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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

In this issue

IQE and Next Fifteen join AIM 50

IQE and Next Fifteen Communications are entering the FTSE AIM UK 50 index later this month, while Primary Health Properties could be the next former AIM company to join the FTSE 250 because it is included on the reserve list for that index.

Semiconductor wafers supplier IQE and PR group Next Fifteen, both of which have benefited from the decline in sterling because of their international operations, are replacing Gemfields and Arbuthnot Banking.

The IQE share price has trebled since its low last July. The business is highly cyclical and in the past has been dependent on demand from the mobile sector. More recently, though, photonics has been a growing contributor. IQE is highly cash generative. Next Fifteen is growing on the back of investment in digital marketing services.

Primary Health Properties joined AIM in March 1996 when it was valued at £16m, having raised a similar amount. The healthcare properties investor did not stay on AIM for long, moving to the Main Market in November 1998. It is currently valued at £636m and offers a yield of nearly 5%.

One former AIM company appears set to leave the FTSE 250 in the coming months. That is if Tesco's £3.7bn cash and shares merger with Booker is successful. The food wholesaler moved to the Main Market on 1 July 2009 when it was valued at £525m at a share price of 33p.

Hutchison trial success

Hutchison China-MediTech says that the phase III registration trial of fruquintinib for the treatment of colorectal cancer has shown a statistically significant increase in overall survival compared with a placebo. There was also a statistically significant improvement in progression-free survival and no new safety issues were identified. The full results should be published in the middle of this year. Hutchison is preparing to submit a new drug application to the China Food and Drug Administration. Colorectal cancer is the second most common cancer in China.

Hutchison and AstraZeneca have also announced positive preliminary data from the phase II trial for savolitinib in papillary renal cell carcinoma. There is an unmet need in this area and this treatment could generate significant revenues. Edison Investment Research estimates that Chinese sales alone might reach $129m a year and in the rest of the world they could peak at $475m a year. There are also other cancers that could be treated with savolitinib and these could be just as big or even bigger revenue generators.

general news

Delek bid for Ithaca questioned

Ithaca Energy is recommending a bid from 19.7% shareholder Delek Group Ltd but some investors believe that the bid undervalues the North Sea-focused oil and gas producer. News that Ithaca's Greater Stella oil field has begun production means that Ithaca's total production will be doubled to more than 20,000 barrels per day.

The bid is C$1.95 (120p) a share, which values Ithaca at C$841m (£517m). The share price has not been at that level since September 2014 and the bid is 329% higher than the share price at the beginning of 2016. The all-time high was 202.5p in March 2012.

Paul Mumford of Cavendish Asset Management, a shareholder in Ithaca, believes that the bid is opportunistic and too low considering the enormous cash generation potential for Ithaca following the Greater Stella oil field coming on stream. Production costs are well below the current oil price.

Mumford believes that Ithaca's cash generation will be strong enough to continue to invest in exploration and pay down borrowings. He calculates that there could be $150m a year generated after capital expenditure. That is before any potential increase in the oil price.

Israel-based energy company Delek argues that the bid is higher than the average analyst target price for the shares but this would not take into account any bid premium. A condition of the bid is the tendering of more than 50% of the shares not already owned by Delek.

The takeover bid circular should be sent to shareholders by the end of March.

Sound progress

Sound Energy has made strong progress with the TE-8 well on the Tendrara licence in Morocco and it has already drilled more than 2,000 metres. Drilling should be completed by early April. The well is 12km away from the TE-7 well, where gas was discovered. Sound intends to put in a concession application in the second half of 2017 and commence 2D seismic over the rest of the block. Sound is convening a general meeting on 15 March in order to gain shareholder approval for the proposed purchase of Oil & Gas Investment Funds' assets in east Morocco in return for 272 million Sound shares. This will take Sound's stake in Tendrara to 75%, although it would be reduced to 47.5% net after Schlumberger's farm-in.

Crown seeks Bowleven strategy change

Crown Ocean Capital has requisitioned a general meeting at oil and gas company Bowleven in order to remove six out of the seven directors on the board and have two nominees of its own appointed. This would enable a change in the company's strategy, including an end to investment in the Bomono project in Cameroon and returning cash to shareholders.

Bowleven's board wants shareholders to vote against the resolutions and it argues that it is a ploy by Crown to gain control without making a bid. Corporate governance advisers Glass Lewis, ISS and PIRC are each advising voting against all but one of the resolutions. However, unlike the others, PIRC does advise voting for the resolution to remove Philip Tracy from the board because it does not consider him an independent non-executive due to previous service as interim operations director.

Crown had unsuccessfully tried to get resolutions put to last year's AGM. Crown voted against share buy-backs and the disapplication of pre-emption rights of share issues, successfully blocking these AGM resolutions.

Crown owns 15.6% of Bowleven. The share stake has mainly been built up over the past nine months. This means that it has not suffered the losses that longer-term holders have. At one stage in 2005, the share price went above 800p so the current share price is less than 5% of that level. Last year, Crown informally approached Bowleven with buy-out proposals but management says that the value of the indicative proposal was equivalent to the company's cash. There was $95m in the bank at the end of 2016 and since the beginning of this year the company's market capitalisation has moved above that figure. The general meeting will be held on 14 March.

advisers

Gresham House launches new fund

Specialist asset manager Gresham House has launched a new fund. The Royal Borough of Windsor and Maidenhead, which administers the Berkshire Pension Fund, is the cornerstone investor and it intends to take a 20% stake in Gresham House.

The Gresham House British Strategic Investment Fund is focused on long-term institutional investors such as local government pension funds. The target size for the fund is £300m and the investments will be focused on innovation, infrastructure and housing. Investors in the fund will have opportunities to co-invest in certain sectors or geographical areas.

Gresham House is talking with other local government pension schemes about investing in the new fund.

In the year to November 2016, WH Ireland reported a decline in revenues from £30.9m to £25.4m, while recurring revenues increased from £11.4m to £12m. Assets under management increased by 14% to £2.87bn, with discretionary assets under management more than one-third of that figure. Net cash was £5m but this should be doubled by the sale of the broker's Manchester property.

The number of corporate clients, not all of which are on AIM, fell from 98 to 85, although WH Ireland remains the third-largest nominated adviser in terms of number of companies. The corporate broking division reported a pre-tax profit of £439,000 after allocation of board costs.

Adam Pollock, who over three decades has worked for a number of broking firms, including Dawnay Day, Panmure Gordon and Zeus Capital, is joining WH Ireland as head of corporate advisory and broking. This is a newly created role and the current co-heads of equities, Adrian Hadden and John Cummins, will report to him.

ADVISER CHANGES - FEBRUARY 2017

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Sound Energy	RBC	Cantor Fitzgerald	Smith & Williamson	Smith & Williamson	01/02/17
Frontier IP	Cenkos/Peterhouse	Cantor Fitzgerald/ Peterhouse	Cenkos	Cantor Fitzgerald	08/02/17
C4X Discovery	Panmure Gordon	Zeus	Panmure Gordon	Zeus	09/02/17
Fusionex International	Stifel Nicolaus/Panmure Gordon/Peel Hunt	Panmure Gordon/ Peel Hunt	Stifel Nicolaus	Panmure Gordon	10/02/17
Tekcapital	Dowgate/Allenby	Allenby/Optiva	Allenby	Allenby	15/02/17
FastForward Innovations Ltd	Optiva	Peel Hunt	Beaumont Cornish	Peel Hunt	16/02/17
K&C REIT	Peterhouse/Stockdale	Stockdale	Stockdale	Stockdale	16/02/17
Hurricane Energy	Stifel Nicolaus/Cenkos	Cenkos/Macquarie	Cenkos	Cenkos	17/02/17
Produce Investments	Numis	Shore	Numis	Shore	17/02/17
Cambridge Cognition	Dowgate/finnCap	finnCap	finnCap	finnCap	20/02/17
Diurnal Group	Panmure Gordon/Numis	Numis	Numis	Numis	20/02/17
Plutus PowerGen	Cantor Fitzgerald	SP Angel	Cantor Fitzgerald	SP Angel	20/02/17
EKF Diagnostics	N+1 Singer	N+1 Singer/ Panmure Gordon	N+1 Singer	Panmure Gordon	22/03/17
Stellar Diamonds	Peterhouse/Beaufort	Beaufort	Cairn	Cairn	23/02/17
Base Resources	Numis/RFC Ambrian	RFC Ambrian	RFC Ambrian	RFC Ambrian	27/02/17
Blue Star Capital	Smaller Company Capital	Vicarage Capital	Cairn	Cairn	27/02/17
Nostra Terra Oil & Gas	Smaller Company Capital/Strand Hanson	Strand Hanson/ Vicarage Capital	Strand Hanson	Strand Hanson	27/02/17
Red Leopard Holdings	Peterhouse	Northland/ Beaufort	Northland	Beaumont Cornish	28/02/17

company news

Veterinary medicines provide the impetus for long-term growth at Animalcare

Vet drugs and products supplier *www.animalcare.co.uk*

ANIMALCARE (ANCR)			367.5p
12 MONTH CHANGE %	+79.3	MARKET CAP £M	78

Animalcare is benefiting from past veterinary product launches, which can take up to three years to build up sales, in its interims and a strong first half commercialising new drugs, which included five new product launches, augurs well for the next couple of years.

There is consolidation in the companion animal medicines market and this could provide further opportunities for growth. Animalcare has a growing cash pile, currently £7m, which it can use to acquire additional treatments and accelerate expansion.

Animalcare has a cash pile

In the six months to December 2016, revenues were 12% ahead at £7.97m. This was a good performance considering that the corresponding period benefited from government legislation that all dogs should be microchipped by April 2016. The animal welfare products division grew its sales of intravenous fluid infusion accessories but the majority of the growth came from licensed veterinary medicines. Pre-tax profit improved from £1.53m to £1.85m. The interim dividend was raised from 1.8p a share to 2p a share.

The veterinary medicines division grew revenues by 17% and even stripping out products launched in the period the like-for-like growth was 13%. Some of this growth is coming from outside the UK, with exports to 12 countries and a 38% rise in international revenues. On top of this, 14 new distribution contracts and letters of understanding have been secured. It will take up to three years to obtain regulatory approvals and start to sell drugs.

Panmure Gordon expects underlying full-year pre-tax profit to improve from £3.2m to £3.6m. The share price has risen since the interim results announcement and Animalcare is trading on 25 times prospective 2016-17 earnings. There is a development pipeline of new drugs that should ensure further growth but this might be supplemented by acquiring or licensing-in other medicines.

Totally builds cash pile for acquisitions

Healthcare services *www.totallyplc.com*

TOTALLY (TLY)			58.5p
12 MONTH CHANGE %	+2.6	MARKET CAP £M	11.7

Healthcare services provider **Totally** is raising up to £18m at 55p a share in order to build a cash pile to spend on acquisitions in the out-of-hospital healthcare market. This will more than double the number of shares in issue. Totally made three acquisitions last year and plans to continue to be a consolidator in its sector. Potential acquisitions that have already been identified could cost between £3m and £15m.

Totally provides health coaching, physiotherapy and dermatology services. The existing businesses are winning new contracts but Totally needs to be larger in order to spread overheads over a wider base. Totally was still losing money in the first half of 2016.

A placing will raise £17m and up to £1m more will come from a one-for-11 open offer to existing shareholders. The open offer closes on 15 March. Totally will put aside £1.7m to pay part of the deferred consideration on past acquisitions due in 2017. In the interims there was a provision of £2.8m for potential deferred payments in the 12 months to June 2017 – £172,000 has already been paid – and a further provision of £7.48m over a longer period. The subsequent acquisition of sports therapy provider Optimum cost £400,000 and there could be deferred consideration of up to £250,000.

The ideal acquisitions are high-margin businesses with long-term contracts involved in fragmented markets. Totally says that its 2016 revenues were at least £3.7m.

company news

Purplebricks plans highly ambitious expansion into US real estate market

Estate agency *www.purplebricks.com*

PURPLEBRICKS (PURP)			300p
12 MONTH CHANGE %	+123.9	MARKET CAP £M	810

UK-based estate agency **Purplebricks** is moving into the US market six months after it launched its service in Australia. The plan is to roll out the service in a limited number of US states in the second half of 2017. Management believes that the advertising and marketing skills honed in the UK can help to build a similar business in the US.

Purplebricks, which had £29.1m of net cash at the end of September 2016, is raising £50m at 220p a share to finance the US plans. The technology will have to be adapted to the US market and the company will also have to recruit experienced real estate agents. Purplebricks will then need to utilise its marketing skills to attract US property listings to its online platform.

The US market is different because it ivolves listing agents and buying agents. A listing agent tends to get a commission of up to 7% of the sale price but if it lists the property on a multiple listing service then third-party buying agents may be offered 2-3% commission by the listing agent. If the listing agent acts as the buying agent it retains all the commission. It does not appear that Purplebricks intends to revolutionise the market, just try to operate more efficiently than rivals.

The US market is different

Purplebricks raised £25m at 100p a share when it joined AIM at the end of 2015. The firm remains loss-making in the UK and there was a £1.9m group cash outflow at the latest interim stage – including £682,000 of capitalised development spending. In the UK, the average fee generated from a flat fee plus other income is £1,200 including VAT. This compares with a £2,616 (A$4,500) flat fee in Australia but management says the percentage saving for its customers is similar in both countries. Australia is not expected to make a profit until 2019-20. The group was expected to move into profit in the year to April 2018. That was before the additional costs for the US launch. The valuation already assumes significant success in the US.

Tristel gears up for international growth

Infection prevention products *www.tristel.com*

TRISTEL (TSTL)			173.5p
12 MONTH CHANGE %	+50.9	MARKET CAP £M	73.5

Infection-prevention and contamination-control products supplier **Tristel** continues to grow internationally and move into new territories. Progress in obtaining regulatory approvals in North America has been frustratingly slow but revenues could be generated in 2018-19.

The core instrument disinfection business is the main driver of growth in the UK and internationally. Critical surface disinfection is also growing rapidly but from a much lower base. In the six months to December 2016, group revenues grew 22% to £9.75m, with non-UK sales accounting for 43%, up from 36% – helped by the acquisition of the Australian distributor and currency movements. Contamination control and animal health divisions reported lower revenues, although in the former Tristel made the decision to raise prices to improve margins.

Underlying pre-tax profit improved from £1.48m to £1.7m, even though there was £200,000 spent on developing the North American operations, which are yet to generate revenues. Tristel is increasing the interim dividend by 23% to 1.4p a share and, despite the significant dividend payments in the past year, net cash is still £3.85m.

House broker finnCap expects full-year pre-tax profit to improve from £3.3m to £3.6m. The shares are trading on 28 times prospective earnings.

company news

Growth no longer ensured at Quartix but US provides longer-term optimism

Telematics *www.quartix.net*

QUARTIX (QTX)			386.5p
12 MONTH CHANGE %	+18	MARKET CAP £M	183

Quartix grew its profit in 2016 but this year profit is expected to be flat. The telematics technology provider remains highly cash generative even after paying its dividend, which was increased from 6p a share to 11.2p a share for 2016.

The insurance market, where Quartix has been a major player, is becoming more competitive and installations fell in the second half. A newly developed platform is being offered via insurance brokers. This part of the business is lower margin than the fleet business, which is expected to continue to grow.

In 2016, revenues grew from £19.7m to £23.3m. The insurance business increased revenues from £6.72m to £8.43m and this all came from one customer. The rest of the growth came from the fleet sector, which continues to dominate the business. Underlying pre-tax profit improved from £6.1m to £6.7m, after £1.4m of R&D spending, up from £1.1m. Use of the patent box has cut the tax rate but the rate will rise again this year.

US revenues more than doubled

Cash flow from operating activities increased from £5.69m to £6.17m and after capital investment and paying dividends net cash doubled from £3.04m to £6.25m.

The UK remains the dominant area for revenues but France and the US are growing strongly from low bases. US revenues more than doubled, from £256,000 to £677,000, but the loss was even higher than that because of the investment in sales and marketing and support services to grow over the next five years.

House broker finnCap forecasts an unchanged 2017 profit of £6.7m on flat revenues, putting the shares on nearly 33 times prospective earnings. Cash is expected to rise to £7.1m despite the hike in the dividend, which could rise again to 12.5p a share this year even though this is unlikely to be covered by the lower earnings per share due to a higher tax charge. The broker is hopeful of a profit of £7.7m in 2018. The share price has fallen from its high less than one year ago but the rating is still relatively high.

32Red agrees bid from larger rival

Online gaming *www.32red.com*

32RED (TTR)			200p
12 MONTH CHANGE %	+15.4	MARKET CAP £M	170.6

Kindred Group has launched a recommended £175.6m bid for online gaming company **32Red**. The cash bid is196p a share and there is also a second interim of 4p a share that is being paid on 9 March. The bid is higher than the peak share price since flotation.

Although Kindred is based in Malta it is listed on the Nasdaq Stockholm Large Cap List and valued at more than £1.7bn – ten times the valuation of 32Red. Kindred, which was previously called Unibet, has been trading for two decades and it claims more than 15 million customers in more than 100 countries. In contrast, 32Red is based in Gibraltar and most of its business is in the UK and Italy. Kindred acquired UK-focused Stan James in 2015.

32Red is the latest online and interactive gaming business to succumb to a consolidator in the sector. NetPlay agreed a 9p a share cash bid from Stockholm-listed Betsson, a leading global B2C digital gaming business, at the beginning of February, which valued the interactive gaming company at £26.4m. NetPlay wanted to use its cash pile to be a consolidator but this proved difficult for such a small company even though it had lucrative deals with ITV and Channel 5.

First Property investments yield NAV increase

Property manager and investor *www.fprop.com*

Dividend

Property fund manager and investor First Property has been paying dividends since 2003 and in 2007-08 it started to pay an interim and a final dividend each year. The dividend has grown consistently since 2003, except in 2012-13, when it was unchanged. The policy is that the dividend should be covered by earnings – ideally 2.5 times.

The first dividend was 0.05p a share and it cost £46,000. In 2015-16 a total dividend of 1.5p a share was paid and that cost £1.73m. The most recent interim dividend was raised by 4% to 0.4p a share. There should be scope for a further uptick in the final dividend.

Business

First Property has a portfolio of properties in its funds, as well as its own investments, that are predominantly in Poland and the UK, with a small percentage in Romania. The company is not wedded to any single market; it seeks out those where there are significant opportunities. Chief executive Ben Habib spotted that the UK market was getting overheated and sold UK properties prior to the downturn in 2008. Habib still owns 14.4% of the company, while non-executive director Peter Moon takes 40% of his director fees in shares.

More recently there have been opportunities in the UK and First Property has been investing in secondary property outside London with high yields. Institutions are selling these property assets because they are nervous about the economy.

At the beginning of this year, First Property established Fprop UK Special Opportunities as a fund to invest in high-yielding UK commercial property that has potential for development or other opportunities to increase the value of the property. Two Oxford colleges and one in Cambridge have committed a total of £14.5m to the new fund and First Property will put in £725,000 of its own money. Gearing can be up to 50% of the value of investments, so the fund has just over £30m available to invest.

FIRST PROPERTY (FPO)	
Price (p)	47.5
Market cap £m	55.1
Historical yield	3.1%
Prospective yield	3.3%

First Property maintained its interim pre-tax profit at £4.47m even though there was a fall in non-recurring profit. This indicates that the quality of income is improving. The NAV increased by one-fifth to 45.9p a share at the end of September 2016. This figure was given an additional boost by the decline in sterling during the period. At the interim stage, Poland accounted for 48.6% and Romania 4.8% of the property portfolio, with the rest in the UK.

Poland still has its attractions, particularly as it did not adopt the euro and still has its own currency. The most recent purchase, in conjunction with a club of investors, was an office building in Krakow for €23m, which offers a net initial yield of 8.3%. First Property will invest €1.5m and its share of the rent should be €230,000 a year on top of an annual management fee of €220,000.

Dividend news

International staffing business **Empresaria** had a tough time in the UK last year but acquisitions and other territories helped net fee income to grow by one-fifth, or 10% in constant currency, to £59m. Underlying pre-tax profit was 23% higher at £9.2m and the dividend was raised by 15% to 1.15p a share, which was just ahead of earnings growth. Net debt was £15.7m at the end of 2016. The main short-term focus is organic growth, following last year's acquisitions. There is potential for geographic expansion, particularly in South America, as well as adding to the sectors covered.

Customer interaction software and systems provider **Netcall** is continuing with its policy of paying enhanced dividends. The latest interim dividend is 1.05p a share and this year's total dividend is forecast to be 3.76p a share, of which 1.16p a share is the underlying dividend. That underlying dividend is covered twice by earnings but the enhanced dividends are intended to reduce the cash pile to £10m. At the end of 2016, there was cash of £14.6m and the enhanced dividends are set to continue until June 2018. Netcall is assessing potential acquisitions where the rest of the cash pile could be used.

Independent Financial Adviser **Lighthouse** grew its profit on the back of slightly lower revenues in 2016 thanks to a reduction in overheads. Recurring revenues have grown and has hit 50% of total revenues. The total dividend has been raised from 0.27p a share to 0.3p a share. Last September, Lighthouse launched Luceo Asset Management and it has widened the funds offering. Fund inflows to Luceo should help to boost group margins. Lighthouse has secured a one-year contract to supply financial advice to the employees of The Money Advice Service. House broker finnCap upgraded its 2017 profit estimate by 10% to £2.1m.

expert views

Expert view: The broker

Barcelona Mobile World Congress 2017 – an invitation to AI

By Mike Jeremy

This year's pre-eminent gathering for the mobile communications community, the Barcelona Mobile World Congress (MWC), featured a new exhibition space – NEXTech. This has added significance in the light of Google's (October 2016) shift in strategic emphasis from "Mobile First" to "AI-First". MWC's NexTech offered:

"… a world filled with the latest VR, AR, IoT, drones, robotics, AI and much more … With the fourth Industrial Revolution now well underway, NEXTech will demonstrate the most forward thinking companies and technologies currently disrupting the ICT ecosystem."

No fewer than six of Gartner's Top Ten Tech Trends[1] for 2017 are associated with the 'virtual' world – Artificial Intelligence, virtual reality, intelligent apps and machine interaction, robotics etc. – the remaining focus being largely on data security.

Internet of Things

Most respondents to this year's Mobile World Live (MWL) Annual Industry Survey 2017 [2] chose Internet of Things (48.2%) as the leading area of opportunity, although security was "the biggest challenge", particularly with the advent of connected (driverless or otherwise) vehicles and other IoT applications. One IoT theme is the Smart City, an entity in itself or the sum-of-parts of initiatives in transportation, energy management or healthcare. The difference between IoT as a theme at MWC last year is implementation rather than hype, with the result that initiatives are being evaluated on practical performance. Redstone Connect (REDS, market capitalisation £25m), for example, is already participating in Milton Keynes' Smart City Solution project, to provide an integrated retail and parking solution.

Mobile network capacity remained a perennial concern. The Cisco Visual Networking Index[3] reports that in 2016 we entered the Zettabyte internet traffic era (a billion, billion gigabytes). In-mobile video accounted for 60% of traffic and wireless-based devices are expected to reach 11.6bn by 2021. The inexorable concentration on smart devices is accelerating. One response to the problem of bandwidth capacity provision is the shift to virtual infrastructures such as network function virtualisation [NFV], or software defined networks [SDN]. In this context we highlight Filtronic [FTC, market capitalisation £26m], which was present at MWC, specialists in integrated antenna configurations which enable the combination and remote maintenance or control of frequency and capacity allocation.

In the European mobile market there is increased competition for marginal subscribers and a continuing search for added value, but also proliferation of specialist intermediaries with the ability to assemble value-added solutions. One such focus is mobile payments, which registered a second-placed 14.5% score among MWL survey respondents. Marco Casartelli, CEO of mobile banking and retail connectivity solutions provider Vipera [VIP, market capitalisation £12m] has highlighted a trend which all vendors should be aware of, the implementation of PSD2. This revised European Payment Service Directive should significantly impact the role of banks and credit card providers in the mobile-enabled consumer experience. The MWL survey showed opinion divided; 39% thought that the mobile payments focus should be on augmenting banking activities; 35% seeing operators themselves as potential payment providers in their own right. This situation provides fertile ground for specialist intermediaries.

Data – gathered, analysed or shared – remains the most contentious issue of all. In the MWL survey, 54% responded that data could be openly shared; 24% approved access but only on permitted basis; 19% opposed the sharing of mobile data with third parties. Data mining and analysis remains a source of potential added value, but in the light of security and privacy issues, faces obstacles.

Back to MWC's invitation to its NEXTech space. This theme could almost have been borrowed from another major gathering, the famous Las Vegas Consumer Electronics Show (CES). In other words as mobile communications overlaps with things both connected (IoT) and virtual (AI/VR) the sector has already migrated from "mobile first" towards "AI first".

Finally 5G, the successor to 4G. Although expected to be mainstream by 2020-21, and obviously propelled by demand, this is "a far more complex migration than that of 3G to 4G" (MWL Survey). There are also potential funding issues. One indication of industry reticence might be the recent US FCC auction of 126MHz TV spectrum. It raised $19.6bn; considerably less than the initial target of $86.4bn.

Sources cited:

(1) Gartner Group Tech Trends for 2017: www.gartner.com/smarterwithgartner/gartners-top-10-technology-trends2017/

(2) Mobile World Live Annual Industry Survey Report 2017: www.mobileworldlive.com/mobile-world-live-annualreport-2017

(3) Cisco Visual Networking Index, Mobile outlook: www.cisco.com/c/en/us/solutions/service-provider/visualnetworking-index-vni/index.html

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expert views

Expert view: The lawyer

Morton cold shouldered by Takeover Panel

By Simon Charles

As the hapless Richard Nixon ruefully said to himself, recorded on The White House tapes, "It's not the crime that gets you, it's the cover-up." President Nixon's persistent obfuscation about his knowledge of the circumstances and facts of the break-in at the DNC's headquarters at the Watergate Hotel during his 1972 US presidential re-election campaign ultimately resulted in his resignation as the 37th president of the United States. An otherwise highly able and accomplished president, with demonstrable and significant achievements during his six years in office, saw his reputation besmirched for generations to come. Many to this day refuse to acknowledge a single achievement of the Nixon years, despite there being many of them.

Cold shoulder

Fast forward to 2017 to findings of a committee of the Takeover Panel about events that occurred some years earlier. Bob Morton, an elderly businessman of some significant repute, with a long track record of successful investment and business involvement, finds himself at the receiving end of an order of the Takeover Panel. It ordered that he be the subject of a "cold shoulder", a rarely used and highly draconian sanction that requires professional advisers subject to the Financial Services and Markets Act 2000 not to advise the subject of an order on transactions the subject of the City Code. It is the most serious disciplinary power open to the Panel.

Mr Morton's order lasts six years. He is an old man (74) and the Panel's intention behind the duration of the order is transparent. John Garner, an associate embroiled in the matter by Mr Morton, is much younger. He is the subject of a two-year cold shoulder order (reduced on submissions from four years). Mr Morton is no stranger to the attention of the Panel, previously attracting two private censures and one public censure due to previous proven breaches of the Code.

The Code, which has the force of law, contains the following instruction: "The Panel expects any person dealing with it to do so in an open and co-operative way. It also expects prompt co-operation and assistance from persons dealing with it and those to whom enquiries and other requests are directed. In dealing with the Panel, a person must disclose to the Panel any information known to them and relevant to the matter being considered by the Panel (and correct or update that information if it changes). A person dealing with the Panel or to whom enquiries or requests are directed must take all reasonable care not to provide incorrect, incomplete or misleading information to the Panel."

Mr Morton and Mr Garner were found to have deliberately and systematically provided information to the Panel which they both knew to be false. They had sought to construct, ex post facto, arrangements and circumstances designed to present facts in a different light from those which actually obtained at the relevant time. They persisted in presenting these material false constructs as fact.

HubCo

Mr Morton and members of his family held interests in shares in a company to which the City Code applied, HubCo Investments. Another company in which Mr Morton was interested acquired shares in HubCo, pushing Mr Morton's interest to above the 30% critical limit at which members of a concert party are obliged to make a mandatory bid for the underlying company under rule 9 of the Code unless independent shareholders agree otherwise. Mr Morton's broker alerted him to the threshold cross and advised him to inform the Panel. Below is an extract from the transcript played to the Panel's Hearings Committee when Mr Morton's broker gave him the news:

RM: [Sigh]. Right, right, right, right, right, right, right, right, right. Oh fuck.

The Panel found that there then ensued numerous discussions between Mr Morton and Mr Garner and others designed to portray the acquisition in a different light from the reality. Mr Morton and Mr Garner were found to have conspired, Mr Morton leading, to have concocted an artificial and false set of arrangements whereby the second share acquisition was stated to have been made on trust for Mr Garner.

It transpired subsequently that Mr Morton was, as it happened, interested in more than 50% of HubCo's share capital before the whole imbroglio started. Mr Morton accordingly had deemed control of HubCo already so no rule 9 bid obligation would have been triggered.

The Hearings Committee found that Mr Morton had systematically lied to the Panel, that he had invented an agreement and that he had engaged in "egregious misconduct". Mr Garner was found to have acted in a less egregious fashion but nevertheless was found to have been much more than a mere stooge, actively collaborating in the deception.

Bob Morton's takeover activity in London is surely over; Mr Garner has a wait before returning to the arena. Messrs Morton and Garner would have done themselves a service by reading not just the Code but also some books about 1970s American history.

SIMON CHARLES is partner and head of equity capital markets at Marriott Harrison LLP feature

Return of the open offer

Existing shareholders are being offered the chance to participate in fundraisings by some AIM companies but the vast majority still fail to tap this resource.

Two decades ago rights issues and open offers were regularly launched on the Main Market and AIM but they dwindled as companies used shareholder meeting resolutions to disapply pre-emption rights of existing shareholders to enable them to issue significant amounts of shares to any investor.

There appears to have been a small change in recent years and there has been a steady flow of open offers, particularly in the first few weeks of 2017. Even so, the vast majority of companies still do not offer all their shareholders an opportunity to participate in a fundraising and, when they do, the amount offered to existing shareholders is a small percentage of the total fundraising. Most recent open offers have accounted for less than one-fifth of the total raised.

The open offer tends to represent a top-up to a firm placing so the company knows that it will receive a minimum amount even if no shares are taken up via the open offer. Fertiliser project developer Sirius Minerals raised £37m from an open offer but that was part of a £370m equity fundraising.

Oil and gas company Ascent Resources raised £3m through an offer that was open to shareholders via PrimaryBid but they did not have a specific entitlement as they would under an open offer.

One of the reasons for the lack of open offers is the EU prospectus rules which limit the amount that can be raised this way without a company having to spend money on issuing a prospectus. ITM Power said that it considered an open offer when it raised £5.5m via a placing at 17p a share earlier this year but was concerned about the potential cost of publishing a prospectus. ITM had raised money via a placing and open offer one year earlier.

RedT Energy highlighted that it raised £2.14m via open offer because it was below the €5m maximum permitted without publishing a prospectus under EU rules. Even though not all the shares were taken up in the RedT open offer the rest of the shares were placed so the full amount was raised.

LightwaveRF even took advantage of the oversubscription of its open offer by raising an additional £208,000, taking the total raised to £1.28m.

Some of the companies that have recently launched open offers have previously used this method to raise money. Kromek and Northern Petroleum have both raised money this way within the past 18 months.

Discount

The level of discount to the market price varies widely. AFC Energy offered a 40% discount and Sirius Minerals had to be satisfied with 45.9% but Kromek issued shares at the then market price and Northern Petroleum at a premium. All four of these open offers were fully subscribed or oversubscribed. Six out of the last ten completed open offers were fully subscribed or oversubscribed.

There appears to be little correlation between percentage take-up and the share price discount offered. Redx Pharma offered a 9.6% discount and the take-up was less than 20%.

There are currently five outstanding open offers and they cover a range of sectors, including technology, healthcare, mining and construction dispute advice. The discounts to the market price range from 5% for healthcare services provider Totally (see page 4) to 27.8% for retail display software supplier Attraqt. The largest open offer is by Collagen Solutions, which is raising £1.8m through its open offer out of a total fundraising of £8m.

RECENT COMPLETED OPEN OFFERS

COMPANY	PLACING (£M)	OPEN OFFER (£M)	ISSUE PRICE (P)	TAKE UP (%)
AFC Energy	6	2.1	10	156.9
Redx Pharma	11.5	2.93	37.5	19.7
Cambria Africa	0	1.25	1	12.7
Kromek	20	1	20	256
Northern Petroleum	5.1	0.753	3.5	>100
RedT Energy	12	2.14	8	74.3

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	18.1	10.7
Financials	16.3	17.6
Industrials	14.7	16.2
Healthcare	12.8	9.1
Technology	11.1	12.2
Consumer goods	9.9	6.2
Basic materials	7.9	15.1
Oil & gas	7.1	10.3
Telecoms	1.3	1.2
Utilities	0.8	1.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	907.2	+30.9
FTSE AIM 50	5026.94	+34.4
FTSE AIM 100	4361	+33.9
FTSE Fledgling	9550.55	+29.2
FTSE Small Cap	5288.34	+20.9
FTSE All-Share	3953.42	+18.2
FTSE 100	7263.44	+19.1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	188
£5m-£10m	106
£10m-£25m	189
£25m-£50m	139
£50m-£100m	148
£100m-£250m	121
£250m+	82

KEY AIM STATISTICS

Total number of AIM	973
Number of nominated advisers	33
Number of market makers	49
Total market cap for all AIM	£84.7bn
Total of new money raised	£100.2bn
Total raised by new issues	£41.8bn
Total raised by secondary issues	£58.4bn
Share turnover value (2017)	£3.5bn
Number of bargains (2017)	0.65m
Shares traded (2017)	£41.2bn
Transfers to the official list	182

TOP 5 RISERS OVER 30 DAYS

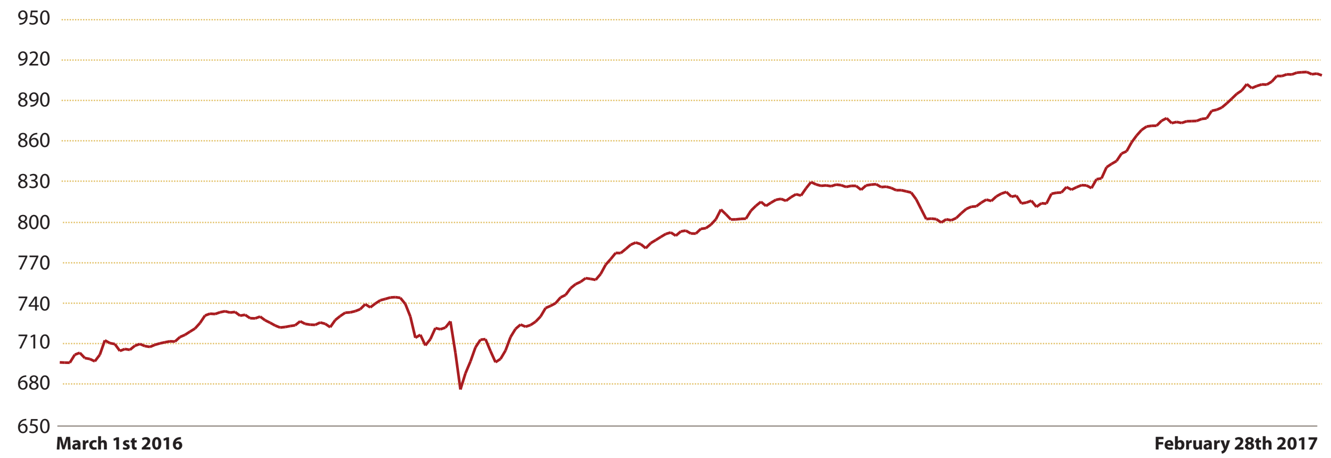
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Red Leopard	Shell	0.18	+337.5
Galileo Resources	Mining	8	+236.8
GoTech Group	Technology	2.88	+210.8
Premier African Minerals	Mining	0.63	+177.8
Falcon Oil & Gas	Oil and gas	14.62	+154.4

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Jiasen International Holdings	Construction	0.88	-82.5
Pebble Beach Systems	Software	6.5	-63.4
North River Resources	Mining	3.5	-60
Kodal Minerals	Mining	0.24	-46.9
DX (Group	Transport	9.5	-46.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 28th February 2017, and we cannot accept responsibility for their accuracy.

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

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

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

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