JULY 2015

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM flotation costs decline

Research by accountants UHY Hacker Young shows that AIM flotation costs fell from 9.5% to 7.4% of money raised in 2014. This appears to be partly because there were a number of large fundraisings, particularly earlier in the year, so it is uncertain whether the fall will continue.

For example, online fashion retailer boohoo.com raised £300m and paid 4.7% of this in costs, although boohoo.com benefited from the fact that convertible loan note holders paid an additional £10m of the costs. Most of the cash was used to repay the convertible loan notes. Other large fundraisings included pallet developer and supplier RM2 International, where flotation costs were 4.7%, and parcel delivery business DX Group, where flotation costs were 4.2%.

Small fundraisings can be hit by high costs as a percentage of the cash raised. Strat Aero raised £650,000 when it joined AIM and 54% went to cover flotation costs. It cost Fevertree Drinks, which was valued at £154.4m, £1m when it raised £4m on flotation.

The 2014 cost level is still higher than the level between 2005 and 2010 but much lower than the peak of 10.6% in 2011, which was the year when the least money was raised by AIM new entrants for more than a decade. On AIM's 20th anniversary, petrol station operator Applegreen raised £51.1m and its flotation costs were 6.8% of that figure.

AIM apprentice scheme

The Department for Business, Innovation and Skills used the 20th anniversary of AIM to announce a scheme to encourage UK-based AIM companies to take on additional apprentices. The London Stock Exchange Group's own charity has agreed to provide an initial £20,000 to cover the costs of administering the SME Apprenticeship Scheme.

Sajid Javid, the Secretary of State for Business, Innovation and Skills, announced the scheme in a speech at the dinner held at the Artillery Garden, London to celebrate AIM's anniversary. Nominated adviser Grant Thornton estimates that, in 2013, AIM-quoted companies directly contributed £14.7bn to the UK economy plus tax of £2.3bn. AIM companies already support 430,000 UK jobs and indirectly they could help to ensure employment for a further 300,000 people.

It is estimated that more than 850 AIM companies will qualify for the scheme to be run by Tower Hamlets-based educational charity City Gateway (www.citygateway.org.uk). The strategy is to bridge the gap between training and work for 16-18 year olds.

The government has set a target of creating three million apprenticeships by the end of the current parliament in 2020.

In this issue

general news

Orchard blooms on junior market

Finance provider Orchard Finance Group has raised £8.7m after expenses in order to significantly increase its lending book. Orchard Finance provides funding for insurance and professional fees, under the Bexhill and Orchard brands, respectively. The group is focused on the smaller end of these markets where there are fewer competitors.

Orchard Finance provides a client with a loan to cover insurance broker fees or accountant fees and this loan is typically for ten months. The group has been operating since 2002 but it moved into the professional fees market in 2010. There are trading arrangements with 100 insurance brokers and 400 accountants. The loans are guaranteed by the insurance brokers and professional firms so there have been no arrears or losses on the lending book over the past seven years.

Orchard Finance raised £10m at 96p a share prior to joining AIM on 1 July and this valued the company at £20.5m. The cash will repay an existing, expensive debt facility of £4.5m and help to finance additional marketing. The strategy is to increase the number of firms that the group works with and gain additional work from existing firms. Management talks in the prospectus about competing more aggressively on price.

In the year to July 2014, Orchard Finance made a pre-tax profit of £1m on revenues of £3m and a subsequent interim profit of £662,000 on revenues of £1.68m in the six months to January 2015. Pro forma net assets are £11.2m with cash of £2.29m and borrowings reduced to £7.96m. Trade receivables are £18.9m due from 3,000 borrowers. There are plans to pay an annual dividend of 40% of post-tax profit.

AIM award voting

Nominations for this year's AIM Awards have opened. Anyone can nominate companies or individuals for the awards; advisers can even nominate their own clients and companies can nominate themselves. Three nominations can be made for each of nine categories at http://www.aim-awards.co.uk/nominations/.

The award categories are the same as last year, with the best-performing share of the year purely a factual award based on share price performance adjusted for liquidity constraints. The awards cover the 12-month period between 1 August 2014 and 31 July 2015. Nominations close on Friday 7 August.

Energy procurement consultancy Utilitywise won the AIM company of the year award in 2014, while Germany-based software testing firm SQS Software Quality Systems was declared international company of the year.

Former Aero Inventory FD banned

The Financial Reporting Council (FRC) has concluded its disciplinary case against former Aero Inventory finance director Hugh Bevan. Aircraft parts management outsourcing business Aero Inventory identified problems with stock quantities and valuations and subsequently appointed KPMG as administrator in November 2009, with trading in the shares cancelled the following month. Bevan left the board in November.

Bevan admitted that "his conduct fell significantly short of the standards reasonably to be expected of him". The agreement to acquire aircraft parts inventory from Indonesian airline PT Garuda for $34m was purportedly reached on 29 June 2006. Aero Inventory said that on the same day it had sold some of those parts to GMF AeroAsia, which is 99%-owned by Garuda, for $23m. Bevan admitted that he was wrong to include the Garuda transaction in the revenues and profit for the year to June 2006 and if it were going to be included it should have been classed as an exceptional item.

Bevan also admitted that his handling of the valuation of the stock acquired in certain bulk purchase contracts meant that the 2005-06, 2006-07 and 2007-08 accounts did not show a true and fair view of the state of affairs at Aero Inventory. By the end of December 2008, net debt was £466.2m and NAV was £311.1m. The total inventory value was £751.9m.

However, the FRC says that it believes that Bevan's behaviour "was not dishonest or deliberate" and he cooperated with the investigation. The judgment is that Bevan should pay £170,000 towards the FRC's costs and he will be excluded from the accountancy profession for three years. The FRC is continuing proceedings against auditor Deloitte and audit partner John Clennett.

advisers

Panmure agrees Charles Stanley Securities deal

Panmure Gordon has exchanged contracts to buy rival AIM adviser Charles Stanley Securities. The deal should be completed by the middle of July. There will be an initial payment of up to £1.5m, which is equivalent to the assets acquired, and Panmure Gordon and Charles Stanley Group will equally split retainer and corporate transaction fees over the next 12 months. The maximum total payment will be £5m. The business being acquired made a profit of around £1m in the year to March 2014. During June, Charles Stanley Securities lost Pressure Technologies and Galantas Gold Corp as clients.

Broker Daniel Stewart has raised £1.2m at 3.35p a share, which is nearly treble the recent suspension price. The shares returned from suspension in May when Beaumont Cornish was appointed as nominated adviser and reached a subsequent high of 3.8p a share. The broker originally said that it was raising £1m. Epsilon Investments bought additional shares and still owns 29.3% of Daniel Stewart.

Rob Terry, of Quindell infamy, has built up a 9.99% stake in Daniel Stewart and his new vehicle, Quob Park Estate, has been buying a stake in consistently loss-making innovation software supplier Imaginatik, which raised £504,000 at 2.7p a share during May in a placing handled by newly appointed broker Daniel Stewart. Quob Park has subsequently built up a 5.08% stake in Imaginatik and the share price has nearly trebled. Hargreave Hale has taken the chance to cut its stake to 12.9%.

ADVISER CHANGES - JUNE 2015

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Galantas Gold Corp	Whitman Howard	Charles Stanley	Grant Thornton	Charles Stanley	01/06/15
Safestyle UK	Liberum/Zeus	Zeus	Zeus	Zeus	03/06/15
ValiRx	Northland	Daniel Stewart	Cairn	Cairn	03/06/15
Amino Technologies	Canaccord Genuity/ finnCap	finnCap	finnCap	finnCap	04/06/15
Formation Group	Peterhouse	Zeus	Northland	Zeus	04/06/15
Conviviality Retail	Investec/Zeus	Zeus	Zeus	Zeus	08/06/15
Hummingbird Resources	Beaufort/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	08/06/15
Market Tech Holdings Ltd	Canaccord Genuity/Shore	Jefferies/Shore	Shore	Jefferies	09/06/15
Regenersis	Peel Hunt/ Panmure Gordon	Peel Hunt/ Panmure Gordon	Peel Hunt	Panmure Gordon	10/06/15
88 Group Ltd	Cenkos	RFC Ambrian	Cenkos	RFC Ambrian	15/06/15
Coal of Africa Ltd	Peel Hunt/Investec	Investec	Peel Hunt	Investec	15/06/15
Netplay TV	Shore	N+1 Singer	Shore	N+1 Singer	15/06/15
Pressure Technologies	Cantor Fitzgerald	Charles Stanley	Cantor Fitzgerald	Charles Stanley	15/06/15
DJI Holdings	Mirabaud	Canaccord Genuity	Strand Hanson	Canaccord Genuity	16/06/15
InfraStrata	Allenby/VSA	Arden/VSA	Allenby	Arden	17/06/15
Kuala Ltd	Peterhouse	Peterhouse/ RFC Ambrian	Beaumont Cornish	RFC Ambrian	17/06/15
Ten Alps	N+1 Singer	Canaccord Genuity	N+1 Singer	Grant Thornton	17/06/15
Beowulf Mining	Beaufort/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	18/06/15
Sirius Real Estate	Canaccord Genuity/ Peel Hunt	Peel Hunt/finnCap	Peel Hunt	Peel Hunt	19/06/15
Ortac Resources Ltd	Beaufort/SP Angel	SP Angel	SP Angel	SP Angel	22/06/15
Motif Bio	Northland/	Northland	Zeus	Cairn	23/06/15
Collagen Solutions	Panmure Gordon	Panmure Gordon/Zeus	Panmure Gordon	Zeus	26/06/15
Sierra Rutile Ltd	Numis/RBC/Investec	RBC/Investec	RBC	RBC	29/06/15
Transense Technologies	finnCap	N+1 Singer	finnCap	N+1 Singer	29/06/15
Vast Resources	Dowgate/Daniel Stewart	Daniel Stewart	Strand Hanson	Strand Hanson	29/06/15

company news

Ten Alps increases focus on TV production by tying the knot with Reef

TV and publishing *www.tenalps.com*

Broadcast and publishing content producer **Ten Alps** is expanding its TV production operations by acquiring Reef Television for £5m. This will increase the focus of the business on factual TV programming where demand continues to grow, particularly in the US. Entrepreneur Luke Johnson is joining the board. Ten Alps believes that it can move into profit in the year to June 2016.

Ten Alps already has a strong TV documentary production business, including Brook Lapping and Blakeway. Reef provides additional expertise in daytime and factual entertainment formats, including Selling Houses with Amanda Lamb, as well as providing additional scale and a larger programming catalogue. Reef also has in-house post-production facilities. The enlarged group will produce 150 hours of TV each year.

Ten Alps is paying an initial £2m

The enlarged group will produce 150 hours of TV each year

in cash, loan notes worth £1.5m and deferred consideration of up to £1.5m plus additional earn-out payments if total gross profit over three years exceeds £6m. In 2014, Reef made a gross profit of £1.49m on revenues of £5.74m. The majority of the revenues come from the BBC and Channel 4.

Ten Alps is consolidating every ten shares into one new share. A placing and subscription at 2p a share (post-consolidation) is raising £4.5m. The spare cash in the fundraising will be invested in programming and working capital.

Ten Alps expanded rapidly and had a sensible strategy of taking

TEN ALPS (TAL)			0.36p
12 MONTH CHANGE %	- 56.6	MARKET CAP £M	1

B2B sector publishing online but was left with enormous debts. Institutional investors, including Herald Investment Trust, have loyally backed the company despite its poor financial state. These investors took on debt from RBS and have agreed to convert £2.95m of their other loans into preference shares. Interest of more than £1m has been waived. The remaining debt facility will be around £4m and there will be £2m of outstanding long-term loans – due for repayment at the end of 2017.

Former Future and ITN boss Mark Wood became chief executive at the end of 2014. Bob Geldof and Tim Hoare are stepping down from the board and being replaced by Luke Johnson and Jonathan Goodwin.

Investment pays off for International Greetings

Stationery and gift wrap *www.internationalgreetings.co.uk*

Gift wrap and stationery supplier **International Greetings** is beginning to reap the benefits of its capital investment in Wales and it is considering similar investment in the US. The investment has improved manufacturing efficiency and helped margins to recover. This has enabled International Greetings to pay a dividend for the first time since the 2p a share paid at the end of 2007.

In the year to March 2015, revenues improved from £224.5m to £229m,

INTERNATIONAL GREETINGS (IGR)			124.5p
12 MONTH CHANGE %	+ 66	MARKET CAP £M	72.5

while underlying profit increased from £7.6m to £9.2m. The growth in profit came from the UK, Europe and Asia which have benefited from investment. The US and Australia made lower profit contributions.

Net debt was reduced by one-fifth to £29.4m thanks to strong cash generation. Further capital investment is likely to mean that debt will not fall as rapidly this year. A final dividend of 1p a share is proposed.

Edison forecasts an improved 2015-16 profit of £10.1m. The shares are trading on ten times prospective 2015-16 earnings. One negative is that the finance director exercised options over 607,652 shares and immediately sold them and his existing shareholding at an average price of 122.4p each, raising £817,000. He holds further options but no shares.

company news

Bilby seeks to increase its regional scale

Property maintenance *www.bilbyplc.com*

Building and gas services provider **Bilby** raised £2.5m at 58p a share when it joined AIM in March and shareholders will receive a 2.32p a share dividend despite the fact that Bilby was quoted for a few days in the recent financial year. The company's strategy is to seek acquisitions to widen its coverage in London and south east England and enable it to bid for larger contracts.

In the 14 months to March 2015, revenues were £14.9m and pre-tax profit £1.98m. The figures include the acquisition prior to flotation for 14 months and the holding company for a few days so they represent the underlying business. The current year will include the costs of being quoted. Net cash was £1.63m at the end of March 2015 and since then trade receivables have been reduced.

The top four customers account for 58% of revenues

The government is still spending on improving the quality of social housing and local authorities have obligations to meet minimum standards. The contract tendering process can take up to 12 months. When these contracts are gained they tend to last for five years or more and can be renewed for a similar period. There are 24 clients but the top four customers still account for 58% of revenues although this dependence should reduce over time.

BILBY (BILB)			91p
12 MONTH CHANGE %	N/A	MARKET CAP £M	25.8

The order book is worth £95m and that should cover 90% of this year's expected revenues of £17m. House broker Charles Stanley forecasts a profit of £2.4m for this year. Given the additional shares in issue the earnings per share growth is likely to be around 5%. This could be enhanced by acquisitions. The shares are trading on 14 times prospective 2015-16 earnings even though they have risen by 57% since flotation.

Secure Property targets emerging European markets

Property *www.secure-property.eu*

Secure Property Development & Investment was one of the many overseas-focused property investment companies that floated on AIM during 2007. New management, which has succeeded with other property businesses in the region, subsequently came in and put the business on a firm footing. Exposure to the Greek economy is behind a large discount to NAV but there is scope to take advantage of opportunities that come Secure's way.

The company owns seven properties in Bulgaria, Romania, Ukraine and Greece. Secure acquires high-yielding properties in major cities that have high-quality tenants on long leases. Tenants include Nestlé and Danone. The property in Athens has Kuehne & Nagel as its tenant.

SECURE PROPERTY DEVELOPMENT & INVESTMENT (SPDI)			26.5p
12 MONTH CHANGE %	- 51.1	MARKET CAP £M	20.1

Secure is cash generative and it raised £5.9m from an open offer at 25p a share earlier this year. Around £3m has been spent on the most recent property purchase, leaving cash to secure other acquisitions. Management is not comfortable with a loan to value of more than 50% so more cash will be required to take advantage of opportunities.

In the longer term, there is the promise of a dividend. That is unlikely to be this year but it could be in 2016. The plan is to grow the dividend so that it provides an annual dividend of around 5%. SP Angel forecasts a NAV of 51p a share for 2015, even after the open offer, and that means the shares are trading at a discount to NAV of 52%. The house broker argues that the current share price gives a nil value to the land and properties in Ukraine and Greece.

company news

Domain names supplier CentralNic takes additional cash to the .BANK

Internet domain names *www.centralnic.com*

Internet domain names distributor **CentralNic** has raised additional cash at a premium to the market price. An existing and a new investor have subscribed for shares at 40p each, raising £2.3m for the company. The new investor is Livingbridge VC, which has taken a 6.5% stake.

CentralNic had net cash of £3.06m at the end of 2014 so it did not have to raise additional money. The plan is to invest the cash in increasing the exposure to new domain names and making acquisitions.

The original core business is a domains registry and it has a significant share of this market. Since flotation, CentralNic has moved into the retail market, acquired domain management software and made investments in new top-level domains (TLDs). It also offers consultancy and portfolio management services to brands and other businesses.

CentralNic has a strong recurring revenues base

CENTRALNIC (CNIC)			37.5p
12 MONTH CHANGE %	- 47.6	MARKET CAP £M	25.1

CentralNic has a strong recurring revenues base. On top of this there are investments in domains that could yield one-off gains. A recent domain names sale generated $1m for CentralNic and last year's figures were boosted by other sales. These revenues are more volatile than core business revenues but they should always make a contribution.

House broker Peel Hunt forecasts a 2015 profit of £2.8m, rising to £4.5m the following year. That equates to a prospective 2015 multiple of 12, falling to seven in 2016. Since it floated in 2013, CentralNic has failed to live up to the original forecasts, mainly because of delays in awarding new top-level domains, but it has remained profitable. This means that much of the income and profit has been deferred rather than completely lost.

Additional domain launches in the coming months, including .BANK, will make a contribution in the second half and beyond. CentralNic is an international business which has the potential to grow significantly. The share price reflects the fact that CentralNic floated at a full valuation and then failed to live up to initial expectations and therefore needs to win back investor confidence.

Creditable voucher growth from Park

Vouchers supplier *www.parkgroup.co.uk*

Gift voucher and prepaid gift card supplier **Park Group** has managed to continue to grow in spite of a decline in the personal credit market, which had been a significant customer for its vouchers. This decline has happened over the past couple of years but new customers and increased online business have covered the decline.

The corporate voucher market grew by 8% last year according to UKGCVA and it is worth around £5bn. The corporate division's billings increased by 14% to £176m, or 22% excluding credit customers, while operating profit improved by nearly one-third to £6.5m. Consumer growth was more modest but operating profit still rose by 11% to £5.9m as the majority of orders are placed online.

PARK GROUP (PKG)			64p
12 MONTH CHANGE %	+ 16.4	MARKET CAP £M	117.1

In the year to March 2015, revenues grew from £269.6m to £293.3m, while pre-tax profit improved from £9.4m to £10.9m. The total dividend is 2.4p a share.

Total cash balances peaked at £189m during the year. By the end of March, the cash position was well below the peak. Cash in the bank increased from £14.8m to £26.3m by March 2015 – excluding £65.7m of cash held in trust for customers.

Arden forecasts a 2015-16 profit of £12.2m, which puts the shares on just over 12 times prospective earnings. A forecast dividend of 2.6p a share provides a yield of 4.1%.

Analytics opportunities for IS Solutions

Analytics and content management *www.issolutions.co.uk*

Dividend

IS Solutions has been paying a dividend for most of its time as a quoted company but the level has not been consistent. The 1999 total dividend was 4.8p a share but this was equivalent to 0.96p a share after a share split. The dividend rose to 1.05p a share the following year but it fell to 0.24p a share in 2001 after the tech boom was over. There was no dividend in 2002 and 2003 but the company started to rebuild it from 2004.

The total dividend for 2008 was 1p a share and in subsequent years the dividend was generally increased by around 10%, rising to 1.6p a share for 2013. However, a poor six months to June 2014 meant that the interim dividend was passed but there was a final dividend of 0.56p a share. This provides the base for growth from now on. A dividend of 0.6p a share could be paid this year.

Business

IS Solutions joined AIM 18 years ago and has spent the majority of its time on the junior market, except for a period on the Main Market between May 2000 and May 2008. The business is a systems integrator that provides internet portals, website analytics and content management. The company was one of the early businesses involved with the internet and it partners with much larger technology businesses, such as SAS and Teradata. IS Solutions initially provides and installs products for customers and this generally helps to generate future services and hosting revenues.

IS Solutions boosted its analytics business early this year through the acquisition of Celebrus Technologies, which manages data feeds and provides consumer website and mobile information. The two companies have been working together for more than a decade. The deal provides access to a customer base in the airline, automotive, telecoms, education and financial sectors plus cross-selling opportunities. New software that can be used to understand fraudulent behaviour is being perfected.

IS SOLUTIONS (ISL)	
Price (p)	53
Market cap £m	18.7
Historical yield	1%
Prospective yield	1.1%

Celebrus cost £7.5m, of which £1.3m was in cash and the rest in shares, although IS Solutions already owned 11% of the company – which cost £800,000. Celebrus has its own software so margins are higher than most of the rest of the group and there should be opportunities for cost savings from integrating the businesses.

Later this year former dotDigital boss Peter Simmonds will take over as chairman from Barrie Clark, who has held the role for 18 years. Simmonds brings online expertise to the business.

Net debt was £1.9m at the end of March 2015 but the balance sheet includes the company's head office and the debt is a mortgage on that property. Cash generation should reduce that debt level. A profit of £1.7m is forecast for 2015-16 and, even after the additional shares are taken into account, the shares are trading on 12 times prospective earnings.

Dividend news

A stronger second half at plastic components manufacturer **Plastics Capital** helped it to increase sales by 22% to £39.5m, while underlying pre-tax profit edged higher at £3.67m and earnings per share were slightly lower. Even so, the dividend was raised by one-third to 4p a share. Net debt was £11.4m at the end of March 2015 and it should continue to fall if no acquisitions are made. The performance of the Chinese business acquired last year has been disappointing but it has improved under new management. A profit of £4.9m and a dividend of 4.5p a share are forecast for 2015-16. The shares are trading on just over eight times prospective 2015-16 earnings.

Agricultural and retail business **Wynnstay** continues to raise its dividend despite flat interim profit of £4.82m. Trading in the agricultural sector has been tough but this was offset by higher profit from the country and pet stores. The interim dividend was increased by 9% to 3.7p a share. Net debt was £8.09m at the end of April 2015. Shore Capital forecasts an improvement in full-year profit from £8.5m to £9m even though the agricultural market has not improved yet. The milk market should recover when demand from China returns and that will be good news for feed demand.

Enterprise resource planning software supplier **Sanderson** increased its interim dividend by 12.5% to 0.9p a share. In the six months to March 2015, revenues grew from £7.94m to £9.09m and pre-tax profit improved from £779,000 to £905,000. There was a three and a half month contribution from warehouse management systems supplier Proteus and there are potential cross-selling opportunities that could provide further opportunities. The underlying growth came from the multi-channel retail division. Sanderson is expected to grow its full-year profit from £2.7m to £3.1m.

expert views

Expert view: The broker

Transense mines new rental model

By DAVID BUXTON

Transense Technologies has upside potential from its patented wireless, battery-less torque and temperature measurement technology using Surface Acoustic Wave (SAW) sensors. Transense is talking to several large customers and securing just one of these could transform the company's financials and boost the depressed valuation.

Transense, which recently appointed finnCap as nominated adviser and broker, has raised £2m via a placing at 1.5p a share, with a £1m offer for subscription pending, to strengthen the balance sheet and invest in a new rental model. The group has recently achieved some notable contracts, with Bosch, Rema, BHP Billiton and Glencore. Its new rental business model is better suited to current market conditions for mining equipment, where sales have been affected by the soft minerals markets, which has reversed the revenue progress achieved previously. The share price has severely underperformed; nevertheless, we believe the group has good commercial potential and the current valuation discounts current uncertainties.

The group continues to develop and commercialise its tyre pressure and temperature monitoring equipment, along with its torque measuring and sensing products. The group has considerable IP. It was recently announced that the group intends to sell its US-based, loss-making IntelliSAW switchgear condition-monitoring equipment business.

The fundraising proceeds are estimated to be sufficient to see the group through to cash breakeven point, expected to occur in 2H 2016. Prior to the placing, the group had cash of £0.7m and a monthly cash burn of £0.3m (or £0.2m excluding IntelliSAW).

> The fundraising is estimated to be sufficient to see the group through to cash breakeven

Rental

Achieving near-term sales of the iTrack tyre pressure monitoring system into the mining sector has been hindered by customers' lack of capex budgets. Management have addressed this by recently adapting their sales strategy to include an equipment rental alternative.

Management are upbeat that this will overcome some barriers to customer adoption; it has already seen additional customer traction, as shown above. Offering iTrack as an operating cost rental item appears a more sensible plan. Depending on customer preference there will be a mix of outright sale, finance lease, lease rental with sensor sale and lease rental. The lease rental offering has implications for the group's business model:

- More lease agreements confer more predictable, longer -erm revenue streams.
- The component and assembly costs of leased products will increase capex, as rental units will be regarded as fixed assets.
- Lease income will appear as a 100% gross margin in the income statement, with depreciation charged on the cost of the sensors over 18 months and for the rest of the kit over four years.
- It is expected that lease income will be "sticky" being retained through the life of the truck and that rental income will continue well after the input cost has been recovered; indeed management estimates payback will occur after about seven months.

Valuation

We know of no UK quoted company directly comparable to Transense. However, it is in a group of companies seeking to introduce market-changing, advanced automotive technologies, such as Seeing Machines and Torotrak.

Only one of this peer group is profitable, AB Dynamics, which also sells into automotive R&D driven markets – its valuation illustrates a decent mid teens P/E multiple is possible, once profitability is reached. The remainder of the peer group illustrate that Transense is valued on the smallest nominal EV of the group, and also stands on a 54% EV/sales discount to the peers.

We expect 2016 and 2017 to see an acceleration of iProbe, the wireless tyre inspection probe, and rental equipment sales, with a rapid drop-through effect on achieving profitability in 2017.

Nigel Rogers will be appointed to the board as deputy chairman. Rogers has a good track record in turning round loss-making organisations, having recently been CEO of 600 Group and previously Stadium Group. We believe he adds management strength as well as providing greater investor confidence.

The successful fundraising should remove the discount applied currently for balance sheet risk. It is also likely to allow the management to gain a better disposal value for IntelliSAW, rather than as a forced seller. Our 3.5p fair value target is based on an 8.2x EV/EBITDA and a P/E of 18x in 2017, which remains at the low end of its peers' valuation range, but offers significant upside.

DAVID BUXTON is a research director at finnCap

feature

AIM 50 companies outperform their smaller counterparts

AIM has been underperforming the Main Market and has fallen over the past year but the FTSE AIM 50 index, which focuses on the largest UK-based companies on AIM, has risen and is performing well against other measures.

The FTSE AIM 50 index is leading the recovery of the junior market. Of course, not all of its constituents are performing well but the AIM 50 is outperforming the FTSE All Share index and the FTSE 100 index over the past year, although it is still lagging the performance of the smaller fully listed companies.

Both the FTSE AIM All-Share index and the FTSE AIM 100 index have declined over one year but the FTSE AIM 50 index has risen by around 4%. The AIM All Share has fallen by a similar percentage. This outperformance indicates the strength at the larger end of the junior market. The AIM 100 has significantly outperformed the AIM All Share; it just has not done as well as the AIM 50, probably due to the higher proportion of resources companies.

IT services provider Advanced Computer Software and Canary Wharf owner Songbird Estates were both taken over during the period and this will have made a significant contribution to the AIM 50 and AIM 100 performances because they were two of the larger companies but they made up a greater percentage of the AIM 50 than the AIM 100.

As ever, the performance of online fashion retailer ASOS is always going to have a significant effect on the index performance because it still accounts for around 10% of the index weighting and 4% of the market as a whole. ASOS is one-fifth higher over the year but it is still down by 6% over a two-year period so that is a partial recovery of past losses.

AIM 50

In terms of the AIM 50, there was a small majority of risers over fallers over the past year. Significantly, there is an even bigger majority of risers in the AIM 50 if a five-year period is used even if the companies that have not been quoted for five years are included.

> The FTSE AIM 50 index has risen by around 4% over 12 months

This shows that it is not just about a one-year surge; the share prices of the majority of the AIM 50 companies have at least doubled, and many have done much better than that, over a five-year period.

Accident services provider Redde, formerly known as Helphire, is the best performer over one year but that reflects a recovery after a refinancing and the acquisition of the New Law group of companies that provide legal services for road traffic personal injury. The share price is still less than half what it was five years ago and a tiny fraction of its peak level around one decade ago.

Redde is one of four of the best eight performers that moved from the Main Market to AIM and the one that has made the move most recently. The others are Vernalis, Dart Group and James Halstead. All these companies have prospered since moving to AIM but this is not the case for all of the migrants from the Main Market.

Drugs developer Vernalis is the only one of the top eight companies that is not a profitable business, although it does generate revenues from a combination of royalties, research collaborations and milestone payments, and it has risen on the back of positive news about the drugs it is developing.

In contrast, Clinigen is also in the pharma sector but it is a highly profitable supplier of services and drugs. Clinigen is the newest AIM company on the list, having floated less than three years ago but it has wasted little time in using its quotation to grow.

The best performer in the AIM 50 over five years is recruitment and training firm Staffline, with share price growth of 1562%. Staffline has been quoted for just over a decade and, although its progress was held back by the global financial crisis, it has performed consistently well and grown organically and via acquisition. Over that time it has diversified from temporary recruitment into training.

In 2004, Staffline reported a small underlying profit on revenues of £49m. In 2015, finnCap forecasts a pre-tax profit of £29.5m on revenues of £646m – earnings per share will grow by 54% if this forecast is hit. The track record is being recognised in the share price, which is trading on 15 times prospective feature

earnings – so not a heady rating given the significant rise in the share price.

Vet practices owner CVS is another company that has used its AIM quotation to supplement its growth. The number of practices it operates has more than doubled from 128 at flotation in 2007 to 283. There were disappointments along the way as the pace of acquisitions was slower than hoped in the early years but CVS has prospered.

The share prices of the majority of the AIM 50 companies have at least doubled over five years

Sirius

Potash mine developer Sirius Minerals is one of the better-performing constituents of the AIM 50 but it has not been a constituent for the full 12-month period because of the volatility of its share price. Back in March, Sirius was dropped from the AIM 50 in the FTSE quarterly review but it returned three months later following a sharp rise in the share price.

The share price increase that led to the return was prior to the receipt of planning approval for the development of the York potash project in the North Moors National Park. It has taken a long time and been a detailed process but Sirius has finally succeeded, although the vote of the special committee was close at eight votes to seven votes.

There is still a long way to go, though. Underground mining will require a mine shaft that is 1,500 metres deep and an underground 7.5 kilometre conveyor tunnel to the Teesside coast. That will not be cheap and the whole development project could cost £1.7bn. That will require a complex financing package but the mine will have a long life of more than one century. The finance is likely to be two-thirds debt and one-third equity.

Annual production should eventually be 13 million tonnes of polyhalite. First production could be in 2019 but it will take until 2023 to get to the full production rate. The operating cost should be $30/tonne of polyhalite, while revenues could be five times that level. It has been estimated that the project could add £1bn to UK GDP.

Of all the better performers over the past year, Sirius is the one which could be at the top or bottom of the list in one year's time depending on progress made and the dilution of the fundraising.

Fallers

Not all the constituents of the AIM 50 have performed well. The fallers in the AIM 50 are mainly made up of resources companies and businesses which do not have profit to back up their valuations.

The Monitise share price has fallen by around four-fifths over the past year. Although mobile banking services developer Monitise had performed strongly in recent years the share price has still halved over five years. Monitise demonstrates the problems with share price rises on the back of potential rather than fundamentals.

Monitise says it will be EBITDA positive in 2015-16 but this means that it is covering its operating costs, not getting payback on the enormous investment made.

Changes

In the most recent quarterly changes Falkland Islands oil and gas explorer Rockhopper Exploration was dropped, along with parcel delivery company DX and business finance provider Tungsten Corporation, which has big plans but limited revenues. They were replaced with Sirius, Redcentric and GB Group, another company that was previously fully listed.

The AIM 50 has a good spread of businesses and is not overly dominated by any sector, although ASOS does still dominate in terms of size. There will always be larger, early-stage businesses represented but the base of the index is companies with real and solid businesses, which still have the potential to grow.

This index will always be affected in some way by the investor sentiment towards smaller companies but it has a solid base of profitable, dividend-paying businesses.

BEST PERFORMERS IN THE FTSE AIM 50 INDEX OVER ONE YEAR

COMPANY		BUSINESS	SHARE PRICE (P)	PERFORMANCE OVER ONE YEAR (%)	PERFORMANCE OVER FIVE YEARS (%)
Redde	REDD	Accident services	137.75	+119.5	-53.5
Vernalis	VER	Pharma	68.5	+109.2	+109.2
CVS Group	CVSG	Vets	644	+100.3	+525.7
Dart Group	DTG	Airline and distribution	412.5	+90.5	+549.6
Sirius Minerals	SXX	Mining	22.5	+83.7	+682.6
Clinigen Group	CLIN	Pharma	636	+61.6	na
Staffline Group	STAF	Recruitment	1396	+52.1	+1561.9
James Halstead	JHD	Floorcoverings	416	+44.4	+162.7

Prices at 3 July 2015.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	22.1	18.2
Consumer services	14.9	11
Industrials	14.1	16.9
Healthcare	13.6	7.6
Technology	10.1	10.7
Oil & gas	7.7	11.7
Consumer goods	7.5	5.8
Basic materials	6.9	15.4
Telecoms	2	1.4
Utilities	1.2	1.2

KEY AIM STATISTICS

Total number of AIM	1,074
Number of nominated advisers	39
Number of market makers	51
Total market cap for all AIM	£75.3bn
Total of new money raised	£92.2bn
Total raised by new issues	£39.6bn
Total raised by secondary issues	£52.6bn
Share turnover value (2015)	£13.9bn
Number of bargains (2015)	2.52m
Shares traded (2015)	171.7bn
Transfers to the official list	173

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	755.68	-3.8
FTSE AIM 50	4016.51	+3.5
FTSE AIM 100	3380.29	-0.5
FTSE Fledgling	7924.63	+13.9
FTSE Small Cap	4677.05	+5.3
FTSE All-Share	3570.58	-0.8
FTSE 100	6520.98	-3.3

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	235
£5m-£10m	130
£10m-£25m	222
£25m-£50m	156
£50m-£100m	133
£100m-£250m	129
£250m+	69

TOP 5 RISERS OVER 30 DAYS

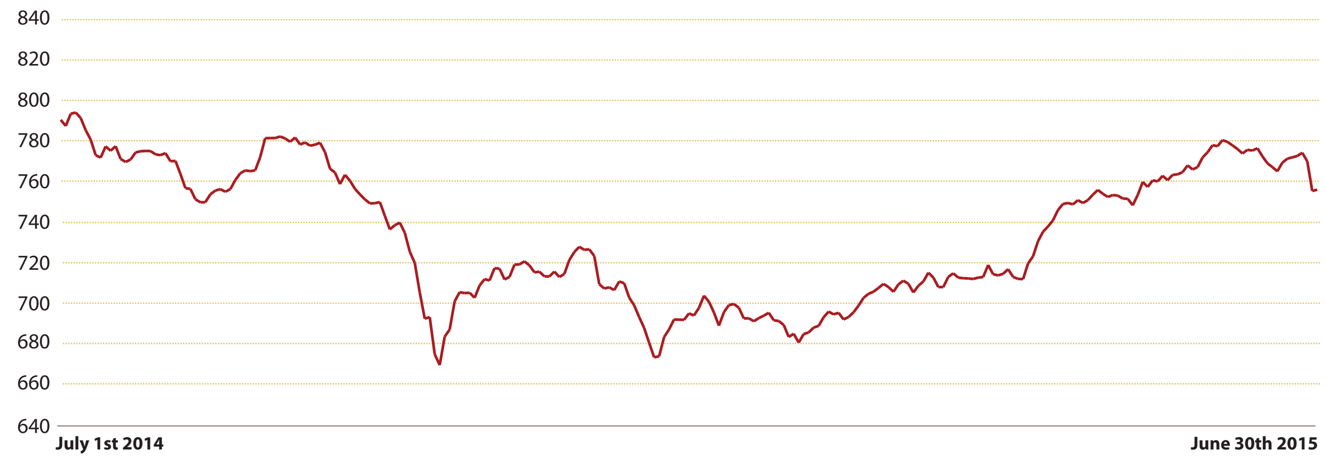
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Imaginatik	Software	7.87	+173.9
Independent Oil & Gas	Oil and gas	20.75	+155.4
New World Oil and Gas	Oil and gas	0.28	+137
Armadale Capital	Mining	5.62	+102.7
Kimberly Enterprises NV	Financials	0.3	+100

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Frontier Mining	Mining	0.03	-80
Auhua Clean Energy	Cleantech	5.12	-72.3
Emerging Market Minerals	Mining	25	-56.1
Sefton Resources Inc	Oil and gas	0.08	-54.3
Sovereign Mines of Africa	Mining	0.22	-53.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th June 2015, and we cannot accept responsibility for their accuracy.

sponsors

finnCap
Partners for growth

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

In the year to April 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.

PUBLISHED BY:	Hubinvest Ltd,	**Mobile:**	07849 669 572
ADDRESS:	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	**EDITOR:**	Andrew Hore
		DATA:	Andrew Hore
TELEPHONE:	020 8549 4253	**PRODUCTION & DESIGN:**	David Piddington

SPONSORSHIP & ADVERTISING aimjournal@hubinvest.com
or telephone 020 8549 4253

finnCap Partners for growth
finnCap
www.finnCap.com