MAY 2014

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM flotation costs rise

Research by accountants UHY Hacker Young shows that flotation costs accounted for 9.5% of funds raised by AIM new admissions in the past 12 months. This compares with 8.4% of funds raised in the previous 12 months but it is still lower than the 10.6% of funds raised in 2011.

Last year, there had been a downward pressure on costs due to a lack of flotations. The new issues market is picking up so this downward pressure has abated. There were 76 new admissions assessed in the latest figures, up from 44 in the previous year. UHY points out that a number of the AIM new admissions raised a relatively small amount of money so costs as a percentage were high for these companies. An example is technology and IP services company Tekcapital, which floated after the figures were compiled, because its costs were 25% of the £2m raised.

A number of companies in the past month paid more than 10% of funds raised in costs. Data analytics services provider Rosslyn Data Technologies paid out 13% of the £10m it raised in costs.

Blue Inc follows AIM fashion

Fashion retailer Blue Inc is planning a June flotation in order to raise cash to double the number of its stores in the UK and expand internationally. Blue Inc may raise up to £15m and existing shareholders could sell some of their shareholdings. The retailer could be valued at £60m. Shoes retailer Shoe Zone and café operator Patisserie Valerie are also planning to join AIM.

Blue Inc has built up a portfolio of 240 stores from new openings and the acquisition of stores operated under the D2 and Officers Club. Management reckons that it could trade from up to 500 stores in the UK. The focus is on selling value clothing to under25s. Blue Inc also has seven franchise stores in Malaysia and the Baltic states. Existing shareholders include chief executive Steven Cohen and Sir Stuart Rose.

All of the shares being placed in shoes retailer Shoe Zone will come from existing shareholders and Shoe Zone is expected to be valued at £100m. Luke Johnson owns nearly 70% of Patisserie Valerie but along with other shareholders he is likely to sell part of his holding in the café operator's flotation, which will raise £33m of new money for the company and value it at up to £200m. easyJet founder Sir Stelios Haji-Ioannou is considering a flotation of his easyHotel business, which operates 21 hotels in the UK and overseas.

In this issue

HubInvest publishes AIM Journal

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general news

Exoskeleton for Union shell

Healthcare technology shell Union MedTech is acquiring Auckland-based Rex Bionics, which has developed a robotic exoskeleton that enables wheelchair users to move in an upright position, and moving from ISDX to AIM. The holding company's name is being changed to Rex Bionics.

There have already been sales of the REX Personal, which is the first-generation product that has been developed over a ten-year period. The current focus is selling the REX Rehab version to rehabilitation centres. Insurance companies that pay for rehabilitation and treatment are already becoming aware of the product. The marketing focus will be North America, the UK, Australia and New Zealand. A third-generation product is being developed at a price affordable to individuals.

Rex has raised £10m from a placing at 180p a share as well

as issuing 7.1m shares for the acquisition. The cash will be used to scale up manufacturing in 2015 and reduce the cost of production, as well as on marketing the products. Rex is valued at £25.7m at the placing price.

Awards shortlist

AIM-quoted automotive testing products supplier AB Dynamics, animal health company Benchmark, fashion retailer Bonmarché and Conviviality Retail are all in the running for IPO of the year at the Small Cap Awards dinner on 21 May. The awards focus on companies with a market value of less than £100m. Finance provider 1PM is vying with fully listed Porvair and Thorntons and ISDX-quoted Sprue Aegis, which is moving to AIM. AIM Journal sponsor finnCap is in the running for adviser of the year with Allenby, Cenkos, WH Ireland and accountants Crowe Clark Whitehill. This year there is a new category for Social Impact Company of the Year sponsored by the Social Stock Exchange. Benchmark is also up for this award, which is designed to raise the profile of social investment, as are Ashley House and Good Energy, along with ISDX-quoted V22.

Urban & Civic reverses into AIM veteran Terrace Hill

Urban & Civic is reversing into property developer Terrace Hill, the company that has been on AIM the longest, and the enlarged group is moving to a standard listing. Terrace Hill started off as Neill Clerk, which was one of the earliest entrants to AIM as well as being one of the initial nominated advisers – although it no longer has this business. The company joined AIM in July 1995 so it will have spent nearly 19 years on AIM by the time it makes the move to the Main Market, when it will change its name to Urban & Civic (U&C).

Urban & Civic was founded in 2009 by Nigel Hugill and Robin Butler and they will become executive chairman and managing director of the enlarged group. Both men previously worked for Elliott Bernerd's Chelsfield Group. Urban & Civic is progressing with planning on two large residential development sites in Alconbury Weald, a former airfield site where 5,000 homes are planned, and Rugby, where 6,200 homes are planned. The gross value of the sites, which also include commercial properties, after they have been developed is estimated to be £2.7bn.

A placing will raise £170m – £161.2m after expenses. U&C will have pro forma net assets of £308m and total income of £39.7m. There is £50m earmarked for the development of the sites at Alconbury Weald and Rugby and £30m for other commercial developments.

GIP U&C will own 28.9% of the enlarged business and it has the right to appoint a director. The move to a standard listing, which in many ways is less regulated than AIM, will happen on 22 May. U&C eventually plans to switch to a premium listing.

Record revenues from finnCap

finnCap, AIM's number one broker by number of clients, reported record full-year revenues after a strong second half, where £170m was raised for clients. finnCap, which is sponsor of AIM Journal, has launched an investment trust service and is near to announcing its first clients in the sector.

In the year to April 2014, revenues grew 36% to £15.5m, while operating profit was 92% higher at £5m. November and December were particularly busy on the corporate side. The entry into market making has helped to generate additional trading revenues with private-client brokers. Annualised client retainers are running at £4.4m. The balance sheet is strong, with £5.1m in cash.

Chief executive Sam Smith believes that the level of service offered by finnCap helps it to win clients. Being admitted to the Financial Conduct Authority's list of sponsors enables finnCap to offer the full service to clients across AIM and the Main Market. There is a strong pipeline of potential flotations but Smith emphasises that they have to be priced correctly or the shares will drift lower after the initial trading on the market.

AIM broker **Hume Capital Securities**, formerly known as XCAP, has decided to exit market making and use the funds in other parts of the business. Market making has been profitable in the past but it requires substantial cash to do properly and Hume does not have a lot of funds. The exit is described as short-term so Hume may return to market making if it can start to generate cash from its other operations.

Hume recently raised £250,000 at 0.225p a share and it has required regular injections of cash through share issues. The interim figures to February 2014 will be published in May and they should show some improvement but losses are likely to continue.

Hume wants to grow its fund management operations and increase funds under management. Peterborough Infrastructure Fund has appointed Hume as its investment manager. The fund expects to raise £130m to finance developments in the city of Peterborough. There are other potential fund management mandates that could be won.

AIM adviser **Zeus Capital** raised £514.5m for three flotations in the first quarter of 2014, which is just over two-fifths of the cash raised by AIM admissions. During that time, Zeus has been adviser to the two biggest flotations on AIM since 2006, online fashion retailer boohoo.com and parcel delivery business DX Group, as well as drug development investment company 4d pharma. Since March, Zeus has been the nominated adviser and broker involved in the reversal of digital e-commerce payment services provider Mi-Pay into AimShell Acquisitions.

ADVISER CHANGES - APRIL 2014

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Alternative Energy Ltd	Peterhouse/ Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	01/04/2014
Frontier Developments	finnCap/ Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	02/04/2014
Hellenic Carriers Ltd	Charles Stanley	Panmure Gordon	Charles Stanley	Panmure Gordon	02/04/2014
BCB Holdings Ltd	Cenkos	Fyshe Horton Finney	Cenkos	Cenkos	03/04/2014
Galileo Resources	Hume/Shore	Shore	Beaumont Cornish	Beaumont Cornish	09/04/2014
ViaLogy	Panmure Gordon	Cantor Fitzgerald	Cairn	Cantor Fitzgerals	09/04/2014
Arria NLG	Westhouse/Allenby	Allenby	Allenby	Allenby	10/04/2014
Versarien	Charles Stanley	Westhouse	Charles Stanley	Westhouse	10/04/2014
Egdon Resources	VSA/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	16/04/2014
Kefi Minerals	finnCap/Fox Davies	Fox Davies	Fox Davies	Fox Davies	16/04/2014
SolGold	SP Angel	SP Angel	SP Angel	RFC Ambrian	24/04/2014
eServGlobal Ltd	Canaccord Genuity/ Charles Stanley	Cenkos/ Charles Stanley	Canaccord Genuity	Cenkos	28/04/2014
Greka Drilling Ltd	Arden/Charles Stanley	Macquarie	Smith & Williamson	Smith & Williamson	30/04/2014
Sorbic International	Hybridan	finnCap	finnCap	finnCap	30/04/2014

company news

Walker Greenbank investment continues to pay off

Furnishings *www.walkergreenbank.com*

Walker Greenbank has come a long way in the past decade or so. The interior furnishings supplier was loss-making and heavily indebted 11 years ago when it moved from the Main Market to AIM. The business is now profitable and cash generative, with further growth prospects from new brands that it is launching. The library of historic designs is a valuable asset not fully reflected in the balance sheet.

Management has looked at potential acquisitions but there has not been anything available at the right price. The Scion brand was launched in 2012 and sales were more than £2m in its first full year. Last year the Anthology wallpaper brand was launched. Anthology is distributed through Harlequin but it is a standalone brand. There are plans for Momentum-branded bed linen. A website has been launched that includes all of the company's brands.

Two-fifths of revenues come from overseas

In the year to January 2014, revenues edged up by 4% to £78.4m, while underlying profit improved by 15% to £7.33m. The performance of the manufacturing operations was strong thanks to investment in digital printers and hybrid rotary/gravure equipment used to produced textured wallpaper. Net cash improved from £1.16m to £1.49m even though there was investment in capital equipment for the manufacturing operations. The total dividend has been increased by a quarter to 1.85p a share.

WALKER GREENBANK (WGB)			191.5p
12 MONTH CHANGE %	+79.6	MARKET CAP £M	113

Nearly two-fifths of revenues come from outside the UK and nearly all of these regions are growing sales. The one exception was South America, although this is the smallest region in revenue terms. A new showroom has been opened in Dubai and the New York showroom is being extended.

Brand sales in the first 12 weeks of the current financial year have grown by 6.7% although the comparative period was relatively weak. UK growth was 9.4% but currency movements have held back overseas growth. Full-year profit is expected to improve to around £7.7m, which puts the shares on a prospective 2014-15 multiple of 19.

Lok'nStore recommences site expansion

Self storage sites operator *www.loknstore.com*

Self storage sites operator **Lok'nStore** has kept its costs down and this means that recent improvements in revenues are dropping through to profit. The market is getting stronger and, after a period when no openings were made, five new sites will be added to the portfolio over two years. The benefits of these will show though in the coming years.

In the six months to January 2014, revenues improved from £6.55m to £6.71m even after the sale of the Ashford site. Pre-tax profit moved ahead from £771,000 to £916,000. Like-for-like occupancy has increased by 8.1% and prices have risen by 3.3% to £18.74 per square foot.

LOKNSTORE (LOK)			212.5p
12 MONTH CHANGE %	+60.5	MARKET CAP £M	53.4

Capital expenditure was £3.4m in the first half, with most of it spent on the Maidenhead, Reading and Bristol sites. Maidenhead opened last December and the Lidl store on the ground floor will open soon, which should provide further visibility for the site. The Aldershot site, where Lok'nStore has a management contract, will open in the next few weeks and the replacement store in Reading will open in the summer. The replacement site in Southampton, which was originally acquired in 2007, and a new store in Bristol are due to open next summer.

Adjusted net asset value is 247p a share or 199p a share after a provision for deferred tax.

Investors begin to monitor the attractions of LiDCO

Fluids monitoring equipment *www.lidco.com*

LiDCO has reported its first ever full year profit thanks to strong sales in the UK. The fluids monitoring equipment developer has become more attractive to investors and positive comment in the press has led to the number of shareholders rising from around 500 to 2,500.

In the year to January 2014, revenues grew from £7.21m to £8.63m, while a loss of £259,000 was turned into a profit of £217,000. Not all geographic regions grew revenues. UK revenues were 37% higher but changes to distribution arrangements meant that North American sales were lower. Disposable sales grew 23% to 60,857 units and they were behind the group's higher revenues in the period. The launch of the latest version of the LiDCOrapid surgery monitor should boost disposable use because additional functions can be added.

LiDCO has nearly £25m of tax losses

A study at Duke University in the US showed that the length of hospital stay for colorectal surgery patients was significantly reduced when the LiDCOrapid was used to monitor fluids during the operation. The cost per patient was estimated to have been reduced by more than $2,000.

LIDCO (LID)			23.5p
12 MONTH CHANGE %	+95.7	MARKET CAP £M	45.6

A profit of £1m is forecast for 2014-15, which puts the shares on a prospective multiple of 29. As the high margin disposables sales grow profit should improve at a faster rate. There was £2.37m in cash at the end of January 2014 and that is expected to increase to £2.8m by next January.

LiDCO has nearly £25m of tax losses and this will help the company to generate cash. Management is considering a capital restructuring that would allow it to pay dividends in the future.

Summit fully funded for trials

Drugs developer *www.summitplc.com*

Drugs and antibiotics developer **Summit International** has a strong balance sheet following a £22m fundraising at 6.5p a share earlier this year. This provides enough cash for Summit to complete phase II studies for its two potential products.

Summit is developing a treatment for Duchenne Muscular Dystrophy (DMD) (SMT C1100) and an antibiotic to treat C.difficile infections (SMT 19969). DMD is a fatal disease where muscle degeneration is caused by faults in the gene encoding dystrophin protein and sufferers tend to survive only until their late 20s. The DMD treatment uses utrophin, a structurally related protein which can help to maintain muscle function. The treatment has been shown to be safe and results of a phase Ib trial are expected by this summer. A phase II trial should start in the autumn

SUMMIT CORPORATION (SUMM)			8.63p
12 MONTH CHANGE %	+84.8	MARKET CAP £M	70.8

Existing treatments for C.difficile infections disrupt natural gut flora bacteria, which can lead to recurrences. Summit's antibiotic does not affect gut flora and focuses on the infection. Patient enrolment for the phase II trial in the US, which has FDA clearance, is expected to commence in the next few months and the results of the trial should be available by mid-2015. A grant provided by Wellcome Trust helps to fund the C.difficile antibiotic research.

In the year to January 2014, revenues were flat at £1.8m, while the loss increased from £3.6m to £6.7m, which is in line with the rise in R&D spending. Pro forma cash is £22.7m. There will be increased spending this year on the trials for the treatments and house broker N+1 Singer expects a 2014-15 loss of around £10m as R&D spending increases.

Keywords aims to be consolidator in games localisation market

Games localisation services *www.keywordsintl.com*

Keywords Studios believes there are plenty of consolidation opportunities in the sector providing services, such as localisation and testing, to the global video games industry. Keywords is already a major player in these areas. It is, however, a fragmented market so the company's market share is still relatively small.

So far this year, Keywords has already acquired voice production services company Liquid Violet and outsourced services provider Babel Media. Keywords is an international business with facilities in Dublin, Tokyo, Rome, Montreal, Seattle, London, New Delhi and Singapore, which is the most recently opened operation, and it works with most of the top 20 games companies. The larger companies are increasingly outsourcing the activities that Keywords provides. Asia Pacific is the fastest-growing region and the market is forecast to be worth $40bn by 2016.

Numis forecasts a rise in profit to €4.5m in 2014

More than half of group revenues are generated from console games and Keywords will benefit from the recent launches of the Xbox One and the PlayStation4, although there was some short-term disruption. Keywords had already warned that the launches of these platforms within days of each other meant that fewer countries had initially been targeted and this held back the company's progress in the second half of 2013. Revenues ended up 14% higher at €16.4m, while underlying profit dipped from €2.9m to €2.5m. Keywords raised €10.2m at 123p a share when it joined AIM in July 2013 and at the end of 2013 net cash was €15.3m. The final dividend is 0.67p a share, taking the total to 1p a share.

KEYWORDS STUDIOS (KWS)			161p
12 MONTH CHANGE %	N/A	MARKET CAP £M	66.9

Numis forecasts a rise in profit to €4.5m in 2014 and €5.5m in 2015 as recent acquisitions boost the organic growth. The shares are trading on 22 times prospective 2014 earnings, falling to 18 in 2015. Further earnings-enhancing acquisitions could reduce those multiples.

Learning Technologies consolidates market lead

e-learning *www.ltgplc.com*

Learning Technologies Group (LTG) has wasted little time in making its first acquisition since reversing into a shell last November. The e-learning provider is acquiring rival LINE Communications for £9m in cash and shares and raising a further £8m from a placing.

The reversal of Epic into In-Deed Online was done at 5.88p a share. The latest deal and fundraising has been done at 16p a share. The acquisition makes LTG the largest company in the fragmented UK e-learning custom market. LINE's boss, Piers Lea, will stay with the enlarged business as chief strategy officer. LINE has offices in Zurich and the UK. The business is a good fit and it brings expertise in additional sectors such as automotive. Clients include Jaguar, BP, Volvo and KPMG.

LEARNING TECHNOLOGIES GROUP (LTG)			19p
12 MONTH CHANGE %	+18.8	MARKET CAP £M	66.5

LINE has larger revenues but lower profit than LTG – they were £8.53m and £550,000 respectively last year. In 2013, LTG's pro forma revenues improved from £6.95m to £7.56m, while pre-tax profit, prior to the costs of the AIM reversal, moved ahead from £782,000 to £1.13m. The recently opened New York office is already making a small profit and orders are growing, although the Brazilian joint venture is still loss-making. The business is highly cash generative and net cash was £1.17m at the end of 2013. This will have been boosted by the placing proceeds net of the £5.9m cash payment for LINE. This cash is available for organic growth and further bolt-on acquisitions.

Alternative Networks continues progressive dividend

Telecoms services *www.alternativenetworks.com*

ALTERNATIVE NETWORKS (AN.)	
Price	469.75p
Market cap £m	229.2
Historical yield	2.8%
Prospective yield	3%

Dividend

Alternative Networks has consistently paid growing dividends since joining AIM and it has a policy of growing its dividend by at least 10% a year. In February 2005, Alternative joined AIM via a placing at 100p a share and since then it has paid out 61.3p a share in regular and special dividends.

The first year's total dividend was 1.87p a share and this rose to 13p a share in 2012-13 – not including the 4p a share special dividend paid in the period. Even if the dividend is increased by only 10% a year it will rise to 14.3p a share in 2013-14 and 15.7p a share the following year. In reality, the dividend will probably increase at a faster rate. Annual increases of up to 15% are being targeted for the medium term.

Business

Alternative Networks is no longer just a business that provides fixed-line and mobile telecoms services. Hosted managed services and other higher-margin activities have become increasingly important as fixed-line revenues decline as there is a move to data services. Recurring revenues account for nearly 90% of total revenues.

In the year to September 2013, revenues were flat at £114.3m, with growth in mobile and advanced solutions, while pre-tax profit dipped from £12.6m to £12.4m, following investment in sales and marketing and technical support services. The second half was stronger than the first half.

Net debt was £36.3m at the end of March 2014 and Alternative is on course to cut net debt to £30m by the end of September 2014 even after the increased dividend payments. This is a cash generative business and in January Alternative paid £39.4m for Control Circle, which supplies cloud-based managed services. Since flotation in 2005, Alternative has converted more than 100% of each year's reported operating profit into cash.

Acquisitions have supplemented organic growth. There are plenty of other opportunities for acquisitions in what is a fragmented market. Alternative has been tracking the main potential acquisition targets for more than a decade.

Mark Quartermaine has been appointed as chief operating officer – he was previously a non-executive director. He has experience with IBM, BT and Azzuri Communications.

Last month's trading update led to finnCap downgrading its 2013-14 earnings per share forecast from 29p a share to 27.3p a share due to a change in the forecast interest charge but the profit forecast is unchanged. finnCap forecasts an improvement in profit from £15.1m to £16.5m in the year to September 2014, rising to £19.8m in 2014-15. The interim figures will be published on 4 June but the full-year figures are likely to be second-half weighted due to acquisitions and new contract wins. The shares are trading on 17 times prospective 2013-14 earnings, falling to 15 in 2014-15.

Dividend news

Palm oil producer **MP Evans** had a tough 2013 but increasing production capacity means that it should produce sharp increases in profit in 2014 and future years. The board's confidence is shown by the 0.25p a share increase in the total dividend to 8.25p a share. Palm oil volumes are expected to grow from 405,000 tonnes to 425,000 tonnes in 2014 and there has also been a recovery in the palm oil price. Production could reach 500,000 tonnes in 2015. Stemming the losses of the Australian cattle operations will also help to boost profit. Peel Hunt forecasts an improvement in underlying profit from $24.7m to $47.5m in 2014.

China-focused B2B online trading platform operator **JQW** is paying a maiden dividend of 0.5p a share even though it was quoted for only a few weeks in 2013. Revenues increased by 71% to RMB493.1m (£46.67m), while pre-tax profit more than doubled to RMB171.4m. Net cash trebled to RMB344.1m by the end of 2013, with only part of that increase coming from the RMB67.5m flotation proceeds. JQW is developing an international version of its e-commerce platform as well as applications for smartphones –– there are 839m mobile internet users in China.

AB Dynamics is another 2013 new admission that is paying a maiden interim dividend. The track testing equipment and compliance testing provider grew revenues by 14% to £6.7m in the six months to February 2014. Pre-tax profit grew by 9% to £1.16m after the additional costs of being quoted. Net cash was £4.55m, even though there was a cash outflow in the first half, and the interim dividend is 1p a share. Business continues to grow in North America, Europe and Asia and there are plans to move into a new facility in 2016 which will double capacity.

Expert view: The broker

Gemfields on course for first ruby sales

By MARTIN POTTS

Gemfields is a unique business offering exposure to high-value coloured gemstones and the recovering luxury goods brand Fabergé. The stock has recovered strongly since the low point reached in mid-2013, driven principally by strong emerald sales in terms of both quantity and price received. We see considerable upside, particularly through the development of the ruby mine at Montepuez. We have increased our target price from 44p to 46p and maintain our Buy recommendation.

We expect the company to return to profit in 2014 after a difficult period where its ability to freely sell its emeralds was questioned. In reality, the two most recent auctions of high-quality and low-quality emeralds were the best yet for the company, with revenue of US$52.9m generated.

Gemfields has a strong balance sheet

The principal asset of the company is the Kagem emerald mine in Zambia, which is in full production, yielding around 30m carats of emerald and beryl per year. Production in the first quarter of 2014 was slightly disappointing because of heavier than normal seasonal rains but production is expected to improve. The highly promising Montepuez ruby mine in Mozambique is in the bulk sampling phase, with the first sale of rubies likely before the end of June. Zambia and Mozambique are two of Africa's more stable countries.

There is further mining upside from the 50% interest in an amethyst mine and a portfolio of exploration assets in Madagascar.

The acquisition of the Fabergé brand offers the opportunity to add further value to the gemstones by promoting them in a similar way to the link between De Beers and diamonds. Two promotional projects in Harrods in London and in New York commenced at the end of the first quarter.

Gemstones

The coloured gemstone industry is worth about US$2.5 billion on an annual basis; this is about one-fifth of the size of the diamond industry in terms of the value of uncut stones. There are many different coloured gemstones of value but the industry is dominated by emerald, ruby and sapphire.

In contrast to the highly industrialised diamond mining industry, mining of coloured gemstones is dominated by small, low-cost and widely dispersed artisanal operations, typically located in remote areas of developing countries. This lack of visibility has led to some parts of the industry being used in conjunction with criminal activity.

A second problem which stems from the highly fragmented nature of the industry is that it makes for a very inconsistent flow of product to the market. This causes problems for jewellery manufacturers as they need to find consistent sources of supply.

We see considerable upside from our present target price, with the following being the principal drivers:

- Continued strength in emerald prices driving up margins at Kagem
- Defining the size and value of the Montepuez deposit
- Turning the Fabergé brand into a profitable business and using it to add further value to the coloured gemstones
- Exploration success in Madagascar and elsewhere bringing further value to the business.

The company has a strong balance sheet with virtually no debt and should easily be able to finance the proposed capital projects. A US$15m unsecured working capital facility has been provided by 39% shareholder Pallinghurst.

Valuation

We have derived a valuation for Gemfields using DCF methods for the principal asset and carrying or nominal values for the other assets. We calculate an unrisked post-tax value for Gemfields' assets of US$485.2m, equivalent to 54.5p per share. After applying appropriate risk discounts and rounding the result, we arrive at a target price of 46p.

The 2013 balance sheet shows that the company then had net current assets (including inventory) less debt of US$66.9m, equivalent to 7.5p per share. We have taken a value for Fabergé equivalent to the goodwill on the balance sheet of US$48.9m as the retail inventory is already accounted for in the current assets on the balance sheet.

We have increased our nominal value of the interest in Montepuez from US$10m to US$30m based on our expectation of the results of the first ruby sale and the potential for ongoing production. We assign no value to the 50% interest in the amethyst mine and the exploration in Madagascar and elsewhere.

MARTIN POTTS is a research director at finnCap.

feature

Smaller companies continue their outperformance

Smaller companies outperformed their larger counterparts in 2012 and 2013 and they have made a good start to 2014. However, April was not such a good month.

Smaller companies continue to perform well in 2014. The Numis Smaller Companies Index, excluding investment companies, has outperformed the UK market by 4.5% up until the end of March and the version of the index that includes AIM-quoted companies has achieved a similar performance.

The FTSE Fledgling index of small fully listed companies is still the best-performing index whether investment companies are included or excluded. However, AIM has had a rather flat first quarter in 2014, with the FTSE AIM 100, which has a higher weighting of resources companies, declining in the period.

The outperformance achieved so far in 2014 follows 16.4% outperformance in 2013 – 11% if AIM is included. In fact, the Numis Smaller Companies Index excluding investment companies has outperformed the FTSE All Share by an average of 3.5% a year over the period between 1955 and 2013.

When total returns are taken into account, the higher dividend yields in the FTSE All Share claw back some of the share price underperformance but the outperformance of smaller companies is still around 4%.

The Numis Smaller Companies index covers the bottom 10% of the Main Market in terms of capitalisation. At the beginning of 2014, there were 715 constituents, or 363 excluding investment companies. The version of the index including AIM has 1,796 constituents. Only AIM shares that meet the market capitalisation limit are included. The Numis 1000 focuses on the bottom 2% of the UK market.

At the beginning of 2014, the cut-off point for the Numis index was a market capitalisation of £1,503m and all companies at or below that level were excluded from the index. The cut-off point is updated once a year but if there had been a rebalancing at the end of March the market capitalisation cut-off would have been £1,377m.

At the beginning of 2014, there were three AIM companies that were too large to be included in the AIM version of the Numis index. They were online fashion retailer ASOS, plus oil and gas companies Indus Gas and Gulf Keystone Petroleum, which recently switched to the Main Market. Those three companies accounted for nearly 11% of the total market capitalisation of AIM. The share prices of the three companies have performed poorly in the first quarter of 2014 and that is why the performance of the Numis index including AIM has held up much better than the performance of AIM as a whole would suggest.

One of the trends that can be identified is that the smaller companies in the index have outperformed the larger companies over the past 12 months. The performance of the Numis 1000 index, which has outperformed by 0.6%, indicates this.

PE multiples

The trailing PE valuation is at a relatively high level. The PE multiple is still lower than at the beginning of 2007, which is just below the peak multiple at the beginning of 2006. The Numis Smaller Companies index has an estimated PE of 18 compared with 16.7 for the market as a whole.

> The Numis Smaller Companies Index has outperformed the UK market by 4.5% up until the end of March

Smaller companies generally have a lower multiple than their larger counterparts and the average discount over the past three decades is 7%. The multiple of 18 is around one-third higher than the average smaller company PE of 13.5 over the past three decades.

These figures are for results that have been reported rather than the prospective multiples, which should be lower as profits continue to recover.

feature

Sectors

Comparing the make-up of the Numis Smaller Companies index and AIM shows how different the sector weightings are. Oil and gas accounted for 18.8% of AIM at the beginning of 2014, whereas the sector was 5% of the Numis index. It is a similar case with mining, which was 7.3% of AIM compared with 4%. AIM also has a greater weighting of technology companies.

The Numis index is much more heavily weighted to industrials and support services which account for 28% of the total, compared with 12% on AIM. The financials sector accounts for around one-fifth of the Numis index and AIM.

All of the sectors have made a positive return so far in 2014. Technology, health care and consumer services sectors have been the best performers. Technology underperformed in 2013.

The mining sector provided a 5% return in the first quarter of 2014, clawing back some of the 38% decline in 2013. However, if AIM mining companies are included then the first-quarter performance was flat.

The trailing PE valuation for the Numis index is at a relatively high level

In the first quarter of 2014, Quindell was the best-performing company in any sector, although negative comment has meant that the share price has slumped since then. If Quindell had maintained its market capitalisation at the end of March 2014 then it would have been excluded from the index the next time it was rebalanced because it was valued at £2.28bn. Property investor Songbird Estates is another strong AIM performer that currently exceeds the market value cut-off point for the Numis index.

The first-quarter performance trends have not continued during April. AIM has fallen back while the FTSE All Share index has risen over the month. This shows that although the outperformance of smaller companies is a long-term trend it is not true all of the time.

Stock picking has always been important in smaller companies and it is particularly true for AIM. Investors need to be careful whatever companies they choose to invest in and with AIM they sometimes have to be careful about the fashions that can dominate in the short term. Investments made with a longer-term perspective will always tend to be best.

SMALLER COMPANIES PERFORMANCE

INDEX	FIRST QUARTER 2014 (%)	2013 (%)	2012 (%)
Numis Smaller Companies Index (excluding investment companies)	3	33.1	26.2
Numis Smaller Companies Index (including investment companies)	2.2	28	22.1
Numis Smaller Companies Index +AIM (excluding investment companies)	3	27.7	19.4
Numis Smaller Companies Index +AIM (including investment companies)	2.4	24.7	17.5
Numis 1000 (excluding investment companies)	3.6	42.2	26.8
Numis 1000 (including investment companies)	1.9	30.5	20
FTSE AIM All Share	0	20.3	2
FTSE AIM 50	0.4	43.4	13.2
FTSE AIM 100	–1.1	22.6	1.2
FTSE All Share	–1.5	16.7	8.2
FTSE Small Cap (excluding investment companies)	1.7	40.2	32.3
FTSE Small Cap (including investment companies)	0.9	29.6	24.4
FTSE Fledgling (excluding investment companies)	7.9	45.2	16.6
FTSE Fledgling (including investment companies)	5	35.8	16.4

Based on share prices on 31 March 2014.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	19.9	19.2
Consumer services	15.2	10
Oil & gas	13.8	12.1
Industrials	12.9	17.5
Technology	12.9	10.1
Health care	6.9	6.2
Basic materials	6.7	16.4
Consumer goods	6.6	5.8
Telecoms	3.4	1.4
Utilities	1.5	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	822.6	+16.3
FTSE AIM 50	4322.66	+25.1
FTSE AIM 100	3659.68	+14.7
FTSE Fledgling	6922.33	+29.6
FTSE Small Cap	4470.74	+16.7
FTSE All-Share	3619.83	+6.8
FTSE 100	6780.03	+5.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	228
£5m-£10m	150
£10m-£25m	214
£25m-£50m	173
£50m-£100m	136
£100m-£250m	133
£250m+	60

KEY AIM STATISTICS

Total number of AIM	1094
Number of nominated advisers	46
Number of market makers	51
Total market cap for all AIM	£78.1bn
Total of new money raised	£85.9bn
Total raised by new issues	£38bn
Total raised by secondary issues	£47.9bn
Share turnover value (2014)	£13.5bn
Number of bargains (2014)	1.72m
Shares traded (2014)	86.2bn
Transfers to the official list	166

TOP 5 RISERS OVER 30 DAYS

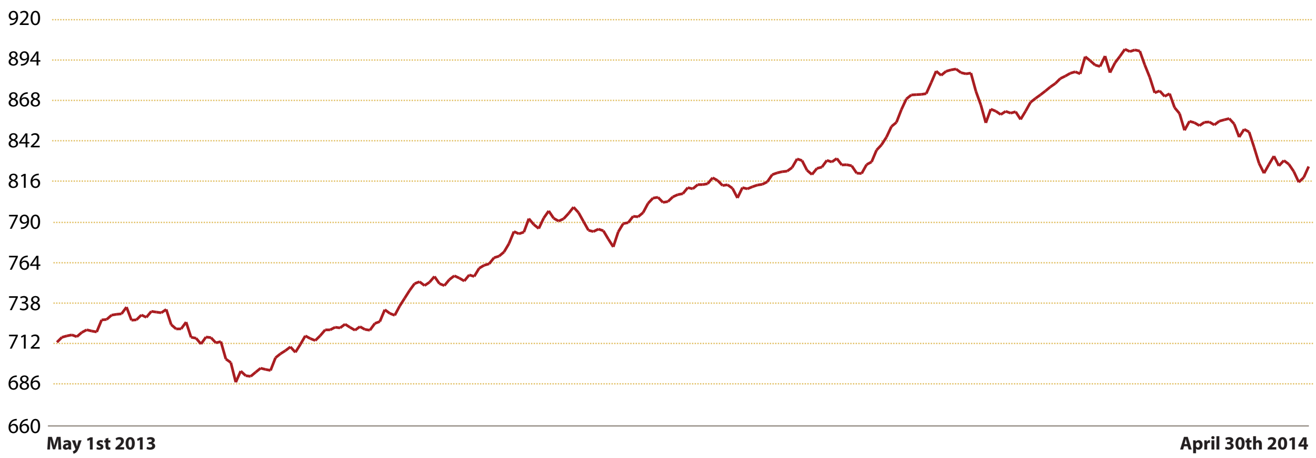
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Mercer Resources	Mining	1.43	+96.6
Billing Services Ltd	Technology	5.25	+61.5
Landore Resources Ltd	Mining	2.88	+55.4
URU Metals Ltd	Mining	1.68	+52.3
Toumaz Ltd	Technology	4.75	+52

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
GoldStone Resources Ltd	Mining	0.46	-50.8
blur Group	Technology	245	-49.2
Pentagon Protection	Security	4.75	-48.7
SpaceandPeople	Media	71.5	-48.6
Tertiary Minerals	Mining	6.88	-43.3

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2014, and we cannot accept responsibility for their accuracy.

sponsors

finnCap's mission is to help ambitious companies grow and to be the leading independent broker to ambitious companies, focused on fuelling growth through long term partnerships. We will exceed client expectations through faultless execution, joined-up service and proactive thinking, all tailored to the needs of each individual client.

finnCap, whose chairman is Jon Moulton, is 95% employee-owned and is the top AIM broker by overall client numbers, according to research compiled by financial website Morningstar. The broker is also the number one adviser in the technology, industrials and healthcare sectors, number three broker in the oil and gas sector and in the top five in the basic materials sector.

In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

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

In the year to April 2014, finnCap reported a 36% jump in revenues to £15.5m and operating profit was 92% higher at £5m. The finnCap 40 Mining index, finnCap 40 E&P index and finnCap 40 Tech index were launched in 2014.

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