FEBRUARY 2017

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Ramsdens pawnbroking flotation

Middlesbrough-based pawnbroker Ramsdens Holdings is set to join AIM on 15 February. Its growth is not coming from its core business but from providing foreign currency, pre-paid travel cards and international payments. The strategy is to increase the group's online activities and grow the number of branches.

In the year to March 2016, group revenues improved from £29.2m to £30m. The accounts of the main subsidiary show that foreign-currency margin rose from £5.36m to £7.59m. This contributes 35% of group gross profit. By contrast, the core business of pawnbroking, precious metal purchases and retail sales fell from £21.3m to £19.8m. Revenues from other financial services were flat at £2.6m.

Ramsdens has 127 sites and last year it made an operating profit of £3.19m. In the six months to September 2016, revenues increased from £16.2m to £18.4m and operating profit improved from £2.81m to £3.48m.

The placing will raise £15.6m at 86p a share, valuing the company at £26.5m. NorthEdge Capital, which backed a buy-out in September 2014, will receive just over £10m from share sales. The NorthEdge stake will fall from 75.6% to 30.7%. The other £5m will go to the company and be used to repay the remaining loan notes and the costs of the flotation. By the end of March 2016, there were still £4m of loan notes outstanding to NorthEdge, with £4.86m paid off during the previous year.

Mercia builds cash pile

Technology-focused investment company Mercia Technologies is raising £40m from a placing at 46p a share in order to finance existing investments and make new ones. Mercia has invested more than £30m since it joined AIM at the end of 2014.

Mercia has partnerships with 18 universities, including Birmingham, York, Liverpool and Heriot Watt. These provide access to potential spin-offs. The acquisition of Enterprise Ventures last March increased the number of Mercia's investments from 35 to around 150. There was £24m of cash in the bank at the end of September 2016, while the acquisition of Mercia investee company Allinea Software by ARM will provide additional cash of £2.6m.

Mercia has 25 remaining direct investments, valued at nearly £45m. This includes a stake in AIM-quoted women's health diagnostics developer Concepta, which floated last summer. There are third-party managed funds of £228m. The revenues generated from these managed funds contribute to covering group operating costs. The investee companies of the managed funds also provide potential investments for Mercia itself, which tends to initially invest at a later point in a company's development.

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Learning Technologies targets savings

Learning Technologies Group has secured a recommended £53.6m bid for NetDimensions, the talent management software provider. Learning Technologies joined AIM in 2013 with a strategy of becoming a consolidator in the e-learning sector and this is the largest deal so far.

The acquisition provides exposure to Asia Pacific and significant expertise in sectors such as financials, defence and government. Annualised cost savings of $8m could be achieved through reductions in marketing spending, greater buying power and the more efficient utilisation of staff time.

The 100p a share cash bid is more than double the share price level prior to the announcement of bid talks. It is also higher than the NetDimensions share price has ever been. The deal bid is being financed by a £46.5m placing at 37.5p a share. The deal is likely to be earnings dilutive this year but should enhance earnings in 2018.

Before the bid, Learning Technologies had published a trading statement, which led Numis to edge up its 2016 pre-tax profit forecast to £6.4m and the 2017 forecast, when the Civil Service learning contract will make a significant contribution, to £8.3m. Before the bid, NetDimensions had been expected to make a 2017 pre-tax profit of $1.2m (EBITDA of $1.46m) on revenues of $31.5m. Learning Technologies believes that it can help NetDimensions to reach a run-rate EBITDA margin of at least 30% by the end of 2017. That suggests an annualised EBITDA of more than $9m and a large boost to group profit in 2018.

Defined deal for Cello

Cello has expanded its biotech-related marketing services operations via the acquisition of New Jersey-based scientific consultancy Defined Health for an initial £4.6m, although the total payment could end up as high as $9.3m depending on performance. Defined Health could make a profit of $800,000 this year and it will make an eleven-month contribution to the marketing services group. Cello had already set up a biotech business, which focuses on commercialisation consultancy, from scratch and it recently moved into profit. There will be cross-selling opportunities between the two businesses. A £15m placing at 97p a share will pay for the acquisition and leave Cello with net cash to finance further acquisitions.

Sound and Hurricane continue progress

Oil and gas explorers Sound Energy and Hurricane Energy were two of the most actively traded companies on AIM last year. Drilling activity suggests that they could both be as active this year.

Sound has reported analysis of the TE-6 and TE-7 wells on the Tendrara licence area in western Morocco. The internal analysis suggests that the mid-case gross unrisked gas in place is 17tcf. Although this is a significant figure, it is an exploration estimate and does not give any indication of how much of the gas will be recoverable. The wells themselves have established that there is 300-500bcf of gas.

The TE-8 well could be important in assessing the real level of resources in the licence area and how much gas will be recoverable. There will be further assessment of seismic and other data in order to make plans for further exploration drilling. There are also plans to drill an exploration well in Italy in the next few weeks.

North Sea-focused Hurricane has two major discoveries sited to the west of the Shetland Islands called Lancaster and Lincoln. An initial well is being drilled at the Halifax prospect and there are other prospects that do not have drilling plans as yet. Hurricane owns 100% of all these assets, which provides flexibility when it comes to financing the development of the fields. These type of offshore fields require significant investment.

Hurricane believes that it could generate initial production from Lancaster by early 2019 and might look to farm out part of its interest to a partner in order to fully develop the field. WH Ireland believes that Lancaster has 439m barrels of oil recoverable. Results from the Halifax well could be known as early as the beginning of March.

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advisers

Second-half recovery for Arden

AIM broker Arden Partners returned to profit in the second half but it still made a full-year loss.

In the year to October 2016, revenues improved from £5.49m to £5.86m, with much of the improvement coming from a swing from loss to profit of fair-value adjustments for derivatives which is included in the revenues of the equities division. The corporate finance division increased its revenues from £3.31m to £3.43m. This is likely to be an increasingly important area for the broker because commissions are more difficult to generate. The overall loss fell from £2.1m to £429,000. Cash in the bank dipped slightly to £5.17m but the reduction was less than the £420,000 spent on buying back shares.

Arden is seeking to be a consolidator by making acquisitions of complementary businesses that could improve efficiency and generate cost savings.

■ A new platform to help small quoted companies raise funds has been launched and there are already five fundraisings on the site. The i-dealcorp.com website does not raise money directly for clients but it puts together companies that need cash with potential investors. The companies post information on the platform but they remain anonymous until an investor, which could be an institution or individual, has registered interest and been verified as genuine. The company pays a flat-rate annual subscription to be included on the platform and its news board. The current focus is predominantly companies quoted on European and North American stock markets.

ADVISER CHANGES - JANUARY 2017

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Revolymer	N+1 Singer	Panmure Gordon	N+1 Singer	Panmure Gordon	03/01/17
RTC Group	Whitman Howard	Allenby	Spark	Allenby	03/01/17
Touchstone Innovations	RBC/JPMorgan Cazenove	Cenkos/JPMorgan Cazenove	JPMorgan Cazenove	JPMorgan Cazenove	04/01/17
Savannah Petroleum	Stifel Nicolaus/Mirabaud	Mirabaud	Strand Hanson	Strand Hanson	05/01/17
Global Petroeum Ltd	Cantor Fitzgerald/ GMP	RFC Ambrian/ FirstEnergy	Cantor Fitzgerald	RFC Ambrian	09/01/17
Central Rand Gold Ltd	Brandon Hill	Panmure Gordon	ZAI	Panmure Gordon	10/01/07
Chamberlin	Smith & Williamson	Panmure Gordon	Smith & Williamson	Panmure Gordon	10/01/17
Duke Royalty Ltd	Cantor Fitzgerald/Mirabaud	Peel Hunt	Grant Thornton	Peel Hunt	11/01/17
Clinigen Group	RBC/Numis	Peel Hunt/Numis	Numis	Numis	13/01/17
BowLeven	Cenkos/Barclays	Barclays	Cenkos	Macquarie	16/01/17
Fitbug Holdings	Hybridan	Hybridan/ Cantor Fitzgerald	Spark	Cantor Fitzgerald	16/01/17
Nektan	Stockdale	Zeus	Stockdale	Zeus	16/01/17
Metals Exploration	Canaccord Genuity	SP Angel	Canaccord Genuity	Stockdale	18/01/17
Blue Star Capital	Vicarage Capital	Cairn	Cairn	Cairn	19/01/17
Atlantis Resources Ltd	Macquarie/Peel Hunt	Peel Hunt/Numis	Peel Hunt	Peel Hunt	20/01/17
Flowtech Fluidpower	finnCap/Zeus	Zeus	Zeus	Zeus	20/01/17
Baron Oil	SP Angel/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	24/01/17
Immupharma	Northland	Northland/ Panmure Gordon	Northland	Panmure Gordon	24/01/17
Monchhichi (Mercom Capital)	Panmure Gordon	Northland/ Beaufort	Panmure Gordon	Northland	24/01/17
Thor Mining	Beaufort/SI Capital	Northland/ SI Capital	Grant Thornton	Grant Thornton	24/01/17
Mineral & Financial	Beaufort/WH Ireland	WH Ireland	WH Ireland	WH Ireland	26/01/17
Avesoro Resources	Hannam/Numis	Numis	Numis	Numis	27/01/17
Newmark Security	Allenby	Cantor Fitzgerald	Allenby	Cantor Fitzgerald	27/01/17
Falanx Group Ltd	Whitman Howard	Whitman Howard / Panmure Gordon	Spark	Panmure Gordon	30/01/17
Vast Resources	Peterhouse/Brandon Hill	Peterhouse/ Brandon Hill	Beaumont Cornish	Strand Hanson	30/01/17
Infinity Energy SA	Peterhouse	WH Ireland	Cairn	Cairn	31/01/17

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Styles & Wood enhances prospects with mechanical and electrical buy

Project services *www.stylesandwood.co.uk*

Property and project services provider **Styles & Wood** has continued its recovery over the past year and the share price has doubled. The company has made two earnings-enhancing acquisitions in four months. These acquisitions are broadening the range of services that the group can offer.

Dartford-based GDM Group provides mechanical, electrical and project services and this will add extra skills to the group. The companies have previously worked together on a framework agreement. Styles & Wood is paying an initial £4m in cash, shares and loan notes and there could be up to £3.1m more payable depending on performance up until the end of 2019. In the year to April 2016, revenues were £7.9m and there was a pre-tax profit of £1m.

Two earnings-enhancing deals in four months

This deal follows last September's £2m cash and shares acquisition of Keysource, which added to group expertise in data centres and critical facilities. Just like GDM, Keysource has worked with Styles & Wood on a framework agreement, so management knows the business.

At the end of last year, Styles & Wood renewed a framework agreement with a major UK bank. This framework will continue until 2019 and covers a portfolio of properties in the UK and Republic of Ireland.

Styles & Wood has the backing of the Business Growth Fund, whose

STYLES & WOOD (STY)			381.5p
12 MONTH CHANGE %	+104	MARKET CAP £M	33.2

stake is just below 18%. Cash generated from operations is paying down debt and the company could have net cash by the end of 2017.

In the six months to June 2016, underlying pre-tax profit improved from £200,000 to £500,000. The business is second-half weighted so this provides little indication of the likely full-year outcome but the 2017 forecast is more relevant any way. House broker Shore has upgraded its 2017 earnings per share estimate from 50.9p to 54.4p, with the 2018 forecast increased from 54.9p to 59.4p. The shares are trading on seven times 2017 prospective earnings.

Acquisition creates a profitable Attraqt

Visual merchandising software *www.attraqt.com*

Visual merchandising technology developer **Attraqt** is buying its much larger rival Fredhopper from fully listed SDL, which is selling non-core assets, for £25m. Loss-making Attraqt is acquiring a much larger, profitable business with a long track record that will double the group's customer base.

Fredhopper was acquired by SDL at around the time Attraqt launched its software in 2009. Management says that Attraqt will be the only company that can offer online visual merchandising, site search and product recommendations. There

ATTRAQT (ATQT)			48.5p
12 MONTH CHANGE %	-19.8	MARKET CAP £M	13

are plans to accelerate investment in product development and increase sales and marketing. The purchase also adds customers in Europe and Asia-Pacific. There will be cross-selling opportunities both in terms of product range and territories, because Attraqt has a base in the US.

In 2016, Fredhopper generated revenues of £11.1m and EBITDA of £3m, whereas Attraqt reported revenues of £3.6m and made an underlying EBITDA loss of £1.6m. There is potential to eliminate duplicated activities but there are likely to be higher sales and marketing costs as both existing and new customers are targeted for additional business.

The deal is being funded by a firm placing raising £27.5m at 35p a share – a large discount to the market price and the 50p flotation price in August 2014. A planned open offer to existing shareholders could raise up to £1m. There was £1.2m in the bank at the end of 2016.

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US expansion propels robotics software growth at Blue Prism

Software robotics *www.blueprism.com*

Software robotics developer and supplier **Blue Prism** was the big success story among last year's AIM flotations and the share price has continued to rise in 2017 even though the annual loss will rise before its starts to decline in subsequent years. This is predominantly due to the focus on growth in the US market.

In 2016, revenues improved from £6.1m to £9.6m, while the underlying pre-tax loss jumped from £700,000 to £4.4m. That growth in revenues was even more impressive because the 2015 figure included a one-off licence worth £800,000. Total contracted revenues, stretching out over a number of years, are £35.2m.

Total contracted revenues are £35.2m

Customers include O2 and Xchanging. There were 96 new customers last year, with 47 existing customers signing up for additional services. Most of the new customers are coming via the partner network, which includes Accenture, Deloitte, IBM and specialist retailers. The US has grown from 10% of revenues to 28% of revenues and the sales force is already larger than in the UK.

Looking at the balance sheet, there appears to be plenty of cash to cope with the losses over the next two or three years. Development spending is written off immediately, so capital investment is minimal. Revenue expectations have been upgraded

BLUE PRISM (PRSM)			461p
12 MONTH CHANGE %	N/A	MARKET CAP £M	287

for both 2017 and 2018 but the forecast losses are unchanged. The year started with £946,000 of monthly recurring revenues, which is equivalent to £11.4m annually, not that far away from the £14.1m of revenues forecast for 2017. That is an upgrade from the former forecast revenues of £13m, although the loss is unchanged at £8.1m because of the immediate expensing of sales commissions.

The share price has momentum behind it but Blue Prism needs to do better than the existing forecasts to warrant the current valuation.

ANGLE anticipating trials news

Cancer diagnostics *www.angleplc.com*

ANGLE is generating revenues from research sales of its Parsortix diagnostics system and further progress has been made towards the more lucrative market that will be addressable when regulatory approvals are gained to use the technology clinically.

The Parsortix PC1 instrument is designed to harvest circulating tumour cells from the blood of patients. Gaining FDA approval for use of the Parsortix system in breast cancer studies has proved more complex than initially thought. A clinical study will be carried out at three major cancer centres in the

ANGLE (AGL)			50p
12 MONTH CHANGE %	-24.8	MARKET CAP £M	37.4

US and this should be completed to enable FDA submission by the end of 2017.

Initial reports from the company's ovarian cancer studies indicate that the Parsortix system can distinguish between malignant and benign tumours in women with an abnormal pelvic mass. Headline data should be available by the summer. There is also potential to analyse cells for gene expression information that can be used to assess treatment required prior to surgery.

Sales to research organisations generated £219,000 in the first half and are forecast to rise to £1.2m in the year to April 2017.

There was £9.7m in the bank at the end of October 2016, following the placing last autumn, but the clinical trials mean that costs will increase. House broker Cenkos estimates that there will still be cash of £1m by the end of April 2018. This assumes that revenues reach £3.3m in 2017-18. Hopefully, positive trial results will help to push up the share price before then.

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company news

NWF promises to bounce back in the second half as feed demand recovers

Feed, fuels, food distribution *www.nwf.co.uk*

NWF (NWF)			177.5p
12 MONTH CHANGE %	+4.3	MARKET CAP £M	86.3

NWF had a tough first half but it is confident that the second half will be much stronger and more than make up for the interim shortfall. Milk prices have recovered since last summer and they are reaching levels where even the smaller farmers should make money. That will boost demand for feed, which is the part of the business that lost money in the first half, at a time when capital investment has improved the efficiency of the division.

In the six months to November 2016, revenues increased by 14% to £255.9m, with all three divisions growing their contribution – feeds included revenues from an acquisition last year. Underlying pre-tax profit, excluding £400,000 of reorganisation charges for the feeds division, fell from £2.6m to £2m.

Milk prices have recovered since last summer

Net debt was £19.1m, which reflects higher trade receivables and the additional capital expenditure.

Food distribution was the only part of the business that increased its profit in the period. Fuels profitability was hampered by higher sales of lower-margin diesel and oil but the colder weather of recent months means that trading has improved. Feed, though, is the area where the big improvement will come in the second half, having been hit by poor demand and rising ingredient costs in the first half. New milling capacity is in place at just the right time to take advantage of recovery in demand for feed from milk producers, with the milk price moving from 20.5p/litre in June to 25.5p/litre at the end of November.

An improvement in full-year profit from £8.3m to £8.8m is forecast. That means that second-half profit would have to rise from £5.7m to £6.8m. The shares are trading on just over 12 times prospective 2016-17 earnings. The interim dividend was unchanged at 1p a share but there should be room to increase the final and keep the total dividend at least twice covered by earnings.

Wynnstay proves its resilience

Agriculture and retail *www.wynnstay.co.uk*

WYNNSTAY (WYN)			542.5p
12 MONTH CHANGE %	+5.3	MARKET CAP £M	105.8

Wynnstay, like NWF, was hit last year by the decline in feed demand due to the weak milk price but the agricultural and retail business has shown that it can still generate a significant profit in tough times and its prospects have improved. Management confidence is indicated by an 8% increase in the total dividend to 12p a share, thereby continuing the long-term dividend policy despite the reduction in dividend cover to 2.5 times.

In the year to October 2016, revenues dipped from £377.4m to £368.1m, with price deflation more than offsetting the initial contribution from the Agricentre retail business acquired last year. Underlying pre-tax profit fell from £9.05m to £7.37m. Net cash was £4.28m at the end of October 2016 and this figure is set to continue to increase unless further acquisitions are identified.

There was a reduction in feed volumes as milk production declined but there was growth in seed sales. Compound feed, fertiliser and grain prices are all higher than the average prices for the past financial year, helped by the fall in sterling. Agricentre should make a positive contribution this year.

House broker Shore has increased its 2016-17 profit expectations for the agriculture division but this is offset by a reduction in retail profit improvement. The overall pre-tax profit forecast remains at £7.9m, which puts the shares on 17 times prospective earnings.

DekelOil plants seed for dividend growth

Oil-palm plantations *www.dekeloil.com*

Dividend

Oil-palm plantations operator DekelOil is paying a maiden dividend following its move into profit in 2016. A distribution of £500,000 is promised, which is equivalent to 0.17p a share. That should be covered around five times by earnings per share. There is a scrip alternative and some of the directors are going to take part of the payment in shares so the final cash outflow may be lower. The plan is to have a progressive dividend policy. Earnings per share are expected to more than double in 2017 but dividend growth is more likely to be around 10%.

DekelOil is able to pay a dividend because the outstanding capital notes were converted into 12.6 million shares at 13.25p each – a 10% premium to the then market price in January. These capital notes were issued in 2010, prior to the company's flotation in 2013.

Business

When DekelOil joined AIM less than four years ago it raised money at 1p a share (10p a share after a subsequent ten-for-one share consolidation). DekelOil owned 51% of the Ayenouan palm-oil project near the coast of Côte d'Ivoire and its partner Siva Group had invested €8.3m in the project. The joint venture company held rights over additional land in the Guitry region of Côte d'Ivoire.

The plan was to build a crude-palm-oil extraction mill with an intended capacity of 70,000 tonnes a year and construction was completed at the end of 2013. In 2014, the national government granted 100% exemption from corporation tax for profit generated from the mill up until the end of 2026. A kernel-crushing plant was subsequently added.

DEKELOIL (DKL)	
Price (p)	12.75
Market cap £m	30.7
Historical yield	Nil
Prospective yield	1.3%

Over the past year, DekelOil has taken its stake in the joint venture to 100%. In 2016, revenues increased by 12% to €26.1m. Crude-palm-oil sales improved from 35,573 tonnes to 39,498 tonnes but the average price fell by 5% to €575/tonne. However, prices have been rising and they reached €700/tonne at the end of 2016. The kernel-crushing plant is producing higher volumes than expected.

Net debt is estimated at €19.6m at the end of 2016, falling to €17.1m at the end of 2017. Lower capital expenditure should mean a sharper reduction in debt in subsequent years.

DekelOil broke even in 2015 and it is expected to make a 2016 pre-tax profit of €2.6m, although this is much lower than originally expected because of poor weather later in the year. The dividend announcement suggests that management is confident that the plantation's performance will continue to improve. The 2017 pre-tax profit forecast has been reduced from €7.9m to €6.5m. The shares are trading on seven times prospective, non-taxed 2017 earnings, although the multiple does depend on the euro/pound exchange rate. DekelOil has made impressive progress over a four-year period and there is more growth to come.

Dividend news

Acquisitive drinks wholesaler and distributor **Conviviality** has doubled the interim dividend to 4.2p a share on the back of a trebling of revenues and pre-tax profit. First-half earnings per share were 142% ahead at 9.2p. This reflects full and part contributions from acquisitions, particularly Matthew Clark, and the integration of the businesses is ahead of schedule. Pro forma revenues were 4.4% higher in the first half and in November and December the rate of increase moved ahead to 6.1%. Net debt was £138.4m at the end of October 2016 but the second half should be cash generative. A full-year dividend 12.5p a share would be covered 1.8 times by forecast earnings.

Student accommodation developer **Watkin Jones** reported a 23% increase in pre-tax profit to £40.2m in the year to September 2016. Net cash was £32.2m and Watkin Jones is paying a 4p a share maiden dividend. The market for student accommodation remains strong with rising rents. Following the first full year of trading as a quoted company, a dividend of 6.3p a share is expected, which would be 2.3 times covered by forecast 2016-17 earnings. Forward sales for 2016-17 already cover two-thirds of forecast gross profit of £60.4m so the forecasts appear obtainable.

Fashion brand **Joules** announced a maiden interim dividend of 0.6p a share, following a one-fifth increase in underlying pre-tax profit to £7.5m. Online sales were 30% higher – double the growth rate in total revenues. Joules is bringing US distribution in-house, which will lead to an initial increase in costs but the benefits in terms of sales and margins will come through over the medium term. Retail sales over the Christmas and New Year period were 22.8% higher. A full-year dividend of 1.6p a share would be covered more than five times by forecast earnings.

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expert views

Expert view: The broker

Creating value in a large and competitive market

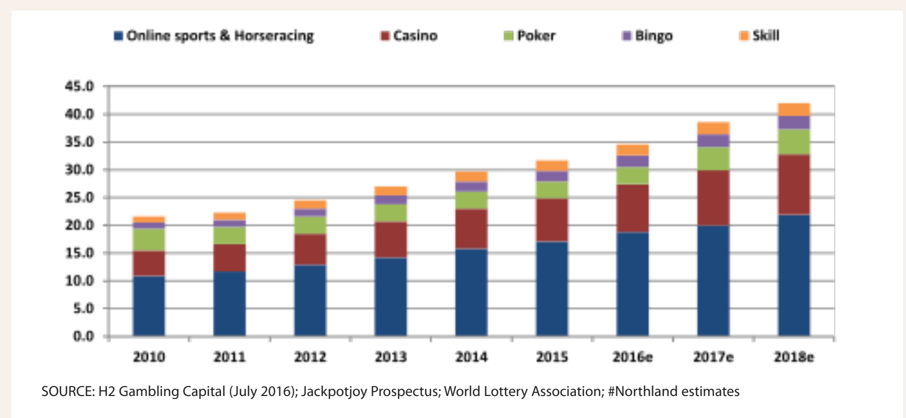
By Michael Campbell

We previously alluded to finding niche opportunities in the gaming or gaming related industries back in the March 2016 issue. Veltyco Group* (VLTY.L) is an online marketing and promotions business which refers customers to sports betting, casino, lotteries and online trading brands, under exclusive marketing agreements. The business generates revenues through sharing in the net revenues generated by the online brand operators. It is exposed to a significantly large online betting and gaming market, where globally operators generate in excess of €30bn in gross revenues annually. This creates a significant backdrop in which Veltyco's management team can create value for its own shareholders.

Running lean

Management runs the business in a lean manner, where operating costs are c. 20%–25% of revenues and expected to fall below 20%. This compares favourably with gaming operators, which have additional distribution cost structure (processing fees, gaming taxes, licensing fees, game royalties) and therefore their operating costs are between 45%–55% of revenues. This affords Veltyco the opportunity to focus on what really drives revenue generation, which is marketing. This is the largest cost for the business; however it is directly correlated with revenue generation. Marketing as a percentage of revenue is expected to grow to the order of c. 45%,. Again this compares favourably with operators' marketing as a percentage of revenues, which is typically 20%–30%. Furthermore, the business should benefit from leveraging existing skills or cost base from the casino & sports vertical across into other verticals, which should help improve the profit margins.

GAMING MARKET GROSS REVENUE (€BN)



SOURCE: H2 Gambling Capital (July 2016); Jackpotjoy Prospectus; World Lottery Association; #Northland estimates

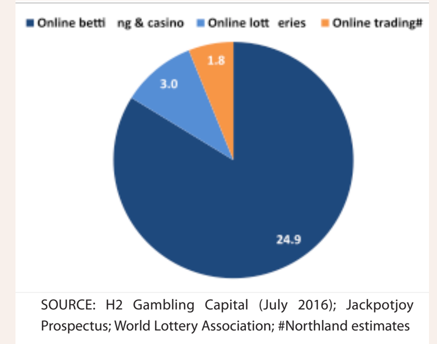
Scale improves returns

Management wants to increase the scale of the business across all three verticals. This should in turn increase margins, cash generation and improve cash conversion. Management has a two-prong approach to increasing scale:

- Organically, through investing in marketing across all three verticals. This is the company's largest cost; however as alluded to it is directly correlated to revenue generation.
- Secondly, management will continue to consider both acquisitions and new marketing agreement opportunities with operators in new markets, which will help to accelerate the scale of the business.

Creating value

In summary, increasing scale, running a lean operating model, leveraging existing skills across verticals and focusing on what drives revenue will not only enhance margins but ultimately increase returns which should drive the share price. A highly experienced management team is in place to execute on the growth strategy, having already successfully demonstrated one significant marketing deal shortly after listing on AIM in June 2016. A positive trading update in mid-December alluded to trading ahead of market expectations for the full year to December 2016. The profit multiple for the current year is c. 9x earnings per share, and with the promise of strong growth a re-rating could very well be on the cards in our view.



SOURCE: H2 Gambling Capital (July 2016); Jackpotjoy Prospectus; World Lottery Association; #Northland estimates

**Northland Capital Partners acts as nominated adviser and broker to Veltyco Group plc*

MICHAEL CAMPBELL is a director of research at Northland Capital Partners Limited

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How to manage investor expectations

There are companies that regularly spark upgrades in profit forecasts because they are good at managing expectations and avoiding shocks.

There are plenty of companies that disappoint the market with profit warnings and subsequent forecast downgrades. In some cases this is because of an unforeseen incident but in many cases it is bad management of expectations and the share price can slump. There are other companies, though, that do manage expectations in a way where forecast changes are upgrades and this has become a good habit for these companies.

If a company does manage its expectations properly then this generally translates into a high rating because investors trust the management and believe that profits will continue to grow. One of the important things is not starting the year with too high a target. A realistic initial target might make potential growth appear less impressive but it is better to perform ahead of expectations rather than disappoint.

Here are three examples of AIM companies that have, or are developing, a track record in terms of regular profit upgrades. The other thing that connects these companies is that they are all strongly cash generative, so the profits are turning into cash. Some of the cash is being paid to shareholders in the form of growing dividends but there is still plenty left to finance earnings-enhancing acquisitions.

Tracsis (TRCS)

Transport optimisation software and services provider Tracsis has been the poster boy for profit upgrades for around a decade. Initial forecasts for the next financial year tend to start at a level that appears to offer limited growth but because of the track record this can be taken as a base figure.

Tracsis does make acquisitions, so there is some growth from these but there is also organic growth. Another complicating factor is the remote monitoring equipment business, where sales can be lumpy. This makes management of expectations more difficult.

When the 2014-15 figures were published, Investec forecast a rise in profit from £5.8m to £6.2m in 2015-16 – equivalent to earnings per share of 18.7p. After the interim announcement, the forecast was upgraded to a pre-tax profit of £6.2m and earnings of 20.6p. The outcome for the year to July 2016 was a pre-tax profit of £6.7m and earnings of 22p.

A 2016-17 profit of £8m is forecast and that equates to earnings of 24p – these forecasts are each around one-fifth higher than they were one year earlier.

Keywords Studios (KWS)

Keywords Studios provides translation and art services to the digital gaming sector and it came to AIM with a strategy to consolidate the international business supplying services to the games developer market. It has acquired a large number of companies and that can complicate matters when assessing forecast changes. Any company can grow via acquisition, Quindell/Watchstone for example, but it does not mean that they can build a business. Keywords has a clear strategy and the management to carry it out.

As recently as last October, the earnings per share forecast for 2016 was €0.174. The most recent trading statement meant that an already upgraded forecast of €0.19 was further upgraded to €0.199. Like-for-like sales growth was 22%. The decline in sterling against the dollar and euro over the year has helped but the main reason is the integration of earnings-enhancing acquisitions.

Over the same period, the 2017 earnings forecast has risen from €0.223 to €0.277 with cross-selling benefits coming through from more recent acquisitions and overheads being spread over a much larger business.

Amino Technologies (AMO)

First, it should be admitted that Amino had a profit warning and major profit forecast downgrade in 2015, but since then the interactive television software and hardware developer has performed well and it has sparked a series of profit upgrades. So, Amino does not have a long track record of positive surprises but it appears to have learnt that it needs to be sensible with its guidance.

In July 2016, house broker finnCap upgraded its 2015-16 earnings per share forecast from 9.3p to 11.4p. This was subsequently upgraded and the outcome for the year of 13.5p beat that upgrade. Just as with Keywords, exchange-rate movements have helped, along with acquisitions in the previous year, to grow revenues by 80% to £76.2m but there was also underlying revenue growth of 7%.

The 2016-17 earnings forecast has risen from 12p last July to 13.7p. That does not suggest much growth this year but the tax charge is edging up and there is scope for further upgrades as new products build revenues and software revenues become more important.

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Consumer takes over AIM

The consumer goods and services sectors account for more than one-third of trading on AIM.

Four out of the top ten traded companies on AIM during December 2016 are in the consumer services sector and another, Fevertree Drinks, is in the consumer goods sector. This is true in terms of number of bargains and value. Contrast that with December 2011 when eight out of the top ten traded shares in terms of number of bargains and seven in terms of value were resources companies.

December is always a quieter month but the total monthly number of trades has jumped from 364,204 five years ago to 532,066, although the value has increased by a smaller percentage.

Consumer services and goods sectors accounted for 39.3% of trades in 2016, up from 29.6% the previous year. Online fashion retailers ASOS and boohoo.com, along with Fevertree, dominate the trading. ASOS is continuing its dominance but boohoo.com and Fevertree are being traded much more often than one year ago.

The resources sectors (mining and oil) also improved their share of trades from 21.5% to 23.1%. In 2011, the resources sectors accounted for 69.3% of AIM trades, so it was even more dominant than the consumer sectors are now.

The main decline in market share came from the industrials sector, where the percentage share fell by more than three-fifths to 5.7%. The decline was not quite as marked in value terms. That is mainly attributable to the switch of online payments services provider Paysafe to the Main Market early in 2016.

ASOS and boohoo.com dominate the consumer services sectors but transport and leisure company Dart Group and vet practices operator CVS Group are also increasingly attracting investors in the consumer sector. ASOS has increased its monthly number of trades from 19,889 five years ago to 53,227. In December 2011, the most bargains were in Gulf Keystone and these 28,231 trades would have made it fourth in the list this December.

IHT attraction

CVS and Dart have not always been heavily traded by investors. Back in December 2011, there were 61 trades in CVS, valued at £781,000. Five years later there were 13,627 trades, valued at £40.4m. There is a general upwards trend.

It is a similar story with Dart, where the number of trades has increased from 148 to 18,709 over the five-year period and their total value has risen from £553,000 to £49m, although that is lower than in December 2015 despite a higher number of trades.

This increasing trading is likely to be an indication of the popularity of investments that provide inheritance tax relief. These two companies fit the general type of profile for IHT portfolio candidates of solid growth companies paying a dividend and that are likely to at least retain their value. Both CVS and Dart are highly rated because they are sought after for IHT portfolios.

AIM SECTOR TRADING LEVELS

	NUMBER OF BARGAINS		VALUE (£M)	
YEAR END	2016 (% OF TOTAL)	2015 (% OF TOTAL)	2016 (% OF TOTAL)	2015 (% OF TOTAL)
Consumer Services	33.6	26.7	32.9	27.3
Basic Materials	11.9	8.6	8.1	5.6
Oil & Gas	11.2	12.9	7.8	7.3
Health Care	10.9	8.7	9	8.1
Technology	10.2	12.6	9.3	13.2
Financials	8.9	9.3	13.6	13.9
Industrials	5.7	14.8	12.3	17.4
Consumer Goods	5.7	2.9	5.3	4
Telecommunications	1.6	3.1	1.4	2.5
Utilities	0.2	0.4	0.2	0.7

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	18.1	10.6
Financials	16.4	17.6
Healthcare	12.9	9.2
Industrials	14.8	16.2
Technology	11.1	12.2
Consumer goods	9.9	6.2
Basic materials	7.5	15.2
Oil & gas	7	10.2
Telecoms	1.3	1.3
Utilities	0.8	1.3

KEY AIM STATISTICS

Total number of AIM	982
Number of nominated advisers	33
Number of market makers	50
Total market cap for all AIM	£80.8bn
Total of new money raised	£99.9bn
Total raised by new issues	£41.7bn
Total raised by secondary issues	£58.2bn
Share turnover value (2016)	£32.5bn
Number of bargains (2016)	6.22m
Shares traded (2016)	382.9bn
Transfers to the official list	182

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	883.58	+27.4
FTSE AIM 50	4804.98	+26.4
FTSE AIM 100	4220.76	+29.3
FTSE Fledgling	9194.05	+24.8
FTSE Small Cap	5207.06	+19.3
FTSE All-Share	3858.26	+15.7
FTSE 100	7099.15	+16.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	202
£5m-£10m	104
£10m-£25m	199
£25m-£50m	147
£50m-£100m	138
£100m-£250m	113
£250m+	79

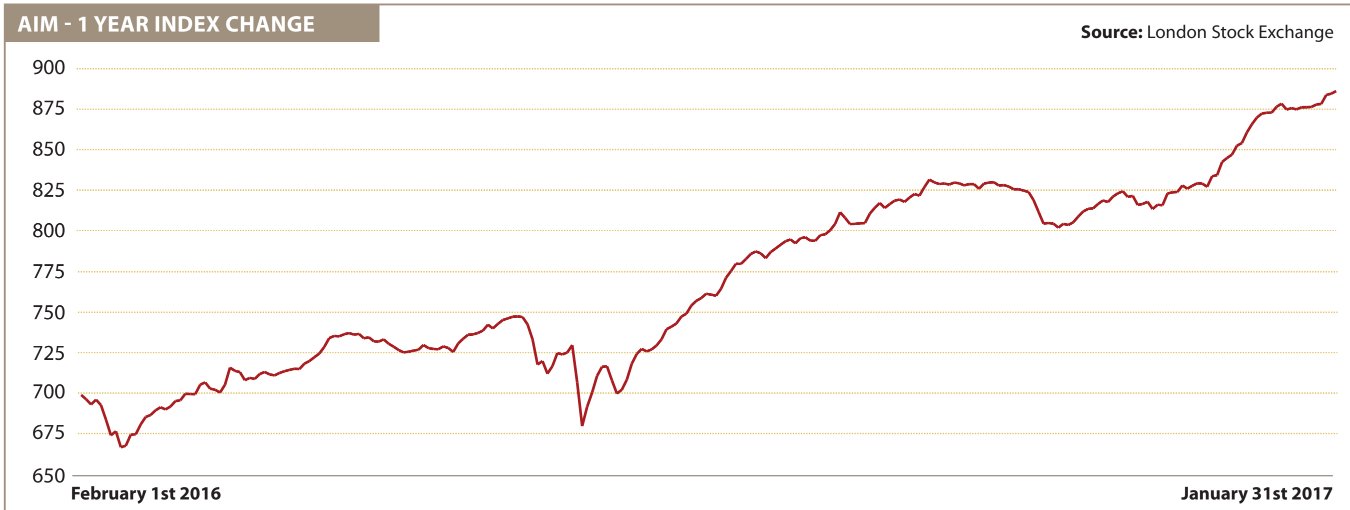
TOP 5 RISERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Trinity Exploration & Production	Oil and gas	9.35	+380
URU Metals	Mining	2.2	+258.3
React Energy	Renewables	7.08	+179
Kodal Minerals	Mining	0.44	+154.3
Powerhouse Energy	Renewables	1.13	+150

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Prospex Oil & Gas	Oil and gas	0.77	-67.5
Strat Aero	Technology	0.14	-52.7
Cloudtag Inc	Technology	4.75	-48.7
Red Leopard	Financials	0.04	-38.5
blur Group	Support services	8.5	-37

AIM - 1 YEAR INDEX CHANGE



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

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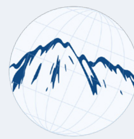

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We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to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

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