JANUARY 2018

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

In this issue

AIM Journal reaches century

This edition of AIM Journal is the one-hundredth since its launch in October 2009 (www.hubinvest.com/AIMPDFOctober2009_1.pdf). Since then the number of companies on AIM has fallen by more than a quarter and the number of nominated advisers has almost halved. However, trading levels are much higher.

The first company written about on the AIM dividend page was online gaming company Gaming VC Holdings (GVC). In October 2009, GVC was valued at £68.5m at a share price of 220p. Investors at that time would have received the equivalent of a large chunk of that share price in dividends since then. The share price has more than quadrupled in the intervening period and, following acquisitions and a switch to the Main Market, GVC's capitalisation is approaching £3bn. GVC has launched a recommended offer for rival gaming company Ladbroke Coral. The bid is 32.7p a share in cash, 0.141 of a GVC share and a contingent consideration of up to 42.8p a share. Even if there is no contingent consideration the value of the bid is £3.2bn.

The standard list was starting up and there were fears that it would usurp the position of AIM but it has not had a significant effect. It took time for advisers and companies to decide how the market could be used by smaller companies. In recent years, shells no longer eligible for AIM have started out on the standard list. Some remain there after an acquisition, while others, such as Be Heard and Satellite Solutions Worldwide, have switched to AIM, which still has tax benefits with which the standard list cannot compete.

Record AIM trading

Last year, trading on AIM reached record levels. There were more trades than in any other year and, although the value of the trades was not as high as in 2007, it was still higher than any other year. When the final figures are released the 2017 trading value will probably not be much lower than the 2007 turnover value of £72.7m.

There were nearly 1,700 AIM companies in 2007, compared with fewer than 1,000 at the moment. There were 4.2 million trades in 2007 and this has more than doubled to well over 11 million in 2017. The trading levels were also achieved following the loss of GW Pharmaceuticals to Nasdaq and Sirius Minerals to the Main Market during the year. Both those companies were generally in the top 10 most traded shares but the number of trades has not fallen since their departure. New admissions and existing companies have taken up the slack.

general news

Conviviality's convenient store purchase

Conviviality has taken advantage of the administration of grocery and tobacco distributor Palmer & Harvey to acquire 127 convenience stores for £25m. That increases the number of stores operated by Conviviality to 836. Last year, the acquired stores generated revenues of £75.7m and pre-tax profit of £2.8m. The deal should be earnings enhancing in the year to April 2019.

The drinks wholesaler and convenience stores operator is funding the acquisition through a placing raising £30m (£28.5m after expenses) at 375p a share. Conviviality is confident that it can generate cost savings from buying, distribution, IT and back-office functions. There will be £3.5m for integration costs, additional capital expenditure and further working capital.

There are 20 stores located on filling station forecourts and 47 include post offices. Eighteen of the stores are franchised under the Central Convenience brand. The geographic fit is good, with most of the acquired stores in the south and southwest of England. Only seven of the stores are within one mile of an existing store. Most of the new stores will be changed to the Select Convenience brand over a six-month period.

Palmer & Harvey had been a supplier to Conviviality but it has managed to secure agreements to obtain tobacco products directly from manufacturers.

Interim results are due to be published on 29 January. A trading statement has already indicated that interim revenues will be £836m. Retail sales were 10% higher at £203m, with like-for-like sales growth of 0.4%.

Ashley House JV

Ashley House has secured a joint venture with Morgan Sindall that will provide the finance to push ahead with more care and supported living housing scheme developments. The existing pipeline of developments, excluding two already near to financial close, is being injected into Morgan Ashley Care Developments LLP and Morgan Sindall is investing £4m to acquire a 50% stake. The worries about government funding in the sector have been allayed. This, and the joint venture, has helped to spark a doubling of the Ashley House share price in two months. Ashley House still has a health property development business and 76% of modular building company F1 Modular. Ashley House is expected to move into profit for the full year.

Sumo develops quoted profile

Video games developer Sumo was valued at £145m when it joined AIM just before Christmas and the share price immediately went to a premium. A placing raised £38.4m at 100p a share and existing shareholders, including chief executive Carl Cavers, raised £38.1m after expenses.

Most of the cash raised will be used to pay off debts and the costs of flotation. There will be pro forma cash of £7.38m. Sheffield-based Sumo has also secured a revolving credit facility of £13m that lasts for five years to December 2022. Since the flotation, Sumo has acquired another studio in Newcastle and it is intending to develop its own video games.

Carl Cavers, who worked at video games company Gremlin, which was quoted in the 1990s, co-founded Sumo in 2003 and headed a management buyout in 2014. Former Eidos and Games Workshop boss Ian Livingstone is a non-executive director. Sumo works as a co-development partner with publishers from initial concept, through pre-production, production and testing. Sumo may also develop additional features after a game is released. Video games tax relief helps to reduce direct costs and boosts profit.

Sumo generates revenues from development fees and royalties. Part of the development revenues are pass-through costs. Profit can be affected by the timing of royalties, which are high margin, and at Sumo's current size this can be significant. In 2015, £1.82m of total revenues of £21.6m. In 2016, royalties were £306,000 out of total revenues of £24.1m. Gross profit fell from £9.7m to £9m despite the higher revenues. This reflects that decline in royalties. Underlying operating profit declined from £6.35m to £5.47m.

The underlying 2017 interim operating profit improved from £2.49m to £3.11m. Sumo's own game, Snake Pass, was launched in March 2017 and helped to boost first-half revenues.

advisers

Strong year for Numis fundraisings

AIM broker and adviser Numis Corporation raised £724m for its AIM-quoted clients in the year to September 2017. That is just over one-fifth of the total money it raised for quoted and unquoted clients.

AIM-quoted Numis raised £3.4bn in total during the period, with two-fifths of the cash coming from secondary share issues, including Learning Technologies and accesso, and one-fifth from flotations, including Premier Asset Management.

Revenues improved from £112.3m to £130.1m and corporate transaction revenues remain the main source of income, rising from £64.3m to £73.7m. Pre-tax profit increased from £32.5m to £38.3m. There was nearly £96m in the bank at the end of September 2017, plus trading investments worth £47.4m - £9.6m of these investments are in AIM companies.

Since the year-end, there have been further fundraisings, flotations and deals involving the broker. Numis is adviser to SQS, which is being taken over by Assystem Technologies (see page 4), and for the bidder for Styles & Wood, which is being acquired for 465p a share in cash, valuing the interiors and fit-out business at £42.5m.

■ Nominated adviser Altium Capital Ltd has changed its name to GCA Altium Ltd. The adviser's parent company merged with Tokyo Stock Exchange-listed investment bank GCA Savvian Corporation in 2016.

■ TRADEcho has been granted AIM Secondary Market Registered Organisation (ASMRO) approval by the London Stock Exchange with effect from 3 January. That is not surprising given that the London Stock Exchange is involved in the business.

TRADEcho (www.TRADEcho,com) provides trade reporting services and the London Stock Exchange has set the business up in partnership with Simplitium (www.simplitium.com), which is owned by Sweden-based technology provider Cinnober.

The commencement of MiFID II trade reporting transparency regulations is behind the launch of the new service. MiFID II is designed to enhance competition for investors in Europe. Details of transactions need to be made available to investors as near to real-time as possible, which is deemed to be within one minute.

ASMROs were launched in 2009 in order to allow member firms to trade AIM shares on other approved venues. The other ASMROs are NEX Exchange, Liquidnet Europe and Turquoise.

Business information provider HIS Markit has linked its thinkFolio investment management platform to TRADEcho.

ADVISER CHANGES - DECEMBER 2017

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
SerVision	Allenby	Allenby/Beaufort	Allenby	Allenby	01/12/17
Servoca	N+1 Singer	finnCap	N+1 Singer	finnCap	01/12/17
Cambium Global Timberland Ltd	WH Ireland	Panmure Gordon	WH Ireland	Panmure Gordon	05/12/17
Proxama	Stockdale	Peel Hunt	Stockdale	Peel Hunt	05/12/17
Strat Aero	Peterhouse/SP Angel	SP Angel/Beaufort/ Cornhill	SP Angel	SP Angel	05/12/17
Thor Mining	SI Capital	SI Capital/Beaufort	Grant Thornton	Grant Thornton	07/12/17
600 Group	WH Ireland	finnCap	Spark	Spark	11/12/17
Eco (Atlantic) Oil & Gas	Pareto/Brandon Hill	Brandon Hill/ Peterhouse	Strand Hanson	Strand Hanson	11/12/17
CentralNic Group	N+1 Singer/Zeus	Zeus/Peel Hunt	Zeus	Zeus	12/12/17
Inspired Energy	Peel Hunt/Shore	Shore/ Panmure Gordon	Shore	Shore	14/12/17
PHSC	Beaufort	Beaufort	Strand Hanson	Northland	14/12/17
HaloSource Inc	Cantor Fitzgerald	Cantor Fitzgerald/ Liberum	Cantor Fitzgerald	Liberum	15/12/17
Gfinity	Shore/Allenby	Allenby	Allenby	Allenby	22/12/17
Integumen	Hybridan/Turner Pope	Turner Pope	Spark	Spark	22/12/17

company news

SQS recommends bid more than four times its 2005 flotation price

Software testing *www.sqs.com*

Software testing services provider **SQS Software Quality Systems AG** is recommending a £281.3m offer from Assystem Technologies, which provides engineering product design services. The 825p a share bid compares with an AIM flotation price of 190p a share back in September 2005, when it was valued at £30m. At that time, SQS, which was founded more than three decades ago, was the first German company to have its primary quotation in London. SQS has paid a dividend in most years since it floated.

SQS has always been an international business and in recent times it has been building up its operations in North America. The core sectors are financial, retail, manufacturing and telecoms. SQS is the leading independent provider in the software testing market and has also moved from one-off project work to a focus on managed services and framework contracts. This has helped to improve margins. Operating margin was 7.5% in the first half of 2017 and the medium-term target is 9%. Demand for services continues to be strong on the back of digital growth.

> SQS floated at 190p a share in September 2005

Stockdale had forecast an improvement in full-year profit from €24.4m to €25.3m on flat revenues of €327m in 2017. The bid values SQS at 21 times expected earnings. The bidder believes that this reflects the potential integration benefits.

SQS SOFTWARE QUALITY SYSTEMS AG (SQS)			815p
12 MONTH CHANGE %	+30.9	MARKET CAP £M	277.9

Private equity-backed Assystem generated revenues of €578m in 2016 from outsourced research and development services. The bid talks commenced just after SQS published its interim figures. Assystem management believes that a combination of the businesses can offer the full range of engineering product design and quality assurance to clients. SQS director Diederik Vos will become deputy chief executive of the enlarged group and he is one of three directors who will reinvest part of their proceeds from the bid in Assystem Technologies.

WANdisco reaps benefit of IBM partnership

Software *www.wandisco.com*

Data management software and services provider **WANdisco** is reaping the benefits of its partnership deals with major companies. The latest contract win came through the deal with IBM. The $4.3m contract is described as being with a major financial institution. This is the second large deal that has come via IBM in the past year.

WANdisco has apparently talked to this customer in the past but it was the partnership with IBM that sealed the deal because of its significant size. WANdisco's Big Replicate/Fusion platform will be used to replicate data between primary and disaster recovery sites.

WANDISCO (WAND)			572.5p
12 MONTH CHANGE %	+186.3	MARKET CAP £M	234.2

IBM is not the only partner that WANdisco has signed up. Virtustream, which is Dell/EMC's cloud and software business, will sell Fusion as part of its product portfolio. WANdisco has integrated some of its products with Amazon Web Services, which will use them to gain data clients. Fusion is also integrated with Microsoft Azure HD Insights.

In December, WANdisco raised £16.3m through a placing at 550p a share. That was double the minimum amount that WANdisco was seeking. This cash is being used to invest in the business so that it can grow faster. Two directors and co-founders, David Richards and Yeturu Aahlad, raised £5.75m from the sale of part of their shareholdings at the placing price.

The WANdisco share price has recovered strongly over the past year, although it has dropped back in the past three months. It represents a full short-term price for the company.

company news

Driver succeeds in turnaround and seeks to grow margins and profit

Disputes and expert witness services *www.driver-group-com*

DRIVER GROUP (DRV)			67.5p
12 MONTH CHANGE %	+11.6	MARKET CAP £M	36.4

New management returned **Driver** to profit last year by focusing on better margin business in the core areas of claims and dispute resolution and expert witness services. Utilisation has also improved from 71% to 76.2%.

In the year to September 2017, continuing revenues, excluding Initiate Consulting, which has been sold, improved from £52.4m to £60.2m, while an underlying loss of £400,000 was turned into a profit of £2.5m – slightly better than forecast – and there was a nil tax rate.

Each of the main regions increased their contribution, with the Middle East and Asia Pacific, helped by restructuring in Australia and Hong Kong, improving by the greatest percentages. The UK was a strong market. Driver hopes that Canada

Bank facilities last until February 2020

will return to profit in 2017-18.

Cash generated from operations and a £8.1m net share placing at 40p a share almost wiped out net debt. Cash collection has improved in the Middle East. There is a £5m loan facility plus a £3m revolving credit facility that last until February 2020.

House broker N+1 Singer expects flat revenues this year but it still expects growth in pre-tax profit to £2.7m. However, there will be a tax charge this year so earnings per share are forecast to decline from 5.6p to 4.1p. The forecast was not changed at the time of the results announcement but trading has been positive so far and there is scope for upgrades if this continues to be the case. Driver should move into a net cash position this year, particularly if it successfully sells its Haslingden property. This could enable Driver to return to the dividend list in the medium term.

Castlefield Investment Partners has increased its stake from 13.2% to 16.8% since the results. The shares are trading on nearly 17 times prospective earnings. The turnaround is complete so further profit growth will depend on improving margins and higher revenues.

Mirriad hopes to revolutionise in-video advertising

Advertising technology *www.mirriad.com*

MIRRIAD ADVERTISING (MIRI)			59.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	60.6

Mirriad Advertising has developed technology that can insert brand images into a video, film or television programme. This means that different brands can be inserted for different countries without harming the integrity of the film or video. The technology is called NIVA (Native In-Video Advertising) and effectively it enables advertising to be sold within a programme in the same way as it is in the advertising breaks. The brands inserted in the programme can be changed over a period of time or for specific time slots.

Clients will have an additional source of revenues and the online nature of the service means it does not take a lot of time or money to use. Mirriad will receive a share of the advertising revenues. In the six months to June 2017, revenues were £352,000 and the loss was £4.9m. The focus has been on larger customers, including YouKu, a Chinese equivalent of YouTube.

Mirriad raised £24.2m, after expenses, at 62p a share when it joined AIM at the end of 2017. Directors and senior management also raised £800,000 by selling part of their shareholdings. IP Group and Parkwalk Advisors own 45.7% of the company. A Chinese investor may subscribe up to £2m at the placing price.

Management believes that supplying more data will help to convince clients of the benefits of using the service. In the longer term, there is also the potential to target brands at individual viewers.

company news

Strong order book augurs well for further recovery at Redhall

Engineering *www.redhallgroup.co.uk*

Redhall had warned that delayed nuclear work would hold back progress, but the engineering group still managed to achieve an underlying pre-tax profit in the year to September 2017. Further progress is expected this year. The order book was worth £32m at the end of the period and subsequently a contract worth £18m over three years has been won.

Revenues fell from £43.8m to £38.9m but improved margins and lower central costs enabled the underlying operating profit to rise from £856,000 to £1.43m. There was an underlying pre-tax profit of £573,000. That excludes a loss of more than £1m relating to discontinued activities and restructuring the remaining business.

The year-end order book was £32m

A placing at 10p a share and debt capitalisation meant that there was a small net cash balance at the end of the year, but this year there could be additional working-capital requirements and capital spending will be more than £1m.

On top of the existing orders, Redhall is tendering for more nuclear and tunnelling projects. There is also potential for work from oil and gas customers, an area that has dried up in recent years. New software has made tendering more efficient.

Wayne Pearson is taking over as chief executive from Phil Brierley,

REDHALL GROUP (RHL)			9.38p
12 MONTH CHANGE %	-7.4	MARKET CAP £M	30.8

who has guided the turnaround and refinancing of the business.

The delayed Hinckley Point C nuclear contract should be completed in this financial year. That will help to underpin the forecast 2017-18 revenues of £50.3m and the sharp improvement in pre-tax profit to £3.4m.

Redhall has disappointed on a number of occasions but there is no doubt that it is heading in the right direction, it is just difficult to know how rapid the progress will be. The shares are trading on more than 13 times prospective 2017-18 earnings.

Orders flow in for Kromek

Imaging and detection technology *www.kromek.com*

Orders are building up for x-ray and gamma-ray imaging and radiation detection technology developer **Kromek** and moving it nearer to break even – but there is still some way to go. One of the key developments has been the confirmation that Kromek is a supplier to the $8bn-plus US army contract for radiological detection systems. There have been no orders as yet but there could be news later in 2018.

Kromek has three main markets: medical, security and nuclear detection. All three have been winning new work, with medical

KROMEK (KMK)			26.38p
12 MONTH CHANGE %	+17.2	MARKET CAP £M	68.7

making the greatest advances in recent times. Kromek's technology provides higher resolution images than standard medical cameras. The company's SPECT (single photon emission computed technology) cameras are nearing full clinical validation and other imaging systems continue to win orders.

In the six months to October 2017, revenues were 27% ahead at £4.8m, with an unchanged loss of £1.8m. Capitalised R&D increased from £1.67m to £1.88m. There was still £16.3m in cash and investments.

House broker Cenkos expects full-year revenues to rise from £9m to £12.5m and the underlying loss to reduce from £3.8m to £2.9m. Growth in revenues is expected to further reduce the loss next year and there is even the prospect of a positive operating cash flow. However, continued capitalisation of research and development spending means that there will still be an overall cash outflow. Even so, net cash should still be above £10m so management do not have to worry about the cash position.

PCF restarts dividends and set for growth

Finance provider *www.pcf.bank*

Dividend

Private & Commercial Finance, now known as PCF Group, has been quoted on AIM for two decades but it has not always paid a dividend. The dividend peaked at 2.15p a share back in 2002 but it was reduced in 2003 when PCF started to dabble in car retail and it slipped into loss. Following an interim dividend of 0.25p a share the next year, the finance company stopped paying dividends.

A restructuring of the balance sheet was undertaken in 2015 and this enabled PCF to restart dividend payments. The board announced a return to the dividend list with the figures for the 18 months to September 2016. The dividend was 0.1p a share and this was raised to 0.19p a share the following year. The dividend is forecast to increase to 0.3p a share this year and 0.4p a share next year. The 2018-19 dividend should be eight times covered by forecast earnings.

Business

PCF is one of the companies that has been on AIM the longest but it was last year that it achieved its most important milestone. Following a lot of time and effort, the company was awarded a banking licence at the end of 2016 and the bank was opened last July.

The core business provides loans to car buyers and equipment finance for businesses. Up until this year, the growth in lending has been financed by bank facilities. The cost of the deposits with the company's own bank will be lower than the bank facility and this will enable PCF to move into prime lending because it can still be profitable while offering lower rates than it has previously charged. The forecast profit split between car finance and business finance is expected to be similar to the past with the majority coming from the latter.

PCF GROUP (PCF)	
Price (p)	28.5
Market cap £m	60
Historical yield	0.7%
Prospective yield	1.1%

The current lending portfolio is worth £146m and last year's bad debt charge was 0.5%. The bank debt was reduced from £103.3m to £77.1m as the initial bank deposits were put to work. The bank had received deposits of £53m by the end of September.

This year will be one of consolidation, with pre-tax profit flat at around £5m and a fall in earnings per share because of the extra shares in issue following a £10.5m placing and open offer at 25p a share to obtain the required regulatory capital for the bank. Next year, a pre-tax profit of £8.5m is forecast, which puts the shares on nine times prospective 2018-19 earnings.

Management is targeting a lending portfolio worth £350m and return on equity of 12.5% by September 2020. That will not be achieved purely by organic growth and acquisitions will be sought. This growth could come through acquiring businesses in existing markets or by moving into new markets.

In the longer term, PCF's management believes that if the lending portfolio could reach £750m, return on equity could be as high as 17.5%.

Dividend news

Timber merchant **James Latham** has maintained its interim dividend at 4.5p a share, despite a decline in profit in the first half. In the six months to September 2017, revenues grew 7% to £107.3m, while pre-tax profit was 12% lower at £6.7m as increased costs, partly due to currency movements, hit the business. Margins are improving in the second half and the first-half profit shortfall should be more than made up. Full-year earnings per share of 53.8p are forecast, up from 40.3p and this should enable a rise in dividend from 12.5p a share to 14.3p a share, which would be covered more than 3.7 times.

Insolvency and financial adviser **Begbies Traynor** increased its interim dividend from 0.6p a share to 0.7p a share. The interim dividend has been unchanged since 2011, when it was reduced from 1.2p a share after a decline in profit. The dividend cover had been rebuilt to 1.5 times last year. Corporate insolvency numbers are starting to rise and this helped to offset a decline in the property services part of the business. First-half cash generation was strong, with net debt falling from £10.3m to £6.9m over the period. Begbies has launched BTG Advisory, which provides commercial and strategic advice to companies, investors and lenders, by consolidating its non-insolvency operations.

Outsourcing and recruitment services provider **Servoca** raised its full-year dividend by 14% to 0.4p a share. The results were ahead of expectations, with underlying pre-tax profit improving from £3.5m to £3.9m. There was a small dip in the profit contribution from education recruitment, mainly because of a poor performance in London. The performance should improve this year. Cash generation is expected to be better this year, with net debt of £2.3m turning into a small net cash position.

expert views

Expert view: The broker

Premier plans Zulu spin-off

By Ryan Long

Premier African Minerals plans to obtain a separate listing for its Zulu lithium project. The Zulu project is located in the Matabeleland South Province of Zimbabwe. Premier owns a 100% interest in Zulu Lithium Ltd, which holds the prospecting licences that make up the project.

The project has a JORC-2012 compliant Inferred Mineral Resource Estimate of 20mt at a grade of 1.1% Li2O, containing around 21,000t of Li2O. This Mineral Resource Estimate does not include the positive drill results received following the discovery of the New Zone and the expansion drilling at the Main Zone (23/10/17 & 12/12/17).

A recently completed Scoping Study at the project (21/11/17), also based on the current resource base, evaluated two options for the development of the project as an open pit mine, producing: 1) a spodumene and petalite concentrate; or 2) a lithium carbonate product.

We expect Premier to continue to expand its Mineral Resource Estimate

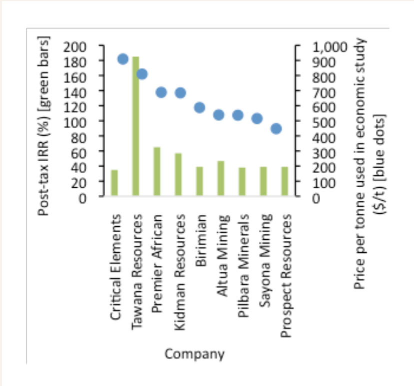


Chart 1: NPV for concentrate production

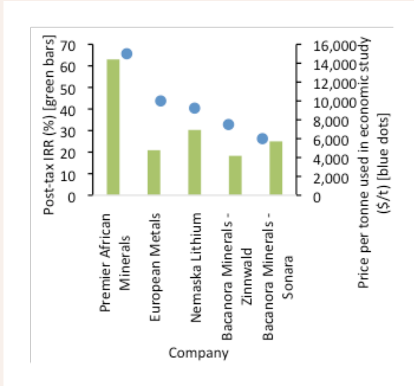


Chart 2: NPV for carbonate production

Spodumene and petalite concentrate

The operation would produce 84,000t of spodumene concentrate and 32,0000t of petalite per annum. The project would have a capital cost of $64m and a C1 operating cost of $486m with a 15.year mine life.

Premier's peer group assumes a range of life of mine prices for the concentrates, from $900/t to $488/t, in their economic studies. Premier uses a price of $688/t.

Post-tax NPV8-10s for the peer group range from $565m to $86m (Chart 1) and IRRs range from 185% to 35%. Premier has a post-tax NPV10 of US$92m and IRR of 65%, putting it at the lower end of post-tax NPVs but higher end of post-tax IRRs. Premier's high opex means that in terms of margin it is at the lower end of its peer group range.

Lithium carbonate product

Premier's lithium carbonate option has a post-tax NPV10 of $524m and a post-tax IRR of 63%. The project would have a capital cost of $238m and an operating cost of $2,100/t.

Premier uses a high life-of-mine price of $15,000/t for its lithium carbonate product compared with its peer group, which assume a range of life-of-mine prices for the carbonate and/or hydroxide products, from $15,000/t to $6,000/t, in their economic studies.

Post-tax NPV8-10s for the peer group range from $1,200m to $108m (Chart 2) and IRR's range from 63% to 18%. Premier is in the mid-range of post-tax NPVs but higher end of post-tax IRRs. Premier's low opex and high price used in the economic study means that in terms of margin it is at the top end of its peer group range.

Potential upgrades

We expect Premier to continue to expand its Mineral Resource Estimate, which could in turn improve the project's metrics, as the company moves forward to more advanced economic studies at the project. Despite the project's potential, Premier currently trades on an EV per attributable contained Li2Okt spodumene of £1.6m/kt, significantly below the average of most other companies with spodumene-dominated projects at £9m/kt.

RYAN LONG is a Director of Research, at Northland Capital Partners.

feature

Investors seek AIM blockchain opportunities

Bitcoin and blockchain seem to be a trigger for a soaring share price but investors need to be cautious.

AIM is a market that has experienced many booms over its history, ranging from the internet and IT frenzy at the turn of the millennium to the rash of IVA and debt management companies that floated more than a decade ago.

When companies and advisers spot areas of investor interest they seek out businesses and operations that will attract investment. A few of these investments succeed but many get off the ground purely because they are in the right sector at the right time – but turn out to be the wrong investment.

In December, TMT Investments announced that it planned to participate in a new blockchain-related opportunities fund and the share price has risen by two-thirds. The fund is still to be launched and there are no details of the company's participation, although it intends to provide people and expertise.

It is still early days for the blockchain-related investments and it is certain that they will not all be successful. Most are part of an AIM company's portfolio or are an offshoot to its main business.

Investments

There has been a tenfold rise in the On-line share price since it announced its intention to become involved with blockchain and cryptocurrency at the end of October. On-line, which has previously been involved in internet ventures, such as financial information website ADVFN, changed its name to Online Blockchain. Peter O'Reilly, who had been a 13.8% shareholder, took advantage of the initial share price rise and reduced his stake to below 3% during November.

The first product is PlusOneCoin, which has been developed in conjunction with ADVFN, which will offer customers a PlusOneCoin wallet. They will be able to exchange the cryptocurrency for social media items and products. Online will eventually generate licence-fee income for the software it has developed for the wallet. ADVFN is not paying anything yet. Interestingly, ADVFN did not maintain its share price rise at the end of 2017.

Investment company Blue Star Capital has a 31% stake in SatoshiPay, which is developing blockchain-based technology for nanopayments. This is one of the few significant stakes in a blockchain-based business.

It is not just the obvious companies that are getting involved with the new sector. Alongside its mining interests, Blenheim Natural Resources is investing $1.05m in BrandShield for a 7.22% stake. Israel-government-backed BrandShield is expanding into the cryptocurrency and blockchain arena and Blenheim believes the technological expertise will enable blockchain platforms to be rolled out in the resources sector.

Using cryptocurrencies reduces the cost of cross-border payments, blockchain can be used to combat fraud and the data from the blockchain process limits errors and reduces the need for additional reconciliations.

At one stage the share price of miner Lionsgold had risen tenfold but it has nearly halved in the past few weeks. The rise happened long after Lionsgold had taken a 55% stake in TRAC Technology, the developer of a gold-backed cryptocurrency planned for launch this year.

The TechFinancials share price has recovered strongly on the back of the online financial trading technology supplier's initial $200,000 investment in blockchain-based diamond exchange developer Cedex Holdings, which wants to turn diamonds into a tradeable asset. TechFinancials has an option to acquire a further 90% for $40,000.

Gains

Investment company Vela Technologies was arguably the first AIM company to become involved in blockchain through a 2015 investment in TSX Venture Exchange-listed BTL, which provides services to a range of sectors and has a platform called Interbit. Vela has more than covered its investment via disposals and retains a 2.9% stake worth £3.5m plus 25,000 warrants exercisable at less than one-third of the current share price. The latest Vela investment is BlockchainK2, which is buying equipment to set up a bitcoin mining operation.

Clear Leisure is setting up a bitcoin mining joint venture called Miner One and investing €200,000 for a 50% stake. The partner has experience of running data centres and has mined bitcoin. The JV will buy machines to mine bitcoin, which is based on complicated and time-consuming computations that unlock an unmined bitcoin. Electricity is one of the main costs and the JV partner's experience will help to secure an attractive power deal.

There are 21 million bitcoins and fewer than 17 million have been mined. The JV hopes to mine 20 plus bitcoins a year, although that can't be guaranteed, which would currently be worth around £250,000.

It is important to stress that Clear is not becoming a bitcoin-focused company. This is one opportunity that is part of a wider strategy of investing in IT businesses. That is effectively the company coming full circle because before it invested in the leisure sector it was technology incubator Brainspark. The new JV will provide cash flow but it is unlikely to be significant on its own.

feature

A decade of transformation

It is ten years since AIM reached its peak in terms of number of companies and a lot has changed since then.

AIM ended 2017 with its highest ever year-end market value. It is the first time in the past decade that the market value of the junior market has been anywhere near to its previous year-end peak of £97.6bn in 2007.

The number of companies continues to fall but at a slower rate, with a net loss of 20 last year. AIM ended the year with 960 companies. For the first time, the average market capitalisation of these companies is more than £100m. This shows how AIM has changed.

The average market capitalisation at the end of 2007 was £57.6m because there were 1,694 companies.

Cash raisings

There is a big contrast in the level of new money raised between 2007 and 2017. There was a total of £16.2bn raised in 2007, which is more than double the 2017 level. Secondary cash calls raised more than new admissions for the first time in 2007. That has continued to be the case since, with secondary fundraisings tending to take a significantly larger share, reaching 84% in 2011 when the lowest amount of cash was raised by new admissions in the past decade. Nearly three-quarters of the new money raised in 2017 came from secondary fundraisings.

This is partly due to the much lower volume of AIM new admissions. There were 519 in 2005 and 462 in 2006, but the number had fallen to 284 in 2007. This compares with 79 in 2017. AIM has historically been thought of in terms of new flotations and the prosperity of the market judged on this. That is not the right way to view AIM any more. There have been a limited number of flotations in 2017 but the average amount raised is around £20m

The shells that would have raised a limited amount of cash more than a decade ago and brought down the average cannot join AIM and use the standard list.

Sectors

The two sectors that have become increasingly important over the past decade are healthcare and technology. The resources sectors have declined in importance from 29% of AIM to less than 13%.

Healthcare was less than 4% of AIM in 2007 and is currently more than 13%. This reflects a sharp increase in the value of pharmaceutical and biotechnology companies even though the number of companies has declined. The average pharma and biotech company has increased in value from £33m to more than £200m.

The technology sector has increased from 6% to 12% of AIM's value.

ASOS was capitalised at £194.2m at the end of 2007

Companies

A decade ago 52.5% of the companies on AIM were valued at less than £25m. This percentage increased after the financial crash in 2008 but it has fallen back to 46.5%. The number of companies valued at more than £250m has increased from 74 to 95 over the decade. These companies made up 34.7% of AIM's capitalisation in 2007, rising to 62.1% in 2017.

There were two individual AIM companies valued at more than £1bn at the end of 2007 and there are currently 14 companies. Most of the larger companies in 2007 were mining or financial and property businesses, but there are barely any of these companies in the current top 20.

Most of the top 20 in 2007 have been taken over or moved to the Main Market. Dolphin Capital Investors and Tanfield are still on AIM but are worth a lot less. Highland Gold Mining is the only company in the top 50 in 2007 that is still there.

Trading volumes

The most noticeable absentee in the list of the most traded AIM companies at the end of 2007 is online fashion retailer ASOS. It seems as if ASOS has been the largest company on AIM for ages but ten years ago it was nowhere near that level – it was capitalised at £194.2m at the end of 2007.

In 2007, there were generally fewer than 2,000 trades in ASOS shares each month. There were 370 trades in September 2007. Even in months where there was more trading, ASOS accounted for less than 1% of trading on AIM.

In recent years, ASOS has consistently been at the top of the most traded list and in some months it can account for around 10% of all trades.

In ten years' time there could be a completely different company at the top of the most traded list. It may not even be quoted on AIM yet.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	17.8	10.8
Financials	16.9	16.6
Industrials	15.8	17.2
Healthcare	13.4	9
Technology	12.1	12.5
Consumer goods	9.6	5.9
Oil & gas	6.9	10.4
Basic materials	5.7	14
Telecoms	1.3	1
Utilities	0.4	1.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1049.63	+24.3
FTSE AIM 50	6064.21	+30.1
FTSE AIM 100	5408.23	+32.8
FTSE Fledgling	10639.77	+19.5
FTSE Small Cap	5811.36	+13
FTSE All-Share	4221.82	+9
FTSE 100	7522.87	+5.3

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	145
£5m-£10m	115
£10m-£25m	185
£25m-£50m	160
£50m-£100m	122
£100m-£250m	136
£250m+	95

KEY AIM STATISTICS

Total number of AIM	958
Number of nominated advisers	32
Number of market makers	48
Total market cap for all AIM	£104.8bn
Total of new money raised	£105.4bn
Total raised by new issues	£43.2bn
Total raised by secondary issues	£62.2bn
Share turnover value (2017)	£63.1bn
Number of bargains (2017)	10.6m
Shares traded (2017)	786.9bn
Transfers to the official list	184

TOP 5 RISERS OVER 30 DAYS

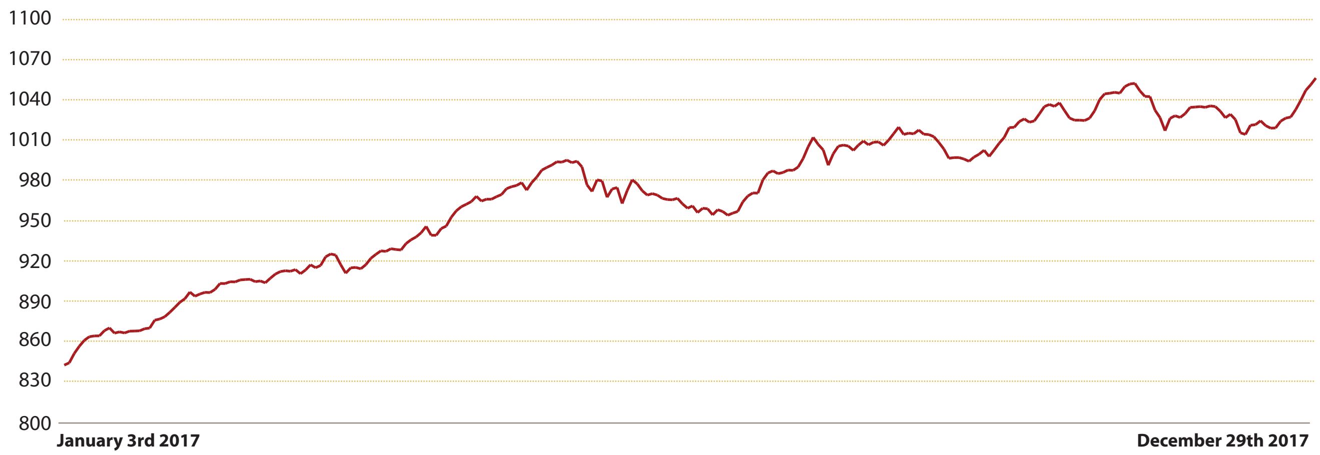
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Lionsgold Ltd	Mining	4.1	+382.4
Microsaic Systems	Technology	4.05	+295.1
Valirx	Healthcare	4.38	+280.4
Tertiary Minerals	Mining	2.05	+228
Quadrise Fuels International	Oil and gas	12.13	+219.5

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
URA Holdings	Shell	0.74	-90.2
Akers Biosciences Inc	Healthcare	15	-71.4
Plant Impact	Agriculture	6.13	-68.2
Gotech Group	Consumer	0.5	-63.6
Bezant Resources	Mining	0.38	-61

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



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

sponsors

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Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It has excellent connections with investors, providing them with equity research, advice and trading services. Northland has assembled a team of highly motivated and experienced professionals that aims to deliver unparalleled service to our clients.

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

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

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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.

PUBLISHED BY:	Hubinvest Ltd,	**MOBILE / TEL:**	07729 478 474 / 020 8549 4253
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		PRODUCTION & DESIGN:	David Piddington

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