NBT would like to expand but it has not identified anything at the moment.

Numis forecasts an improvement in underlying profit from £6.7m to £7.9m in the year to June 2010, rising to £8.9m in 2010-11.

GROUP NBT	(NBT)
Price	305.5p
Market cap £m	78.9
Historical yield	1%
Prospective yield	1.2%

Dividend news

Norcon is paying a 2009 dividend costing \$3.86m, up from \$3.22m in 2008. The telecoms project manager pays out 50% of its post-tax earnings. The dividend of 8.5 cents a share, up from 7.8 cents a share, will be paid during July. The movement of the pound against the dollar means that the increase in pence per share is greater. There was net cash of \$505,000 at the end of 2009 and cash generation is strong. Following the results Norcon raised £4.5m gross to finance further organic growth. It will also improve liquidity in the shares. Some of the shares were issued ex-dividend at 70p a share, while others, including the right to the dividend, were issued at 75p a share. FinnCap forecasts pre-tax profits of \$12.2m in 2010, up from \$10.7m in 2009. The Middle East and Asia are the main markets for the company's services but it believes that the roll-out of 4G in Scandinavia will provide additional opportunities.

Factoring and invoice discounting provider **Ultimate Finance** has also decided to distribute 50% of its post-tax profits as dividend. Ultimate paid its first ever dividend last November. That was 0.25p a share and the maiden interim dividend is 0.3p a share. with more to come later in the year. Chief executive Richard Pepler says that the company does not need to retain the cash and it makes sense to distribute it to shareholders. Some institutions were keen for Ultimate to have a dividend policy. Pre-tax profit increased 36% to £191,000 in the six months to December 2009. Revenues grew from £2.23m to £2.85m.

Surgical Innovations intends to reorganise its share capital so it can pay a dividend in the future. The surgical instruments manufacturer and supplier has no immediate intention to pay a dividend but recognises that doing so would reward the loyalty of its private investors.

expert views

Expert view: The broker

Datacentre strategy pays off for iomart

By ANDREW DARLEY

Three years ago iomart acquired its datacentre portfolio. The assets acquired redirected the strategy of the company, which had started out as an ISP and had subsequently transformed into a hosting and online directory company through its Easyspace and UfindUs brands. Subsequent to the datacentre portfolio acquisition, UfindUs was sold to BT for £20m in 2008. The remaining businesses, branded iomart, Easyspace and Netintelligence, are dedicated to hosting and datacentre services.

iomart has made it clear that it is positioning itself as a service provider, not just a datacentre operator

Change of profile

The revenue profile has changed, from high volume low ticket value recurring revenue from large amounts of customers in a reducing price environment with high customer churn and slow growth, to contracted recurring revenue from larger contracts, with low churn and high growth in a positive pricing environment, and high levels of operational gearing.

Iomart owns five datacentres in England and Scotland, totalling 50,000 sq ft. Datacentres are a scarce resource. with suitable property and power restricted in the UK. Managed services provision in the datacentre pricing environment remains persistently positive as more companies outsource web presence or offsite processing capabilities, and hosted services involving outsourced specialist IT functions become the norm.

Reputationally, a datacentre has risks, exaggerated when occupancy is low due to the perceived "guinea pig" risk. "The UK's leading telecom operator", presumably BT, took a five-year contract in February 2008 for space in the London datacentre for £1.35m per annum. Nevertheless the sense of confidence has been slow to develop. The Cimex support contract announced in September 2009 added further credibility, Cimex being an outsourcing aggregator for UK government agencies. Growth from contract wins was anticipated in forecasts, but the prestige of the customers can only help.

Datacentres are a scarce resource with suitable property and power restricted in the UK

Iomart's brands for managed services and managed hosting cover the pyramid from enterprise to SMEs.

Coming of age

Iomart's datacentre portfolio is coming of age: we believe occupancy rates by rack are likely to have exceeded 30% and the datacentre division reported achieving positive recurring EBITDA at the end of 2009. Operational gearing should now begin to materially benefit the income statement.

Operational gearing on exploitation of technical property is high, and managed services can generate more than 10x the revenue per square foot of co-location. The November interims release and March contract wins update show steady progress from the slower wins in the longer procurement cycle, higher return, managed service contracts. Rack-rate development indicates upside and we are at the top of a narrow March 2010 EBITDA range, which the company recently reported it has outperformed by more than 10%. Customer buying decisions are slow but we expect building momentum and outperformance to be more likely than underperformance given the positive effects of the May 2009 acquisition of managed hosting services provider Rapidswitch. Rapidswitch had 1600 customers from SMEs to larger corporates, using 4,000 servers.

Iomart has made it clear that it is positioning itself as a service provider to the customer, not just a datacentre operator: the client pays for the service on the basis of normal operations, but if server capacity is tested then iomart can flex up the capacity for busy times. Service provision, as opposed to the leasing of technical property, takes iomart further up the value chain.

Management is still alert to acquisition opportunities and although there is currently no debt facility in place we understand the banks have expressed in principle support. Net cash was last reported in September at £4.5m and we expect it to be £4.2m at year end (March 2010). In turn we believe that iomart itself is a logical acquisition target.

As earnings turn positive multiples look steep in March 2011 but a 7.75x EV/EBITDA target (a 20% discount to fully listed rival Telecity) for March 2012 (December 2011 equivalent) values the stock at 60p. Momentum in results delivery is key.

ANDREW DARLEY is a research director specialising in telecoms at FinnCap.

feature

New issues slowly come back to life

There has been a steady trickle of new entrants to AIM in recent months but the new issues market is taking time to build up.

New issues activity is returning to AIM but the pace of recovery is slow. Some commentators have pointed out that the money raised by new issues in the first quarter of 2010 is lower than in the fourth quarter of 2009 but there still appears to be an underlying improving trend.

There were no flotations in January this year so the eight companies joined AIM in a two-month period. March is normally a strong month for new issues but that was not the case in 2010. However, there were no flotations in March 2009 so the four companies that joined in March 2010 amount to a year on year improvement.

Stripping out reverse takeovers, reintroductions and transfers from the Main Market, there were 15 new entrants to AIM in 2009. In the first quarter of 2010, there have been eight new companies on AIM. This compares with 10 companies in the fourth quarter of 2010.

The £192.3m raised in the first quarter of 2010 is lower than the £354.2m generated in the fourth quarter of 2009 and the £222.9m in the second quarter of 2009. Each of the quarters is dominated by a limited number of companies. Max Property accounts for all but £2.9m of the money raised in the second quarter of 2009 and three companies account for all but £22m of the cash raised in the fourth quarter.

This is still relatively true this year, with investment company Sherborne Investors raising £105m. However, there are three companies that have raised between £20m and £28m each. There was one company – New RiverRetail – that raised between £10m and £80m in 2009. New RiverRetail is a retail property investor that originally wanted to raise more than £200m and the directors invested a significant chunk of the placing cash. There were 14 different brokers and 14 different nominated advisers to the 2009 new entrants. Cenkos floated both shell companies Marwyn Capital I and Marwyn Capital II. So far in 2010, each new company has had a different adviser.

One noticeable difference between the companies joining in 2010 compared with the fourth quarter of last year is that there are more proper trading businesses that have floated. There were five investment companies and shells in the fourth quarter, plus one start-up company set up to invest in property. Contrast that with one investment company and one shell out of eight companies in the first quarter of 2010. In fact, shell company Digital Barriers made its first acquisition in the homeland security sector one month after joining AIM. This suggests that there are likely to be a greater proportion of trading companies joining AIM this year.

> There were 14 different brokers and nominated advisers to the 2009 new entrants.

Standard challenge

Simon O'Brien, a director of accountants PricewaterhouseCoopers, believes that the new Standard Listing on the Main Market may "reduce the volume of companies" coming to AIM but he admits that it is too early to be certain. O'Brien also points out that there has been a more significant recovery in Main Market new issues than there has been on AIM.

O'Brien adds: "Companies could be attracted by the Standard Listing, with its reduced regulation in addition to some of the perceived advantages of being on the Main Market, so we may well see companies go for a Standard Listing in the coming months that would previously have floated on AIM."

AIM broker Seymour Pierce predicts that at least 15% of the companies on AIM could take advantage of the new Standard Listing regime to transfer to the Main Market. Seymour Pierce believes that the majority of the biggest 300 plus companies on AIM will take advantage of the easier route to the Main Market. The broker reckons that AIM will be dominated by small companies or those that have limited liquidity.

However, there are some negatives about the Standard Listing. It can be argued that in some ways it is even more lightly regulated than AIM. There is no requirement for any equivalent of a nominated adviser and the onus will be on the companies to make sure they comply with regulations.

One of the attractions of moving to the Main Market is the opportunity to be included in an index – the FTSE All-Share index, for instance. At the moment, the companies that have a Standard Listing are not eligible for any FTSE index. That could change, of course. There will probably eventually be an index purely for Standard Listed companies.

The real key to how the Standard Listing affects AIM is how the institutions will view the former. If feature

they do not believe that it offers the requisite protections they require they may be less willing to put money into these companies.

In fact, there could be an argument that there will be fewer companies switching from the Main Market to AIM. Instead, they may move from a Premium Listing to a Standard Listing because of the less rigorous nature of the regulation. CML Microsystems has already announced this move.

The flow has already been stemmed. There were three companies that transferred from the Main Market to AIM in 2009 – AIM adviser Shore Capital, consumer electronics supplier Harvard International and investment company Eclectic Investment Company. So far in 2010, consulting engineer and property adviser WYG is the only company to make the move.

This is a far cry from previous years when there were large numbers of companies making the switch. In fact, in some years there was an average of around one Main Market company switching to AIM each week.

This was not always good for AIM. Hotel operator Real Hotel Group moved to AIM from the Main Market on 2 December 2008. BDO Stoy Hayward was appointed administrator to the main subsidiary on 21 January 2009 even though the company had to provide a working capital statement when it joined AIM. A sharp slump in revenues was blamed for the demise of the business. This type of failure provides fuel to those people who like to point out the shortcomings of AIM yet Real Hotel had been on the Main Market for decades.

There are certainly fewer candidates for the switch these days anyway. Gartmore had to gain shareholder permission to widen the remit of its FTSE Fledgling-focused trust because so many of the previously investable companies had moved to AIM.

There are likely to be a greater proportion of trading companies joining AIM this year.

More to come

There were three more new entrants to AIM on 1 April – two mining companies and a motor dealer. There are other companies on the blocks and, although there is still not a flood of new companies, there should be a steady flow of new entrants over the next few months.

While advisers may pine for the days when there were dozens of new issues in a month this is unlikely to return, for the foreseeable future at least. That is not really a bad thing. When there are too many new entrants the quality of the companies can dip dramatically.

A growing number of new issues rather than a flood would be a good thing for AIM.

NEW ISSUE MONEY RAISED IN EACH QUARTER

QUARTER	AMOUNT RAISED (£M)	NUMBER OF COMPANIES
2009 Q1	0	1
2009 Q2	222.9	2
2009 Q3	34.8	2
2009 Q4	354.2	10
2010 Q1	192.3	8

AIM NEW ISSUE PERFORMANCE IN 2009

COMPANY	ACTIVITY	ADMISSION DATE	ISSUE TYPE	% CHANGE	MONEY RAISED (£M)
Asian Plantations Ltd	Plantations	30/11/2009	P	102.7	5.26
Marwyn Capital I	Shell	24/12/2009	P	65	6.26
China Private Equity Inv	Financials	19/10/2009	P	41.7	3.125
London Mining	Mining	06/11/2009	I	26.3	0
Marwyn Capital II	Shell	24/12/2009	P	25	4.9
Max Property Group	Property	27/05/2009	P	17.5	220
Avia Health Informatics	Software	16/11/2009	PT/P	13.3	1.19
Yujin International Ltd	Marine transport	10/02/2009	I	12.1	0
NewRiver Retail Ltd	Property	01/09/2009	P	12	25
Better Capital Ltd	Financials	17/12/2009	P	9.25	142.4
Burford Capital Ltd	Financials	21/10/2009	P	4.5	80
M Winkworth	Property	12/11/2009	P	0.6	1.1
Critical Information Group	Shell	25/06/2009	P	-1.5	2.905
Indian Energy Ltd	Wind power	02/09/2009	P	-11	9.75
LXB Retail Properties	Property	23/10/2009	P	-13	110

Note: % change based on share price at 1 April 2010.

Key: I - Introduction P - Placing PT - Plus transfer

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	25.7	23.8
Oil & gas	18.6	9.3
Basic materials	17	12.6
Industrials	11.5	18.6
Consumer services	7.3	12.1
Technology	7.3	9.8
Consumer goods	4.4	5.3
Health care	4	5.7
Utilities	2.6	1.1
Telecoms	1.6	1.7

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	703.11	+70.4
FTSE AIM 50	2702.36	+50.0
FTSE AIM 100	3244.39	+68.04
FTSE Fledgling	4136.66	+67.3
FTSE Small Cap	2887.74	+64.3
FTSE All-Share	2910.19	+46.7
FTSE 100	5679.64	+44.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	327
£5m-£10m	194
£10m-£25m	286
£25m-£50m	194
£50m-£100m	117
£100m-£250m	102
£250m+	48

KEY AIM STATISTICS

Total number of AIM companies	1,268
Number of nominated advisers	62
Number of market makers	47
Total market cap for all AIM	£58.34bn
Total of new money raised	£66.14bn
Total raised by new issues	£33.11bn
Total raised by secondary issues	£33.04bn
Share turnover value (2010)	£5.05bn
Number of bargains (2010)	565,127
Shares traded (2010)	33.17bn
Transfers to the official list	136

TOP 5 RISERS OVER 30 DAYS

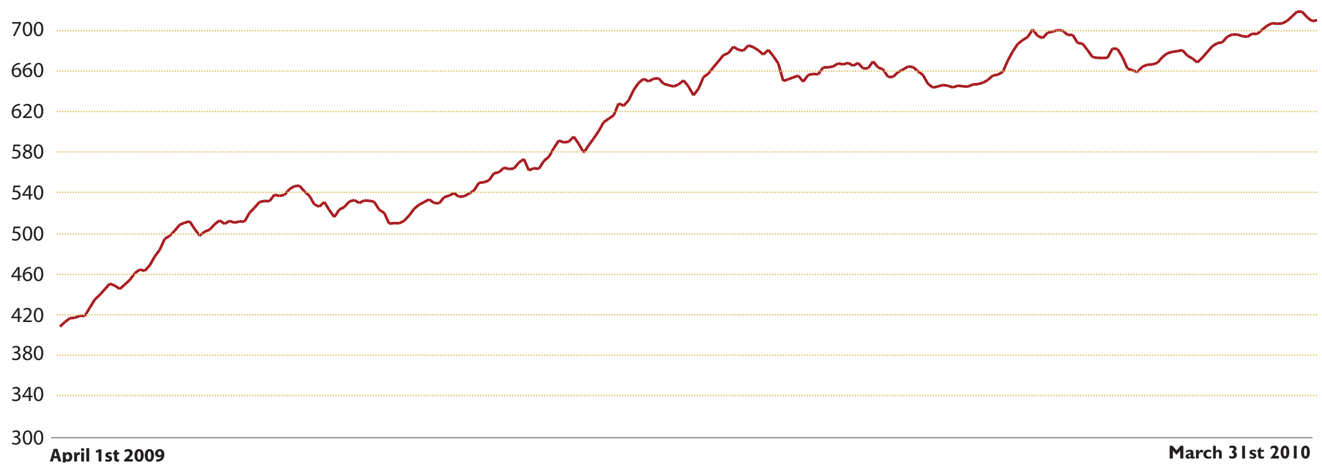
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Eatonfield Group	Property	2.58	+134.1
Scientific Data Imaging	Technology	27	+100.0
Altona Energy	Resources	16.5	+91.3
Sabien Technology	Cleantech	54.5	+91.2
GoldStone Resources	Mining	3.27	+87.1

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Timestrip	Industrials	0.3	-78.6
Plus Markets Group	Financials	1.875	-57.1
Desire Petroleum	Oil and gas	50.5	-52.4
Davenham	Financials	3	-52
Niche Group	Financials	0.28	-50

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on March 31 2010, and we cannot accept responsibility for their accuracy

sponsors

finnCap

FinnCap is a client focused institutional broker and corporate advisor, 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 a top ten AIM adviser and broker. It works with over 65 corporate clients and raised just over £90m for clients in 2009.The finnCap research team was shortlisted at the 2009 AIM awards. FinnCap is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In August 2007, 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 have taken a significant equity stake in the business, meaning they have made a substantial financial commitment.

About J M Finn & Co

JM Finn is an independent private client stockbroker with approximately £4bn under management as at July 2007. Its 260 staff are based in London, Bristol, Leeds and Suffolk.

JM Finn was founded as a partnership in 1945, incorporated as a private limited company in 2006 and has been a member of the London Stock Exchange for over 60 years.

PUBLISHED BY:	Hubinvest Ltd,	**Mobile:**	07849 669 572
ADDRESS:	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	**EDITOR:**	Andrew Hore
		DATA:	Andrew Hore
TELEPHONE:	020 8549 4253	**PRODUCTION & DESIGN:**	David Piddington

SPONSORSHIP & ADVERTISING editor@aimmicro.com
or telephone 020 8549 4253