MARCH 2016

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

easyGroup seeks fastjet changes

Major shareholder easyGroup has requisitioned a general meeting at Africa-focused airline fastjet to unseat chief executive Ed Winter, who previously announced he would leave, but after a handover period following the appointment of his successor. easyGroup also wants to remove Krista Bates from the board because of concerns about fastjet's cost base and its cash outflow.

easyJet founder Sir Stelios Haji-Ioannou was employed as a consultant in 2011 to help to set up the airline. He was given an initial 5% stake and the right to subscribe for a further 10% of the company. On top of that he got a royalty of 0.5% of revenues for the use of fastjet.com over a ten-year period but this was terminated in return for the issue of £1.51m-worth of shares at the equivalent of 160p each, and an agreement to subscribe for £1m in a placing at the same price. Even after further share issues, he owns 12.6% of fastjet through easyGroup following a recent share purchase.

fastjet has been successful in raising money but the share price has fallen sharply over the past three years from the equivalent of £28 after two share consolidations to 67.25p. Sir Stelios accuses Winter of burning through £80m of cash in three years and believes that the company will run out of cash later this year.

Blue Prism robotic prospects

Merseyside-based Blue Prism Group, which has developed software robots that can automate back-office tasks, is joining AIM in the middle of March. The company is involved in a market expected to achieve a compound annual growth rate of more than 60%.

The robotic process automation software enables automation of manual, rules-based admin processes. Blue Prism's software was launched in 2008 and subsequently developed further with the help of customers. The technology is designed to improve the efficiency and accuracy of the handling of large, repetitive and time-consuming tasks. This is expected to be a fast-growing market. In March 2015, Transparency Market Research published a report saying that the market for robotic process automation could be worth $5bn a year by 2020, up from $183m in 2013, with most of the market currently in North America and Europe. The report identified Blue Prism as one of the key technology providers.

Blue Prism had 74 customers in the UK, Europe and the US at the end of January. Last December, Blue Prism raised additional funding of £2m to finance further growth in the US. The Rising Stars Growth Fund currently owns 24.8% of Blue Prism.

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Motif on track for antibiotic approval

Motif Bio is on course to launch its new antibiotic onto the market in 2018. The antiobiotics developer has commenced its Iclaprim phase III trial programme for acute bacterial skin and skin structure infection. This is an area which needs new antibiotics, particularly ones like Icalprim that have a low propensity for bacterial resistance.

Icalprim was originally discovered by Hoffman-La Roche. Motif has made improvements to the development programme to address the reasons it failed to gain FDA approval in 2009. There will be two clinical trials to assess the efficacy and safety of intravenous Iclaprim compared with the standard treatment vancomycin and both these trials are expected to be completed during the second half of 2017. A total of 1,200 adult patients – 600 in each trial – will be evaluated in the trials, which are run by Covance. The main aim is to reduce the size of lesions by at least 20% within 48 to 72 hours after treatments. The other aim is to cure the lesions after between one and two weeks of treatment.

If the trials are successful they would provide enough data to satisfy the requirements of both the FDA in the US and the European Medicines Agency for regulatory approval of Iclaprim.

Motif is coming up to its first anniversary on AIM. It originally raised £2.84m at 20p a share and has made good progress to reach phase III trials. Last June, Motif raised a further £22m at 50p a share to finance the trials, which are extremely expensive and there will be a large cash outflow this year. Invesco recently increased its stake in Motif to 25.4%.

London merger

Intercontinental Exchange, owner of the New York Stock Exchange and Euronext, is interested in bidding for the London Stock Exchange but the proposed all-share merger with Deutsche Börse is still currently the preferred option for the London market. Talks continue on a deal that would give the London market's shareholders 45.6% of the merged group, which would be domiciled in London. Carsten Kengeter would be chief executive and Xavier Rolet will leave. AIM will not be at the forefront of the thinking of either merger partner at the moment. Deutsche Börse has the Entry Standard, while Intercontinental Exchange has Alternext. Both of those junior markets are much smaller than AIM. For example, there were only four new entrants to the Entry Standard in 2015, compared with 61 for AIM.

Management forced to increase Tangent bid

The management of printing services provider Tangent Communications has been forced to nearly double its bid for the company following a rival bid from privately owned marketing communications services provider Writtle Holdings. Even so, the new bid is still at a significant discount to the most recently reported NAV for Tangent. Writtle does not intend to increase its offer.

The independent directors originally recommended the management bid of 2.25p a share but they swapped their recommendation to Writtle, which is run by the ex-management of former AIM-quoted marketing services company CA Coutts, when it tabled a 3p a share bid. Writtle has some knowledge of the Tangent business because Graeme Harris was finance director of Tangent between 2005 and 2010. Before that he was finance director of CA Coutts and since 2011 he has been a director of Writtle.

Following the publication of the Writtle offer document, the management buyout team bought shares in Tangent at 4p a share, nearly treble the market price prior to the initial bid, and it has to make a mandatory bid valued at £11.9m. As the Green family, who are behind the management bid, already owned one-third of the company and have the rights to subscribe for additional options, mainly at 1p a share, they were always going to have a big say in the outcome.

Tangent is profitable but the profit has been declining. The bid is well below the net asset value of £31.6m at the end of August 2015. Even if you take the view that management has overpaid for its businesses then the NAV excluding goodwill is £6.79m, which is above the value of the original management bid.

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advisers

WH Ireland fined £1.2m for compliance failures

WH Ireland has been fined £1.2m by the FCA for the failure of its systems and controls, between January and June 2013, which led to potential market abuse. The broker is restricted from taking on new corporate broking clients until 4 May.

The fine meant that WH Ireland moved into loss in the year to November 2015. The number of corporate clients increased from 93 to 98 over the 12-month period. Retainer fees were slightly higher at £3.3m, while transaction fees were £5.6m, up from £4.9m. Corporate broking made an operating loss of £52,000, after the fine. Underlying profit improved. A share placing raised £1.07m at 90p a share

Panmure Gordon chief executive Phillip Wale has stepped down after four years in the role and is being replaced by his deputy, Patric Johnson, subject to regulatory approval. Ed Warner has already said that he will step down as chairman at the AGM in May. Major shareholder QInvest, which has three board directors, is providing a £5m funding facility. At the half-year stage in 2015 the balance sheet was debt-free but there was a significant second-half loss. The Panmure Gordon share price has more than halved over the past six months.

Cenkos Securities, in contrast, says that its 2015 pre-tax profit is in line with expectations and that it is paying a second interim dividend of 6p a share.

■ The latest AIM Investor Focus event is taking place on 12 April at the offices of Edison Investment Research in London. Four companies are confirmed: software companies K3 Business Technology and IDOX, pensions adviser Mattioli Woods and soft-drinks maker Nichols. More information and sign-up details are at http://blackthornfocus.com/blackthorn-event/attend/8-bf6206f9d6fac8cb512b403f61ad8fbe71fcb0dc. On 17 March, Edison is hosting The Digital Car, a conference on automotive technology. One of the companies presenting will be AIM-quoted Seeing Machines. Details are at www.smallcapuk.com/events/

ADVISER CHANGES - FEBRUARY 2016

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Infinity Energy SA	WH Ireland	Alexander David	Cairn	Cairn	01/02/16
Myanmar Investments	Investec	Allenby	Grant Thornton	Grant Thornton	01/02/16
Zambeef Products	finnCap	finnCap/ Panmure Gordon	Strand Hanson	Strand Hanson	01/02/16
Stilo International	SI Capital	Charles Stanley	SPARK	Charles Stanley	05/02/16
Magnolia Petroleum	Cornhill	Cornhill/Sanlam	Cairn	Cairn	10/02/16
Real Good Food	finnCap/ Daniel Stewart	Shore	finnCap	Shore	10/02/16
Digital Globe Services Ltd	Panmure Gordon	N+1 Singer	Panmure Gordon	N+1 Singer	16/02/16
Hargreaves Services	N+1 Singer	N+1 Singer/ Jefferies Hoare Govett	N+1 Singer	N+1 Singer	16/02/16
President Energy	Peel Hunt/RBC	Peel Hunt/RBC	Peel Hunt	RBC	22/02/16
Stellar Diamonds	Beaufort/ Daniel Stewart	Daniel Stewart	Cairn	Cairn	22/02/16
Evocutis	Peterhouse/Cairn	Cairn	Cairn	Cairn	23/02/16
Stanley Gibbons Group	finnCap	Peel Hunt	finnCap	Peel Hunt	23/02/16
Daily Internet	Shore	Sanlam	Shore	Sanlam	24/02/16
Kellan Group	Allenby	Sanlam	Allenby	Sanlam	25/02/16
PhotonStar LED	Northland/finnCap	finnCap	finnCap	finnCap	25/02/16
EU Supply	Stockdale	Stockdale/ SI Capital	Stockdale	Stockdale	26/02/16
Amerisur Resources	Stifel Nicolaus/ Investec/RBC	Investec/RBC	Stifel Nicolaus	RBC	29/02/16
Crystal Amber Fund Ltd	Numis	Numis	Allenby	Sanlam	29/02/16

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company news

IBEX appears back on track as new capacity comes on stream

Contact centre services *www.ibexglobal.com*

Outsourced contact centre services provider **IBEX Global** has disappointed investors in the past but new management appears to have put it on a stronger footing. The benefits of the new capacity added over the past year have yet to show through in the figures but should provide a boost to profit in the second half and next year.

Interim revenues were flat at $124.4m because the corresponding period included just over $5m of one-off work, the benefits of which dropped straight through to profit. That is the main reason, along with higher overheads, why underlying pre-tax profit fell from $9m to $2.98m. This does amount to an improvement on last year's second-half loss.

The shares are trading on six times 2015-16 earnings

Bob Dechant became chief executive in May 2015 and he has invested in additional capacity, particularly in Jamaica and Panama, as well as farther afield in the Philippines, as well as additional management expertise.

Net debt was $22.3m at the end of 2015 but this will rise in the second half because of further capital investment. The interim dividend is 5.1 cents a share and the total for the year is expected to be 15.4 cents a share, up from 13.6 cents a share last year.

IBEX GLOBAL (IBEX)			107.5p
12 MONTH CHANGE %	+30.3	MARKET CAP £M	60

Three clients make up the bulk of revenues but new clients have been won and the additional business underpins expectations. A full-year profit improvement from $8.6m to $9.6m is forecast and then a jump to $13.7m in 2016-17. The dividend should also increase in line with earnings growth.

The shares are trading on six times prospective 2015-16 earnings and the yield is 12.2%. If the full-year forecast is achieved this will provide reassurance to investors. Miton has increased its stake.

Netcall maps out cash returns

Contact centre technology *www.netcall.com*

Contact centre and consumer engagement technology provider **Netcall** intends to use some of its cash pile to pay enhanced dividends to shareholders. The first enhanced dividend of 1.2p a share has been paid and an interim enhanced dividend of 0.95p a share has been announced.

Net cash was £15.2m at the end of 2015 and the plan is to have cash of £10m in 2018. The cash-generative nature of the business means that there will be plenty of cash to distribute even though the dividends are unlikely to be covered by earnings. A total dividend of 3p a share is forecast for 2015-16,

NETCALL (NET)			48p
12 MONTH CHANGE %	-19	MARKET CAP £M	66.6

rising to 3.8p a share the following year. The total cost of the first four enhanced dividends is expected to be £7.3m.

In the six months to December 2015, revenues dipped from £8.6m to £8.13m. Annualised recurring revenues were 8% higher but total revenues were held back by the decline in contribution from MovieLine. At one stage MovieLine generated the majority of earnings but the revenues and profit contribution have become negligible. Pre-amortisation profit fell from £2.54m to £1.96m.

As social media, cloud services and analytics become increasingly important this provides further growth opportunities for Netcall. Contact centre as a service (CCaaS) is becoming an increasingly favoured alternative to previous models, although on-premises contact centre services still generate most of the business.

Full-year profit is expected to fall from £4.7m to £3.9m and Netcall will start paying tax, which will hold back earnings, making the prospective earnings multiple 22.

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company news

Gresham House harvests acquired forestry expertise for new fund

Asset management *www.greshamhouse.com*

GRESHAM HOUSE (GHE)			327.5p
12 MONTH CHANGE %	+10.1	MARKET CAP £M	32.3

Asset manager **Gresham House** is launching its first forestry fund following the reverse takeover of forestry and timber asset management company Aitchesse at the end of last year. The Gresham House Forestry Fund will be structured as a Scottish Limited Partnership and the plan is to raise £25m to invest predominantly in Sitka spruce forests at varying stages of growth in order to target unleveraged returns of 10% after costs and tax. Gresham House intends to invest directly in the new fund alongside other investors.

The first potential acquisition for the new fund is a portfolio of forests in the west of Scotland, which are owned by a UK pension fund. The five forests cover 1,975 hectares (4,880 acres) and will cost £12.1m in total. Because the fund does not yet have any cash, Gresham House and Aitchesse (General Partner) (AGP), via a loan from the management of Aitchesse, have contributed equally to a non-refundable deposit of £500,000. AGP is not a subsidiary of Gresham House but it will sell the portfolio to the fund. The deal is expected to be completed by the end of July.

> Aitchesse manages 30,000 hectares of UK commercial forestry

Aitchesse manages 30,000 hectares (74,000 acres) of UK commercial forestry for four clients. The entire market is 3.15 million hectares with around half of that commercial forest. The Aitchesse acquisition cost an initial £4.02m in cash, shares and loan notes, with up to £3.7m more payable in cash and shares depending on future profitability. Further specialist asset managers could be acquired.

Gresham House continues to pursue its strategic equity strategy of identifying undervalued small companies and taking influential stakes in them. Gresham House Asset Management received regulatory approval last November and it is investment manager of Gresham House Strategic, the AIM-quoted vehicle for this.

Arian Silver assesses new projects

Mining *www.ariansilver.com*

ARIAN SILVER CORPORATION (AGQ)			1.175p
12 MONTH CHANGE %	-95.9	MARKET CAP £M	1.34

Arian Silver has signed a memorandum of understanding with unquoted Tierra Nueva Mining (TNM) which enables it to evaluate mining properties in Mexico that could produce near-term income for the company.

The half a dozen properties are in Zacatecas in Mexico, where Arian already has interests, and they are primarily gold-focused. They include tailings from a mine in operation between 1926 and 1993 when extraction technology was not as good as it is now. There is a resource of 1mt containing 3g/t of gold, 55g/t of silver and 0.8% zinc. This could be brought into production in the near term.

Arian has 90 days to complete due diligence on the properties and there is no guarantee that all or any of them will be acquired. Arian may choose to acquire one or two of the properties and not the others. Jim Williams, chief executive of Arian, owns a stake of less than 15% in TNM and will not vote on the deal or related matters.

Qunitana exercised foreclosure rights over Arian's San Jose silver mine in Mexico under the terms of its financing agreement and paid $700,000 in cash in final settlement to Arian. At the end of January Arian raised nearly £800,000 from the issue of units at 1p each. Each unit includes a common share and a warrant to subscribe for a new common share at 1.5p each. Cash is still flowing out of the business but costs have been cut by around $100,000 a month.

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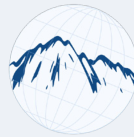

company news

Amino puts its disappointments behind it as new sales team prospers

IPTV technology *www.aminocom.com*

AMINO TECHNOLOGIES (AMO)			112p
12 MONTH CHANGE %	-19.4	MARKET CAP £M	79

IPTV set-top box and technology developer **Amino Technologies** had a disappointing year to November 2015 but the longer-term outlook is much better, with acquisitions already integrated and new business being won. The share price still has not recovered from the profit warning last year.

Last year, Amino was hit by delays in orders and the consolidation of customers. However, Amino identified a weakness in its sales team as a primary reason for the shortfall. Weak sales in the core business were partly offset by contributions from the Entone and Booxmedia acquisitions. Amino has boosted its sales team both through the acquisitions and through recruitment.

There is the promise of 10% annual growth in the dividend

Revenues increased by 15% to £41.7m. Although underlying profit improved from £4.2m to £5m there was a drop in earnings per share from 7.9p to 7.3p because of shares issued for acquisitions. Net cash was £2.1m at the end of November 2015 and the total dividend was 5.5p a share.

A deal with Cincinnati Bell was announced with the results. Cincinnati Bell is migrating from its existing technology to Amino's Enable TV software platform. Newer products are set to build up their revenues and make greater contributions this year.

Kestrel Partners has built up a 15.1% stake by taking advantage of the share price decline following the profit warning last autumn. House broker finnCap forecasts a jump in pre-tax profit to £8.3m this year and then to £9.5m in 2016-17. There is the promise of 10% annual growth in the dividend, which means that the shares offer an attractive income. An expected dividend of 6.1p a share for this year provides a forecast yield of more than 5%. Once investors gain confidence in the recovery the share price should also recover.

Satellite Solutions consolidation strategy

Satellite broadband provider *www.satellitesolutionsworldwide.com*

Satellite Solutions Worldwide is a consolidator of providers of broadband via satellite throughout Europe and deals done last year should enable it to move into profit in 2016. Six acquisitions have been made in the past year and the payback for these deals is generally less than two years.

Satellite Solutions Worldwide purchases bandwidth from satellite operators and sells it on to individual consumers and businesses on multi-year contracts generally generating revenues of £30-£40/month. This model requires little in the way of capital investment. Satellite is the

SATELLITE SOLUTIONS WORLDWIDE (SAT)			5p
12 MONTH CHANGE %	-2.5	MARKET CAP £M	15.4

only way that the EU can fulfil its commitment that everybody should have access to broadband and there are subsidies available for customers. Satellite Solutions Worldwide is already number two in the EU market, with 5% market share. The largest competitor has around 50,000 customers.

Satellite Solutions Worldwide can increase its buying power by adding extra business as well as being able to consolidate back-office operations.

The company has capacity for 100,000 subscribers and it currently has more than 25,000 customers in 31 countries. The run rate of annual recurring revenues is around £12m. The potential market is more than 19 million homes across Europe with internet connections that have speeds below 2 Mb.

House broker Arden forecasts a 2016 operating profit of £900,000 on revenues of £14.4m but further deals are likely. Cash generation should mean that net cash would be £1.9m at the end of 2015 but in reality further acquisitions will use some or all of that cash.

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Digital dividend growth at dotdigital

Digital marketing services *www.dotdigitalgroup.com*

Dividend

Email marketing services provider dotdigital has been paying dividends for three years. They are growing rapidly but are still extremely well covered by earnings. The company pays one dividend each year and the maiden dividend was 0.1p a share, which was then doubled the following year. The dividend for the year to June 2015 was 0.36p a share. That dividend was covered 4.5 times by earnings. The yield of 0.8% is modest but could be increased.

This year's forecast dividend of 0.4p a share would still be covered 4.3 times by forecast earnings. Net cash was £14.8m at the end of 2015 so dotdigital can afford to be more generous with the dividend. The cash-generative business is forecast to have net cash of £15.3m at the end of June 2016 and £19m one year later. Every 0.1p a share of dividend costs less than £300,000.

Business

Having been on Plus-quoted from February 2009, dotdigital moved to AIM in March 2011. The company provides digital marketing services and in recent years it has ditched lower-margin services to focus on email and multi-channel automation. It has also increasingly focused on larger clients. The company has continued to grow at an impressive rate even though it has become a much larger business.

In the six months to December 2015, revenues grew 29% to £12.9m and pre-tax profit was 30% ahead at £3.3m. The UK is still the dominant market but the US is growing rapidly and Australia is just getting going.

The move from smaller to larger clients, plus growth by existing

DOTDIGITAL (DOTD)	
Price (p)	44
Market cap £m	126.8
Historical yield	0.8%
Prospective yield	0.9%

clients, is indicated by the increase in average recurring monthly revenues per client from £400 to £525 over 12 months. There is potential to double this figure depending on the client mix. The average monthly recurring spend for the Magento connector is £1,200. Magento is an ecommerce platform supplier and dotdigital is one of two platinum technology partners. Management estimates that £1 of marketing spend generates £6 of revenues.

The difficulty recruiting a US sales boss was a minor setback in the first half. This meant that short-term profit was higher but growth rates will be held back. At the moment, the function is being outsourced to an experienced marketing services consultancy so the US business is getting back on track.

The business appears to be running smoothly while the chief executive recovers from an operation, which indicates the strength of the management team. Full-year profit is expected to improve from £5.2m to £5.8m, while the delays in US expansion have led to the shaving of the 2016-17 forecast to £7.7m – still strong growth. The shares are trading on 24 times this year's earnings, falling to 19 next year. That's a high rating given the weak stockmarket and the price has already fallen this year. The growth prospects warrant that high rating.

Dividend news

Telematics provider **Quartix** is generating cash so rapidly that it will be able to significantly increase its dividend over the next couple of years. In 2015, underlying pre-tax profit increased from £4.8m to £6.1m. The final dividend of 4p a share takes the total to 6p a share. The new policy is to pay 50% of post-tax cash generated from operations in dividends. Net cash was £2.7m at the end of 2015 and, even though next year's total dividend is expected to be 10.2p a share, this figure is set to double by the end of 2016.

Concrete-levelling equipment supplier **Somero Enterprises Inc** has been boosted by strong growth in revenues in its core North American market. Somero has a spread of international business so weakness in a few regions is made up for by growth in other parts of the world. In 2015, underlying pre-tax profit moved from $12.7m to $17.6m and the total dividend increased from 5.5 cents a share to 6.9 cents a share – a dividend cover of more than three times. Net cash was $12.6m at the end of 2015 and this will continue to rise even though the 2016 dividend is expected to be 7.2 cents a share.

Pharma services and drugs supplier **Clinigen** is generating cash rapidly enough to pay down debt and continue to increase its dividend. The interim dividend was increased from 1.1p a share to 1.3p a share on the back of earnings growth from 12.5p a share to 15.1p a share. Net debt was £81.5m and without acquisitions this could fall to £67m at the end of June 2016. Comparing the interim results is difficult because of the rapid acquisition activity. Pro forma gross profit grew 4%, mainly on the back of increased sales of the much higher margin speciality pharma division. The full-year dividend could be as high as 4.3p a share.

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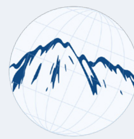

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Expert view: The broker

Navigating a changing landscape

By MICHAEL CAMPBELL

ICE Totally Gaming 2016, in the early part of February, provided an opportunity for gaming technology providers to showcase their latest offerings, particular in areas of social, mobile and virtual reality based gaming. Northland Capital Partners attended the conference, which was very well attended and where the scale of the conference was a sign of how fast the industry has grown over the past decade. However, the key challenge for the industry and its operators remains navigating the changing and often challenging regulatory landscape.

Consumer demand for digital gaming products & services is unquestionable, not only as evidenced by the growth in global gross revenue in the online industry, forecast to grow at a CAGR of c. 9.5% over the period 2014 to 2018, but within this the mobile channel in particular offers opportunities to gain exposure to higher levels of growth. Global gross revenue in mobile (phones & tablets) is expected to grow at a CAGR of c. 17.5% to €16bn over the same period and represent over 35% of total global digital gaming revenue.

Furthermore, underpinning and facilitating this demand is the increasing affordability of smartphones and tablets. Gartner expects global tablet and mobile units shipped will be in excess of 2.2 billion in 2016, growing to over 2.3 billion in 2017. This not only provides a healthy backdrop for businesses to carve out growth opportunities but also for investors to make returns.

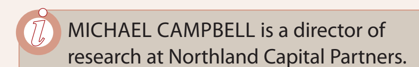
Regulation / deregulation

Regulation or deregulation remains a key driver and is often seen as negatively affecting performance, as the implication is new cash costs in the form of taxes. There is, however, evidence to suggest that markets can grow significantly once regulation takes effect as heightened consumer protection leads to an increase in underlying player activity.

Operators are exposed to 'tax pain' over the short term, particularly in the first year after taxes are imposed, though the benefit of market growth offsets the tax impact over the longer term. This view assumes two factors; that an operator can remain competitive in a post-tax environment as competition also typically increases on the back of regulation; and that the taxes imposed aren't particularly punitive. There remains significant scope for online and mobile growth, particularly where large land-based markets already exist, with large populations, high propensities to participate and high levels of internet, smartphone & tablet penetration.

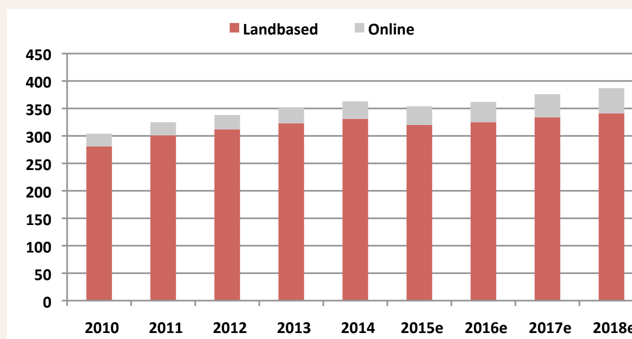
Finding niche opportunities

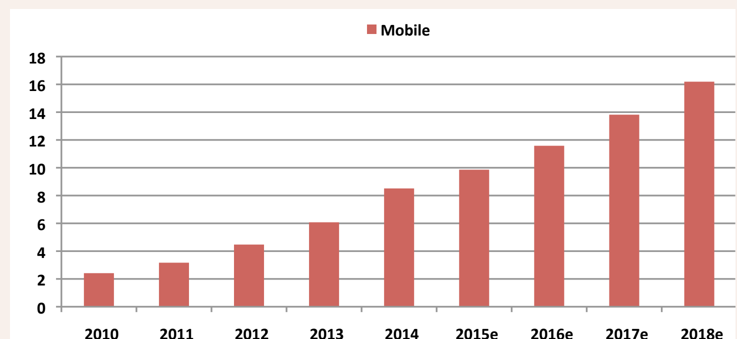
London has a vibrant quoted gaming sub-sector with c. 19 operators and technology providers, even taking into account the latest round of consolidation. While smaller gaming companies don't necessarily have the product breadth and depth or the marketing firepower to compete with larger main-listed peers, niche offerings or differentiated channels to market allow smaller operators to compete more effectively. There are 7 gaming companies on the main board (PPB.L, WMH.L, PTEC.L, GVC.L, LAD.L, RNK.L and 888.L) both PTEC.L and GVC.L successfully migrated to the main board, having used AIM as a springboard. There are 12 AIM quoted gaming businesses and a number of these have differentiated offerings and/or channels to market which not only offer growth prospects but also make them potential targets for larger listed operators. Best of the Best (BOTB.L), Gaming Realms (GMR.L), Stride Gaming (STR.L) and NetPlay TV (NPT.L) provide differentiated product offerings, not only providing growth opportunities for themselves but also opportunities for investor returns.



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

Global gross revenue €bn





SOURCE: H2 Gambling Capital

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expert views

Expert view: The lawyer

Casual talk costs money

By JIM MACKIE, consultant, dispute resolution, Marriott Harrison LLP

A recent High Court case in London illustrates the undesirable consequences which can result from discussing business information with investors on an informal basis out of a desire to be helpful.

In 1998, an AIM-quoted explorer entered into a joint venture with a FTSE 100 mining company for a project in Ireland. The JV agreement set out the percentage interests of the parties (explorer 25%, mining company 75%) and provided that if a party's interest was diluted below a specified percentage, it would be converted to a right to receive a share of net profits.

In April 2010, an experienced investor began to buy shares in the explorer. By the end of May he had bought 1.15 million shares. Not long after the investor had begun to buy shares, the broker produced analysis about the explorer which said the JV agreement did not permit the explorer's interest to be diluted below 10%, even if it was unable to meet its share of the budget. The investor contacted the broker to discuss the analysis and entered into email correspondence with the explorer's CEO and its CFO. By the end of August 2010 the investor had bought a further 2.9 million shares, 2.3 million of which by subscription.

In September 2010, the broker invited the investor to an informal lunch with the CEO, the CFO and the analyst. During the lunch the CFO confirmed what the broker had said about dilution of the explorer's interest. The investor asked for a copy of the JV but none was provided.

There was a disagreement between the explorer and the mining company over the budget for 2011. Nevertheless, in February 2011, the mining company announced the project was economic. The investor then subscribed for 2.24 million shares and bought 400,000 shares in the market. The disagreement between the explorer and the mining company was not resolved and in July 2011 the explorer announced the sale of its interest in the JV to the mining company. In the circular calling the EGM seeking approval for the sale, it was revealed that the true position with regard to dilution was that if a party's percentage interest was reduced to 5%, it would effectively be converted to a 15% share of net profits.

Litigation

The investor issued proceedings alleging he had been fraudulently induced to buy and retain shares in the explorer. He asserted that through its broker and by its directors at the September 2010 lunch meeting, the explorer had deliberately misrepresented the dilution provisions.

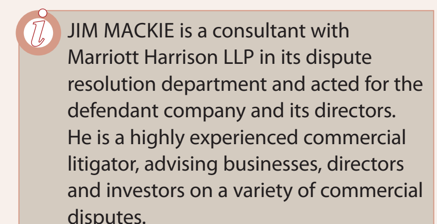
He claimed to have understood the statement that the JV agreement did not permit the explorer's holding to be diluted below 10% to mean the explorer had a 10% equity interest in the assets, which provided security for his investment. He said he had relied on this statement, confirmed by the directors at the lunch, in deciding not only to buy but also to retain his shares. He said the directors must have known the statement was wrong. Alternatively, if they were honestly mistaken about the provision, they had been negligent, and had a duty to notify him as soon as their error was discovered.

The explorer and the directors denied the allegations. The CEO thought he had an accurate recollection of the dilution provisions. He understood how they worked in practice but believed that if the explorer's percentage interest was diluted to 10%, it would be converted to a 10% net profits interest and the reference to dilution in the broker's analysis reflected his understanding. The CFO relied on the CEO and had no reason to believe he was wrong when he confirmed the description of the dilution provisions at the September 2010 lunch. The directors had no knowledge of the investor's interpretation of the reference to the dilution provisions or that he had placed any reliance on it.

Judgement

After a two-week trial, the judge found that the CEO had honestly but mistakenly believed he had an accurate recollection of the dilution provisions and that neither he nor the CFO had any intention of inducing the investor to buy or retain shares. The judge did find that it was just and reasonable for the explorer to owe the investor a duty of care in respect of the matters discussed at the lunch. However, he also found that the investor had not relied on what he had been told about the provisions when deciding to buy and retain shares. All of the investor's claims were dismissed.

However, this was four-and-a-half years after the dispute arose, and two-and-a-half years after proceedings were issued. In the meantime, legal costs of both parties of the proceedings alone exceeded £850,000. This shows that, even well-intentioned, informal communications by directors with investors can be fraught with risk.



JIM MACKIE is a consultant with Marriott Harrison LLP in its dispute resolution department and acted for the defendant company and its directors. He is a highly experienced commercial litigator, advising businesses, directors and investors on a variety of commercial disputes.

Larger companies dominate AIM

A number of high-profile, larger companies have switched from AIM to the Main Market in recent months and there have also been others that have been taken over in the past year. Yet larger companies still account for the majority of AIM's market value.

In this case, larger companies are defined as having a market value of £250m or more. They made up 51.8% of AIM's value at the end of 2015, although they represent 7% of the companies on the junior market. This is the highest it has ever been in percentage terms. The total value of £37.8bn at the end of 2015 is more than AIM's total market value at any time in its first decade.

Larger companies made up 51.8% of AIM's value at the end of 2015

Online payments technology company Paysafe, which was valued at more than £1.7bn, switched to the Main Market before the end of 2015 and it is moving into the FTSE 250 index later in March.

Even after a weak start to 2016, which has led to declining share prices and some companies falling below the £250m cut-off point, the larger companies are still worth £37bn – 47.9% of the market. Camden Market owner Market Tech Holdings switched to the Main Market during January and it was valued at £1bn.

At the end of 1998 there were no companies on AIM valued at £250m or more. One year later there were eight companies above that value, thanks to the technology boom. Most of them have been wound-up or are now worth a fraction of their 1999 value. By the end of 2000 there were still seven companies in the range, although five of them were different companies. Three of the end-1999 companies moved to the Main Market and all of them had fallen in value.

Further declines in global stockmarkets meant that there was only one company valued at more than £250m at the end of 2002, down from two the previous year. From then on, the number and value of larger companies grew strongly up until 2007 when they made up one-third of AIM's market capitalisation.

The effect of the 2008 decline in the markets can be seen by the decline in large companies on AIM. They fell to less than 13% of AIM's market capitalisation, recovering to one-third in 2009.

Since 2009, the larger companies have accounted for more than 40% of the market at the end of each year.

Five out of the top 30 largest companies at the end of 2007 were still on AIM at the end of 2015, with Datatec the only one worth more than in 2007 and still in the top 30. Most of the other companies have moved to the Main Market, or in the case of Eros International and ReneSola to the New York Stock Exchange, or have been taken over.

AIM has changed significantly over two decades. Although companies valued at less than £50m account for 69.5% of AIM by number of companies, they account for only 15.1% of total market value. AIM has shown that it can replace larger companies that move to other markets or get taken over with new growth companies. ASOS was not in the top 50 in 2007.

AIM COMPANIES VALUED AT MORE THAN £250M

YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015
Companies	74	12	46	74	48	44	61	59	73
% of companies	4.4	0.7	3.6	6.2	4.1	4	5.6	5.4	7
Value £bn	33.8	4.9	18.9	39	27	25.3	36.7	34.7	37.8
% of value	34.7	12.9	33.4	49.2	43.3	40.9	48.4	43	51.8

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	22.4	17.9
Consumer services	17.2	11.3
Industrials	15.6	16.9
Healthcare	14	8.3
Technology	9.6	10.9
Consumer goods	8.1	5.8
Basic materials	5.4	15.1
Oil & gas	4.7	11.1
Telecoms	2	1.5
Utilities	0.8	1.2

KEY AIM STATISTICS

Total number of AIM	1031
Number of nominated advisers	35
Number of market makers	49
Total market cap for all AIM	£68.3bn
Total of new money raised	£95.8bn
Total raised by new issues	£40.7bn
Total raised by secondary issues	£55.1bn
Share turnover value (2016)	£2.3bn
Number of bargains (2016)	0.44m
Shares traded (2016)	18.6bn
Transfers to the official list	179

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	692.87	-3
FTSE AIM 50	3739.61	+3.7
FTSE AIM 100	3257.04	+2.7
FTSE Fledgling	7392.3	+3.6
FTSE Small Cap	4374.72	-3.8
FTSE All-Share	3345.84	-10.6
FTSE 100	6097.09	-12.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	274
£5m-£10m	112
£10m-£25m	201
£25m-£50m	156
£50m-£100m	118
£100m-£250m	106
£250m+	64

TOP 5 RISERS OVER 30 DAYS

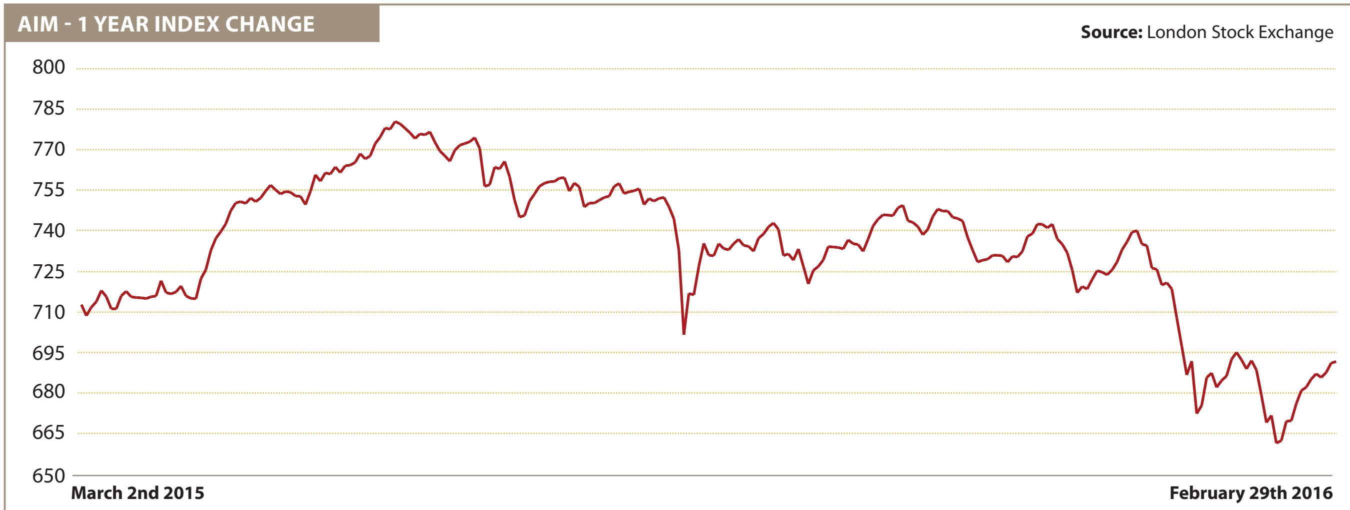
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
88 Energy Ltd	Oil and gas	2.4	+585.7
Mercom Oil Sands	Oil and gas	4.87	+160
Rapidcloud	Technology	26	+147.6
Regency Mines	Mining	0.8	+112.5
Tangent Communications	Media	2.88	+109.1

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Madagascar Oil	Oil and gas	0.95	-71.9
DQ Entertainment	Media	1.13	-71
Mosman Oil and Gas Ltd	Oil and gas	0.75	-68.4
Edge Resources Inc	Oil and gas	0.45	-67.3
Petroceltic International	Oil and gas	9	-60.9

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 29th February 2016, and we cannot accept responsibility for their accuracy.

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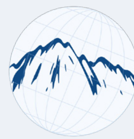

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We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to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

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