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MAY 2011

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM companies happy with market

The latest Taking AIM survey from accountants Baker Tilly shows that companies are still happy that they took the decision to come to AIM. The research shows that 80% of AIM companies surveyed "have seen some benefit from the access to capital their listing provides" while 48% of them believe that it has been a "major benefit".

The majority of AIM companies are considering raising more cash in the next 12 months. Institutions and companies are also optimistic about the performance of AIM over the coming year. However, they also believe that the number of new entrants to AIM will not rise significantly and there will be little change in the number of companies on the market. AIM companies argue that further consolidation should be considered.

It appears that the recovery in AIM's performance over the past couple of years has reduced the number of companies considering moving to another market or just leaving AIM. Only 5% of companies surveyed think that they might go private in the next 12 to 18 months because many are concerned about the loss of profile after leaving the quoted arena.

The recession has not helped AIM but the survey says that 71% of AIM-quoted companies would still have come to the market even if they had known the recession was going to happen (see page 3).

Earthquake hits Kalahari Minerals deal

The Japanese earthquake and the subsequent meltdown at Fukushima Daiichi nuclear plant has hit the proposed takeover of Kalahari Minerals. The Chinese bidder wanted to reduce its bid from 290p a share to 270p a share but the Takeover Panel rejected its request. The bid was subsequently withdrawn.

Back in March, CGNPC Uranium Resources Co indicated that it would bid 290p a share for Kalahari, whose main interest is a 42.8% stake in Extract Resources, which has uranium interests in Namibia. The two companies agreed that in the light of the Japanese disaster the offer should be reduced to 270p a share. Even though the original offer was indicative the bidder did not reserve the right to make a lower offer and that is why the Takeover Panel blocked the move. It said that a lower bid could not be made during the offer period and three months after that period ends. Kalahari still wants to establish a commercial relationship with CGNPC.

Uncertainty has also been caused by comments by the Namibian government that it wanted larger stakes in mining operations in the country. However, the government has clarified the statement, saying that it is talking about future prospects and that existing rights would not be affected.

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general news

Indian solar firm PLG Power turns to London

Solar power-focused PLG Power is the latest Indian company considering a flotation on AIM. It has outlined plans to come to AIM in June or July. When it joins AIM it will raise cash to invest in additional manufacturing capacity and solar power plants. PLG Power might float in India at the same time as the London quotation.

Mumbai-based PLG Power is the energy and power division of petrochemicals group PLG Group, which is almost a century old. PLG Power was established in 2008. It manufactures solar modules and is starting to invest in solar power projects.

The company is also involved in engineering, procurement and construction (EPC) services provided to other solar developers. PLG Power has linked up with Japanese company Kyocera to offer these services and an initial contract for a 30MW project has been won.

PLG Power plans to expand its solar module capacity to 150MW by the end of next year. On top of that it is setting up a solar cells manufacturing plant with a capacity of 120MW and intends to produce its own polysilicon wafers.

PLG Power is developing solar plants in India and Europe. A 40MW solar project is being developed in Gujarat. The first phase of 10MW should be in operation in the near future. PLG Power has signed a Power Purchase Agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL) for the power generated by the project.

Environmental Waste float

Environmental Waste Controls (EWC) plans to raise up to £4m to grow its business, which offers waste recycling services to local authorities and businesses. Liverpool-based EWC is expected to have a market capitalisation of £30m. Rising costs and EU regulation mean that there is a continuing move to reduce the amount of waste that goes to landfill. Revenues come from contracts with local authorities and other customers. EWC has also benefited from rising commodity prices, making the recycled materials, such as copper, glass and used cooking oil, more valuable. EWC plans to generate revenues from up to 50% of the waste that it handles. EWC is a profitable business and it generated turnover of £24m in the year to August 2010.

London and Toronto Stock Exchanges apply for Canadian merger approval

TMX Group, the owner of the Toronto Stock Exchange, and its merger partner London Stock Exchange have filed an application with the Canadian authorities for regulatory approval for their proposed merger. However, there are still a number of hurdles to overcome and there are opponents to the merger in Canada.

A number of Canadian banks are opposed to the merger. Toronto-Dominion Bank, Canadian Imperial Bank of Commerce and National Bank of Canada have all spoken out against the deal. They are worried that the merger would hamper the ability of small Canadian companies to raise money because they would be a low priority for the enlarged group.

There is speculation that there could be a counter-bid, possibly via TSX's main rival, trading platform Alpha, which is owned by a group of banks including those that are opposed to the merger. Royal Bank of Canada and Bank of Montreal are also shareholders in Alpha but they are backing the TMX/LSE merger. However, they do not have a large enough stake to prevent Alpha making a bid.

Alpha is not opposed to the TMX/LSE merger but it does want TMX to sell some of its operations, including its benchmark indices and clearing operations.

The Ontario authorities have recommended that there should be at least as many Canadian directors of the enlarged group as there are from outside Canada. The current proposals are that there should be seven Canadian directors out of 15 on the combined group board. Under these plans the number of Canadians on the board could fall to three in four years.

The Canadian government has 45 days to review the application but it can extend the period by a further 30 days so there is still some way to go.

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advisers

AIM companies remain happy with advisers

Baker Tilly has published the 2011 Taking AIM survey. This annual publication, which Baker Tilly produces with lawyers Faegre & Benson, shows that AIM companies are broadly happy with their advisers, with lawyers providing the most appreciated service.

There were 75 respondents to the question about advisers and 69% said that their corporate lawyers were excellent or very good and a further 27% said that they were fairly good. The rest are down as don't knows.

Auditors are excellent or very good according to 55% of respondents, while a further 33% said they are fairly good. There has been a shift from fairly good to excellent or very good over the past year but the combined figure is similar to 2010.

Although nominated advisers are the least popular of the advisers they still have a good approval rating. According to 49% of AIM companies their nominated adviser is excellent or very good and 39% say it is fairly good. This is not significantly different to the 2010 survey. Nearly one-third of the AIM companies say that their nominated adviser has been more proactive over the past year.

Management is typically putting aside between one and five days a month for investor relations. The average is around three and a half days, with the larger companies spending an average of four and a half days. The majority of companies taking part in the survey say that the time has been well spent and has increased the level of interest in their shares and improved the understanding of the company. However, 29% say that it has made no difference at all to the level of interest from investors. Two-thirds of investors reckon that the investor relations activities are fairly effective.

Chilton Taylor, the head of capital markets at Baker Tilly, praises the government's plans to "considerably improve the VCT and EIS legislation" and he believes it is a positive development for AIM but he adds that "as state aid approval is required, the benefits will mostly only arise from 6 April 2012".

The Taking AIM survey can be found at http://www.bakertilly.co.uk/publications/Taking-AIM-survey-2011.aspx

ADVISER CHANGES - APRIL 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
dotDigital Group	Charles Stanley / Zeus	Zeus	Zeus	Zeus	01/04/2011
Longships	Simple	Simple	Westhouse	Grant Thornton	01/04/2011
Stellar Diamonds	Daniel Stewart / Northland	Northland / RBC	Northland	RBC	01/04/2011
Zenergy Power	Matrix	Mirabaud / Matrix	Matrix	Matrix	01/04/2011
DDD Group	Canaccord Genuity	Brewin Dolphin	Canaccord Genuity	Brewin Dolphin	04/04/2011
Walker Greenbank	Seymour Pierce	Arden	Seymour Pierce	Arden	04/04/2011
China Wonder Ltd	Rivington/WH Ireland	WH Ireland	WH Ireland	WH Ireland	05/04/2011
NWF Group	Peel Hunt	Charles Stanley	Peel Hunt	Charles Stanley	05/04/2011
Proactis Holdings	FinnCap	Daniel Stewart	FinnCap	Daniel Stewart	05/04/2011
Leed Petroleum	Matrix	Brewin Dolphin/ Matrix	Matrix	Matrix	06/04/2011
Coastal Energy	FirstEnergy Capital / Macquarie	Macquarie	Strand Hanson	Strand Hanson	08/04/2011
Charles Street Capital	Beaumont Cornish	Allenby	Beaumont Cornish	Allenby	11/04/2011
Rock Solid Images	Fox-Davies	Peel Hunt	Fox-Davies	Peel Hunt	11/04/2011
XXI Century Investment	Shore Capital	Strand Hanson	Shore Capital	Strand Hanson	11/04/2011
Frontier Mining Ltd	Westhouse / XCAP	Libertas	Libertas	Libertas	13/04/2011
LPA Group	XCAP	Religare	Cairn	Religare	13/04/2011
Camco International	Singer / Peel Hunt	Peel Hunt	Singer	Peel Hunt	14/04/2011
Tower Resources	Evolution / Northland	Northland / Westhouse	Northland	Northland	14/04/2011
InternetQ	RBC	Jendens	Grant Thornton	Grant Thornton	15/04/2011
Crimson Tide	WH Ireland	Arbuthnot	WH Ireland	Arbuthnot	19/04/2011
Dods (Group)	Cenkos	Brewin Dolphin	Cenkos	Brewin Dolphin	19/04/2011
Resaca Exploitation Inc	FinnCap	RBC / Seymour Pierce	FinnCap	Seymour Pierce	19/04/2011
Tracsis	WH Ireland	Zeus	WH Ireland	Zeus	19/04/2011
Andor Technology	Investec	Arden	Investec	Arden	20/04/2011
Verona Pharma	WH Ireland /Evolution	Evolution	Evolution	Evolution	21/04/2011
Work Group	Merchant Securities	Altium	Merchant Securities	Altium	27/04/2011

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company news

Lombard Medical pins its hopes on US FDA approval of Aorfix

Medical devices *www.lombardmedical.com*

Lombard Medical Technologies intends to more than double its market value by raising up to £27.5m to finance FDA approval for its Aorfix medical device and then launch it in the US market. Lombard also wants to expand manufacturing capacity and develop new products.

The main fundraising is in two tranches. Lombard will initially raise £11.1m (£10.4m net) from a placing at 0.7p a share and those investors in the placing are committed to investing a further £14.2m, at a price of 0.7p or lower, when Lombard receives FDA approval for Aorfix. The latter investment is dependent on Lombard receiving a limited approval which does not rule out wider regulatory approval by September 2013. In addition, existing investors are being offered the chance to invest up to £2.2m more in the company.

Aorfix sales in the main EU markets doubled to £1.5m

Specialist healthcare investors Abingworth and MVM Life Science Partners are investing £13m between them and each can appoint a director.

Aorfix is an endovascular stent graft for the treatment of abdominal aortic aneurysms, which are a balloon-like enlargement of the aorta that can rupture and cause death. The selling point of Aorfix is that it can handle bends in the aorta.

The market is worth $1bn, with half in the US and 28% in the five main EU markets. The market value is expected to grow to $1.5bn by the end of 2015. Aorfix sales in the main EU markets doubled to £1.5m in 2010, with particularly strong growth

LOMBARD MEDICAL TECHNOLOGIES (LMT)			1.01p
12 MONTH CHANGE %	+ 14.4	MARKET CAP £M	22

in the UK. Overall revenues were 28% higher at £3m because sales in the Rest of the World were flat.

Lombard has signed a distribution agreement for the Japanese market, which accounts for 10% of the global market. Higher R&D and marketing costs meant that operating expenses rose 17% last year. The pre-tax loss increased from £7.79m to £8.69m. The cash outflow from operating activities rose from £6.66m to £7.64m. Last year, £12.1m net was raised at 1p a share. There was £5.81m in the bank at the end of 2010 but that had fallen to £2.7m by the end of March. The initial fundraising will give Lombard enough cash to take it to the middle of 2012.

International opportunities for Surgical Innovations

Surgical instruments manufacturer *www.surginno.com*

Reposable surgery instruments designer **Surgical Innovations** is benefiting from cost pressures in the health sector. The company supplies keyhole surgery products that have a disposable element but the main instrument is reusable. Demand for these products is increasing internationally.

In 2010, revenues jumped 55% to £7.05m, while pre-tax profit was 487% higher at £1.55m. The business generates cash from operations but it has been

SURGICAL INNOVATIONS (SUN)			9.75p
12 MONTH CHANGE %	+ 153.2	MARKET CAP £M	38.2

investing in capital equipment and product development. Capitalised R&D rose from £1.07m to £1.67m.

Net cash is £442,000 despite that investment in increasing capacity. Management would like to take advantage of the strong balance sheet to acquire companies with products that could be sold to the existing customer base.

A deal with Mediflex Surgical Products means that the company's YelloPort+ products will be included in surgical trays in the US. That will provide a further boost to US revenues.

Last year, there was a large industrial order worth more than £600,000 but this level of industrial revenues is unlikely to be repeated this year. Even so, the business will continue to grow strongly. House broker Seymour Pierce forecasts a rise in profit to £2m in 2011, and a further improvement to £2.8m in 2012.

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company news

Acquisitions fuel growth for financial services outsourcer Parseq

Financial software and outsourcing *www.parseq.com*

PARSEQ (PSQ)			5.12p
12 MONTH CHANGE %	- 43.1	MARKET CAP £M	22.4

Outsourcing business Documetric reversed into software company Intelligent Environments last year to form **Parseq**. This means that the 2010 figures include 12 months of Documetric, five months of IE and four months of outsourcer Avance, which was acquired in August.

Revenues grew from £10.2m to £16.5m but all of that growth came from the acquisitions. Underlying profit was £3m. Net debt was £4.2m at the end of 2010 and it could halve by the end of 2011.

The divisional breakdown shows that there was a fall in the contribution from the outsourcing services division even though the Avance business made a contribution. Outsourcing margins have declined as Parseq increases its sales and marketing spending in order to grow its business. Contract prices are being squeezed but the company tries to offer additional services in order to offset that.

The core customer base of the business is financial services but the purchase of Avance takes the group into the utilities sector and adds British Gas to the customer list. Recurring revenues are 50% of the total and continue to grow. Cost savings from the Avance acquisition should show through this year.

> Mobile banking application Mobinetic could be highly significant to Parseq

The mobile banking application Mobinetic could be a highly significant product for the group over the long term. The first two clients – Orange and Generali – have been signed up but they made little contribution in 2010.

Parseq has appointed a new boss for its outsourcing operations and is increasing the capacity of its data centre in order to offer more hosting services.

House broker Canaccord Genuity calculates that pro forma revenues were £24m in 2010 and that this could grow to £26.4m in 2011. A 2011 profit of £4.3m is forecast, which means that the shares are trading on less than six times 2011 earnings following a decline in the share price this year.

OpSec secures impressive bid price

Anti-counterfeiting and security products *www.opsecsecurity.com*

OPSEC SECURITY (OSG)			49p
12 MONTH CHANGE %	- 145.6	MARKET CAP £M	27.5

OpSec Security's main backer is buying the company for more than double the share price prior to the announcement of a potential bid. The 50p a share bid by Orca Holdings values the anti-counterfeiting and security products supplier at £28m. The shares have not reached this level since the middle of 2008.

Orca has been set up by Investcorp Technology Partners, which made an initial investment in OpSec in March 2010. Investcorp, a subsidiary of Bahrain Stock Exchange listed Investcorp Bank, invested £640,000 at 24p a share – a 68% premium to the market price at the time – and also bought 20m 9.75% convertible preferred shares at 35p each. Each preferred share is convertible into an ordinary share and this gave Investcorp an effective 29.8% stake in OpSec. Investcorp also provided a $13m debt facility. The cash enabled OpSec to repay its RBS debt.

The management will also have a stake in Orca after the takeover. They are swapping their OpSec shares for shares in Orca and also rolling over their options into the new company.

OpSec, originally known as Applied Holographics, has been quoted on one market or another, including the OTC and USM, for nearly three decades. It has been loss-making for most of that time but in recent years the company has moved into profit. OpSec reported an operating profit of £2.5m on revenues of £35m in its most recent financial year.

The additional financial backing of Investcorp will enable OpSec to become more involved in the consolidation of the brand protection and identity security services sector.

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company news

Management chooses buy-out option for Ideal Shopping Direct

Home shopping retailer *www.idealshoppingdirect.tv*

Home shopping provider **Ideal Shopping Direct** has agreed a 220p a share bid from its management, which is backed by private equity company Inflexion. The bid values Ideal Shopping, whose TV channel is available on satellite and Freeview, at £78.3m. It is at a 46% premium to the share price before the offer period commenced and ten times the share price low two years ago. As part of the deal the management is surrendering options worth £5.1m at the offer price.

Chief executive Mike Hancox and finance director Ian Jebson are involved in the bid. They will receive £1.26m and £137,500 respectively from the sale of their shares and also be getting pay increases from the new holding company.

The management team is taking a 23% stake in the buyout vehicle

Joining Hancox and Jebson is David Hamid, who has worked at Dixons and Halfords. The management team is taking a 23% stake in the buyout vehicle and the individuals could become entitled to an exit fee if the business floats or is sold. That fee will be based on the individual's stake and the company's enterprise value.

The management believes that the investment required by the business will pay off over the medium term and it will be easier to make this investment as a private company.

IDEAL SHOPPING DIRECT (IDS)			217p
12 MONTH CHANGE %	+ 37.3	MARKET CAP £M	74.5

Trading in the first 13 weeks of 2011 have been in line with expectations but Ideal Shopping founder and chairman Paul Wright says he is conscious of the risks in the current environment, with many rivals suffering challenging conditions. The bid values Ideal Shopping at 14 times prospective 2011 earnings, falling to around 12 in 2012.

Broker Singer had previously argued that a trade buyer might pay up to 355p a share but the trading outlook has worsened since then. The ultimate goal of the new owner might be a trade exit.

Laxey man joins Lok'nStore board

Self-storage sites operator *www.loknstore.co.uk*

Self-storage sites operator **Lok'nStore** has appointed a representative of its biggest shareholder, Laxey Partners, to its board. Ian Wright is an investment manager at Laxey and a director of Italian property investor Spazio Investment NV, which was taken off AIM by Laxey at the end of 2009. Laxey owns 29% of Lok'nStore. Laxey bought most of its stake last August and the share price has risen since then but it is still well below estimated NAV.

Lok'nStore is being run to generate cash at the moment because management is not confident enough about the economy to open new sites. It is more than two years since a new site has been added and the maturing sites are becoming increasingly cash generative.

LOK'NSTORE (LOK)			122p
12 MONTH CHANGE %	+ 39.4	MARKET CAP £M	31.3

Net debt has been reduced by £2.3m to £21.9m in the six months to January 2011. Borrowings should continue to fall because capital expenditure will not be high. There was £11.9m of undrawn bank facility at the end of January 2011.

Interim revenues were nearly 5% higher at £5.42m as the company pushed up its charges and increased occupancy. The interim dividend is unchanged at 0.33p a share. Underlying net asset value, before deferred tax, is 229p a share. There will be a revaluation of properties at the year-end.

Lok'nStore operates 21 sites and it has two additional sites in the pipeline but no immediate plans to open them. Lok'nStore is collaborating with supermarkets group Lidl on its potential Maidenhead site.

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Noble coins in cash from trading

Coins and stamps trader *www.nobleinvestmentsplc.co.uk*

Dividend

Coins and stamps trader Noble Investments had a strong first half that enabled it to increase its interim dividend by 30% to 1.75p a share. The strong trading has not just prompted an upgrade in forecast profit, it has also led to a rise in expected dividends.

Noble has been paying dividends since 2006 when it made a single pay-out of 1p a share. The dividend level has risen steadily in subsequent years. The dividend for the year to August 2010 was 3.5p a share. House broker WH Ireland had forecast a total dividend of 3.8p a share for 2010-11 but that has been increased to 4.3p a share. The estimate for 2011-12 has been pushed up from 4p a share to 4.7p a share.

In spite of this growth in dividends the dividend cover remains comfortable. This year's forecast dividend will be covered three times, which is similar to the previous year. Net cash is £2.39m and there is also £1.1m invested in AIM-quoted Avrae Gold Coins.

Business

Revenue was down 8% at £6.52m in the six months to February 2011 but that was because of a large one-off sale in the same period of the previous year. That sale was low margin and that is why profit jumped 40% to £1.52m. Much of the growth in profit came from the auctions business. There has already been a highly successful auction in Hong Kong in the second half of the year.

NOBLE INVESTMENTS (NBL)	
Price	153p
Market cap £m	23.7
Historical yield	2.3%
Prospective yield	2.8%

Baldwins is the company's main brand and it has a strong reputation in the market. Baldwins was founded in 1872 and Noble acquired the family-run business for £4.45m at the end of 2005. The family sold out to Noble because it felt comfortable with the management and believed it would be a good home for the business. This deal increased the credibility of Noble, which had become involved in the coins market in October 2003, when it acquired its chairman Ian Goldbart's own collection.

Noble's inventory of coins and collectibles is valued at £8m in the balance sheet. In reality it is difficult to assess the true value of this stock because Noble can sometimes make a lucrative discovery of a valuable coin it did not realise it had.

WH Ireland has increased its 2010-11 profit forecast from £2.45m to £2.6m. The shares are trading on 12 times prospective earnings. The 2011-12 profit forecast has been moved up from £2.55m to £2.8m.

Noble would like to be a consolidator in the coins market and move into other collectibles markets. This is a highly fragmented sector and Noble is still a small player.

Dividend news

Events and employee incentives provider **Motivcom** grew its pre-amortisation profit for 2010 by one-third to £4.69m. Clients are starting to spend more on sales and marketing and events are part of that spending. Motivcom is highly cash generative and a reduction in working capital meant that net cash was £6.24m at the end of 2010 – prior to a recent £1.3m employee incentives acquisition. The total dividend has been increased from 2.5p a share to 3.2p a share. House broker Numis forecasts a total dividend of 3.6p a share this year, which will be covered 3.5 times by forecast earnings.

Furnishings and wallpaper supplier **Walker Greenbank**, whose brands include Sanderson, Harlequin and Zoffany, reported nearly trebled profits of £4.46m in the year to January 2011. Cash generated from the business is reducing debt as well as financing a growing dividend. The total dividend was increased from 0.5p a share to 0.95p a share. Analysts expect the dividend to rise to 1.1p a share this year. Net debt was £1.82m at the end of January 2011. There will be increased investment in equipment for the manufacturing business this year but the company should have net cash by the end of January 2012.

Bicycles and leisure products supplier **Tandem** has returned to the dividend list in the past year. A 1p a share interim has already been paid and a final dividend of 2p a share was revealed with the full-year figures. The shares go ex-dividend on 1 June. Tandem edged up its pre-tax profit to £1.09m even though revenues fell 3% to £34.6m. The dividend is covered more than six times by earnings – based on a nil tax charge. Since the end of January, Tandem has spent £1.15m on buying back its own shares. That would have enhanced the 2010-11 earnings by 17%.

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expert views

Expert view: The broker

Healing and sealing

By DR KEITH REDPATH

Advanced Medical Solutions has a presence in both the global $3.5bn advanced wound dressings market and the $300m surgical glues market. It carries out its own product development and manufacturing, and sells direct to the NHS in the UK.

Elsewhere it sells through global partners or local distributors. In both its businesses it faces competition from major medical device companies. We believe the shares are overvalued.

AMS develops and manufactures a range of advanced wound care dressings and surgical glues. Both represent growth opportunities: the former favoured by demographics, the latter by a move from sutures and staples to glues for wound closure. That said, we believe that AMS's share price is somewhat ahead of events. Both its silver alginate dressings and its surgical glues have to displace major incumbents to deliver significant growth, and sales of its surgical sealant InteguSeal appear to have stagnated.

Advanced wound dressings keep the wound moist and enhance healing by several mechanisms. They may contain active ingredients, for example silver, which is a broad spectrum biocide. The greatest growth in wound care is in devices, not dressings. We believe the world leader in advanced wound dressings is Smith & Nephew, with an estimated 18% market share. Surgical glues are used to close wounds, instead of stitches or staples, and have several advantages. The world leader is Ethicon (Johnson & Johnson) with a US market share estimated to be greater than 90%.

Risk factors

There are a number of elements that could hamper AMS's growth. The first is the reliance on partners for distribution. Whilst this is a lower-risk and low-cost method of market entry, it leaves AMS with little or no control over prioritisation of sales and marketing efforts. Greater than 80% of AMS revenues are the responsibility of third parties.

To date, distributor Kimberly-Clark has achieved slow traction with InteguSeal, which could mean that revenues from this product line do not deliver the expected growth. We believe a more appropriate distributor could benefit AMS, although the contradictory evidence on the benefits of microbia sealants may restrict the potential for this product.

AMS is a profitable business

AMS' products offer only incremental benefits over incumbent technologies and it has no presence in the fastest-growing area of wound-care: wound-healing devices. It could be difficult to sustain double-digit growth in the market segment in which it operates.

The rate of uptake of LiquiBand and the future sales trajectory of InteguSeal are two of the other factors that will affect growth. The devices enable precise delivery for wound closure and spreading for wound sealing, and are proprietary.

LiquiBand is the brand name for the range of glues for closing and sealing surgical wounds. LiquiBand is presented in several devices with differing setting times and mechanical properties. The devices enable precise delivery for wound closure and spreading for wound sealing, and are proprietary.

LiquiBand was launched in Europe in 1999 and approved by the US FDA in February 2009. US distribution is through several companies, depending on the end user and geography, including large established companies such as Cardinal Health.

InteguSeal is painted on the skin surface before making an incision. It immobilises the bacteria present on the skin surface, preventing them from entering the surgical wound and infecting the site of surgery.

Profitable growth

AMS is a profitable business (and has been so since 2005) which is growing (revenue CAGR 22.3% 2006-10) and which has recently joined the select band of UK-quoted life science companies that pays a dividend. The yield, however, is very low and we do not view it as a reason to invest in the shares.

A good company, yes, but deserving of a premium valuation? No

We forecast a 12.1% CAGR in sales over the next two years which, with the operational gearing of the company, results in 24.8% adjusted EPS compound growth.

Compared with its AIM-quoted medical device peers, and wound-care company acquisition multiples, AMS's shares look expensive at current levels. A good company, yes, but deserving of a premium valuation? No. We believe a price of 70p is more appropriate and would bring the shares in line with its peers, both large and small.

DR REDPATH is a research director specialising in health care and pharmaceuticals at FinnCap.

feature

Volatility boosts stand-by deals

Recent sharp movements in the share price of Xcite Energy highlight why more AIM-listed resource firms have turned to SEDAs as a way to raise cash.

North Sea oil explorer Xcite took a hefty tumble last week as investors reacted coolly to its latest update on the Bentley field.

Xcite, one of the stars of AIM's resources sector, reported reserves at the bottom end of the company's previously indicated range.Management expressed satisfaction with the update, but investors didn't agree and marked the shares down by a third.

Even so, Xcite still sits comfortably among the junior market's best performers over the past 12 months, and is still up by more than 140% in a year despite the recent slide.

Such volatile share price movements, though, mean a headache for firms trying to fund development and exploration work, but Xcite is one of a growing number of resource firms turning to stand-by equity agreements, or SEDAs, to help solve this problem.

Reducing dilution

"SEDAs are unique in that they give management control of equity dilution," says Brian Kinane, UK managing director at Yorkville Advisors, one of the pioneers of this kind of finance.

"All managements think their companies are undervalued. A stand-by arrangement allows them to raise cash against the future price of the shares. They can pull money down when they decide the price is right."

Share placings usually raise cash at a fixed price, but existing shareholders can be heavily diluted, especially if a company is in the early stages of its corporate life or if the market overall is struggling.

In these cases, a low share price can mean huge quantities of new shares even if only a modest amount of new money is raised.

The structure of a SEDA, also sometimes called an equity line of credit, involves an agreement between the company and a capital provider for a fixed length of time – usually three years – and for a set amount of money.

The company will raise the cash by selling small tranches of shares to the capital provider, which then either sells them into the market or keeps them on its own book.

Investors, too, seem to be coming around to the view that rather than being a drag on a share price – as more shares are issued – these arrangements can allow a company to raise funds without sabotaging a share price for months afterwards.

Outperformance

Indeed, companies that have set up equity credit lines with Yorkville over the past three years have, by and large, performed exceptionally well.

Kinane, who is managing director of Yorkville's UK operation, points out that the portfolio of its AIM-quoted customers has outperformed all comparable indices – AIM All-Share, AIM Oil and Gas and AIM Resources - by some distance over the past three years (see table).

Kinane says this strong share price performance has helped boost the interest in SEDAs, but says there is also a growing recognition of their flexibility.

Increasingly they are being used as part of a broader total finance package which also includes a traditional-style equity placing and even some debt,. The two- to three-year timescale also gives the company plenty of time to draw down the cash.

"SEDAs are a mezzanine tier between equity and senior debt," Kinane adds. "Companies seek to make the best use of their balance sheets it makes sense to use a combination of finance options," he says.

SEDAs are unique in that they give management control of equity dilution

San Leon Energy, an oil and gas explorer operating in Poland, Morocco, Ireland, Albania and the Netherlands, set up a £15m stand-by facility with Yorkville last year as part of a package that also included a placing at 14.5p to raise £1.63m and an unsecured loan facility of £2.2m.

Since October 2010, when San Leon signed up for a SEDA, the shares have risen to just over 30p.

Sound Oil, which operates in Indonesia and Italy, also raised £3.7m in a placing, at 1.4p per share, shortly after it completed a £10m equity line with Yorkville.

Tough times

SEDAs emerged after the dotcom crash at the turn of the century. Just like now, it was a tough time for smaller companies to get money, with many investors nursing hefty tech losses.

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feature

Their use has increased steadily and hit a worldwide record in 2010 as banks reined back lending. Firms in the US and UK are the most active users, reflecting their more developed capital markets, but companies listed in South Africa, Singapore, South Korea, Hong Kong and Australia have also become more prominent, with many different types of companies taking them up.

In the UK, though, the emphasis has been firmly on oil and gas and mining. "The timetable of most mining or oil projects makes it easier for management to decide when to raise money against the standby arrangement," says Kinane.

Newsflow tends to drive share price movement in these smaller resource companies and management can time the use of the facility to coincide with an additional reserves announcement or other good news, such as first gold pour or oil being pumped, a JORC assessment or even a favourable research note.

Kinane highlights Xcite as a good example of how the arrangement can work. The facility was established just as Xcite started drilling the Bentley prospect in the North Sea. Yorkville was the capital provider for this stand-by agreement, which has now been increased to £100m from an initial £20m.

Newsflow tends to drive share price movement in smaller resource companies and management can time the use of the SEDA to coincide with good news

Since the SEDA was set up in September last year, the firm has drawn on the facility six times, with a price of 106p for the first £6m tranche in October 2010 rising to 330p for the most recent £6m drawdown.

Kinane admits it got caught out by the recent slump in Xcite's price and had some shares on its books when the price fell recently.

"We took it on the chin," he says, "It's part of the business. Growth companies get corrections occasionally," adding that he is still confident about the firm's long-term potential.

Kinane says the SEDA enabled the firm to minimise dilution and avoid a deeply discounted share issue, while Xcite's trading liquidity has also more than doubled since the stand-by agreement was established.

Yorkville itself never takes more than a day's worth of liquidity and never holds a notifiable interest in the company. It will look at the share price over the previous ten days to establish the purchase price, which is normally a discount of about 5% to the average share price. It will also never short a company for which it has arranged a stand-by facility.

There is no obligation for the firm to use the facility, but Yorkville has to buy the shares sold under the agreement whatever the economic situation.

The company will announce the commitment fee when the SEDA is set up and usually if it sells some shares against the facility. San Leon, for instance, paid a fee of £300,000 for the provision of the SEDA facility and issued 400,000 warrants at an exercise price of 175% of 29 October's closing price.

Clearly, as commodity prices have soared, the market for AIM-quoted oil and gas and mining firms has been exceptionally receptive over the past 18 months but Kinane expects the market for SEDAs to grow whatever might happen. If share prices fall, managements will see their company's share price as even more undervalued; that will make SEDAs even more attractive.

YORKVILLE SEDA COMPANY PERFORMANCE

COMPANY	START OF RELATIONSHIP	MARKET CAP THEN (£M)	MARKET CAP FEB 2011 (£M)	CHANGE VWAP* %
Angel Mining	27/04/2009	6.1	27.5	+95.5
Ascent Resources	19/11/2010	30.6	40.3	+23.1
Electrum Resources	19/04/2010	4	6.3	-48.9
Frontier Mining	25/08/2009	30.3	144.2	+24.9
Gulf Keystone Petroleum	06/05/2009	57.2	1289.8	+1012.5
Red Rock Resources	01/05/2009	4.9	82	+1163.5
Regency Mines	09/09/2009	9	27.7	+93.4
San Leon Energy	01/11/2010	61.5	263.3	+121.9
Shanta Gold	17/12/2009	7.9	59	+330.1
Sound Oil	15/12/2010	9.3	40.9	+118.6
Victoria Oil & Gas	02/04/2009	18.7	107.7	+22.4
Maple Energy	05/11/2009	74.1	100	-19.5
Xcite Energy	28/09/2010	340	567.4	+125
Ariana Resources	21/01/2011	10	11.1	+12.0

* Volume weighted average price

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Basic materials	23.4	13.8
Oil & gas	23.8	10
Financials	18.4	23.3
Industrials	8.8	18.6
Technology	7.9	10
Consumer services	7.1	11.7
Health care	4.6	5.3
Consumer goods	3.8	5.3
Telecoms	1.2	1.1
Utilities	1	1

KEY AIM STATISTICS

Total number of AIM	1,174
Number of nominated advisers	62
Number of market makers	50
Total market cap for all AIM	£81.98bn
Total of new money raised	£74.44bn
Total raised by new issues	£34.37bn
Total raised by secondary issues	£40.07bn
Share turnover value (2011)	£12.59bn
Number of bargains (2011)	1.67m
Shares traded (2011)	59.71bn
Transfers to the official list	152

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	921.14	+27.5
FTSE AIM 50	3635.9	+31.9
FTSE AIM 100	4242.11	+28.1
FTSE Fledgling	5022.53	+15.9
FTSE Small Cap	3311.47	+12.3
FTSE All-Share	3155.03	+9.7
FTSE 100	6069.9	+8.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	258
£5m-£10m	145
£10m-£25m	236
£25m-£50m	214
£50m-£100m	134
£100m-£250m	109
£250m+	78

TOP 5 RISERS OVER 30 DAYS

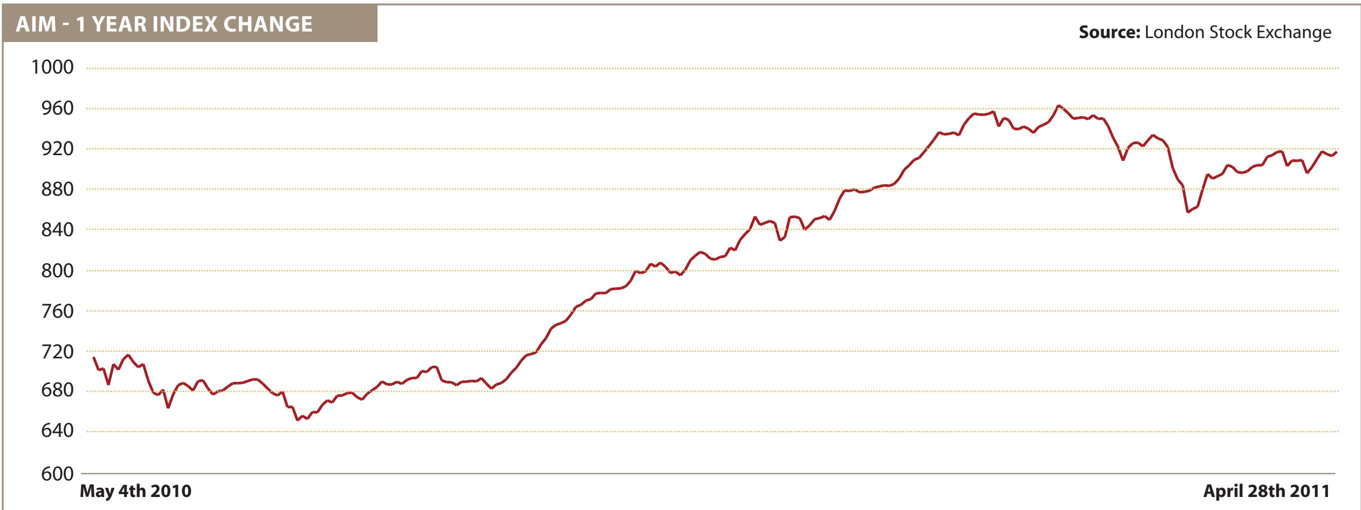
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Burst Media Corp	Media	33	+560
Solo Oil	Oil and gas	1.62	+242.1
UMC Energy	Mining	3.38	+145.5
Fitbug Holdings	Leisure	4.75	+137.5
Opsec Security	Support services	49	+136.1

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Desire Petroleum	Oil and gas	13.5	-65.6
Norseman Gold	Mining	15	-60.8
Maxima Holdings	Technology	37	-60
Baqus Group	Support services	1.12	-57.1
Europa Oil & Gas	Oil and Gas	18.25	-45.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2011, and we cannot accept responsibility for their accuracy.

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In 2010, finnCap employees and non-executive chairman Jon Moulton acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

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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 editor@aimmicro.com or telephone 020 8549 4253

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