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AIM JOURNAL
THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM gets ISA go ahead

AIM shares will be allowed into Individual Savings Accounts (ISAs) following the publication of the consultation into the government's proposal. Legislation will be put before Parliament this month and, if things go to plan, the changes could be made by the autumn.

ISA-qualifying investments will include "company shares admitted to trading on a recognised stock exchange within the European Economic Area (EEA)". This covers AIM and other European small-company exchanges, so AIM Italia should also be eligible, but excludes small-company exchanges outside of the EEA, such as AltX in South Africa. EU regulations mean that the proposal could not be limited to AIM and other UK small-company markets.

There are just short of 1,100 companies on AIM, although a number of these already qualified for ISAs because they had another listing on the TSX, ASX, Channel Islands Stock Exchange or other similar markets.

There were 99 respondents to the consultation, of which 77 were private individuals and the rest organisations, including the London Stock Exchange, QCA, The Share Centre, and ICAP, which runs the ISDX (formerly Plus) market which will also benefit from the proposal.

According to the consultation document: "Overall, the government does not consider that any new safeguards – in addition to those within the current regulatory framework and ISA rules – are necessary as a result of its proposal".

AIM flotation costs reduce

Research by accountant UHY Hacker Young shows that the average cost of an AIM flotation in 2012 fell as a percentage of the money raised. In 2012 it cost a new AIM company 8.43% of its funds raised to join AIM, which is down from 10.56% in 2011. However, the underlying trend is still rising.

The 2012 figure is still higher than the 2010 figure. Between 2005 and 2010 there was a consistent uptick in the percentage of funds raised taken in fees, from 6.1% to 7.29%.

Laurence Sacker, a partner at UHY Hacker Young, believes that there is downward pressure on corporate finance rates and broking firms are willing to be more flexible in pricing so that they can attract work for their teams. He also believes some small newer corporate finance boutiques will undertake work at lower margins.

The average amount raised per company rose from £11.5m to £15.7m so this helped to spread the more fixed element of the costs and is likely to have contributed to the decline in cost as a percentage of cash raised.

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general news

Provexis plans to spin-off Science in Sport division

Functional foods developer Provexis plans to demerge sports nutrition business Science in Sport in a separate AIM-quoted company. Shareholders will receive one share in the new company for every Provexis share they own. At the same time, Science in Sport will raise £2.25m (£1.7m net) at 56p a share, which will value the company at £10.9m.

Provexis acquired Science in Sport for £8m (£7m in cash and £1m in shares) in June 2011 so the proposed flotation valuation is slightly higher before new money. The Science in Sport brand was relaunched in April 2012 and earlier this year Olympic cyclist Sir Chris Hoy became a brand ambassador.

In 2010, pre-tax profit was £200,000 on revenues of £4.6m. In the six months to September 2012, Science in Sport generated revenues of £3.25m out of total group revenues of £3.26m and revenues continue to grow. The combined group remains loss-making, though, and Provexis plans to reduce its own costs by £250,000 a year.

Provexis will concentrate on its Fruitiflow heart health technology business. Fruitflow is a patented natural extract from tomato which can help reduce heart disease and strokes. The initial development was undertaken by a company started up by AIM-quoted technology development company Angle and this subsequently reversed into an existing AIM-quoted company in 2005. The technology is being commercialised in conjunction with DSM Nutritional Products, which owns 9.5% of Provexis.

Science in Sport is on course to join AIM on 9 August. Fund manager Downing is expected to own 16.1% of the company.

M&A winners

Two AIM companies were among the winners in this year's M&A Awards. Mobile banking services provider Monitise purchased Clairmail Inc for £109m in shares to create a combined business handling more than 1bn in transactions a year. There were 13m registered customers when the deal was announced at the end of March 2012 and this has already risen to more than 20m customers. Speciality pharmaceuticals and services provider Clinigen raised £50m at 135p a share when it joined AIM on 25 September 2012. Most of the shares were sold by existing shareholders, with £6.6m net raised for the company. Since then, the share price has more than doubled. The majority of the business provides services for clinical trials, but Clinigen also intends to build a portfolio of niche hospital-only drugs.

Video gaming floats head for AIM

Two video games-related companies are on course to join AIM. Dublin-based Keywords Studios provides localisation, testing and audio services covering 30 languages and a dozen games platforms, while Frontier Developments is a games developer. The video games sector is forecast by accountant PwC to grow at an annual compound rate of 6.5% up until 2017.

Keywords (www.keywordsstudios.com) is raising £10m from a placing, which includes new and existing shares, and it is set to be valued at up to £60m. Management is keen that there should be a free float of at least 50%. Keywords says that it is the only integrated provider of services to a wide range of gaming platforms - it provides services to 15 out of the top 25 games companies and continues to win new clients. Keywords has worked on games titles including Pro Evolution Soccer 2013 and Halo 4.

Keywords has been profitable since 1998 and in 2012 it made a pre-tax profit of €2.74m on revenues of €14.3m. Profit has grown at a compound annual growth rate of 157.6% since 2010. The flotation will finance organic growth, including moves into newer regions, such as Asia and Latin America, and acquisitions in existing areas or online gambling and e-learning.

Chief executive David Braben formed Frontier Developments in 1994 and he still owns a majority of the company's shares. David Gammon, who recently stepped down from the board of Bglobal, is chairman. Cambridge-based Frontier (www.frontier.co.uk) develops video games across a wide variety of different game genres and platforms and it also has a base in Nova Scotia, Canada.

Both Keywords and Frontier are expected to join AIM on 12 July.

advisrs

Share Incentive Plan opportunities

A Share Incentive Plan (SIP) is a way of providing employees with participation in a company and helps to align the interests of the management and employees. Ronald Duncan, chairman of ecommerce firm @UK, is a fan and he believes that it means that "everyone has a stake".

A company's SIP is open to all UK employees, although there can be qualifying periods set by individual companies, and there are four forms of share issues. Partnership shares are purchased by the employees via monthly savings from their salaries prior to the tax calculation. The upper limit is £1,500 for each tax year (£125/month) or 10% of salary if this is a lower figure. A company can issue matching shares to the participants in the SIP. This can be done up to a ratio of two matching shares for each partnership share acquired. A company can also award free shares to employees whether or not they are involved in the savings scheme for partnership shares. Up to £3,000-worth of shares can be awarded to an employee each year. A company can also offer participants in the SIP the chance to take dividends in the form of shares.

There are around 50 employees at @UK and they have all benefited from free shares and Duncan says the use of the scheme "should be a no brainer". Falkland Islands Holdings previously had a save as you earn scheme but felt a SIP was a more appropriate and attractive option. The initial staff take-up was disappointing to the management and it feels that confusion over the rules and what happens if employees leave the scheme within three years have put some off.

One of the administrators of SIPs is The Share Centre (0800 0282812), a subsidiary of AIM-quoted Share plc, and the services it offers include the provision of documents for employees as well as presentations so they understand what they are receiving. This can help to boost the take-up of the scheme. Administrators also take care of the legal documentation relating to the SIP rules and the trust deed for the shares, as well as assisting in gaining HMRC approval for the company's scheme. Employee contributions go into a trust administered by the trustee firm and they finance the purchase of the shares required by the SIP. These have to be existing shares acquired in the market so they can provide some regular liquidity for the share quotation.

ADVISER CHANGES - JUNE 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Nostra Terra Oil & Gas	XCAP	XCAP/ Alexander David	Shore	Shore	17/06/2013
Walker Greenbank	Investec	Arden	Investec	Arden	17/06/2013
Longships	Westhouse	Westhouse	Grant Thornton	Westhouse	18/06/2013
Mentum Inc	Peterhouse	Strand Hanson	ZAI	Strand Hanson	20/06/2013
Tower Resources	Peel Hunt/GMP	Northland/ Investec	Peel Hunt	Northland	20/06/2013
Orosur Mining Inc	Cantor Fitzgerald	Canaccord Genuity/ Cantor Fitzgerald	Cantor Fitzgerald	Canaccord Genuity	21/06/2013
Artilium	finnCap	Westhouse	finnCap	Westhouse	24/06/2013
GCM Resources	Investec	Investec	ZAI	JPMorgan Cazenove	26/06/2013
Pentagon Protection	Allenby	Peterhouse	Cantor Fitzgerald	Cantor Fitzgerald	26/06/2013
StratMin Global Resources	Peel Hunt	Peterhouse/Optiva	Peel Hunt	Libertas	26/06/2013
Animalcare Group	Panmure Gordon	N+1 Singer	Panmure Gordon	N+1 Singer	27/06/2013
Parallel Media Group	Sanlam	Northland	Sanlam	Northland	27/06/2013
Stratex International	SP Angel/ Northland	Northland	Grant Thornton	Grant Thornton	27/06/2013
Hydrogen Group	Shore	Oriel	Shore	Oriel	28/06/2013

company news

Shipbroker ACM Shipping is ready for recovery in the tanker market

Oil-tanker broker *www.acmshipping.co.uk*

Trading conditions were tough for oil-tanker broker **ACM Shipping** last year but the market appears to have bottomed and ACM has maintained its dividend. ACM is in a strong position to take advantage of any sustained upturn.

In the year to March 2013, revenues were 9% lower at £24.1m as shipping rates declined. The loss of a sale and purchase brokerage team hit revenues from that part of the business but they are starting to recover now a new team is in place. Pre-tax profit dipped from £4.3m to £3.1m. Employee costs are significant but they are partly linked to profit. The dry-cargo business is still losing money. In the longer term, ACM would like to get into the offshore market (rigs and supply ships).

The recovery is likely to be slow

Net cash was £4.33m at the end of March 2013 and this figure is expected to grow even after paying nearly £2m a year in dividends. The dividend of 10.15p a share provides a yield of 5.9%.

Volumes are improving and ACM has a strong base. The recovery is likely to be slow with a small profit improvement to £3.25m expected by Edison. That puts the shares on 13 times prospective 2013-14 earnings. A forecast 2014-15 profit of £3.8m would reduce the multiple to less than 12. If charter rates recover to pre-recession levels then a profit of up to £10m could be achieved.

The share price has recovered sharply over the past year but it remains around one-third below its peak five years ago.

ACM SHIPPING (ACMG)			171.5p
12 MONTH CHANGE %	+35.6	MARKET CAP £M	30.3

Gulf Keystone on course to start oil production

Oil and gas *www.gulfkeystone.com*

Gulf Keystone Petroleum (GKP) has received approval for its field development plan for the Shaikan field from the authorities in the Kurdistan Region of Iraq. This means that the company has all the permits it needs to start production. However, there are still corporate governance issues hanging over the company.

GKP has a 75% working interest in the Shaikan field, plus a further 5% that is held in trust for the company. Initial production should start within weeks and it will build up to 20,000 barrels of oil a day. Once a second production facility is completed that rate of production will double. The plan is to build production to 150,000 barrels of oil a day within three years and 250,000 barrels of oil a day by 2018. This means it will not only be significant for GKP but also for the Kurdistan region.

GULF KEYSTONE PETROLEUM (GKP)			144p
12 MONTH CHANGE %	-11.9	MARKET CAP £M	1278.3

WH Ireland reckons that there are net risked reserves of 2bn barrels of oil equivalent, which could be valued at $2/barrel, which is equivalent to double the current valuation of the company.

GKP is still keen to move to a standard listing. It will need to sort out its board to do this and has just appointed Simon Murray as chairman.

The M&G Recovery Fund, which has a 5.31% stake, has suggested four potential non-executive directors. These are Thomas Shull, John Bell, Philip Dimmock and Jeremy Asher, a major shareholder who was removed from the board in 2010. GKP says that it is undertaking due diligence on the candidates which should be complete by 18 July. The AGM is on 25 July.

Litigation by Excalibur Ventures is still hanging over GKP but this is expected to be sorted out before the end of this year.

company news

Large software contract will help First Derivatives bounce back this year

Financial software and consultancy *www.firstderivatives.com*

Consultancy and financial software supplier **First Derivatives** delivered organic revenue growth of 17% in the year to February 2013. All this was achieved with little contribution from the Australian Securities and Investment Commission (ASIC) contract, which is the largest ever won by the company. In fact, consultancy income was held back because some fee earners were used to help initiate the contract and there were initial set-up costs.

In the year to February 2013, revenues increased from £46.1m to £56.5m, while pre-tax profit dipped from £6.95m to £6.16m, mainly due to a £1.15m bad-debt write-off.

The ASIC contract is the largest ever won by the company

Management expects further organic growth this year. The ASIC contract will contribute revenues and it could spark more demand for the surveillance capability of the Delta Stream software. The consulting business has won a contract to run a centre of excellence for a global bank.

The company continues to sell the residential properties in its balance sheet and £5m was raised last year – nearly as much as the £6m of capitalised development spending – but net debt increased to £22.2m at the end of February 2013. Net debt had been expected to fall to £15m by February 2014 but that was before the £4.74m (gross) placing at 564p a share. Sanlam reckons the placing dilutes this year's earnings per share by 3% to 35.5p. Sanlam forecasts a jump in 2013-14 profit to £8.3m. The shares are trading on less than 16 times prospective earnings.

FIRST DERIVATIVES (FDP)			555p
12 MONTH CHANGE %	+ 17.6	MARKET CAP £M	99

IDOX profit dip should prove temporary

Document management *www.idoxgroup.com*

Document management services provider **IDOX** had already warned that it had a disappointing first half so the interim figures were no surprise. This should be a temporary blip, with large licence sale opportunities still achievable in the future.

In the six months to April 2013, revenues were 2% lower at £26.6m, with North American revenues sharply lower. Public-sector software revenues were slightly reduced but that was mainly due to lower elections business. The Engineering Information Management division has a good order book but business has been slow coming through, while the information solutions division was hit by government spending cuts. Underlying profit fell from £7.17m to £4.97m.

IDOX (IDOX)			38.5p
12 MONTH CHANGE %	- 3.5	MARKET CAP £M	134.9

IDOX has sold its unprofitable recruitment division to ILX for up to £600,000 depending on performance. This gets rid of a distraction for the management, which would have liked to have sold it a couple of years ago.

Net debt was £17.7m at the end of April 2013 and it is forecast to fall to £15.1m at the end of October 2013. The business is highly cash generative and, excluding any acquisitions, the debt will fall substantially next year. Debt facilities still total £32.7m, giving plenty of scope for acquisitions without any need to issue more shares. The interim dividend was increased by 9% to 0.3p a share.

There are 30 UK local authorities using the company's managed and hosted services and IDOX is bidding for overseas contracts. Growth in recurring revenues from hosted and managed services helps revenue visibility, while there are opportunities for adding to overseas contracts. The delayed licence sales might not generate revenues until next year. House broker finnCap forecasts a 2012-13 profit of £15.7m, up from £14.2m. The shares are trading on 12 times prospective 2012-13 earnings, falling to less than 10 the following year.

company news

Rurelec accelerates power plant expansion in Chile ahead of compensation ruling

Power generation *www.rurelec.com*

Latin America-focused electricity generator **Rurelec** is acquiring related company Independent Power Corporation and two gas turbines from South Africa-focused IPSA. This will go some way to simplifying the structure of the group. Rurelec also raised £625,000 from a share issue at 12.5p a share in order to finance developments in Chile. Sterling Trust is currently a major shareholder in Rurelec, IPC and IPSA. Following the merger it will own 54.7% of Rurelec.

Rurelec is paying £4m in shares for IPC plus a portion of development fees payable to IPC after the acquisition. IPC has developed power plants around the world and its project management expertise will enable Rurelec to handle its own plant developments as well as potentially widening the geographical spread of its operations. IPC's business can be lumpy, with

Rurelec has four power-generation projects in Chile

much more generated in revenues and profit in the first four months of 2013 than in the whole of 2012.

Rurelec has four power-generation projects in Chile where increased demand for power from mining companies means that significant new capacity will be required. The two gas turbines that have been acquired are earmarked for the 255MW Illapa project in Chile. Rurelec has paid an initial £11.9m in shares for the turbines and a further £4.2m is payable in cash over the next two years.

Rurelec has achieved financial closure for the 5.3MW Canchayllo

RURELEC (RUR)			11.75p
12 MONTH CHANGE %	+ 49.1	MARKET CAP £M	64

hydroelectric project in Peru. The plant should be commissioned in the first quarter of 2014 and it is one of a portfolio of hydroelectric projects totalling 40MW.

The fight for compensation for the nationalisation of Rurelec's Bolivian assets continues – it has been going on for three years and has reached arbitration. The final hearing was in April and the compensation award should be announced in the next few months. A figure of $75m has been mentioned but it is best not to assume anything just yet. The compensation payment will initially be used to complete payment for the turbines but there should be plenty left for a special dividend and finance for additional projects.

Wynnstay plants seeds for further growth

Agricultural, retail *www.wynnstay.co.uk*

Higher demand for feed and seeds offset lower sales of grain and helped **Wynnstay** to report record interims. Retail also contributed to the growth in sales and profit even though it did not have the same level of solar system sales as in the previous year.

In the six months to April 2013, group revenues rose 12% to £216.1m, while pre-tax profit was 15% higher at £5.21m. The interim dividend is 9% higher at 3.1p a

WYNNSTAY (WYN)			515p
12 MONTH CHANGE %	+ 32.1	MARKET CAP £M	86.5

share. The total dividend for the full year is forecast to rise from 8.5p a share to 9.05p a share.

The spread of agricultural operations means that the company is reasonably well hedged from downturns in any parts of the business. There are also potential consolidation opportunities of some of the less financially strong rivals. House broker Shore Capital forecasts a rise in full-year profit from £7.8m to £8.5m. The shares are trading on just over 13 times prospective earnings.

Net debt was higher than normal at the end of October 2012. This is why the normal interim increase in net debt was not as large as usual. Net debt has increased from £13.8m to £15.4m but it is forecast to fall to £9.1m by the year end.

Plastics Capital accelerates dividend payments

Plastic components manufacturer *www.plasticscapital.com*

Dividend

Plastic components manufacturer Plastics Capital started paying dividends the year before last, commencing with a total dividend of 1p a share for 2011-12. The dividend was doubled to 2p a share for 2012-13 even though underlying profit was slightly lower. Even so, the dividend is still covered five times by earnings. Management plans a progressive dividend strategy now that the company's borrowings have been cut significantly. A 3p a share dividend is forecast for 2013-14, which equates to a cover of around four times forecast earnings.

Even though profit was held back by trading conditions, the net debt was reduced from £10.1m to £8.4m by the end of March 2013. There will be additional capital spending in order to increase capacity but borrowings are still expected to decline at a similar rate over the next two years, even with a growing dividend, taking net debt to £5m by the end of March 2015.

Business

Plastics Capital has four divisions, which supply plastic bearings, mandrels used in the manufacture of hoses, industrial films and creasing matrix products used in the manufacture of cartons and boxes.

In the year to March 2013, revenues slipped 2% to £31.4m, while pre-tax profit dipped from £3.8m to £3.3m. Europe was weak and growth in Asia and North America was not enough to fully offset that. Plastics Capital is winning new business and previous business wins are contributing more to revenues than their initial contributions. This means that this year's figures

PLASTICS CAPITAL (PLA)	
Price	97.5p
Market cap £m	26.9
Historical yield	2.1%
Prospective yield	3.1%

should be better than the 2012-13 figures.

Last year, net new business added 3.8% to revenues. There is a pipeline of new business worth £6.1m over two or three years. Eleven new customers were added last year and there should be more significant contributors this year.

Industrial films was the only division of the business where sales improved and trading is above the previous peak. Additional capacity will be added by the autumn. A new factory is being opened in China and this will initially make bearings, although the Chinese markets for hose mandrels and creasing matrix products are growing strongly and provide potential opportunities.

Plastics Capital floated in order to become a consolidator in its markets but the world economic downturn has meant that debt reduction has been paramount in recent years. Acquisitions are back in focus, though.

Currency rates should be more favourable this year and investment in business development will also help. The order book has improved in recent months. Analysts expect 2013-14 profit of around £4m. The share price has already recovered strongly since the release of full-year figures, but the shares are trading on eight times prospective 2013-14 earnings. This is a modest rating given the growth potential and the attractive, growing yield.

Dividend news

Online gaming firm **GVC** has returned to the dividend list earlier than expected following its acquisition of Sportingbet. The integration of Sportingbet is progressing well and its cost base has been reduced by two-fifths. Management believes that GVC can afford a quarterly dividend of €0.105 a share. That suggests a total of €0.42 a share in a full year for a prospective yield of nearly 12%. The original business grew its net gaming revenues per day by 17% in the first half, while Sportingbet grew by 8%. Comparatives were tough because they included the European football championship. House broker Daniel Stewart believes that full-year EBITDA of up to €34m is achievable.

Batteries and rugged computers distributor **Solid State** has increased its total dividend from 7.25p a share to 8p a share with a further rise to 8.5p a share forecast for this year. The prospective yield is 3.7%. In the year to March 2013, revenues improved from £25.9m to £31.5m helped by a one-off export order, while underlying profit before relocation costs increased from £1.6m to £1.87m. Solid State is unlikely to be able to maintain revenues but cost savings from consolidating operations at Redditch will help profit to improve. House broker WH Ireland forecasts a small decline in revenues to £31m and a profit of £2.01m.

A lack of insolvencies is hitting demand for the services of **Begbies Traynor**. Even so, Begbies is maintaining its 2012-13 dividend at 2.2p a share. Management is comfortable paying that dividend as net debt has fallen to £17.2m. Longer-term, management would be happier with a dividend cover of three times so the dividend will not be increased until earnings per share grow. In the year to April 2013, underlying profit dipped from £7.4m to £6.7m. Further cost reductions will offset the continued decline in insolvency business.

Expert view: The broker

ACS figures highlight strength in scale

By ANDREW DARLEY

Advanced Computer Software has delivered prelims to February 2013 in line with the March trading update, and an outlook statement confirming performance in line with expectations in 1Q14.

The full-year figures from the software and IT services supplier to the healthcare sector were strong and – as ever – pleasantly ahead of well-managed forecasts (+2% revenue, +3% EBITDA).The positive effect on the multiple of the successful execution of organic and acquired growth is compounded by the maiden dividend of 0.4p a share. The figures make it clear further acquired growth remains a key element to further success in healthcare and private enterprise. We reiterate our 106p price target.

ACS generated EBITDA (finnCap basis) of £28.1m (vs £27.2mE) from revenue of £120.9m (£119mE). Group organic growth achieved was 9%, with performance in the period supported by an ongoing series of acquisitions: group revenue growth from continuing operations was 23%. Net cash was £30.9m (£27.9mE), prior to the post-period-end acquisition of Computer Software Holdings for £107m. The CSH acquisition has once again changed the scale of the ACS operation and the potential of the business.

Divisions

Health & Care added new products and services to the portfolio, including solutions for the mental and community health markets, building on an established presence and winning and implementing contracts in two key community health trusts. New contract wins take software and services into 85% of NHS 111 suppliers, where – despite the problems the NHS 111 service is encountering – the ACS platform has provided successful technical delivery. In H&C, margins were affected by higher than usual levels of lower-margin-service revenue. More than 1,300 providers, in the UK, Middle East, and Australasia are now customers, with products based around the core patient workflow management system.

Advanced Business Solutions is the largest mid-market UK operator for finance systems, and for NHS finance systems in Northern Ireland and Scotland. Margins in ABS dipped due to an increase in service revenue resulting from implementations of large contract wins in the prior year. There has been mild margin pressure from public sector renewals. Demand has "soared" for performance management modules with ROIs of under a year, including spend analytics, business intelligence and collaborative planning. Further modules are in development, and the success of the spend-to-save logic persists. Private sector catalysts include the pension auto enrolment initiative, which has proved to be a catalyst for customers to review their existing systems.

More than 90% of new business generated by Advanced 365 Managed Services now includes an element of cloud delivery, provided from ACS's own, or third-party facilities. £2m of revenue now derives directly from the cloud platform. Margins at Advanced 365 dipped due to a higher proportion of lower-margin, third-party infrastructure revenue. Advanced 365 is well placed to focus on higher-margin delivery for service provision from its own London-centric business and datacentre facilities, and application-based service level agreements. Last year, there were 16 cross-selling contracts involving an element of managed services.

> The full-year figures were strong and – as ever – pleasantly ahead of well-managed forecasts

Acquisition

The Computer Software Holdings acquisition adds a business with revenue of £62m, and further potential for mutual cross-sales offers upside ahead of cost synergies, growing the platform for organic growth. The addition of CSH to the mix lifts group recurring revenue from 57% to 63%. Proforma revenue is now £190m and EBITDA is £40m.

Management has been strengthened with the addition of former non-executive director Guy Millward as CFO, allowing former CFO Barbara Firth to focus on acquisitions and integration.

Momentum clearly favours ACS, with good reason: continuing potential for acquired and organic growth, routine delivery in line with expectations, and the initiation of a growing dividend.

Forecast assumptions of growth across each division remain cautious – with only 5% organic growth at Health & Care, and 3% in Business Solutions and Managed Services – with a year of bedding in at 0% growth for CSH. Margins are expected to stay in line, with lower 2H13 delivery in the model; cost synergies and scale benefits could deliver a further source for outperformance. EBITDA of £44.3m and pre-tax profit of £37.2m is forecast for this year.

**ACS is a corporate client of finnCap*

ANDREW DARLEY is a research director at finnCap.

feature

Offers tap small shareholders' funds

Some smaller companies are trying to reward their smaller shareholders by giving them the chance to be involved in fundraisings and there has been an appetite for these cash calls.

A strong institutional shareholder base is important for a small company in order for it to grow and progress. However, small shareholders are also important and can help the liquidity of share trading but they have tended to be left out when it comes to financings.

Rights issues, open offers and offers for subscription used to be a regular occurrence but they have become increasingly rare as companies use firm placings to raise cash. Cost is one of the reasons why there are few rights issues, in particular.

Offers to existing shareholders do have their uses, though. It is a way of tapping additional funds at a time when smaller company investment is in short supply. Smaller company-focused investment funds have been hit by outflows in recent years and this has meant that they have had to sell investments in order to return cash to investors that are withdrawing their investment in the fund. Pension funds are putting less of their money into smaller companies and this means that inflows to smaller company funds have been harder to come by.

All this means that if a fund wants to make a new investment it may need to raise cash from disposals. This is part of the reason why it can be difficult to secure additional cash to grow companies.

Of course, if the investment is attractive then funds will find cash but smaller companies need to find as many ways as possible to attract investment. Being eligible for VCT and EIS investment will help a company to attract funds.

Even when companies do use an offer to raise finance it tends to be combined with a firm placing. That way the company is assured that it raises the minimum it requires to move the business forward. The additional cash will help to accelerate growth.

Offers

There are small companies offering their small shareholders the chance to become involved in fundraisings. Recent examples include Transense Technologies, Summit Corporation and Forbidden Technologies.

These companies have been quoted for around a decade or more and none of them has got to a point where it is making money. Yet these companies have loyal shareholder bases that still believe in their businesses and do not want to be left out when, or if, they move into profit. The three companies have all got improving prospects.

Their shares are regularly traded, although they are by no means the most actively traded companies on AIM. Even so, they tend to be traded at least a couple of times each day. Summit is traded most frequently. Nearly half the companies on AIM hardly manage one trade a day.

All three companies average just under £2,500 per trade. This indicates that private investors are the main ones trading the shares.

Sensor systems developer Transense certainly had a good response from qualifying shareholders, who applied for many more shares than were available in its offer for subscription at 7.5p a share. Transense has already raised £3.2m from a firm placing at the same price, which was well below the market price at the time. If there had been only a placing the other shareholders would have felt that a limited number of investors had got the opportunity to buy shares at an attractive discount. The offer enables all shareholders to benefit.

Transense has been able to take advantage of this strong demand for shares. It is scaling back the applications of certain shareholders in order to enable smaller shareholders to get more shares in the offer and then placing £850,000-worth of shares at the same price to satisfy the demand from those shareholders that were scaled back. The total gross proceeds of the placing and offer for subscription will be £5.1m.

Switchgear sensors supplier IntelliSAW and tyre management sensors supplier Translogik have both been winning new orders. The additional cash will help Transense to boost marketing and win more orders.

> Transense certainly had a good response from shareholders

feature

Forbidden

Video technology developer Forbidden Technologies is raising up to £9m from a placing and open offer at 20p a share. There is a firm placing generating £8m and the one-for-five open offer will raise up to £1m. Shareholders can apply for shares additional to their entitlement in the open offer. The cash will enable Forbidden to increase its marketing effort and support its distributors. Management will also be strengthened.

Forbidden continues to lose money but the FORscene video editing technology is becoming better known since last year's Olympics. A deal with systems integrator Atos covering Africa provides a model for expanding the global coverage of the technology. Up until now all of the FORscene cloud servers have been operated by Forbidden but Atos will install its own server dedicated to FORscene in South Africa. This model could be used for other parts of the world, such as Asia.

Summit

Drug discovery business Summit Corporation is raising £5.5m through a placing and offer for subscription at 5p a share and it is on course to move into profit in 2014-15. The placing price was set at a premium to the market price prior to the announcement.

Broker N+1 Singer forecasts a profit of £2.9m in the year to January 2015, which puts the shares on eight times 2014-15 earnings. A sharp increase in profit is forecast for the following year.

Around half of the shares in the placing are being taken up by director Jim Mellon and a related party, Lansdowne Partners. Qualifying shareholders are allowed to apply for any number of shares in the offer, which accounts for up to £1m of the fundraising.

Summit will spend the cash raised on further development of its Duchenne Muscular Dystrophy treatment, SMT C1100. A phase 1b safety and dose-finding clinical trial would not have been a reality without the extra cash, which will also help to fund other activities that will move the treatment forward to a phase 2 patient trial. The phase 1b trial will start in the second half and the results should be available in the first half of 2014.

Summit is on course to move into profit in 2014-15

The development of an antibiotic to treat C. difficile infection is being mainly funded by the Wellcome Trust, through a Translational Award worth up to £4m. Money raised from the offer will provide additional working capital for the business.

Downside

Of course, there are downsides to everything, however positive it might initially seem. A company cannot be sure exactly how much it will receive from offers unless they are underwritten, which is costly.

Things can change between the announcement of the cash raising and the closing date. Something outside of the company's control could have a significant effect on the take-up of an offer.

Australian gold project developer Bullabulling Gold Ltd provides an example of what can go wrong, having launched an open offer earlier this year. Unfortunately, there was a slump in the gold price during the offer period. Some investors who indicated that they would be taking up their entitlements at the start of the process changed their minds and did not invest the cash because of a share price decline on the back of the gold price fall.

This meant that barely more than a quarter of the shares in the Bullabulling open offer were taken up when it closed in April. By that time the share price had dipped below the open-offer price. The gold miner raised $2m thanks to some excess applications. The one-for-two entitlement offer at 5 cents (3.5p) a share was supposed to raise up to $7.6m.

A firm placing could have been settled more quickly and the money would have been in the company's coffers before there was an opportunity for the declining gold price to knock investor resolve.

This has a knock-on effect on the speed of development of the eponymous Bullabulling mine in Western Australia. Bullabulling has slowed down the spending on its definitive feasibility study for the mine. This means that the company's cash will last for 12 months and Bullabulling hopes that the financial landscape is much better before then. There is no guarantee, though.

Offers do not create demand for shares; they rely on the fact that there is investor interest in the company. An offer will not attract investors unless there is an attractive investment case.

TRADING IN FIRST FIVE MONTHS OF 2013

INVESTOR	SECTOR	NUMBER OF BARGAINS	TOTAL VALUE OF TRADES	AVERAGE TRADE SIZE (£)
Summit Corporation	Drug discovery	959	2,394,401	2,496.77
Transense Technologies	Sensors	483	1,125,175	2,329.55
Forbidden Technologies	Video editing technology	381	892,476	2,345.53

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	21.6	12.1
Financials	18.6	20.5
Industrials	12.7	17.9
Consumer services	11.4	9.5
Basic materials	10	16.3
Technology	9.6	9.7
Consumer goods	6.9	5.4
Health care	5.6	6
Telecoms	2.5	1.2
Utilities	1.1	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	691.64	+32.7
FTSE AIM 50	3576.68	+25.1
FTSE AIM 100	3163.05	+7.9
FTSE Fledgling	5410.36	+28.1
FTSE Small Cap	3816.46	+29.8
FTSE All-Share	3289.71	+15.5
FTSE 100	6215.47	+13.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	280
£5m-£10m	134
£10m-£25m	229
£25m-£50m	171
£50m-£100m	124
£100m-£250m	93
£250m+	56

KEY AIM STATISTICS

Total number of AIM	1087
Number of nominated advisers	51
Number of market makers	53
Total market cap for all AIM	£64bn
Total of new money raised	£81.4bn
Total raised by new issues	£35.9bn
Total raised by secondary issues	£45.5bn
Share turnover value (2013)	£14bn
Number of bargains (2013)	2.01m
Shares traded (2013)	107.7bn
Transfers to the official list	163

TOP 5 RISERS OVER 30 DAYS

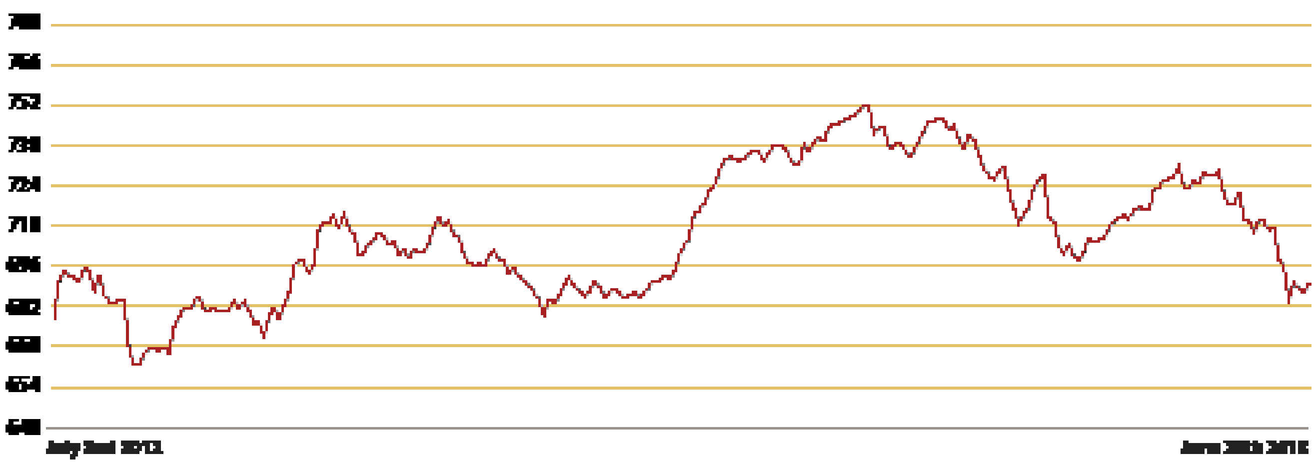
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Ultrasis	Healthcare	0.56	+140.4
Active Energy	Cleantech	1.88	+82.9
Coms	Telecoms	4.22	+67.3
Eleco	Software	11.38	+62.5
Ingenious Media Capital	Media	14.25	+60.6

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
African Eagle	Mining	0.12	-84.9
Mwana Africa	Mining	1.48	-57.7
MobilityOne Ltd	Mobile	2.12	-54.1
Intandem Films	Media	0.52	-52.1
Altona Energy	Mining	0.95	-46.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 3oth June 2013, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus.

finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. finnCap has grown rapidly and in 2013 commenced market making.

At the end of 2012, finnCap became 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 adviser in the oil and gas sector and number five in the basic materials sector.

finnCap won the Best Research award at the 2012 AIM Awards. finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running.

In the six months to October 2012, finnCap reported a 14% increase in revenues to £5.7m and operating profit quadrupled to £1.1m. finnCap has a strong track record of raising money for clients and it raised £80m during the period.

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