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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

Benchmark hooks another deal

Aquaculture services provider Benchmark has been quoted for just over two years and its latest deal means that it has increased its value by nearly five times over that period. Benchmark acquired INVE Aquaculture for \$342m (£227m) in cash and shares and raised £185.7m (£173m after expenses) via a placing at 86p a share. That makes Benchmark a global leader in the farmed fish technology sector, which is growing at 5% a year.

The deal has been more than two years in the making so Benchmark has a good understanding of the business it has acquired. INVE will increase the geographical spread of the business to more than 70 countries. INVE is focused on

aquaculture nutrition, which fits well with the group's genetics and health operations. These products can all be sold through Benchmark's distribution network and R&D investment can be pooled. INVE is valued at 12 times its underlying post-tax profit for the 12 months to July 2015.

Benchmark joined AIM in December 2015 when it was valued at £87.3m at 64p a share. The AIM quotation has enabled Benchmark to finance a number of large acquisitions, such as SalmoBreed and StofnFiskur.

Additional shares in issue have been part of the reason for the rise in the value of the company to more than £400m but the share price is also higher – even though it is well below its peak.

Westhouse becomes Stockdale

AIM adviser Westhouse Securities has changed its name to Stockdale Securities and it says that its main focus will be its corporate clients. There has also been a financial restructuring of the business.

Regulation, pressures on pricing of transactions and technology are changing the broking model. Stockdale does, of course, want to continue to have a good relationship with institutional investors but this will be based on relationships rather than transaction levels.

Stockdale reckons that AIM secondary commissions are running at around a quarter of the level in 2007. This makes it more difficult, even with corporate

retainers, to cover fixed costs before any income from deals, where the timing can be difficult to predict.

There are concerns that MIFID II regulations could mean that providing significant research for free will not be allowed because it will be an inducement to trade. Stockdale has decided to cover its own clients and those that it believes it can win as clients and not other small quoted companies. It will also make markets only in its own clients. There will be a more equal split between employee numbers in corporate finance and trading – most firms have more employees involved in trading.

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Trakm8's earnings enhancing Route

Telematics equipment and services supplier Trakm8 was one of the best performers of 2015 and the share price more than quadrupled. It ended the year strongly with a much-enhanced contract with the AA and the acquisition of a route optimisation business.

Trakm8 is paying up to £9.1m in cash and shares for Route Monkey, with the initial outlay being £7.1m (£6.5m in cash and the rest in shares) and the other £2m is dependent on 2016 performance. Trakm8 raised £6m from a placing at 333p a share. Net debt is expected to be £2.3m at the end of March 2016 but Trakm8 should be back in a net cash position within 12 months.

Route Monkey fits well with Trakm8's existing route planning services providing route optimisation algorithms for fleet management, logistics and electric vehicles. The

electric vehicles market is still small but there are already 10,000 charge points in the UK. Route Monkey is paying tax but Trakm8 has tax losses. The acquisition is earnings enhancing, with forecast earnings per share for the first full year – to March 2017 – increased from 15.9p to 17p. This is the second earnings-enhancing acquisition in the past 12 months, following on from last summer's purchase of road camera technology company DCS.

The AA has been a customer for its own fleet but the latest deal opens up the AA's own business-customer base. This covers 9.5 million business vehicles. There are no details of the deal but there is nothing in the current forecasts for a contribution from this deal. The telematics market continues to grow thanks to advances in technology and increasing use by insurance companies.

Hardide opens in US

Advanced surface coatings provider Hardide has opened a new facility in Virginia. North American demand has been growing so it is the right time to open a US facility and volume production will commence in the second quarter. Hardide has been hit by weak demand from its core oil and gas customer base but there has been good news in recent weeks. Hardide's coatings have met Airbus technical performance requirements. The EU is banning hard chrome plating in 2017 and the aerospace sector will require an alternative. A £300,000 order has been won for x-ray airport scanning machines. These revenues will be recognised in the current financial year and there is potential for repeat orders. All this goes to underpin the forecast of flat revenues of £3m this year despite a lower contribution from oil and gas.

Diurnal's Christmas flotation

Speciality pharma company Diurnal, which is part of IP Group's portfolio following the acquisition of former AIM company Fusion IP, joined AIM on Christmas Eve. Diurnal was spun out of Sheffield University but it is now based in Cardiff – Finance Wales has a 22.1% stake. Founder Professor Richard Ross is still with the company and owns 3%. A placing at 144p a share raised £25.4m, before £1.6m of costs, and valued Diurnal at £75.2m. An additional £4.65m was raised via a convertible issue.

Diurnal Ltd, now a subsidiary of the company that joined AIM, had £6m in the bank at the end of June

2015. The additional cash raised in the placing will help to finance the development of treatments and obtain market authorisations. There are also plans to build up sales and marketing infrastructure in Europe and a commercial director is being recruited.

The two main treatments in development are Infacourt and Chronocourt, which are treatments for diseases of the adrenal gland based on established pharmaceutical ingredients.

Infacourt is the first product designed for children of less than six years of age suffering from

congenital adrenal hyperplasia and adrenal insufficiency. Chronocourt mimics the body's natural cortisol circadian rhythm, which should improve disease control in the same treatment areas as Infacourt. There is currently a phase III trial in Europe for Infacourt and a phase III trial of Chronocourt is expected to start in the first quarter of 2016.

In the longer term, Diurnal wants to become a specialist developer of a range of endocrinology treatments. The endocrinology market in Europe and the US is estimated to be worth \$11.1bn a year. IP Group still owns 45.6% of Diurnal.

 **advisers**

Panmure warns of 2015 loss

Trading is particularly tough for brokers at the moment as demonstrated by a pre-Christmas trading statement from Panmure Gordon. This warned of a hefty 2015 loss, most of which came in the second half. Panmure says that a number of corporate transactions were delayed and this led to a loss of between £4m and £4.5m. The first-half loss was £225,000. Management is hopeful that these delayed transactions will happen this year but the turmoil in the stock market could lead to further delays.

Panmure has been hit by the reduction in secondary commissions earned from institutions. The percentage of its revenues from this area has nearly halved from 60% in 2008 to just over 30% in 2014. There was still a slight fall in commission

revenues in the first half of 2015.

WH Ireland expects to report an improved operating profit in the year to November 2015 as higher revenues from wealth management offset the decline in transaction fees and market-making revenues.

Daniel Stewart Securities requires a replacement for Beaumont Cornish as nominated adviser or its AIM quotation will be cancelled by 22 January. Former Rolls-Royce Motors boss Peter Ward has taken on the role of non-executive chairman, with Peter Shea concentrating on his role as chief executive.

Daniel Stewart reported interim figures that show revenues more than halved from £2.29m to £977,000 in the six months to September 2015, while a profit of £31,000 was turned into a loss of £880,000. There

was £367,000 left in the bank at the end of the period. The £1.2m raised during the period failed to cover the £1.46m cash outflow from the business. The annual report for the year to March 2015 has not been published but unaudited revenues of £3.83m and a loss of £1.4m have been reported.

Before Christmas, Kilimanjaro Private Capital converted a £300,000 bond issued on 17 November into 20 million shares, taking its stake to 4.46%. The conversion price of 1.5p a share is just below the suspension price of the shares. There is still another £350,000 bond outstanding.

If the AIM quotation is cancelled the broker will seek a quotation on another market or attempt to set up a matched bargain facility for shareholders.

ADVISER CHANGES - DECEMBER 2015

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Somero Enterprises Inc	finnCap/ Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	01/12/15
HydroDec Group	Canaccord Genuity	Peel Hunt	Canaccord Genuity	Peel Hunt	04/12/15
Forbidden Technologies	Allenby	Cenkos	Allenby	Cenkos	07/12/15
TMT Investments	Hybridan	ZAI	ZAI	ZAI	07/12/15
Greka Drilling	Arden	Arden/ Panmure Gordon	Smith & Williamson	Smith & Williamson	09/12/15
Venn Life Sciences	Davy/Hybridan	Zeus/Hybridan	Davy	Zeus	11/12/15
Bezant Resources	Strand Hanson	Sanlam	Strand Hanson	Strand Hanson	17/12/15
China Nonferrous Gold	Beaufort/Investec	Investec	Investec	Investec	17/12/15
ADVFN	Throgmorton Street Capital	Mirabaud	Grant Thornton	Grant Thornton	21/12/15
Audioboom Group	Liberum	Arden	Liberum	Arden	21/12/15
Arian Silver Corp	Beaufort/ Cantor Fitzgerald	Northland / Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	22/12/15
ProPhotonix Ltd	Stockdale	N+1 Singer	Stockdale	N+1 Singer	22/12/15
Pacific Alliance China Land Ltd	None	Edmond de Rothschild	Grant Thornton	Grant Thornton	22/12/15
London Capital Group	Allenby	Cenkos	Allenby	Cenkos	31/12/15


 company news

CityFibre accelerates its plans for the roll-out of Gigabit cities with KCOM deal

Fibre networks developer

www.cityfibre.com

CityFibre Infrastructure has acquired KCOM's national fibre network infrastructure, excluding its core markets of Hull and east Yorkshire, for £90m. This will accelerate the growth of the business, which was expected to add three cities each year.

CityFibre designs, builds and then operates fibre optic infrastructure that enables much higher broadband speeds to be achieved. The important thing is to make sure that there is a major customer signed up that will cover the main fixed costs. The acquisition adds 21 cities to CityFibre's network, taking the total to 29, and means it has a

The acquisition adds 21 cities to CityFibre's network

presence in 23 of the top 30 cities in the UK.

This is a good deal for KCOM because the assets were in the books for £41.8m. As part of a 15-year contract, CityFibre will take on £1m of operational costs but it will receive £5m a year in income from KCOM.

CityFibre is also raising £80m at 50p a share. In May 2014, it raised

CITYFIBRE INFRASTRUCTURE (CFHL)		62.25p
12 MONTH CHANGE %	-9.8	MARKET CAP £m
		165.4

£30m at 70p a share, having raised £16.5m at 60p a share when it joined AIM in January 2014. The size of the latest fundraising meant that it had to be done at a discount of nearly 10% to the then market price.

CityFibre still needs to invest heavily in its networks and net debt is expected to be £34.7m at the end of 2016, rising to £51m at the end of 2017. The company will continue to lose money as it invests in its fibre networks.

Consolidation continues at Constellation

Medical billing services

www.constellationhealthgroup.com

Constellation Healthcare Technologies Inc has acquired MDRX Medical Billing, which has led to a 10% upgrade in 2016 and a 9% increase in 2017 earnings estimates.

Constellation raised £9.6m at 135p a share when it joined AIM in December 2014 at a valuation of £75m. MDRX was the fourth major acquisition in 2015. Constellation is a US medical billing services provider and its strategy is to become a consolidator and improve profitability through the use of technology and moving some of the work from the US to India, where wage levels are around a quarter of US levels. The US medical billing market is worth £37bn a year and

CONSTELLATION HEALTHCARE (CHT)		168.5p
12 MONTH CHANGE %	+24.9	MARKET CAP £m
		148.8

it has been growing at 7% a year. Less than 50% of the market is outsourced. This is a complex market because of the requirement for documentation, the large number of insurance companies and the fact that regulations are constantly changing.

Constellation will pay up to \$30m (£19.8m) for MDRX, which provides outsourced hospital and private practice management and services in the US. The price is around six times historical EBITDA. Constellation has not previously

been involved in hospital practice management. The MDRX deal was financed by a placing raising £30m at 160p a share, which also left the company with additional cash to make further acquisitions. Last May, Constellation raised £12.9m at 140p a share. The company directors were major participants in each of these placings.

Group revenues are expected to jump from \$69.7m to \$121.3m in 2016 and pre-tax profit could nearly double to \$30.3m. The shares are trading on 12 times 2016 prospective earnings, falling to 10 times the following year. The business is cash generative and net cash could be \$15.5m at the end of 2016.

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 company news

Castle Street finds a match with IT firm Selection Services

Cash shell

www.castlestreetinvestments.com

Castle Street Investments, the shell that formerly owned the Cupid online dating business, has secured an IT acquisition. Castle Street has cash of £22m but it is raising a further £30m at 30p a share to help finance the acquisition of Selection Services Investments. That more than doubles the number of shares in issue.

Selection provides IT and cloud managed and support services. Castle Street is paying £34.8m in cash – partly to pay off borrowings – and 1.35 million shares. The focus will be on broadening the existing customer base and cross-selling services to existing customers. There are also plans to acquire additional services and become a consolidator in the

Castle Street plans to become a consolidator

sector. MXC Capital is taking a 24.9% stake in Castle Street via the placing. One of its partners, Andy Ross, will become chief executive of the group. The existing managing director and finance director of Selection are both leaving the business.

In the year to June 2015, revenues dipped from £36.3m to £34.5m due to a decline in one-off work but gross profit improved. The underlying operating profit was flat at £2.04m. There was £1.09m generated from operations even

CASTLE STREET INVESTMENTS (CSI)		56.1p
12 MONTH CHANGE %	+80.6	MARKET CAP £M
		36.7

after a large decrease in trade payables – partly due to a decline in deferred income and the utilisation of a restructuring provision. Net debt was £22.2m at the end of June 2015 but this had risen to £26.9m at the end of 2015.

Gresham House Strategic, formerly known as Spark Ventures, took a 4.9% stake in Castle Street at a valuation of 31.5p a share as part of its deal with Gresham House, which became the adviser to the company. This stake will be diluted to 2%.

NewRiver moves into the top ten

Retail property investor

www.rrr.co.uk

Retail property investor **NewRiver Retail Ltd** has become one of the top ten AIM companies in terms of market capitalisation following a placing that raised £150m at 325p a share. NewRiver joined AIM at the beginning of September 2009 when it raised £25m at 250p a share. The company was a start-up and it has gone from a valuation of £25m to more than £800m thanks to a number of large share placings to finance acquisitions. There are plans to move to the Main Market by July.

NewRiver is wasting no time in investing the placing proceeds and it has already spent £108m on shopping centres and retail

NEWRIVER RETAIL (NRR)		344.5p
12 MONTH CHANGE %	+16.6	MARKET CAP £M
		804.3

warehouses. The Neptune portfolio includes shopping centres in Wakefield, Darlington and Cardiff; they were acquired for a total of £312m between 2005 and 2006. NewRiver paid £92.3m for them and annual net income is £7.75m. There are opportunities to increase rental income. The other assets acquired are a shopping centre in Penge and retail warehouses in Northamptonshire and York.

Prior to the latest acquisitions,

regional shopping centres were 60% of the portfolio and this figure is likely to increase. The regional property markets have lagged behind the London market and there is still plenty of scope for recovery.

NewRiver makes its money from the re-rating of assets and growth in rental income as the properties are managed and improved. There are also potential gains in valuations from planning permissions. NewRiver offers an attractive yield of 5.4% on the forecast full-year dividend of 18.5p a share. The new ordinary shares will not receive the next quarterly dividend of 4.75p a share.

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 company news

Investment gain helps Fletcher King to quadruple its profit

Property adviser

www.fletcherking.co.uk

Property adviser **Fletcher King** continues to reap the benefits of the strong UK property market, helped by one-off sales of property investment syndicate assets. Total returns in the commercial property market exceeded 15% over the past 12-month period. The core business is strong, with valuation and sales volumes increasing, although the second half will not benefit from a significant property disposal as the first half did and the timing of deals is difficult to predict.

In the six months to September 2015, pre-tax profit jumped from £293,000 to £1.19m, although that included a disposal gain of £590,000. The 2014-15 full-year profit was £461,000.

Although Fletcher King cut its

There is £4.07m of cash in the balance sheet

interim dividend from 1.5p a share to 1p a share it had already paid a special dividend of 8p a share in September, following the disposal of 145 Leadenhall Street by the Stratton House Investment Property Syndicate (SHIPS 14), where Fletcher King is adviser and an investor. Last year's full-year dividend was 2.25p a share, which was down from 3p a share in the previous year when there was a one-off gain.

Fletcher King has already invested £752,500 in SHIPS 15 which has bought an office property

FLETCHER KING (FLK)		47.5p
12 MONTH CHANGE %	-23.4	MARKET CAP £m
		4.37

in Clerkenwell. Even after that investment, there is still £4.07m of cash in the balance sheet, although the NAV is £3.88m.

Fletcher King says that the central London market is strong and demand is improving in the M3/M4 corridor and other major provincial areas. There has been a "noticeable increase in bank valuation instructions" and the company believes that the market will remain strong for two to three years. There is investor appetite for other schemes using the SHIPS model but suitable properties have to be identified.

Redhall takes initial steps towards recovery

Engineer

www.redhallgroup.co.uk

Engineer **Redhall** has made good progress in turning around its operations but last year's figures show the costs of restructuring the business and the loss increased. Declining demand from the oil and gas sector did not help and the previous year benefited from a large one-off contract.

In the year to September 2015, revenues fell from £57.2m to £44.7m and the underlying loss increased from £197,000 to £2.18m. That is before exceptional charges of £1.24m. If discontinued activities are included, the total loss is £12.2m.

The focus of the business is

REDHALL GROUP (RHL)		6.25p
12 MONTH CHANGE %	-41.5	MARKET CAP £m
		12.5

nuclear, oil and gas, telecoms infrastructure, food and pharmaceuticals. Marketing and sales expertise has been boosted and bid levels are high. Up until now work has predominantly been won through the strong reputations of the businesses. There are also plans to improve group buying in order to reduce costs. Net debt was £5.49m at the end of September 2015 and since then assets worth £440,000 have been sold. Total debt facilities are £11.8m, so there is

plenty of headroom but investment in new equipment is required.

The current order book is worth £21m. In the longer term, a joint venture with a French manufacturer puts Redhall in a strong position to supply doors for nuclear new build. WH Ireland expects breakeven this year and a profit of £1.7m for the year to September 2017. That puts the shares on 13 times prospective 2016-17 earnings. Given Redhall's terrible performance in recent years there is going to be initial scepticism about the company's ability to meet these expectations so a re-rating might take time.

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dividends

Bilby builds on its dividend base

Building maintenance services

www.bilbyplc.com

Dividend

Bilby joined AIM last year, so it does not have a track record of paying dividends. However, it always made it clear that it intended to pay them. Bilby paid a final dividend of 2.32p a share for the year to March 2015 even though it was only quoted for a few days during the period. The maiden interim is 0.75p a share and a total full-year dividend of 2.75p a share is forecast. Annual dividend growth of up to 10% is expected.

The dividend should be covered 2.5 times by forecast 2015-16 earnings and this level of cover is expected to grow to 3.7 times based on a forecast 2016-17 dividend of 3.03p a share.

Business

Bilby joined AIM during March 2015 in order to build a business focused on gas installation, maintenance, electrical, water and building services. The customer base is local authorities and social housing organisations in London and the south east. The initial acquisition at the time of the flotation was gas installation specialist P&R Installation and subsequently Purdy Contracts, which provides electrical services, was bought for £8.07m.

Safety concerns mean that local authorities and housing associations need to spend money on repairing and maintaining gas boilers and pipes. Bilby has a strong position in the gas installation and services market and it can use this to build up revenues from its customer base in other areas.

In the six months to September 2015, revenues doubled to £11.6m but this was partly attributable to the initial contribution from Purdy. The comparative figure is for P&R alone.

BILBY (BILB)	
Price (p)	146
Market cap £m	50
Historical yield	1.6%
Prospective yield	1.9%

Underlying pre-tax profit was one-fifth higher at £830,000.

Net cash was £1.77m at the end of March 2015 although there was net debt of £4.29m at the end of September 2015 following the acquisition of Purdy Contracts. Strong cash generation means that the debt figure would reduce but further acquisitions are likely.

P&R won preferred bidder status for gas support work for the South East Consortium, which is a group of housing associations that manage more than 140,000 residential properties. This framework agreement starts in 2016 and lasts for four years. House broker Panmure Gordon predicts that this framework will contribute £7m to revenues in 2016-17 and the margin could be better than other work undertaken by Bilby. New contracts with Greenwich and Hackney will also contribute to revenues, which are expected to grow by more than 50% in 2016-17.

Panmure forecasts a 2015-16 profit of £3.1m, rising to £4.9m the following year. The Bilby share price dipped on news of delays to a contract but this is barely noticeable because of the general upward trend. The shares are trading on more than 20 times prospective 2015-16 earnings, falling to 13 in 2016-17. The rating appears high but it should fall quickly as additional business is gained.

Dividend news

Vianet maintained its interim dividend at 1.7p a share and it is strengthening its balance sheet through the sale of its fuel division to Wayne Fueling Systems. Vianet will receive £3.5m in cash and the deal should be completed before the end of the month. The fuel division made a profit of £224,000 in the six months to September 2015 out of total group profit of £1.75m. Vianet will focus on its leisure and vending monitoring and data management operations, although the iDraught system is still being hit by the uncertainty in the pub sector. Net debt was £2.32m at the end of September 2015 and the business has been generating enough cash to cover investment and the cost of the dividend.

Document management software and services provider **Idox** managed to grow its revenues and profit in the year to October 2015 even though its engineering markets were weak. Engineering revenues fell by 22% but this was offset by higher public-sector revenues, which meant that total revenues were 3% higher at £62.6m, while underlying pre-tax profit was 15% ahead at £14.5m. Acquisitions contributed to the growth in public-sector revenues and profit. The total dividend was increased from 0.75p a share to 0.85p a share. N+1 Singer forecasts a dividend of 0.98p a share, which should be covered 3.5 times by forecast earnings.

Caledonia Mining Corporation has managed to continue to pay dividends even though it is investing in its Blanket gold mine in Zimbabwe. In 2015, 42,800 ounces of gold was produced and this year it is expected to rise to 50,000 ounces. The latest dividend, the ninth quarterly dividend in a row, is \$0.01125 a share. The plan is to pay dividends totalling \$0.045 a share this year. The dividends were previously paid in Canadian dollars and this is the US dollar equivalent.

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expert views

Expert view: The broker

Snowite and the 7digital

 By **LORNE DANIEL**

Digital audio streaming services supplier 7digital* plans to acquire French digital streaming music provider Snowite for £500,000, through the issue of 7.32 million new shares. It will also take on about £1.3m of debt under a repayment scheme to be negotiated with French courts as Snowite is currently in receivership.

Lille-based Snowite was founded in 2006 and the business brings an upgraded platform in which €2m has been invested, a strong market presence in Europe and Africa and an impressive blue-chip customer base.

Snowite spent the past few years developing a leading-edge streaming platform; however it incurred significant debt in the process. Unable to support that debt, it entered into French insolvency procedures in September. Following this move, there was a financial restructuring and Snowite is expected to be earnings neutral before exceptionals in 2016 and profitable in 2017.

The acquisition would be worth doing simply for the target's advanced streaming platform; 7digital already has its own platform but that requires cash-draining upgrades to keep it current. Acquiring Snowite's technology improves 7digital's own relatively cheaply – and for shares. It also brings new blue-chip customers in retail, manufacturing and even financial services plus a stronger European (francophone) presence. The acquisition has forecast 2016 revenue of £1.2m and increases the critical monthly recurring revenue base by an annualised £864,000.

The timing of the acquisition depends on the French court process but it is expected to be completed by the end of March. The £1.3m debt taken on compares with 7digital's interim net cash of £2.5m.

Market opportunity

The global music industry continues its evolution from a physical to a digital format and accelerates towards a complete streaming model. Snowite itself notes that it operates in a massive market: there are now over 620 million audio streaming users and 233 million users of video on demand (VoD) services.

The music industry upheavals continued last year with the launch of B2C streaming services Apple Music and TIDAL. Meanwhile, the Performing Rights Society (PRS) sued German audio distribution service SoundCloud and has threatened Google's YouTube for not paying sufficient royalties.

Kobalt is an interesting London start-up that demonstrates the opportunities

music streaming in 2014; several B2C services such as Rdio, Simfy and Qobuz collapsed in 2015. Advertising makes B2C an expensive business (Rdio carried \$4m monthly operating expenses). Spotify is facing class action rights claims and might still be looking to IPO funding, but France's Deezer failed in October with fewer than 4 million paying subscribers. This should open up the market for other smaller suppliers using outsourced B2B platforms under the 7digital model.

Both SoundCloud and Vevo seem poised to announce paid-for subscription tiers; Apple's Netflix model is steadily growing, predicting 20 million paid-for subscribers by the end of the year; Spotify's free tier is being heavily criticised on moral grounds and it looks

Acquiring Snowite's technology improves 7digital's own relatively cheaply

being created by industry upheaval. It is using big-data technology to track digital music use and collect royalties across multiple streaming platforms globally. To facilitate that, it acquired one of the main US collection agencies, American Mechanical Rights Agency. It's well-funded with \$116m and backed by Google Ventures in London.

When The Beatles catalogue was made available to stream, they named no fewer than nine global B2C streaming platforms: Apple Music; Deezer; Google Play; Microsoft Groove; Amazon Prime; Rhapsody/Napster; Slacker Radio; Spotify and TIDAL. Other regional services include India's Saavn, South Korea's KK Box and Australia's Guvera (on 7digital's platform).

This number of competitors isn't sustainable in a fledgling market where only 41 million people paid for

likely to begin placing some music only on its paid-for tier in the near future. The two big threats to rights holders, YouTube and SoundCloud, are both under pressure to change their ways; the PRS is suing SoundCloud for failure to pay due royalties to songwriters in Europe over the past five years.

Music consumption will continue to evolve in the year ahead, but the market is gradually shifting in favour of 7digital's B2C model; both the free music providers and the big B2C streaming sites are under pressure, opening up the market for others to provide streaming music in a more competitive scenario.

*7digital is a corporate client of finnCap



LORNE DANIEL is a research director at finnCap

 feature

Large AIM companies significantly outperform the Main Market

AIM had a good year in 2015 and the FTSE AIM 50 index has outperformed all of the other major UK measures of stock market performance.

It has been a good year for AIM and for the larger companies on the junior market in particular. However, they will not be immune to the current stock market uncertainty even though their recent decline has lagged behind that of the large Main Market companies.

The FTSE AIM All Share index rose by 5% in 2015, whereas the FTSE 100 index fell by 5%. Smaller companies on the Main Market did much better and the FTSE Fledgling index increased by 12.8%. However, the FTSE AIM 100 index was 14.4% higher over the year and the FTSE AIM 50 index was 18.6% ahead.

This was in sharp contrast to last year when AIM declined by 17.5%, compared with the FTSE 100 which was down by 2.7%. The AIM 50 and AIM 100 fell by more than one-fifth.

One of the strongest performers in the AIM 50 was spirit mixer drinks supplier Fevertree Drinks, which has reached heady levels in valuation terms. Other strong performers were Redde,

were oil and gas explorer Pantheon Resources, and Andalas Energy and Power, which was previously known as CEB Resources and has a new focus on oil and gas in Sumatra, Indonesia. However, trading in Andalas shares has been suspended since October and the company has until 22 April to publish a prospectus for an acquisition so it is uncertain whether or not the company will do a deal fast enough to be readmitted to AIM.

Less surprisingly, the majority of the top ten fallers were resources companies. According to Northland Partners, the share prices of 83% of AIM mining companies fell or were unchanged in 2015. Northland believes that more of the poorly performing mining companies will leave AIM this year. Mining and oil companies account for little more than 10% of AIM's market capitalisation.

There have been a few falls from grace during the year for some past favourites

with ambitious plans to become a trade finance business. Chief executive Edmund Truell was even named as entrepreneur of the year at the 2014 AIM awards. At that time, house broker Canaccord Genuity believed that Tungsten could make a profit of £21.9m in the year to April 2016. A loss of more than that figure is now expected, with a lower loss forecast for the following year.

The core part of the original strategy was the acquisition of a bank by Tungsten. This acquisition is being unwound. The amount of time it takes to gain regulatory approval to acquire a bank should not be underestimated – and the sale will also take up an enormous amount of time. So the acquisition of the bank has not only lost Tungsten money, it has also cost a huge amount of money in terms of management time. Over the year, the market value of Tungsten fell from £293.8m to £46.6m

There were some companies that enjoyed a recovery last year after a poor 2014. Even though Quindell, now known as Watchstone, has had its ups and downs the share price had still almost tripled prior to the distribution of cash to shareholders following the sale of the legal operations to Slater & Gordon.

There were a number of large takeovers last year. The biggest was Canary Wharf owner Songbird Estates, followed by Advanced Computer Software and Daisy. Those three companies alone were capitalised at £3.45bn at the end of 2014.

There were six transfers from AIM to the Main Market during 2015. Haversham Holdings, now known as BCA Marketplace following a reverse

The number of AIM companies fell by 60 to 1,044 during the year

Dart Group, CVS and GB Group. Online fashion retailer ASOS was not one of the top performers but as AIM's largest company it has a large influence on each index. The ASOS share price rose by one-third during the year, rising from 3% to 4% of the whole of AIM's capitalisation and even more of the AIM 50.

As ever, the best performers on AIM were companies that probably would have been avoided by most investors one year ago. The two best performers

on AIM. Mobile banking information services developer Monitise has gone from the sixteenth-largest company on AIM, with a market capitalisation of £531.7m, to being valued at £65m at the end of 2015. This shows that a company that consistently loses money and fails to get near to profit can excite investors for a time but they do run out of patience.

e-invoicing services provider Tungsten Corporation joined AIM

feature

takeover of the car auctions business, cadmium-free quantum dots developer Nanoco, Zegona Communications, retailer Bonmarché, sweeteners producer PureCircle Ltd and online payments technology provider PaySafe, formerly Optimal Payments.

Zegona joined AIM in March 2015 as a shell and it was valued at £30m. Zegona subsequently acquired telecoms business Telecable and moved to the Main Market in August. The other five companies were valued at £1.9bn at the beginning of 2015 and two made significant acquisitions prior to their

share price was much higher at the end of the year.

Volumes

I wrote about AIM trading volumes last month (http://www.hubininvest.com/AIMPDFDecember2015_75.pdf). The full-year figures for the number of bargains show a decline of one million to 5.73 million – a daily average of 22,564. The total volumes were down from £42.9bn to £30.9bn – a daily average of £121.6m, compared with £169.4m. Trading volumes were lower

more than £1m was provisionally raised but Kea could not secure the funding it required to continue trading. Kea has been selling its assets and it went into liquidation in December.

There were more successful fundraisings. Oil and gas company Ascent Resources raised £550,000 at 0.2p a share and healthy food ingredients developer Provexis raised £280,000 at 0.45p each. Both of these fundraisings were via PrimaryBid.com. At the end of the year, Ascent raised a further £703,500 at 1p a share – although this is after a 20-for-one consolidation so it is the equivalent of 0.05p per old share.

The cash was vital and it has enabled Ascent to continue negotiations with potential partners that could help it to bring the Petisovci gas field into production without building a new gas treatment facility. Ascent has enough cash for 12 months and believes production could start in the third quarter of 2016 if a deal is made by the end of March.

US-based medical payment services provider Constellation Healthcare used the mobile app developed by AIM-quoted Teathers Financial to raise £15,000. That was out of a much larger placing worth £30m but it does show there is potential for this type of app to enable smaller investors to participate in placings which they have previously felt locked out of. Shard Capital was the broker that used the app to raise money from its clients on an execution-only basis. If other brokers sign up for the Teathers app then a wider range of investors can use it and larger amounts could be raised for companies.

Venture capital investing company Draper Esprit, which hopes to float on AIM this year, has invested in Crowdcube along with broker Numis. AIM-quoted Braveheart Investment used to have an investment agreement with Crowdcube and switched the fund to rival crowdfunder Seedrs.

AIM companies are certain to take more advantage of these crowdfunding opportunities, whether it is before they float or once the shares are trading on AIM.

The number of AIM bargains in 2015 was the second highest of all time

move to the Main Market.

There were fewer new companies joining AIM last year and there were also fewer cancellations but the number of companies still fell by 60 to 1,044.

There were ten China-focused companies that left AIM during the year – a significant percentage of the total number on AIM. Trading in the shares of sportswear manufacturer Naibu was suspended and ultimately cancelled after executive chairman Lin Huoyan failed to provide information about the state of the business to directors and advisers. It turns out that the manufacturing site has been closed down and the chairman remains difficult to get hold of. The company's non-executive directors have found taking control of the Chinese subsidiary and its assets to be a complex matter but they continue to try to do this.

Other Chinese companies were hit by problems with corporate governance and in many cases they lost their quotation because of the resignation of their nominated adviser. LED lighting products supplier Gowin New Energy switched to the ISDX Growth Market.

The remaining Chinese firms on AIM have been hit by a lack of trust from investors. Speciality chemicals and lubricants supplier GTS Chemical is one of the few Chinese companies whose

in only one year in the past decade – £29.6bn in 2013. However, the number of bargains is the second highest of all time.

Both trading volumes and the number of bargains were much lower in the second half of 2015. They have been reasonably consistent month on month in the second half and there is no indication that they will improve. In fact, the move of Paysafe to the Main Market could hold them back. Paysafe was still the second most traded company on AIM during December even though it left before Christmas and the value of the trades was £307m, which was the highest for any AIM company. Paysafe accounted for more than 10% of the number of trades and 13% by value.

Crowdfunding

Some AIM companies have tried to use crowdfunding in the past year, with mixed results. Diamonds explorer Golden Saint Resources failed to reach the £50,000 minimum from a fundraising via Crowd for Angels which was meant to raise up to £250,000.

Kea Petroleum tried to raise £3m at a minimum of 1p a share via the PrimaryBid.com platform. This fundraising was going on at the time of the General Election and at one stage


statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION		
SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	22.5	18.6
Consumer services	16	10.9
Industrials	16.9	16.8
Healthcare	13.6	8
Technology	10.1	10.9
Consumer goods	7.4	5.6
Oil & gas	5.2	11.2
Basic materials	5.2	15.3
Telecoms	2	1.4
Utilities	1.1	1.3

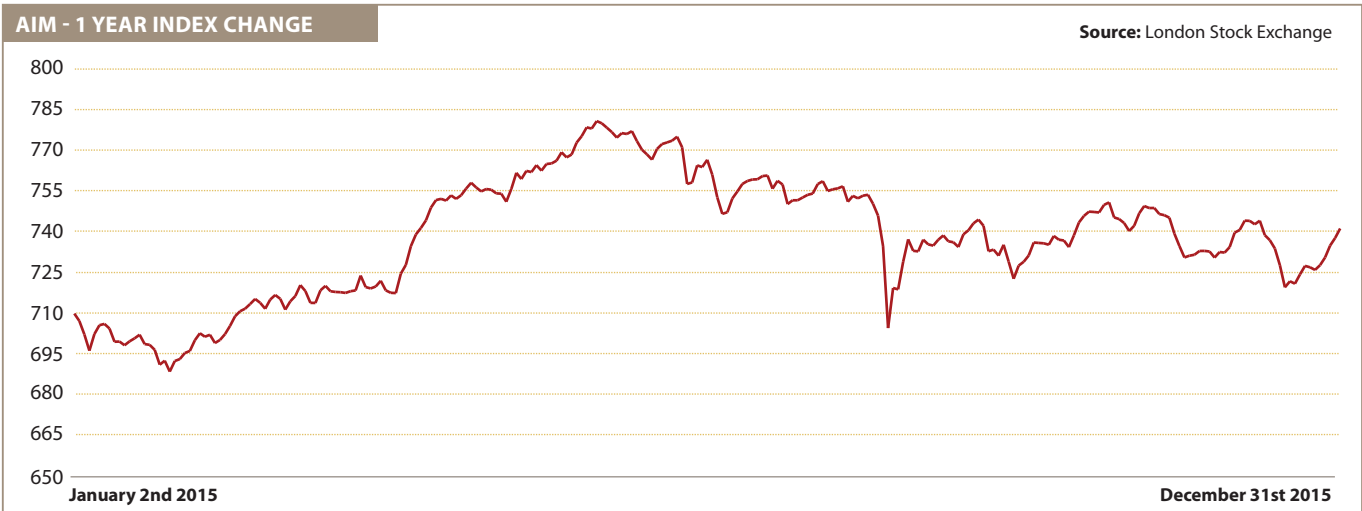
KEY AIM STATISTICS	
Total number of AIM	1,049
Number of nominated advisers	35
Number of market makers	50
Total market cap for all AIM	£73.9bn
Total of new money raised	£94.8bn
Total raised by new issues	£40.2bn
Total raised by secondary issues	£54.6bn
Share turnover value (2015)	£28.5bn
Number of bargains (2015)	5.29m
Shares traded (2015)	353bn
Transfers to the official list	177

FTSE INDICES		
INDEX	PRICE	ONE-YEAR CHANGES % CHANGE
FTSE AIM All-Share	738.83	+5.3
FTSE AIM 50	4085.21	+18.6
FTSE AIM 100	3521.49	+14.4
FTSE Fledgling	7725.75	+12.8
FTSE Small Cap	4634.66	+6.2
FTSE All-Share	3444.26	-2.5
FTSE 100	6242.32	-4.9

COMPANIES BY MARKET CAP	
MARKET CAP	NO.
Under £5m	269
£5m-£10m	126
£10m-£25m	198
£25m-£50m	145
£50m-£100m	131
£100m-£250m	110
£250m+	70

TOP 5 RISERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Proxama	Technology	1.35	+200
Emerging Market Minerals	Mining	24.5	+188.2
FinnAust Mining	Mining	1.58	+177.3
Independent Oil & Gas	Oil and gas	15	+160.9
Pinnacle Technology	Telecoms	15.13	+128.3

TOP 5 FALLERS OVER 30 DAYS			
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Arian Silver Corp	Mining	1.75	-84.1
Concha	Shell	1.2	-75
Litebulb Group Ltd	Consumer	5.12	-64.7
China New Energy Ltd	Cleantech	1.75	-56
Circle Oil	Oil and gas	1.88	-51.6



Data: Hubinvest Please note - All share prices are the closing prices on the 31st December 2015, and we cannot accept responsibility for their accuracy.


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finnCap's mission is to help ambitious companies grow and to be the leading independent broker to ambitious companies, focused on fuelling growth through long term partnerships. We will exceed client expectations through faultless execution, joined-up service and proactive thinking, all tailored to the needs of each individual client.

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 2015 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Exel 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 2015, finnCap's reported revenues were 4% higher at £16.1m, while pre-tax profit was £2.2m. The finnCap 40 Mining index, finnCap 40 E&P index and finnCap 40 Tech index were all launched during 2014.



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