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# AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

## BlackRock thumbs up for AIM

BlackRock Smaller Companies Trust is considering ending the restriction on AIM investment in its portfolio. Currently, the trust is not allowed to invest more than 40% of its portfolio value in AIM-quoted companies. If the required consents and regulatory approvals are received, a resolution may be put forward at the annual general meeting in June.

Vets practices owner CVS is currently the largest investment in the trust's portfolio and wound management firm Advanced Medical Solutions is also in the top ten. The rest of the top ten are fully listed companies. The best performer in February was telematics equipment and services provider Quartix.

BlackRock is considering this change at a time when the Small and Mid-Cap Investors Survey 2017 suggests that there is a positive change in attitude towards AIM. Overall, investors believe that AIM is better than it has ever been. The average size of companies continues to rise and this is taken as an indication of maturity but there is still concern about the lower end of the market.

There is little pressure on AIM companies to move to the Main Market even if they are relatively large for AIM. There are currently eight companies on AIM valued at more than £1bn, accounting for around one-sixth of the total market value of AIM.

## Bowleven reviews future

Crown Ocean Capital succeeded in removing all but one of the Bowleven directors it wanted to at last month's general meeting and it also got all of its nominees elected to the board. Following the general meeting, Bowleven announced a strategic review of its options. However, after a few days the review was terminated, apparently because Crown Ocean argued against it.

Crown Ocean is keen that the Africa-focused oil and gas company should slim down and reduce cash outflows. However, the 23.2% shareholder does not believe this is an appropriate time to sell assets or

the company and it has been critical of the Bonomo permit farm-out deal with Victoria Oil & Gas. Exploration of the 20%-owned Etinde permit, which is in shallow water off the Cameroon coast, is still at an early stage.

Billy Allan was the director that survived the motion to remove him at the general meeting but Crown Ocean requisitioned another general meeting to remove him and appoint Didier Lechartier and Julien Balkany to the board. However, the requisition was later withdrawn when Billy Allan resigned and Christopher Ashworth took over as chairman.

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## general news

# End of AIM line for Circle

Healthcare investment company Circle Holdings is being acquired at less than one-fifth of its flotation price six years ago. The 30p a share cash offer has been recommended by the board. The bid values Circle at £75.2m but the cash outlay will be £55.3m because the Tosca Penta Funds are backing the buyout vehicle and swapping their 26.75% stake for shares in the bidder.

Loss-making Circle joined AIM on 17 June 2011 when it raised £25.3m at 152p a share. The company was capitalised at £95.4m at that time. Less than one year later, a further £47.5m was raised at 70p a share and in 2014 £25m was raised at 50p a share.

Circle Holdings was designed as a vehicle to enable investment in Circle Partnership, a healthcare business co-owned by consultants

and employees. It originally owned 50.1% but the minority interests were subsequently acquired. Tosca has been an investor since April 2015 and it believes that taking the business private is more appropriate for its long-term progress. Tosca says that it will be able to secure the capital that the business needs to grow.

Circle operates independent hospitals in Bath and Reading, plus a treatment centre in Nottingham treating NHS-funded patients, where the current contract lasts until July 2018. A new joint venture with VAMED Management and Service GmbH has been set up to provide in-patient and out-patient rehabilitation services for physical and neurological conditions. In 2016, Circle made a loss of £3.1m on revenues of £133.6m.

# Hurricane discovery

Hurricane Energy says that the results of its Halifax well suggest that it is linked to the Lancaster field to the west of the Shetland Islands. The oil down to measurement was 1,846 metres, which is deeper than the 1,678 metres found at Lancaster. The porosity appears to be consistent with that at Lancaster. This is all based on preliminary analysis and the final data and third-party well reports still need to be analysed. The Lancaster competent persons' report (CPR) is due to be released in the near future but the latest data will not be included. Another, updated CPR is likely before the end of the year. The Hurricane share price is around six times the level it was at the beginning of 2016.

# DX plans Menzies deal

Parcel delivery services provider DX (Group) hopes to head off a shareholder revolt by merging with the distribution division of John Menzies. As it stands, DX would buy Menzies Distribution for £60m in cash and shares which would leave existing shareholders with 20% of the enlarged group. DX would also take on 17% of the John Menzies' defined benefit pension scheme in return for issuing up to 5% of the enlarged share capital to the pension scheme. Even if it is agreed, the deal will not be completed until the summer.

The shares issued to acquire the

business will go directly to John Menzies' shareholders pro rata to their existing shareholdings.

Gatmore Capital Management requisitioned a general meeting at DX in order to remove chairman Bob Holt and Paul Murray from the board, but this has been withdrawn. The plan was to replace them with Ron Series (as chairman), Paul Goodson, Russell Black and Lloyd Dunn. Gatmore is an activist investor that has been involved with French Connection. Gatmore's stake in the parcel delivery company rose above 3% six months ago and the stake has been built up to 11.3%.

Eight other investors, including nominees, own around 50% of DX, which will need their backing for the Menzies deal to go ahead. The acquisition would lead to a new chairman and independent non-executive directors and the chief executive and finance director will come from Menzies Distribution.

DX continues to report a loss thanks to huge write-offs, although there was an underlying pre-tax profit of £600,000 in the six months to December 2016. That is still a poor return. The merger would add annual operating profit of £24.7m and could generate cost savings of between £8m and £12m.



## advisers

# Panmure Gordon goes private

Former Barclays boss Bob Diamond is backing a bid for broker Panmure Gordon. The 100p a share cash bid values Panmure Gordon at £15.5m. When Panmure Gordon reversed into Durlacher in 2005 the combined group was valued at £63.5m.

Diamond's private equity firm Atlas Merchant Capital has teamed up with existing major Panmure Gordon shareholder QInvest, which will exchange its 43.3% stake in the broker for the same stake in the buyout vehicle, Ellsworth. Other shareholders are also being offered the chance to swap their entire holding for a stake in the new company. Qatar-based QInvest originally invested £23m in Panmure Gordon in 2009 and it has provided a £5m financing facility.

Trading has been tough for Cenkos Securities, the number two nominated adviser on AIM, and Numis due to a lack of large deals. Cenkos reported a 43% slump in 2016 revenues to £43.7m, even though its clients were responsible for 13% of the money raised on AIM, and that meant that pre-tax profit was down by more than three-quarters to £4.4m. The full-year dividend has been cut from 14p a share to 6p a share, which is still not covered by earnings.

Despite a rise in trading commissions, Numis says that its total income will be moderately below the first half of last year but it hopes that corporate transactions will boost the second half.

■ Blackthorn Focus is hosting its latest event on the evening of 26

April. The UK Smallcap Showcase is at the offices of Edison Investment Research in High Holborn in London. This is the initial UK Smallcap Showcase.

The event starts at 4.15pm and the first company presentation will be at 4.30pm. Food and drinks will be provided after the event by Edison.

The companies presenting are emerging markets investor APQ Global Ltd, commercial property investor Palace Capital and telematics equipment and services provider Quartix. All three companies pay dividends – APQ paid its maiden dividend in February, six months after it floated.

Links for the event can be found on twitter @blackthornfocus. The next AIM Investor Focus event will be in October.

### ADVISER CHANGES - MARCH 2017

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
<b>Red Leopard Holdings</b>	Peterhouse	Northland/ Beaufort	Beaumont Cornish	Northland	28/02/17
<b>Bellzone Mining</b>	WH Ireland	HD Capital	WH Ireland	WH Ireland	01/03/17
<b>UK Oil &amp; Gas Investments</b>	Cenkos/WH Ireland	WH Ireland	WH Ireland	WH Ireland	01/03/17
<b>Tlou Energy Ltd</b>	Shore/Optiva	Optiva	Grant Thornton	Grant Thornton	02/03/17
<b>Secure Property Development &amp; Investment</b>	Hanson	Strand Hanson	Strand Hanson	Strand Hanson	02/03/17
<b>Feedback</b>	Northland/ Peterhouse/Allenby	Peterhouse/ Allenby	Allenby	Allenby	03/03/17
<b>Tiso Blackstar Group</b>	Northland	Zai	Northland	Zai	08/03/17
<b>EG Solutions</b>	N+1 Singer	finnCap	N+1 Singer	finnCap	13/03/17
<b>MTI Wireless Edge</b>	Peterhouse/Allenby	Allenby	Allenby	Allenby	13/03/17
<b>Solid State</b>	finnCap/WH Ireland	WH Ireland	WH Ireland	WH Ireland	13/03/17
<b>Stride Gaming</b>	Shore/Canaccord Genuity	Shore/Canaccord Genuity	Shore	Canaccord Genuity	13/03/17
<b>Audioboom Group</b>	Allenby	Liberum	Allenby	Liberum	21/03/17
<b>Sinclair Pharma</b>	RBC/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	27/03/17

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**company news**

## Manx Telecom focuses on global services to provide longer-term profit growth

*Telecoms*
[www.manxtelecom.com](http://www.manxtelecom.com)

**Manx Telecom** managed to edge up its 2016 revenues even though data centre revenues fell by a quarter due to the loss of a client and lower equipment sales. The growth is coming from smaller, faster-growing activities such as machine-to-machine (M2M) services. These operations do not require the level of capital investment that data centres do. The group remains highly cash generative.

In 2016, revenues were 1.5% ahead at £80.8m, while underlying pre-tax profit was flat at £16.3m. Although mobile revenues were flat there was growth in the second half. Data centre revenues slumped from £8m to £5.9m and occupancy rates fell to 70.5%. New contracts have been won and they will start to generate revenues this year.

### The focus is on investment in cloud-based services

The global solutions division increased revenues by 10% to £15.6m, with the growth coming from international traveller, M2M and strongest signal mobile services. This growth was before the deal was secured with China Unicorn to provide the fourth-largest mobile company in the world with connectivity for its CUniq UK service.

Net debt was barely changed at £52.4m. There are £10m of unutilised bank facilities. The full-year dividend was increased from 10.4p a share to 10.9p a share.

MANX TELECOM (MANX)		196p
12 MONTH CHANGE %	-8.8	MARKET CAP £M
		223.1

Manx is in the middle of a programme to reduce costs and improve service. The focus is on investment in cloud-based services rather than data centres which require significant capital expenditure. The underlying pre-tax profit is before £4.34m of costs for the transformation programme and there will be a further £5.4m this year. The cash relating to these costs will flow out in 2017. The savings will not show through until 2018.

Even though cash generation will be hampered by the one-off costs, the dividend is still likely to be increased by around 5% this year.

## Instem learning from last year's experience

*Life sciences software*
[www.instem.com](http://www.instem.com)

Expectations had already been downgraded before the announcement of 2016 results by **Instem**. The life sciences software provider was hit by delayed contracts and a poor performance by Instem Clinical, which is being turned round.

In 2016, revenues rose by 12% to £18.3m, helped by two acquisitions, while underlying pre-tax profit slumped from £2m to £700,000. Organic revenue growth was 6%. Recurring revenues account for two-thirds of total revenues which means that the business is becoming more predictable and less dependent on winning business at the end of the

INSTEM (INS)		186p
12 MONTH CHANGE %	-10.4	MARKET CAP £M
		29.3

financial year. Net cash was £4.2m at the end of 2016.

The earn-out for the Logos Technologies acquisition was reduced by £700,000 to reflect the poor performance of the clinical business and two of the former owner/managers left the company. There is a new management team at Instem Clinical and there are signs that this part of the group is recovering.

The FDA has made it mandatory for new drug submissions to use SEND and this will continue to be a growth area.

Henderson has edged up its stake to 22.6%. This year, profit is expected to bounce back to £2m even though there will be additional costs to enable Instem to exploit the opportunities available. This includes Instem University, which is an online training platform for customers.

The shares are trading on 20 times prospective 2018 earnings and that could fall to 15 the following year. The share price has declined by two-fifths since reaching its peak last year.



## company news

# Franchise Brands transformed by £28m Metro Rod acquisition

Franchises operator

[www.franchisebrands.co.uk](http://www.franchisebrands.co.uk)

**Franchise Brands** has secured its second, and by far most significant, acquisition since joining AIM last summer. Metro Rod is being acquired for £28m in cash. This is being paid for through a placing raising £20m at 67p a share and new bank facilities of up to £17m. Nigel Wray and Stephen Hemsley and other directors took up the majority of the placing shares.

Last autumn, the Barking Mad dog-sitting services franchise business was acquired for £900,000 in cash and shares. This joined the ChipsAway automotive dent and scratch repair operation and the OvenClean mobile oven cleaning service. These businesses will be dwarfed by Metro Rod, which becomes the core of the group.

Metro Rod provides drainage and plumbing services to businesses so it is a different customer base to the other, consumer-focused franchises.

## The latest fundraising is more than double the flotation price

The business was established in 1983 and was previously part of former AIM company Spice, which went bust after transferring to the Main Market and Metro Rod was part of a subsequent buyout.

In 2016, Franchise Brands increased its revenues from £4.38m to £4.87m and pre-tax profit improved from £1.12m to £1.24m. Barking Mad made a small loss for the two months it was included. A maiden dividend of 0.17p will be paid.

The share price has performed strongly. The August flotation price was 33p a share so the latest

FRANCHISE BRANDS (FRAN)		87.5p
12 MONTH CHANGE %	N/A	MARKET CAP £m
		41.9

fundraising is more than double that level and the share price has subsequently risen further. This means that the shares are no bargain at their current level even though earnings per share will increase despite the rise in the number of shares. Even based on a pro forma 2017 profit of £3.34m, the shares are trading on around 25 times prospective earnings. In reality, the underlying pre-tax profit for 2017 is expected to be £2.4m because Metro Rod will be included for just short of nine months. A trebled dividend of 0.5p a share is expected this year. Net debt is expected to be £5m at the end of 2017 and then halve to £2.5m one year later.

# Digital deal for accesso

Ticketing technology

[www.accesso.com](http://www.accesso.com)

Ticketing technology and services provider **accesso Technology** has acquired UK-based Ingresso for an initial £17.5m plus a surplus working capital payment of around £1.3m. There is also an earn-out that is capped at £10.5m and which is dependent on how much Ingresso exceeds its financial performance in 2016 in the current financial year.

Ingresso has developed software that enables venue owners and event producers to sell through global third-party distributors. This

ACCESSO TECHNOLOGY (ACSO)		1645p
12 MONTH CHANGE %	+67	MARKET CAP £m
		360

could provide existing accesso clients with a wider reach when they are selling tickets. It also expands accesso's presence in the entertainment sector and gives it exposure to the travel sector.

Ingresso made a pre-tax profit of £600,000 on revenues of £43.1m in 2016. The revenue recognition policy, where the gross value of

the transaction is included, may be changed after the acquisition, which would mean that net revenues would be £8.2m. Ingresso is expected to be earnings enhancing in 2017, partly thanks to accesso's high rating.

Bart Van Schriek, the chief executive of Ingresso, has subscribed for £500,000-worth of accesso shares at 1578p each. He also says that he will invest two-fifths of any earn-out payment in accesso shares at the same price.

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## company news

# NAHL adapts to new claims regulations but maintains dividend policy

Claims provider, conveyancing

[www.nahlgroupplc.co.uk](http://www.nahlgroupplc.co.uk)

Personal injury claims provider **NAHL** is adapting its strategy in order to cope with changes in claims regulations by the Ministry of Justice. The dividend will continue to be around two-thirds of earnings but it will be a larger percentage of cash generated because of the changed business models.

Although a significant proportion of personal injury business would remain the same, with cash payments made by clients for the leads generated, NAHL will also take a longer-term interest in other cases. This could take the form of deferred enquiry payments or the setting up of a joint venture with a lawyer so that NAHL retains a direct interest. Revenues may be recognised straight away or over the period that work is done. Depending on the model, it could take between 12 and 24

## The dividend will still be two-thirds of earnings

months for NAHL to receive payment for these cases.

To be fair, cash generation will still be much better than at many other companies. It will mean, though, that dividend payments will not be covered by cash generated over the next couple of years. Net debt is £8.2m and that figure could double by the end of 2018.

In 2016, an underlying pre-tax profit of £16.6m on revenues of £49.4m was reported. This enabled a 2016 dividend of 19.05p a share. Including the final dividend to be paid, this means that NAHL has paid and

NAHL (NAH)		156p
12 MONTH CHANGE %	-39.1	MARKET CAP £m
		70.7

announced dividends totalling 53.5p a share since it floated at 200p a share.

Critical care and conveyancing operations have the potential to grow but the core business will continue to dominate. Volumes have dipped in the conveyancing market but there are signs of recovery.

Flat pre-tax profit of £13.8m is expected in 2017 and 2018, although minority interests will mean that earnings will fall. That would put the shares on a 2018 prospective multiple of eight. The yield will still be attractive even assuming a decline in dividend to around 13p a share by 2018. That is still a yield of more than 8%.

# US expansion at Gama offsets European dip

Aviation services

[www.gamaaviation.com](http://www.gamaaviation.com)

**Gama Aviation** is a truly international business and an improved performance in North America offset a downturn in Europe last year. Investment in the business has yet to show through in the results.

In 2016, group revenues, including joint ventures and associates, increased from \$403.8m to \$432.4m but the revenues of the wholly owned operations fell from \$236m to \$203m. Underlying pre-tax profit fell from \$14.6m to \$13.7m, although it edged higher on a constant-currency

GAMA AVIATION (GMAA)		210.5p
12 MONTH CHANGE %	-22.8	MARKET CAP £m
		92.6

basis. Net debt was \$19.4m at the end of 2016. The dividend rose by 4% to 2.6p a share.

The aircraft management and charter business grew its revenues and profit but the underlying operating profit of the ground-services business in Europe fell 45% to \$7.66m – this decline was exacerbated by currency movements. Regular maintenance continued but there

was less spent on modifications and improvements. There should be a modest improvement this year.

The enlarged US aircraft management joint venture, following the BBA deal, will contribute in 2017 and it will help to expand ground services in the US, while a deal with CASL in Hong Kong should help the ground-services operation expand in Asia.

A profit recovery to \$16.5m is expected this year, which equates to a prospective 2017 profit multiple of just over eight.



## dividends

# Telit yields benefit of Internet of Things growth

Internet of Things technology

www.telit.com

### Dividend

Although Telit has been quoted for 12 years, it paid its maiden dividend in 2016. The 6 cents a share payment was equivalent to 28% of 2015 earnings. Telit is paying a total dividend of 7.4 cents (5.84p) a share for 2016.

A dividend of 8.39 cents a share is forecast for 2017 and that would be covered more than three times by earnings. The dividend cover would rise to more than 3.5 times on the forecast 2018 dividend of 9.83 cents a share.

Net debt was \$17.7m at the end of 2016 but that was before the acquisition of Wi-Fi components developer GainSpan for \$8m. Net debt is expected to increase to \$26.8m at the end of 2017.

### Business

Telit joined AIM in April 2005 when it was valued at £60m at a placing price of 140p a share. At that time it was a mobile handset supplier with a growing machine-to-machine technology business. The mobile phone business was sold and Telit concentrated on its technology operations. The increasing focus on the Internet of Things (IoT) means that Telit has a fast-growing market to exploit. The business is split into two divisions: IoT products and IoT services.

In 2016, revenues improved from \$333.5m to \$370.3m, with underlying pre-tax profit rising from \$27.7m to \$32.8m. The IoT products division currently makes all the group profit. The operating profit contribution was \$55.4m, whereas IoT services made an operating loss of \$10.2m.

Although the operations are cash generative, most of this is absorbed

TELIT COMMUNICATIONS (TCM)	
Price (p)	350.75
Market cap £m	406.7
Historical yield	1.7%
Prospective yield	1.9%

by capitalised development spending, which increased from \$26.1m to \$30.8m in 2016. A small rise in capitalised development spending is expected this year. The full benefits of the recent development spending are likely to show through in 2018.

The products division has been adding to its capabilities by acquiring additional technologies. The acquisition of Stollman expanded the near-field communications product range, cellular products were bought from Novatel and GainSpan brought ultra-low-power Wi-Fi systems. More than \$60m had been invested in GainSpan but it cost Telit \$8m because the company had failed to generate sufficient revenues. Telit can help to get the products to the market.

The plan is to treble the revenues of the IoT services division to \$100m within five years, which should require a relatively modest increase in overheads. This is predominantly recurring revenues but there are initial costs in setting up new customers and that is why the division will continue to be loss-making this year.

Canaccord Genuity forecasts flat underlying pre-tax profit on 13% higher revenues in 2017, rising to \$44m in 2018. Part of the improvement in 2018 is down to a reduction in the loss from the services division. The prospective 2018 multiple is 14.

## Dividend news

**Somero Enterprises Inc** increased its dividend payout level from 30% of earnings to 40% of earnings but there could be more to come for investors. In 2016, the concrete-levelling equipment supplier increased its underlying pre-tax profit from \$17.6m to \$22m as the global construction sector continues to recover. The combined effect of earnings growth and higher payout ratio means that the dividend increased from 6.9 cents a share to 11.1 cents a share. There is just over \$20m in the bank but management believes that \$10m is sufficient. A decision will be made later this year about whether to pay a special dividend and it could be more than the annual dividend.

Replacement windows and doors supplier **Safestyle** continues to prosper even though the market has been tough. Growth slowed in the second half but underlying pre-tax profit still grew from £18m to £20.5m in 2016. The dividend is 10% higher at 11.25p a share. Investment in new facilities will make the business more efficient and this has been funded by cash generated from operations. Safestyle is in a good position to pass on extra costs due to the movement of sterling and a 2017 profit of £21.5m is forecast, with the cash pile set to rise to £17.6m.

**Alliance Pharma** more than doubled its revenues in 2016 with the acquisition of the portfolio of drugs from Sinclair Pharma responsible for most of the growth. Pre-tax profit doubled to £22.2m and, more importantly, earnings per share were 11% ahead at 3.82p a share. Net debt was £76.1m at the end of 2016 but this should fall to £61.1m at the end of this year. The dividend was increased by 10% to 1.21p a share and it appears set to increase by a similar percentage in the next few years.

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**expert views**

**Expert view: The broker**

## Resistance is futile

By Vadim Alexandre

In a transformational period since its April 2015 IPO on AIM, Motif Bio\* has made significant progress in advancing its late-clinical-stage antibiotic programme on its flagship drug, iclaprim. In the wake of a major antibiotic resistance crisis, the treatment's sales could run into billions of US dollars a year. With an imminent Phase 3 trial read-out on the horizon (Q2-2017), the group's shares could deliver significant returns following a positive outcome.

### Antibiotic resistance: a looming public health crisis

Antibiotics are essential to modern medical practice. They are used to treat common infections and are critical to many routine medical procedures. However, due to the long-standing overuse of these drugs, many microbes have developed resistance to them, so much so that the issue of antibiotic resistance is now a major public health concern.

Already today, it is estimated that close to 50,000 deaths annually across Europe and the US are caused by antibiotic resistance. Jim O'Neill, chairman of the UK's Review on Antimicrobial Resistance, estimates that if the problem of antibiotic resistance is not urgently addressed, the world could face ten million lives lost every year and up to US\$100 trillion in lost productivity by 2050.

Despite this looming crisis, the global pipeline of novel antibiotics is thin due to chronic underinvestment by the pharmaceuticals industry. This situation provides a unique opportunity to novel antibiotic developers such as Motif.

### Governments and regulators are reacting

As a result of the overwhelming need

for novel antibiotics, governments and regulators globally have begun taking action to better incentivise and facilitate the development of these drugs. The 2012 passing of the GAIN Act in the US has created a regulatory framework that better encourages drug-development companies to develop antibiotics. The Act ensures that novel antibiotics receive clearer clinical trial guidelines from the FDA, accelerated approval times and extended market exclusivity.

We consider that the GAIN Act has drastically changed the FDA's stance on antibiotics, as evidenced by the fact that four antibiotics that were not approved prior to the Act's implementation have now either progressed to approval or are approved to conduct further phase 3 trials. Motif's antibiotic, iclaprim, is among these reversals: the FDA approved Motif's proposals to conduct phase 3 trials on the drug.

### Right place at the right time

Motif's principal focus is on developing antibiotics designed to be effective against serious and life-threatening

## Positive trial news could trigger a significant rerating

infections caused by multi-drug resistant bacteria. Iclaprim is a late-stage clinical asset that targets an underutilised mechanism of action which makes it less susceptible to triggering resistance in targeted pathogens.

Unusually for novel treatments, the drug has already been tested on over 500 patients, providing considerable data to support its safety and efficacy. Given the overwhelming need for novel antibiotics, specifically ones that address resistance issues, we believe that Motif is in the right place at the right time.

### Commercial interest heats up

Commercial interest in antibiotics has recently taken off, with the announcement of several mergers in the space in recent years. Most notable was the acquisition by Merck of Cubist Pharmaceuticals in a total deal size of c. US\$9.5bn in December 2014. Substantial partnering deals for antibiotics have also been struck, including a deal between Bayer and San Diego-based Trius Therapeutics involving up to c. US\$200m in payments to Trius.

### Phase 3 trial read-out imminent

In line with our expectations, Motif recently announced that the last patient has finished treatment in its first pivotal phase 3 trial (REVIVE-1) on iclaprim. The completion of patient treatment is a significant milestone, as the trial is now firmly on target to deliver top line results in Q2-2017. A positive read-out in this trial would likely trigger a significant rerating of the group's shares.

Data read-out for iclaprim's second pivotal phase 3 trial, REVIVE-2, is expected in the second half of 2017. Successful completion of the two REVIVE trials is expected to satisfy

both US Food and Drug Administration and European Medicines Agency requirements for the regulatory submission of iclaprim's use in the treatment of complicated skin infections.

*\*Northland Capital Partners Ltd. acts as Broker to MotifBio plc*



VADIM ALEXANDRE is head of research at Northland Capital Partners.




**expert views**

**Expert view: The lawyer**

## You have no option...

By Simon Charles

A recent case before the High Court reminds us again how important it is to get it right and get it in the agreement if you want to rely on an important term of a transaction. Time and time again, seemingly crucial elements of transactions seem to be kicked into the long grass, with the parties either believing they shall sort them out later, or, and this is the crucial point, that some contractual fairy dust shall be applied and all will be well and they'll get what they want even though the contract was silent or deficient on the matter. It generally doesn't work like that, as the case of *Teekay Tankers Ltd v STX* (2017) EWHC 253 (Comm) reminds us.

### if you want something in and from an agreement, then provide for it in the agreement

This case involved the minor matter of an option agreement to acquire lots of oil tankers. The options provided that the delivery date for the tankers would be "mutually agreed upon" when the options were exercised. It wasn't quite as bad as it seemed as the parties had agreed as an addition to the woolly "mutually agreed upon" provision: "But (the defendant – STX) will make best efforts to have a delivery within 2016 for each First Optional Vessels, within 2017 for each Second Optional Vessels and within 2017 for each Third Optional Vessels."

In essence, the facts of the case being rather involved, their absence from this article not affecting the thrust of my message, the defendant, STX, was accused of being in repudiatory breach of certain option

agreements as a result of its non-performance under those contracts and other related contracts.

The defendant, which had been the subject of arbitral awards in respect of non-performance of related contracts, successfully argued in its defence that the option agreements were void for want of certainty as they comprised agreements to agree. The effect of that was that there was no enforceable agreement so far as those options were concerned.

The claimant acknowledged that certainty as to the existence or calculation of vessel delivery dates was fundamental. It constructed an

argument that the option agreements themselves would help the parties (and if necessary, it followed, a court) to find some modality of reaching an agreement by way of an express or implied term to push the options into the status of enforceable agreements. The claimant argued there should be implied terms that either the delivery date would be a fail-over date on the basis that the defendant used its best efforts, or alternatively what an objectively reasonably arrived at delivery date would be had the defendant used its best efforts.

There is a wealth of case law as to what terms courts may find implied as regards deficient (uncertain) agreements, the principal guidance being that the term either must be so obvious as to go without saying (the

"officious bystander" test) or must be necessary to give "business efficacy" to the agreement. In the present case, the judge was unable to find, on submissions, what was reasonable in the circumstances.

Finding that there was a distinction between using best efforts to achieve a result and best efforts to agree a key contractual term, Walker J observed as follows:

"while I must strive to find an implied term which will save the option agreement, I can only do this consistently with established principles for the implication of terms. If I am driven to the conclusion that the parties must be taken to have intended that either would remain free to agree or disagree about a proposed delivery date as its own perceived interest might dictate, there is no room for an implied term that in the absence of agreement the matter shall be determined by reasonableness."

The guidance from us as lawyers to client is and remains simple – if you want something in and from an agreement, then provide for it in the agreement.

There is a possibility that, if you leave it to chance, it may work, but you'll be relying on a court to find for you. For the sake of certainty – get it in.



**SIMON CHARLES** is Partner & Head of Equity Capital Markets at Marriott Harrison LLP.

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**feature**

# AIM continues to mature

The Small and Mid-Cap Investors Survey 2017 published by the Quoted Companies Alliance and accountant RSM shows an improvement in the image of AIM.

The Small and Mid-Cap Investors Survey 2017 found that investors are more willing to invest in AIM companies rather than waiting until they move to the Main Market.

There are 33 companies on AIM that are valued at more than £500m and they have a total value of £30.5bn out of the market value of £86.8bn. The average value of AIM companies is £89.2m.

One of the positives when it comes to the lower level of flotations is that the lower-quality companies find it more difficult to make it to the junior market.

Most of the fund managers polled say that they are agnostic about which market a company's shares are quoted on. Fewer believe that the Main Market automatically confers status and maturity on a company. The fund managers are willing to judge a company on its own qualities.

There are occasions, though, that a company may believe that it can get a higher rating on the Main Market or there is access to larger amounts of capital because some investors do still shy away from investing in AIM companies. Some companies decide to move to Nasdaq or other overseas markets because they believe they are more attractive.

Moving to the Main Market can mean losing tax benefits, particularly IHT relief if the company is eligible, and it can also be dearer and more complicated to do deals. The latter reason may depend on whether a company obtains a premium listing or a standard listing.

## Standard

The standard listing is a much lower standard than a premium listing and arguably it is of lower quality than an AIM quotation. Many of the companies that float directly on the standard list would not be allowed to join AIM

because they are shells raising small amounts of money.

One fund manager argues: "The standard listing is the worst of every world really... it does not provide any corporate governance whatsoever... it does not come with any tax benefits. The fund managers I have heard talk on the subject say that they just would not entertain investing in a company on the standard list".

The main hurdle for a standard listing is getting the prospectus through the UKLA. Once that is done there is less oversight than on AIM – there is no nominated adviser equivalent required

brokers to be motivated in the secondary market".

The better brokers are thought to be those with high-quality research and due diligence plus a good relationship with investors.

## Poor performers

When it comes to poorly performing companies trust is a major factor. Sometimes problems are related to the market itself whereas others are due to a lack of competence of the management.

Ultimately decisions have to be made on a case-by-case basis. If a management

## There are 33 companies on AIM that are valued at more than £500m

– and a company can say they are fully listed. This means that they can give the impression that they are on a par with the likes of Vodafone or BP whereas they are on a completely different level of the market. Few people seem to understand the difference between standard and premium, though.

Standard listed companies can choose to provide higher governance levels than the minimum required and AIM companies can do that as well.

## Advisers

There is always a range of views. Many advisers are thought to be of good quality but there were criticisms of the quality of some nominated advisers and brokers. Some are thought to be poor and described as "bordering on the negligent" by one fund manager.

There is some sympathy for the problems that brokers face. One fund manager said that "The regulator has exacerbated the problem that commissions are just not enough for

team is thought to have been over-optimistic or is not being open about any problems then this tends to be a sell signal.

Badly handled profit warnings are not going to help the case of a company and its management.

## Finance directors

Cash generation is important to investors and the focus on this is one of the key things for a finance director according to fund managers. The large number of adjustments to the profit figure mean that investors are increasingly judging companies' on their cash flow.

Fund managers also like the finance director to actively contribute in investor briefings and be strong enough to stand up to the chief executive.

It is also important that the finance director is focused on delivering the market forecast and making sure that the company is run in a way that enables this to happen. They have to be on top of their figures.



## statistics

# Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	18.4	10.7
Financials	16.6	17.8
Industrials	14.6	16.2
Healthcare	12.4	9.1
Technology	11	12.1
Consumer goods	9.4	5.9
Basic materials	8.2	15
Oil & gas	7.5	10.6
Telecoms	1.3	1.2
Utilities	0.8	1.3

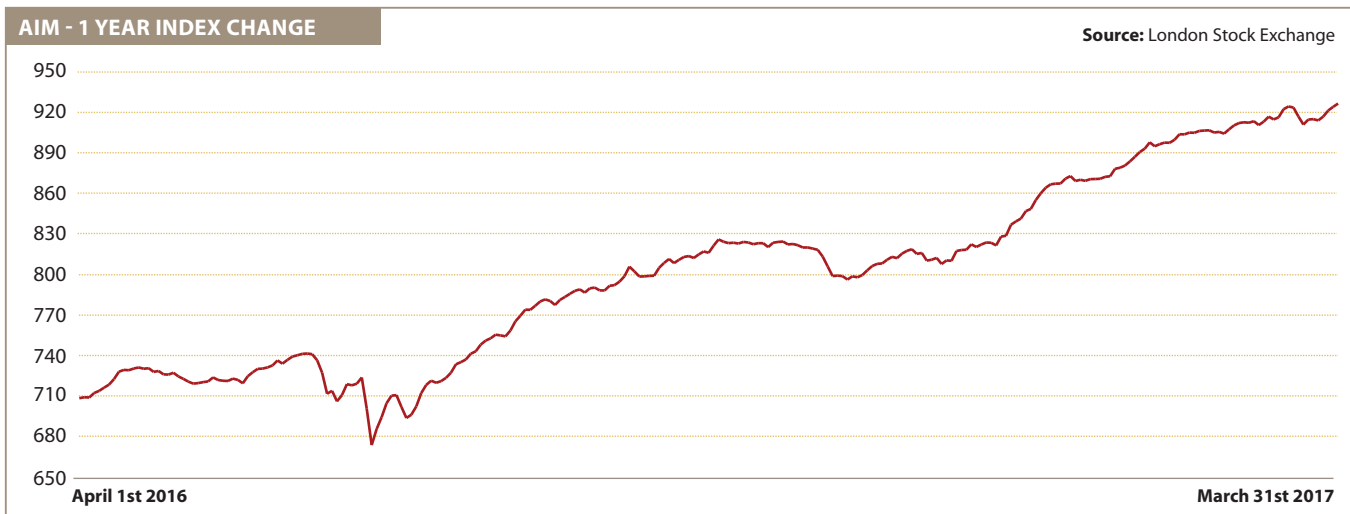
KEY AIM STATISTICS	
Total number of AIM	973
Number of nominated advisers	33
Number of market makers	48
Total market cap for all AIM	£86.8bn
Total of new money raised	£100.4bn
Total raised by new issues	£41.9bn
Total raised by secondary issues	£58.5bn
Share turnover value (2017)	£6.6bn
Number of bargains (2017)	1.28m
Shares traded (2017)	97.5bn
Transfers to the official list	182

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	929.42	+30.8
FTSE AIM 50	5163.96	+32.4
FTSE AIM 100	4557.07	+36.5
FTSE Fledgling	9643.41	+26.4
FTSE Small Cap	5430.46	+19.5
FTSE All-Share	3990	+17.5
FTSE 100	7322.92	+18.6

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	192
£5m-£10m	91
£10m-£25m	195
£25m-£50m	144
£50m-£100m	142
£100m-£250m	125
£250m+	84

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Independent Resources	Oil and gas	0.39	884.5
Herencia Resources	Mining	0.11	650
Bushveld Minerals Ltd	Mining	7.82	179.5
Nektan	Leisure	44.5	178.1
ISpatial	Technology	3.62	123.1

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
EQTEC	Cleantech	3.62	-57.4
Ncondezi Energy Ltd	Mining	3.88	-55.1
Plutus PowerGen	Cleantech	1.18	-51.6
Sabien Technology	Cleantech	1.5	-50
MySquar Ltd	Telecoms	1.03	-45.3



Data: Hubinvest Please note - All share prices are the closing prices on the 31st March 2017, and we cannot accept responsibility for their accuracy.


**sponsors**

## Northland Capital Partners

Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It has excellent connections with investors, providing them with equity research, advice and trading services. Northland has assembled

a team of highly motivated and experienced professionals that aims to deliver unparalleled service to our clients.

Northland has a strong track record in advising and raising funds for growth companies. We always aim to provide innovative ideas and solutions that will enable our clients to fulfil their long-term growth ambitions in a wide range of sectors, including healthcare, TMT, consumer,

resources and support services.

As the most successful growth market in the world, AIM is an important platform for helping small companies raise capital. At Northland, we see the AIM Journal as an opportunity for investors to learn more about the many great companies quoted on AIM.

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## Marriott Harrison LLP

Marriott Harrison LLP is pleased to be sponsoring the AIM Journal. We are firmly embedded in the AIM community as legal advisers to nomads and brokers, investors and public companies, with a well-respected team of partners and associates with good experience and strong track records in the market. The backgrounds of our 12 corporate partners with Magic Circle, other significant City and international

law firms stand us in good stead in advising on legal issues arising out of corporate finance transactions. Two of the partners in the team, Simon Charles and Andrew Williamson, formerly worked as nomads and Main Market sponsors. The team has international capability, with particular expertise in the film and television production, healthcare and life sciences, leisure and hotels, technology, music, recruitment,

renewables and cleantech, resources, retail and telecoms sectors.

We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to AIM Regulation as a result of discussions held.

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