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AIM JOURNAL

In this issue

Micro company outperformance

Smaller companies' performance was weak in the second quarter of 2014, according to the Numis Smaller Companies Index. However, the smallest small companies continued to outperform their larger counterparts. This is a trend that began in 2013. Surprisingly, resources has been the best-performing sector in recent months after a long period of underperformance.

The Numis Smaller Companies index, including AIM, was 1.8% lower in the first half of 2014 as the second-quarter decline was greater than the rise in the first quarter. This compares with a 7.7% decline in the FTSE AIM All Share index in the first half. The difference partly reflects the strong performance of the FTSE Fledgling index but it is also due to the fact that a handful of the largest AIM companies are not included in the Numis index because they are outside of the size range.

The main example of this is online fashion retailer ASOS, which remains the largest AIM company even though it has halved in value this year. That slump in the ASOS share price is a major reason for the much higher fall in the FTSE AIM All Share index.

AIM's Scottish attraction

Research by the London Business School into London-quoted Scottish companies suggests that they might be better off sticking with the London market even if Scotland votes for independence in next month's referendum. Authors Paul Marsh and Scott Evans state: "For smaller, younger Scottish firms considering an IPO, it would make sense for Scottish companies to continue to use the LSE's AIM market, rather than for Scotland to set up its own junior market".

The Scotsie 100: Sixty Years of Scottish Stocks covers the performance of Scottish companies over six decades. Location of the group's headquarters was a major element in judging whether a company should be classed as Scottish. At the start of 2014, there were 100 Scottish companies.

The researchers believes that it will be a tough challenge to attract companies away from London because they would have to leave the FTSE indices. The report does say that an independent Scotland should lobby to continue to be included in the FTSE UK indices. The experience of the Irish Stock Exchange is highlighted. The value of the market has declined as companies such as CRH moved their main listing to London in order to be included in FTSE indices. Of course, the ISE does have a junior market, the Enterprise Securities Market (ESM). Most of the companies on ESM are also quoted on AIM so the same could be true of a Scottish junior market.

HubInvest publishes AIM Journal

www.hubinvest.com

general news

APC Technology secures Green deal

APC Technology Group is diversifying into the water services sector by making an agreed all-share offer for troubled water hygiene and treatment services provider Green Compliance. The deal should be earnings enhancing in the first full year. Green Compliance has sold its fire protection and pest control operations so that it can concentrate on water services but it remains too small to benefit from an AIM quotation.

The bid is two APC shares for every 71 Green Compliance shares. Prior to the announcement of the bid the APC share price closed at 35.5p, which values each Green Compliance share at 1p. That is the same price as the rescue refinancing at the beginning of 2012. The Green Compliance shares had been trading at 1.35p a share. The bid values the target at £4.76m.

APC is increasing its involvement in the energy-efficiency market and offers a range of products and services. Part of the strategy is to expand into other sustainability areas, including water. APC believes that its existing customer base will be interested in the water services. APC has a 25% stake in Invisible Systems Ltd (ISL) and this company's remote monitoring technology can be used in the water sector.

Cutting out the duplicated quotation costs will improve the contribution from Green Compliance and the acquisition will also diversify APC's customer base. APC will also be in a strong position to take advantage of any opportunities that come from the deregulation of the water market in 2017. APC wants to further expand the range of services it offers to include the energy generation and waste markets.

Bacanora boost

Adding an AIM quotation to its TSX Venture Exchange quote proved a success for Bacanora Minerals both before and after trading commenced on 25 July. The share price has reached new highs since the flotation at 33p a share and even after profit-taking the price is 67.25p. The shares were trading at the equivalent of 38p when the AIM placing terms were published in June. Bacanora is involved in the Magdalena borate and Sonara lithium projects in Mexico. AIM-quoted Rare Earth Minerals (REM) is Bacanora's joint venture partner in the Sonora lithium project and it has been building its stake in Bacanora, which has reached 11.9% following a recent purchase at 77.5p a share. Bacanora chairman Colin Orr-Ewing and REM chief executive Kiran Morzaria and chairman David Lenigas were all on the board of River Diamonds, which became Vatukoula Gold Mines.

Epwin returns to London market

Former Unlisted Securities Market-quoted Epwin has rejoined the London market. The flotation on AIM raised £10m at 100p a share for the PVC-U windows and plastic building products manufacturer and valued it at £135m. Existing shareholders raised £83.9m by placing part of their shareholdings.

Epwin joined the USM at around the top of the market in 1987 and then moved to the Main Market in 1992. Management, led by founder Jim Rawson, acquired Epwin for £44.4m in 1999. Net debt was £6.2m at the end of June 1999. Epwin did not believe that it would be able to secure finance for its future strategy as a listed company – at that time technology companies hogged investor interest. Anthony Rawson was the majority shareholder prior to the flotation but his stake has been reduced to 15%, while the other major shareholder, Brian Kennedy, reduced his stake from 39.7% to 15%. Rawson and Kennedy are locked-in for 18 months.

In 2012, Epwin merged with similar-sized competitor Latium and its related operations, which were owned by Brian Kennedy, and their integration is helping to improve operating margins. Management believes that there are other consolidation opportunities, although there are areas, such as roofline products, where Epwin already has a significant market share. The main focus for bolt-on acquisitions is rainwater and drainage products.

Repair, maintenance and improvement activity accounts for more than two-thirds of Epwin's revenues with the rest coming from newbuild. Epwin, which is a cash-generative business, is expected to make an underlying 2014 profit of £17.8m, up from £14.4m in 2013. That values the company at nine times prospective 2014 earnings. A dividend of 4.24p a share has been promised by Epwin, rising to 6.37p a share in 2015 to reflect the first full year as a quoted company.

advisers

Mixed fortunes for AIM brokers

Many AIM brokers have prospered in recent months but Arden Partners has slipped into loss at the interim stage. In contrast, the performance of WH Ireland continues to improve.

Arden says that it had a frustrating first half, with one flotation pulled and another transaction terminated, costing £500,000, but the outlook for the second half is better. Even so, there is no interim dividend. In the six months to April 2014, Arden reported a swing from a profit of £1m to a loss of £474,000 as revenues fell from £5.7m to £3.49m. Arden still generated £1.17m from operations and net cash is £4.43m.

WH Ireland is less dependent on broking because it has a wealth management business but in the six months to May 2014 both divisions grew. WH Ireland increased its interim revenues by 13% to £14.7m, while underlying profit jumped from £59,000 to £470,000. Net cash was £7.1m. Corporate broking revenues were 12% higher and the division is recruiting. The number of corporate clients has increased from 84 to 92 over the 12-month period. Funds under management rose by nearly 10% to £2.7bn during the period and WH Ireland is exiting third-party administration.

Daniel Stewart says that it will report a lower loss before goodwill impairment in the year to March 2014. There was a considerable improvement in the second half of last year. The first quarter of this financial year benefited from a number of small fundraisings and there are more set for the second quarter. Daniel Stewart has switched its auditor from Keelings to PwC. That should not hamper the reporting of the full-year results. The broker tends to use most of the time allowed by AIM to report its figures.

At the end of July, Daniel Stewart became a participant in the Order Book for Retail Bonds (ORB).

ADVISER CHANGES - JULY 2014

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Sterling Energy	Peel Hunt	Liberum/Peel Hunt	Peel Hunt	Liberum	01/07/2014
Vela Technologies	Peterhouse/Hume	Peterhouse/Hume	Allenby	ZAI	01/07/2014
UMC Energy Corporation	HD Capital Partners	HD Capital Partners/ Shore	Strand Hanson	Strand Hanson	02/07/2014
Redde	N+1 Singer/Cenkos	Cenkos	Cenkos	Cenkos	03/07/2014
Savannah Resources	RFC Ambrian	N+1 Singer	RFC Ambrian	N+1 Singer	03/07/2014
Emmit	Alexander David	Allenby	Cairn	Cairn	07/07/2014
Mirada	Arden	Cantor Fitzgerald/ Peterhouse	Arden	Cantor Fitzgerald	07/07/2014
China New Energy Ltd	Daniel Stewart	SVS	Cairn	Cairn	08/07/2014
Avrae Global Coins	WH Ireland	Westhouse	WH Ireland	Westhouse	09/07/2014
Infrastructure India	Smith & Williamson/ N+1 Singer	Smith & Williamson/ N+1 Singer/Peat	Smith	Smith & Williamson	14/07/2014
Tanfield Group	Peterhouse/WH Ireland	WH Ireland	WH Ireland	WH Ireland	14/07/2014
Plutus Resources	SP Angel	Allenby	SP Angel	Allenby	15/07/2014
Advanced Oncotherapy	Beaufort/Westhouse	Peterhouse/ Westhouse	Westhouse	Westhouse	16/07/2014
Globo	Canaccord Genuity/ RBC	RBC	RBC	RBC	16/07/2014
China Chaintek United Co	Daniel Stewart	Daniel Stewart/ Liberum	Daniel Stewart	ZAI	17/07/2014
UniVision Engineering Ltd	ZAI	Zeus	ZAI	Zeus	17/07/2014
Adamas Finance Asia Ltd	North Square Blue Oak/ WH Ireland	WH Ireland	WH Ireland	WH Ireland	18/07/2014
Paragon Entertainment	finnCap	Cenkos	finnCap	Cenkos	18/07/2014
PhotonStar LED	finnCap/Mirabaud	finnCap	finnCap	finnCap	
Haydale Graphene Industries	Cantor Fitzgerald	Hume/ Cantor Fitzgerald	Cairn	Cairn	21/07/2014
Avanti Capital	Panmure Gordon	Canaccord Genuity	Panmure Gordon	Canaccord Genuity	23/07/2014
Brooks Macdonald	Peel Hunt	Canaccord Genuity	Peel Hunt	Canaccord Genuity	25/07/2014
AFC Energy	Zeus/Peat	Peat	Zeus	Allenby	29/07/2014

Ideagen set to benefit from paperless NHS

Document and compliance software *www.ideagenplc.com*

IDEAGEN (IDEA)			32.38p
12 MONTH CHANGE %	+57.9	MARKET CAP £M	39.7

Document and compliance software supplier **Ideagen** has coped well with losing business with the US Department of Veterans Affairs (VA) and continued to grow in the year to April 2014. Acquisitions have helped and there is scope for more add-on acquisitions.

Revenues grew by 38% to £9m, while excluding acquisitions and the VA contract, there was organic growth of 13% from the core business, with healthcare growing fastest. That organic growth rate could continue at a similar level with acquisitions adding to the growth rate. Recurring revenues of £5.1m currently cover 86% of the fixed-cost base. Pre-tax profit improved from £1.9m to £2.6m, helped by cost reductions. A final dividend of 0.1p a share took the total dividend to 0.15p a share.

> Recurring revenues cover 86% of the fixed cost base

Healthcare remains the main market for Ideagen and there is plenty more growth to go for because of the requirement for NHS Trusts to implement a repository system so that they can become paperless by the 2018 deadline set by the government. Ideagen reckons that a quarter of the 192 NHS Trusts have implemented one of these systems. Ideagen competes with EMIS in some markets.

There are also growth opportunities outside of healthcare and the customer base for governance, risk and compliance software includes Shell, Siemens, Raytheon and Balfour Beatty.

There was net cash of £4m at the end of April 2014 but since then Ideagen has spent £1.25m in cash on EIBS, which brings mobile technology and information portals, which can provide patient information that comes from multiple data sources. EIBS should be earnings enhancing in 2015-16.

House broker finnCap forecasts a rise in profit to £3.1m in 2014-15, which puts the shares on 16 times prospective earnings. Further earnings-enhancing acquisitions are on the cards in what is a fragmented market.

EMIS broadens message with Indigo 4

Healthcare software *www.emis-online.com*

EMIS GROUP (EMIS)			702p
12 MONTH CHANGE %	-9.5	MARKET CAP £M	441.3

GP patient records and pharmacy software supplier **EMIS** has added to its range of software through the earnings-enhancing acquisition of Indigo 4 Systems, which supplies clinical and administrative messaging and order communications services to the secondary care sector.

The acquisition means that EMIS can provide a range of messaging and communications services to the primary and secondary care sectors. Indigo 4 has more than 150 customers, including NHS Trusts and other organisations and it delivers more than 50% of blood test requests and results for GPs.

EMIS is paying an initial £3.2m for Sheffield-based Indigo 4, with a further £500,000 payable if the business meets certain targets. Indigo 4 made an adjusted profit of £700,000 on revenues of £2.5m in the year to August 2013.

EMIS says that its first-half trading was in line with expectations. The roll-out of EMIS Web to GPs is almost complete, while market share was gained in the pharmacy sector. Net debt has been cut to £100,000. The interims will be published on 5 September.

Operating margins are expected to be maintained at around 24% so profit growth will come from generating additional revenues. Peel Hunt forecasts an improvement in adjusted profit from £25.8m to £32m in 2014, with further progress to £34.5m in 2015. The shares are trading on 18 times prospective 2014 earnings, reducing to less than 17 in 2015. The yield is 2.7%.

company news

Forbidden uses cash to expand in the US and social media markets

Video editing technology *www.forbidden.co.uk*

Forbidden Technologies is in a strong position to take advantage of demand for cloud-based post-production services in the US professional market. Stephen Streater believes it will take a number of years for any competitors to catch up with the Forscene technology so Forbidden needs to take advantage of this.

US post-production equipment rental businesses want to move away from large capital investment in hardware to cloud-based activities. If Forbidden can negotiate a deal with a rental company then on its own that could generate recurring revenues of $500,000 a year, according to house broker Cenkos. The main US competitor is broadcast equipment manufacturer Avid, which has an internet service. However, it does not offer all the benefits of the Forscene technology.

Cenkos expects a £200,000 contribution from the US

Last year's fundraising, which generated more cash than originally requested by the company, has enabled Forbidden to invest in a US office and a consumer-focused offering. Even so, the increased cost base means that net cash is likely to halve to £3.67m by the end of 2014

One of the main attractions to many investors is the potential for the technology in the consumer sector. Forbidden has just launched an alpha version of the app for the eva social video platform. The strategy is to build up a base of millions of monthly active users for eva and then start to generate revenues on the back of this.

FORBIDDEN TECHNOLOGIES (FBT)			17.5p
12 MONTH CHANGE %	- 30	MARKET CAP £M	23.1

This may take some time because the rate of take-up is impossible to assess at this early stage.

Cenkos has pencilled in a £200,000 revenue contribution from the US for 2014. That is the main reason that revenues are expected to grow from £772,000 to £935,000 even though there was a decline in first-half revenues. However, Cenkos had previously expected 2014 revenues of £1.65m. Forbidden floated at the beginning of the century as a start-up and it has developed technology with enormous potential that still needs to be fully commercialised. It is easy to forget how long it takes to do this but Forbidden needs to show that it can accelerate its progress given the additional investment it is making.

KBC refines and widens its product offering

Oil consultancy and software *www.kbcat.com*

Refinery consultancy and software provider **KBC Advanced Technologies** has supplemented its offering through the purchase of FEESA, which provides flow assurance and integrated production-modelling consultancy and software. This is part of KBC's strategy to diversify from the refinery sector.

KBC is paying £10m in cash and one million of its shares for FEESA, which made a profit of £500,000 on revenues of £2.3m in the year

KBC ADVANCED TECHNOLOGY (KBC)			122p
12 MONTH CHANGE %	+61.6	MARKET CAP £M	99.6

to March 2014. In May, KBC raised £24m via a placing at 115p a share so it has plenty of cash to spend on acquisitions and the working capital required by additional contracts.

FEESA's Maximus software already uses some of KBC's software. The combined product offering covers everything from oil reservoir to refinery. Oil and gas explorers need to explore deeper offshore and the Maximus software helps to manage reservoirs and optimise production.

KBC has confirmed that trading is in line with expectations even though currency movements are holding back progress. A $5.8m, five-year contract was recently awarded to KBC by an existing South American customer. Cenkos forecasts a full-year profit of £9.18m. The shares are trading on 17 times 2014 prospective earnings.

Portmeirion continues to increase UK pottery production

Tableware and giftware *www.portmeirion.co.uk*

PORTMEIRION GROUP (PMP)			832.5p
12 MONTH CHANGE %	+28.1	MARKET CAP £M	91.5

Tableware manufacturer and supplier **Portmeirion Group** is increasing production at its Stoke-on-Trent factory as its imported products continue to be hit by the anti-dumping duty imposed by the European Commission. The anti-dumping duty cost more than £300,000 in the first half of 2014, which was similar to the first half of 2013.

Portmeirion has four main brands: Portmeirion, Spode, Royal Worcester and Pimpernel. Portmeirion has been employing additional skilled pottery workers in the past couple of years. Average production, which includes Spode products, has reached 147,000 pieces each week compared with last year's average of 128,000 each week. Even so, the additional cost of the anti-dumping duty in the second half will be similar to the figure in the first half.

> Anti-dumping duty cost more than £300,000 in the first half of 2014

In the six months to June 2014, revenues grew 3% to £24.5m on the back of good growth in the UK and the rest of the world. The US and South Korea sales were slightly lower. Online sales are beginning to build but they remain a tiny percentage of total revenues. Pre-tax profit jumped from £853,000 to £1.21m. A sharp increase in inventories has reduced net cash from £6.21m to £2.75m. There was also the regular £400,000 cash payment into the pension fund and the deficit is down to £2.05m.

The business is second-half weighted because of Christmas and buying patterns in the US. Panmure Gordon forecasts an improvement in full-year profit from £7m to £7.5m. The shares are trading on 15 times prospective 2014 earnings and they yield 3% on the forecast dividend of 25.4p a share.

ANGLE near to FDA authorisation

Cancer diagnostics *www.angleplc.com*

ANGLE (AGL)			75.5p
12 MONTH CHANGE %	+23.8	MARKET CAP £M	34.2

ANGLE hopes that its Parsortix cancer diagnostic technology could receive FDA authorisation in the third quarter of 2014. An FDA 510(k) submission was made in March and the timing of the decision will depend on the response from the FDA and if it has any supplementary questions. The potential global market for the technology is estimated to be worth $8bn and, longer term, there could be applications in other areas.

ANGLE has already achieved the CE mark, which is a step towards enabling the technology to be used in the clinical market in Europe. These are important steps towards generating significant revenues from Parsortix.

Pilot studies have commenced with the technology. Opinion leaders in the cancer sector are beginning to appreciate that the Parsortix system works with all types of cancer and enables the easy harvesting of cancer cells so that they can be used for molecular analysis.

A large-scale manufacturer for the Parsortix system has been appointed so when the roll-out into the research and clinical markets happens the system will be available to sell.

ANGLE still had £3.9m in the bank at the end of April 2014.There could be a further £700,000 received from the sale of the Geomerics graphics software business payable at the end of 2015. There was a £2.24m cash outflow from operations in the year to April 2014. Cash burn is currently up to £300,000 per month. There should be some sales into the research market in this financial year. This will provide a cash inflow but nowhere near enough to cover the cash going out. This means that further cash is likely to be required to continue to push forward the business.

Nichols performance still sparkles

Soft drinks maker *www.nicholsplc.co.uk*

Dividend

Nichols had been a dividend payer long before it moved from the Main Market – it was first listed on the Manchester Stock Exchange in 1961 – to AIM in 2004 and it has been increasing its dividend for a decade. The total dividend for 1999 was 8.5p a share and the following year it was increased to 8.8p a share, where it stayed until 2005. The total dividend for 2005 was 9.25p a share and it has increased every year since then. Last year's total was 19.62p a share, which was covered nearly 2.5 times by earnings.

The most conservative dividend forecast for 2014 is 21p a share, with the interim dividend already increased by 12% to 7.1p a share. The forecasts for the 2015 dividend range from 22.5p a share to 24.6p a share.

Business

Nichols has a range of brands that it owns or licenses for the soft drinks market. They include the core brand Vimto, Panda, Sunkist, Levi Roots and Weight Watchers. The Vimto brand is more than a century old and it has been selling in the Middle East, which is the main international market, for nearly as long. The drinks dispense business aimed at pubs and clubs has been rebranded Nichols Dispense.

John Nichols, the grandson of the founder, is chairman, while Marnie Millard took over as chief executive in May 2013. She has worked in the soft drinks sector for nearly two decades.

NICHOLS (NICL)	
Price (p)	1001
Market cap £m	368.8
Historical yield	2%
Prospective yield	2.1%

There is no worry about continuing to pay these dividends because the business is cash generative, with £32.9m in the bank at the end of June 2014, even after paying £3.3m for the head office freehold. The recent litigation judgement in favour of licensee Gul Bottlers relating to manufacturing and distribution rights in Pakistan will lead to a cash outflow – there was a £2m provision in 2013 and a further £8m provision this year.

In the six months to June 2014, revenues improved from £55.2m to £56.6m, while, excluding the Gul litigation provision, underlying pre-tax profit moved ahead from £9m to £10m. The focus has been on increasing margins rather than volumes. UK sales grew faster than the market but international sales declined in the first half although that should be made up for in the second half. Nichols is expected to report a full-year profit of around £24m, rising to around £25m the following year.

The share price has bounced back since the announcement of the litigation award but the shares are still well below their high back in 2013. The shares are trading on 20 times forecast 2014 earnings, falling to 19 in 2005. That appears quite a full valuation but Nichols has a strong long-term track record and a niche position in its market.

Dividend news

Specialist litigation proceeds-focused financial adviser **Frenkel Topping** continues to benefit from pushing more work through its relatively fixed cost base and it has decided to pay a maiden interim dividend of 0.17p a share. In the six months to June 2014, revenues improved from £2.6m to £2.71m but pre-tax profit grew from £578,000 to £656,000. Assets under management were 5% higher at £584m. There was net cash of £1.27m at the end of June 2014. House broker Shore Capital expects full-year profit to grow from £1.44m to £1.73m and total dividend from 0.58p a share to 0.7p a share, suggesting a slightly lower final dividend. The dividend cover will remain around three times.

Eclectic Bar Group says it will pay a maiden dividend for the 2014 financial year. Panmure Gordon forecasts a dividend of 2.5p a share, which would be nearly 2.7 times covered by forecast 2014 earnings of 6.7p a share. A jump in the dividend to 6.2p a share is forecast for 2015 and that should be twice covered by earnings. Trading in the six months to June 2014 has been in line with expectations, helped by two new bar openings and an initial contribution from the acquisition of the Lowlander Grand Café bar in Covent Garden. Eclectic has secured a new site in Liverpool for Lola Lo.

Gulf-focused investment company **Qannas Investment** is paying a $0.115 a share dividend from the proceeds of recent disposals which yielded $27m. The dividend costs $9m so there is still plenty of cash to reinvest. Qannas is managed by ADCM, a subsidiary of alternative investment firm Abu Dhabi Financial Group. The management strategy is to make further dividend distributions from disposals and there should be more realisations over the next two years. The NAV was $1.16 a share prior to the dividend distribution.

expert views

Expert view: The broker

Swooping on resources and value at Falcon

By DR DOUGIE YOUNGSON

Falcon Oil and Gas's strategy of monetising its portfolio of unconventional oil and gas assets is yielding results. The Beetaloo transaction is replicable across its portfolio and has generated a lot of value for the company.

The company has assets in Australia, Hungary and South Africa, each of which should see substantial increases in value on completion of their farm-outs and later on completion of successful exploration activity.

Falcon's strategy is to identify early-stage world-class unconventional hydrocarbon assets in countries with regulatory frameworks which support their development.

The company then seeks to attract major industry partners with the balance-sheet strength to conduct large-scale seismic programmes and subsequently perform the drilling programmes to move assets from prospective resources to potential reserves.

It is at this point that Falcon will exit at a price substantially higher than its original investment. The company has no intention of becoming a producer, as it would prefer to use its balance sheet to churn assets rather than develop them.

Betaloo

Falcon has most recently implemented this strategy with its Beetaloo Basin asset in Australia. Falcon had previously announced that it was hoping to farm out to US independent energy company Hess, but due to a variety of Hess-related factors this was not completed and the agreement with Hess was terminated. At this point, Falcon re-entered the market to attract new partners.

In May 2014, Falcon farmed out 35% to each of Origin Energy (which becomes operator) and Sasol, retaining a 30% interest in return for A$20m on completion and commitments to drill nine wells over a five-year period as well as conducting extended flow tests on four horizontal wells for 90 days.

Following Hess's decision not to farm in, Falcon immediately entered into negotiations with the owners of the privately held 12% Overriding Royalty Interests (ORRI). Two deals were concluded by the end of 2013 which will see Falcon pay US$7m (out of the A$20m received from the Beetaloo farm-out) to acquire the first 8% ORRI. Falcon also has the right under a five-year call option to acquire the next 3% ORRI for US$20m, with Origin and Sasol paying their 70% share.

Therefore, in terms of the cash consideration plus carry, the transaction is worth c.A$200m to Falcon. Another important factor is that Hess had already spent c.US$80m of capex, primarily on seismic, which is owned by Falcon and was used as a crucial part of the negotiations of the second farm-out process.

Strategy

The Beetaloo farm-out deal validated Falcon's strategy, i.e. the company can attract major industry partners prepared to pay substantial sums for early-stage unconventional resources.

•Second, Falcon now has the ability to see the value of these assets potentially grow substantially, which should lead to their sale in a few years' time on the assumption that the work programme yields positive results.

•Third, success breeds success. Falcon will now be more credible, both in the market and with industry, in that it can repeat this process and generate more value for shareholders via future farm-outs.

Falcon will have cUS$18m in cash after taking into account the receipt of A$20m from the Beetaloo farm-out and after making the initial payment on the purchase of the ORRIs. Falcon's annual burn rate is c.US$5m. Therefore, Falcon has in excess of three years of money even if no further farm-outs occur, which we feel is very unlikely. The A$20m from the Origin/Sasol deal is expected to be received by the company in Q3 2014.

> Falcon has in excess of three years of money even if no further farm-outs occur

The company has proven that it can attract major industry partners and extract value from its portfolio. Falcon now has no future capital commitments and is carried through work programmes in both Australia and Hungary. Given its current balance-sheet strength and zero capital exposure to these assets, we feel that the company will likely add new assets in the short to medium term.

Our risked acreage valuation for Falcon's portfolio yields 25.6p/share. The current cash position yields a further 1.2p/share. We therefore initiate coverage with a Buy recommendation and set a target price of 27p/share.

DR DOUGIE YOUNGSON is a research director at finnCap

feature

AIM continues to be main source of shells

There remain a number of potential shells on AIM, some good and others not so good.

Although the London Stock Exchange has tightened up rules on shells and investment companies there are still dozens of shells quoted on AIM.

The latest Cash Shells Directory, published by Growth Company Investor, shows that there are 77 shells on AIM, which is 7% of the companies on the market. There is a mixture of companies set up as shells and existing companies that have become shells or could be used as shells. For example, Antrim Energy sold its North Sea oil and gas production assets for $53m and, although it still has exploration assets, this left it with pro forma net cash of $17m.

The previous year's report included 52 AIM shells and the peak was 2006 when there were 97 AIM shells, which was the time that AIM decided to clamp down on the number of shells floating on AIM and make clean shells raise at least £3m.

The average AIM shell has cash of £3.3m, down from £6.8m the previous year. A major reason for that decline in average cash is that Sherborne Investors (Guernsey) A and Sherborne Investors (Guernsey) B are no longer on AIM. Sherborne A, which took a significant stake in investment manager F&C and changed its management, had only £7.2m in cash and it was wound up but Sherborne B had £207m at the time of the 2013 report and it subsequently moved from AIM, which it joined in November 2012, to the Specialist Fund Market operated by the London Stock Exchange. On its own Sherborne B had enough cash to add nearly £4m to the average cash figure.

Nearly half of the shells in the 2014 list were in the 2013 list or, to put it another way, more than two-thirds of the companies that were classed as shells in 2013 are still AIM-quoted shells.

There are 77 shells, which is 7% of the companies on AIM

Those that did find an acquisition include One Delta, which originally tried to acquire a cleantech-related company but at the end of 2013 it widened its investing strategy to include technology and media. This led to the acquisition of Audioboo and a name change for the holding company to Audioboo. Audioboo is a social media audio platform which allows professionals and amateurs to create and broadcast audio content. It has partnerships with the BBC, Premier League and the Telegraph. The content can be heard through the company's app or its website, or it can be embedded on the website of a partner.

Audioboo has 2.4m registered users but revenues are modest so it still has to prove itself as a commercial business.

Although shells might appear to offer a more straightforward way of gaining a quotation there are things that need to be taken into account. If it is not a clean shell there might be problems left in the business that will still require sorting out.

Having an existing shareholder base can be a positive because it provides a spread of shareholders and potential liquidity. However, many shells can find that it can cause problems for the share price, particularly if the shareholders originally invested in a different business. The share prices of some shells can tend to move within a certain range because when some existing shareholders see the share price moving up they sell shares.

There is still a wide range of shells, with some having little or no cash and others holding significant cash piles. An example of the latter is NBNK Investments, which was originally set up to bid for a package of assets being divested by a major bank. NBNK was outbid for Lloyds Banking assets but the winning bidder was the Co-Operative Bank and that deal did not go through. US billionaire Wilbur Ross took control of the shell and he has widened the search for an acquisition to include financial and insurance businesses in continental Europe. Ross's company WLR owns 45% of Virgin Money. NBNK has managed to maintain a cash pile of £20.1m.

Many of the shells might not

feature

strictly be thought of as shells by their management. They may be investment companies with a large cash pile or companies with a small business that does not warrant a quotation on its own and cash in the bank.

After all, Pizza Express tends to be used as an example of a business reversing into a shell but Star Computer did have a completely unrelated business before it acquired Pizza Express.

A large number of the current shells are investment companies set up between 2005 and 2007 to invest in a specific region's property or businesses. Examples include ARC Capital, Aurora Russia, China Growth Opportunities, Elephant Capital, Eredene Capital, PME African Infrastructure and Terra Capital. Many of these companies are running down their investment portfolios and returning cash to shareholders, but they could be used as shells.

Of course, even if a shell finds a business it does not mean that it will be a success. Some shells have more than one attempt at finding the right business and still do not make money for investors. The takeover of Green Compliance in an all-share deal valuing the company at 1p a share provides an example.

Green Compliance floated as a clean shell, then known as Wyatt Group, in March 2001 at 25p a share. Wyatt gained a following because it was chaired by Mears Group boss Bob Holt.

Wyatt's original acquisitions were in employment consultancy and drug testing. In 2009, energy performance consultancy Green CO2 reversed into Wyatt. Finally, it moved into water, fire and pest control compliance services before focusing on the water compliance services.

AIM is no longer the only market with companies specifically set up as shells. ISDX has had them for some time and GXG Markets also has shells.

Standard shells

The invention of the standard listing means that there are also clean shells floated on the Main Market.

Nomad Holdings is a recently floated clean shell on the standard list and it raised $473.7m net at $10 a share. The strategy of Nomad is to seek an acquisition that has a strong position in its market, a strong track record, experienced management and is already cash generative. There is no specific sector or geography for the potential acquisition but the board says it is more likely to be based in the Middle East, particularly Israel. That appears a less attractive region to be involved in at the moment but that will change and Nomad could always move its attention to other regions.

The Nomad board includes former Labour minister Lord Myners and Martin Franklin, who was involved with other standard-listed shells Platform Acquisition and Justice Holdings, which acquired Burger King, as well as being the founder of Jarden Corporation, which failed in a bid to acquire AIM-quoted Sprue Aegis last year.

The attractions of the standard list include the ability to raise much larger amounts of cash. It is also arguable that standard listings are less regulated than AIM. Flotations require a sponsor and the prospectus is assessed by the UK Listings Authority. However, after that there is no equivalent of the nominated adviser required when a company has a standard listing. There is a lot more leeway available in a standard listing than there is for a premium listing.

The average AIM shell has cash of £3.3m

Changes

Things are changing all the time and some of the shells in the report have found a reverse takeover target or already left AIM, although they effectively remain shells, albeit unquoted, until they are wound up. TVC is an example of this. It has distributed much of its cash and stake in TV broadcaster UTV and has left AIM.

There are also new shells to replace them. Armour Group sold its automotive division earlier this year for £10.9m and it is selling the loss-making home entertainment division to AHE 100 Ltd in return for a 25% stake in the buyer, which is also taking on debt of £3.5m. Armour is lending AHE £1m for five years at an annual interest rate of 10%. Armour boss George Dexter is resigning and he owns 35% of AHE.

Armour's remaining assets will be the 25% stake in AHE, the £1m loan and £4m in cash. Armour is seeking a business in the technology sector. Although this is a shell that had a previous business it appears relatively clean, with little in the way of problems remaining following the disposal.

Bob Morton remains as chairman and he has experience of finding new businesses for companies whose original business has been sold. For example, he was chairman of Harrier, which sold its IT security business. It lost its AIM quotation at the end of 2006 because it did not make an acquisition in the timescale required by the junior market. After a period of time quoted on Plus (now ISDX) Harrier eventually found the acquisition it was seeking and returned to AIM in January 2008 as e-business consultancy Conchango – which was subsequently taken over.

The quality of the shells varies but the most important thing is the quality of the company that reverses into the shell.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	20.8	18.9
Oil & gas	14.8	11.9
Industrials	13.2	17.7
Consumer services	13	10.4
Technology	10.6	10.4
Basic materials	9.2	16.1
Health care	7.5	6.2
Consumer goods	6.6	5.8
Telecoms	2.9	1.4
Utilities	1.5	1.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	768.56	+7.0
FTSE AIM 50	3695.05	-2
FTSE AIM 100	3301.18	-0.4
FTSE Fledgling	6862.17	+22.1
FTSE Small Cap	4410	+8.7
FTSE All-Share	3585.62	+2.2
FTSE 100	6730.11	+1.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	222
£5m-£10m	143
£10m-£25m	220
£25m-£50m	182
£50m-£100m	141
£100m-£250m	130
£250m+	66

KEY AIM STATISTICS

Total number of AIM	1104
Number of nominated advisers	46
Number of market makers	52
Total market cap for all AIM	£78.3bn
Total of new money raised	£87.8bn
Total raised by new issues	£38.5bn
Total raised by secondary issues	£49.3bn
Share turnover value (2014)	£25.6bn
Number of bargains (2014)	3.51m
Shares traded (2014)	174.9bn
Transfers to the official list	169

TOP 5 RISERS OVER 30 DAYS

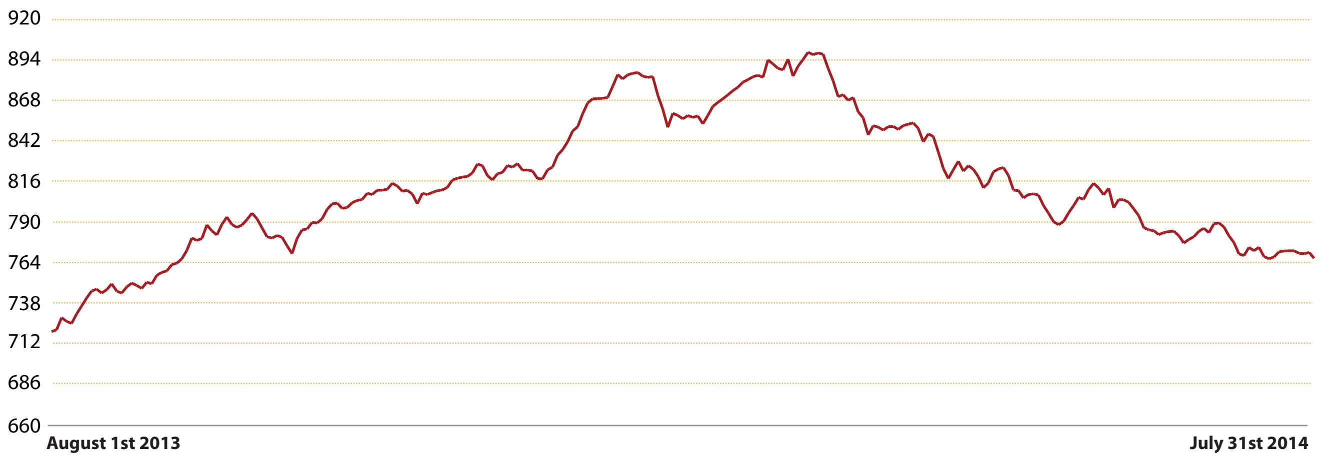
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
LED International Holdings	Cleantech	54	+535.3
Roxi Petroleum	Oil and gas	11.5	+170.6
Alba Mineral Resources	Resources	0.57	+109.1
Richland Resources Ltd	Mining	3.25	+100
Antrim Energy Inc	Oil and gas	5.38	+87

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Yolo Leisure and Technology	Shell	2.38	-54.8
Blinkx	Technology	34.5	-47.5
Renewable Energy Holdings	Cleantech	1.12	-43.8
Enables IT Group	Technology	12.25	-38.8
Mercom Oil Sands	Oil and gas	9.5	-37.7

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st July 2014, and we cannot accept responsibility for their accuracy.

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finnCap, whose chairman is Jon Moulton, is 95% employee-owned and is the top AIM broker by overall client numbers, according to research compiled by financial website Morningstar. The broker is also the number one adviser in the technology, industrials and healthcare sectors, number three broker in the oil and gas sector and in the top five in the basic materials sector.

In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

finnCap was presented with the Best Research award at the 2012 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running. finnCap is a sponsor of the AIM Awards, the plc Awards and the UK tech Awards.

In the year to April 2014, finnCap reported a 36% jump in revenues to £15.5m and operating profit was 92% higher at £5m. The finnCap 40 Mining index, finnCap 40 E&P index and finnCap 40 Tech index were launched in 2014.

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