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AIM JOURNAL

In this issue

VCT funding one-third higher

Last year, Venture Capital Trusts raised the second-highest amount since their launch in 1995, according to the Association of Investment Companies. This is good news for smaller companies seeking growth finance. Changes to pension regulations mean that VCTs are expected to continue to attract investors. Individual qualifying companies can receive up to £10m from VCT investors.

In 2017-18, there was a one-third increase in cash raised by VCTs to £728m. The highest amount raised was £779m back in 2005-06, when tax relief was 40% compared with the current level of 30%. VCTs had £4.3bn under management at the end of the 2017-18 tax year, up from £3.9bn at the end of the previous tax year. This is after share buy-backs and dividends.

Seneca Partners is launching a VCT in the new tax year. The launch is in conjunction with Hygea VCT, which will issue a new class of B shares, which will effectively be Seneca Growth Capital VCT shares. The existing Hygea VCT funds will be ring-fenced. The new funds will have a more generalist investing policy than Hygea VCT, which is focused on medical technology companies.

Learning acquires PeopleFluent

e-learning services provider Learning Technologies is acquiring PeopleFluent, which provides cloud-based recruiting and talent management services, for $150m (£107m). This will significantly increase Learning Technologies' operations in the US and enhance recurring revenues.

Learning Technologies raised £85m gross at 98p a share to help finance the deal, with the rest coming from debt. Non-executive chairman Andrew Brode invested £1m in the placing and fellow non-executive Leslie-Ann Reid invested around £900,000. Learning Technologies had net cash of £1m at the end of 2017 following a £46.5m placing last year at 37.5p a share to finance the £53.6m acquisition of AIM-quoted talent management services provider NetDimensions.

PeopleFluent has offices in the US, Canada and the UK. Talent management accounts for three-fifths of revenues with the rest coming from technology and services relating to the compliance of hiring and pay practices, workforce management and workforce planning.

In 2017, PeopleFluent generated revenues of £82.8m and underlying operating profit of £9.2m. The business was loss-making in 2016. The enlarged group will have annualised revenues of £135m and underlying operating profit of around £23m. Learning Technologies had a target of £100m of revenues and underlying operating profit of more than £25m by 2020. It has already achieved the first part of that target but will need to improve margins to meet the second part.

general news

CityFibre recommends bid

CityFibre Infrastructure Holdings is recommending an 81p a share cash bid from a takeover vehicle backed by Antin Infrastructure Partners and West Street Infrastructure Partners, with each owning 50%. The bid values the developer of fibre infrastructure and networks in major towns and cities in the UK at £537.8m.

CityFibre joined AIM in January 2014 when it raised £16.6m at 60p a share, which valued it at £31.4m. Since then £328m has been raised at prices between 50p a share and 70p a share. The majority of the cash was raised last July at 55p a share. That means that AIM has enabled CityFibre to raise nearly £345m to invest in building its fibre infrastructure. Net cash was £95m at the end of 2017.

Further investment will be required to achieve the ambitions of the CityFibre management to provide full fibre infrastructure to one-fifth of the UK market and the new owners have access to cash to fund this investment. They are experienced investors in the telecoms sector.

CityFibre has a 20-year framework agreement with Vodafone and this should deliver fibre to up to five million homes by 2025. The first three cities covered by this framework are Milton Keynes, Aberdeen and Peterborough. The next cities to be added are Coventry, Edinburgh, Huddersfield and Stirling. This brings the committed infrastructure investment to at least £315m.

Tristel approval

Disinfection and infection control products supplier Tristel has gained US Environmental Protection Agency (EPA) approval for its foam-based chlorine-dioxide product, Duo. The EPA approval covers the cleaning and disinfecting of hard, non-porous surfaces. This should be the first of many product approvals in the US over the coming years. Tristel will have to gain approvals in individual states before it can sell Duo, so the initial revenues will not be generated until 2019 when sales to the ultrasound market are expected to commence. Parker Laboratories will manufacture and sell Duo products and it is already market leader in the US ultrasound market. The US is an important part of the international growth strategy.

Breedon builds position in Ireland

Aggregates supplier Breedon has secured two acquisitions in the past month but the Competition and Markets Authority (CMA) has pointed out potential competition problems caused by the acquisition of assets from Tarmac. Breedon was hit by the bad weather earlier this year but trading has improved in recent weeks.

Breedon paid £455m for Belfast-based construction materials supplier Lagan Group and this was funded by increased debt and a £170m placing at 76.5p a share. An open offer at the same price will raise up to £4m. Last year, Lagan generated revenues of £249m and EBITDA of £46m. This is the largest acquisition that Breedon has made.

Lagan operates a cement plant in Kinnegad, nine quarries, 13 asphalt plants and nine ready-mixed concrete plants. The deal provides Breedon with an entry to the construction materials market in Ireland.

The acquisition of Staffs Concrete is much smaller. The company operates eight mixer trucks and two concrete pumps and it fits with Breedon's 1stMix and Pro Mini Mix, which operate in the Midlands and East Anglia.

The December 2017 deal with Tarmac involved Breedon swapping 27 ready-mixed concrete plants and paying £4.9m in cash for four quarries in Scotland, Cumbria and Wales. The CMA has cleared the acquisition of the four quarries from Tarmac but has flagged the prospect of a substantial lessening of ready-mixed concrete market competition in Cardiff, Bridgend and Carnforth.

Tarmac has until 3 May to try to address the concerns of the CMA or there will be a more in-depth investigation of this part of the deal. Breedon still believes the acquisition could be completed during the summer.

advisers

Allenby and Novum pick up Beaufort clients

ADVISER CHANGES - MARCH/APRIL 2018

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
PCG Entertainment	Allenby	Beaufort	Allenby	Allenby	27/03/18
Wishbone Gold	Allenby	Beaufort	Allenby	Allenby	27/03/18
Conroy Gold & Natural Resources	Brandon Hill	Beaufort	Allenby	Allenby	28/03/18
Immupharma	Bryan, Garnier/Northland	Northland	Northland	Northland	28/03/18
Inland Homes	Panmure Gordon	Stifel Nicolaus	Panmure Gordon	Stifel Nicolaus	28/03/18
Karelian Diamond	Brandon Hill	Beaufort	Allenby	Allenby	28/03/18
Legendary Investments	SP Angel	Beaufort	Grant Thornton	Grant Thornton	28/03/18
Ubisense Group	finnCap	Numis	finnCap	Numis	28/03/18
Action Hotels	WH Ireland	Zeus	WH Ireland	Zeus	29/03/18
Catanae Innovation	Cornhill	Hybridan	Cairn	Cairn	03/04/18
Tiziana Life Sciences	Cairn	Beaufort	Cairn	Cairn	05/04/18
RedT Energy	Investec/VSA	Cenkos	Investec	Cenkos	06/04/18
Bezant Resources	Novum	Peterhouse	Strand Hanson	Strand Hanson	09/04/18
Great Western Mining	Novum/Davy	Davy/Beaufort	Davy	Davy	09/04/18
Mobile Tornado Group	Allenby	Investec	Allenby	Investec	09/04/18
Tracsis	finnCap	Investec	finnCap	Investec	09/04/18
Albert Technologies Ltd	Cantor Fitzgerald	Liberum	Cantor Fitzgerald	Liberum	11/04/18
AfriTin Mining	Novum/WH Ireland	WH Ireland/Beaufort	WH Ireland	WH Ireland	12/04/18
Seeing Machines	Cenkos/Canaccord Genuity	finnCap/Canaccord Genuity	Cenkos	finnCap	12/04/18
Trakm8 Holdings	Arden	finnCap	Arden	finnCap	13/04/18
LEKOIL Ltd	Numis/Mirabaud/BMO	Mirabaud/BMO	Strand Hanson	Strand Hanson	16/04/18
MySQUAR Ltd	Daniel Stewart/SP Angel	SP Angel /Beaufort	SP Angel	SP Angel	17/04/18
Clontarf Energy	Novum/Northland	Northland	Northland	Northland	18/04/18
Petrel Resources	Novum/Northland	Northland	Northland	Northland	18/04/18
ThinkSmart Ltd	finnCap/Canaccord Genuity	Canaccord Genuity	finnCap	Canaccord Genuity	18/04/18
Science Group	Panmure Gordon	Numis	Panmure Gordon	Numis	19/04/18
Origo Partners	Arden	Smith & Williamson	Arden	Smith & Williamson	20/04/18
Ilika	Liberum	Numis	Liberum	Numis	23/04/18
Crimson Tide	Arden	WH Ireland	Arden	WH Ireland	24/04/18
San Leon Energy	Cantor Fitzgerald	Whitman Howard/ Brandon Hill	Cantor Fitzgerald	SP Angel	24/04/18
Minoan	Cornhill/WH Ireland	WH Ireland	WH Ireland	WH Ireland	26/04/18
Nektan	Smaller Company Capital/ Stockdale	Stockdale	Stockdale	Stockdale	26/04/18
Baron Oil	SP Angel	SP Angel /Cantor Fitzgerald	SP Angel	Cantor Fitzgerald	27/04/18
Edenville Energy	Northland	Optiva	Northland	Northland	27/04/18

company news

Keystone Law beats expectations with its maiden results as an AIM company

Lawyers *www.keystonelaw.co.uk*

KEYSTONE LAW (KEYS)			286p
12 MONTH CHANGE %	N/A	MARKET CAP £M	150.8

Keystone Law beat expectations for its maiden results as a quoted company and that has sparked upgrades to forecasts. According to legal sector publication The Lawyer, Keystone is one of the fastest-growing top 100 legal firms in the UK, which is the second largest market in the world and is valued at £30.9bn a year. Keystone, of course, is a tiny part of the market, or even the mid-market segment that is valued at £8.8bn, but there is plenty of scope to grow and lawyers are keen to join the network. There were 21 applicants a month in the past financial year.

Lawyers receive 75% of their billings, with the rest retained by Keystone to cover overheads

Maiden results on AIM sparked upgrades

and back-office functions that it provides from a central office in London. This means that the lawyers can focus on their core skills. Keystone does not take all applicants – 28% join after vetting. There were 266 lawyers in the firm at the end of January 2018. No single lawyer accounts for more than 3.5% of turnover.

The £10m raised at 160p a share at the time of the flotation in November 2017 paid off debt and there was net cash of £3.6m at the end of January 2018. The business is cash generative.

In the year to January 2018, revenues were 24% ahead at £31.6m and underlying pre-tax profit was 63% higher at £2.89m. A dividend of 0.84p a share covers the period since flotation. Keystone intends to pay two-thirds of post-tax profit in dividends.

Panmure Gordon has upgraded its 2018-19 earnings forecast from 9.6p a share to 10.3p a share. That suggests a dividend of 6.9p a share. The shares are trading on 28 times prospective earnings, falling to 22 next year.

Restructuring leaves Northbridge ready for upturn

Loadbanks and industrial equipment rental *www.northbridgegroup.co.uk*

NORTHBRIDGE INDUSTRIAL SERVICES (NBI)			120p
12 MONTH CHANGE %	+18.8	MARKET CAP £M	31.1

Northbridge Industrial Services, which manufactures and rents loadbanks and other equipment, was hard hit by the downturn in the oil price because a significant amount of its business came from the oil and gas sector. Management has restructured the group, reduced overheads by £4m and sold off non-core operations. There are signs of recovery in the oil and gas sector and other market opportunities are available. A new bank facility has been secured and shareholder Gresham House Strategic has invested £4m in convertible loan notes. This will enable Northbridge selectively to boost its capital investment in equipment.

In 2017, revenues moved up from £23.8m to £25.7m, although the underlying loss was slightly higher at £4.4m. Net debt fell from £9.5m to £8.7m because investment was much lower than the depreciation charge.

The renewable energy sector is proving to be an opportunity for the Crestchic loadbank business. Many forms of renewable energy production do not provide steady levels of energy. Loadbanks can be used to make sure that the grid and energy infrastructure do not get overloaded.

Northbridge will always be a cyclical business because oil and gas remains a major driver of revenues. However, newer markets could offset some of the cyclicality. The high operational gearing of the business means that when revenues bounce back Northbridge could make a significant profit. That is not expected in the short term, with breakeven forecast for 2019. Northbridge is valued at a discount to its NAV of £35.7m, although that does include intangibles.

company news

Mporium seeks to make IMPACT with advertising targeting technology

Advertising technology *www.mporium.com*

MPORIUM (MPM)			6.63p
12 MONTH CHANGE %	-49	MARKET CAP £M	39

Mporium provides technology that enables advertisers to target their advertising to the correct advertising slots to maximise return. Significant investment has been made in the technology and the company has the base from which to grow its revenues.

The capabilities of the company's IMPACT technology have been broadened so there are more signals, decisions and actions integrated and it is easier to use. IMPACT assesses data from TV, news, sports and social media and comes up with real-time advice on content, pricing and timing of advertising.

There are a number of revenue models, including a percentage of spend under management of an agency, performance-based fees and SaaS-based recurring revenue models, which could be particularly attractive for brands. Initially agencies have been the clients but brands are likely to become more important.

> Significant investment has been made in the technology

Last year, revenues improved from £1.82m to £1.98m. The loss was reduced from £4.81m to £3.87m but that was due to a £1.13m cash settlement from former commercial partner Cxense following the removal of a lock-in agreement. Mporium still has a stake in Cxense and Staale Bjornstad is a director of both companies.

That Cxense payment, along with R&D tax credits, helped to reduce the cash outflow last year. Mporium raised £3.1m in December but this does not all show up in the cash figure on the balance sheet. There is £1.78m of accrued income in debtors which is the cash not received at the end of 2017. This means that pro forma cash was £3.8m.

The cash in the bank will provide time to show that progress is being made in building revenues. The agency agreement with WPP-owned GroupM UK indicates how the business can grow by increasing involvement with agencies as well as directly signing up brands to the service.

Parity free to concentrate on cash generative IT businesses

IT consultancy and recruitment *www.parity.net*

PARITY (PTY)			13.45p
12 MONTH CHANGE %	+7.6	MARKET CAP £M	13.7

Parity has sold the remaining non-core, social-media-related business and, although the value of the deal is below NAV of £396,000, it enables management to fully concentrate on the cash-generative IT staffing and consultancy operations, while shedding a loss-making business. Continuing losses have been reducing the value of the business. An initial £100,000 has been paid, with a further £100,000 payable in six months.

The main growth is coming from the higher-margin consultancy activity, which helps government and private organisations to maximise efficiency and reduce costs. When demand increases, the consultancy taps the personnel on the books of the recruitment business, so it does not have underutilised staff.

The recruitment business has ridden out the disruption caused by the more stringent enforcement of the IR35 tax rule for freelance workers by the government. In 2017, revenues dipped from £91.8m to £83.8m but pre-tax profit improved from £1.4m to £1.7m because of the increasing contribution from consultancy. Last year's earnings per share of 1.6p were boosted by a deferred tax adjustment. Net debt was £1.6m at the end of 2017.

The recently announced Primark Stores contract will boost the recruitment side this year. That is the first managed service provider contract for Parity. WH Ireland forecasts a 2018 pre-tax profit of £1.9m, which puts the shares on eight times prospective earnings. Cash generation will enable net debt to be wiped out. There is even the prospect of a dividend given the strength of the balance sheet.

company news

Online fashion retailer boohoo.com thriving although margins come under pressure

Online fashion retailer *www.boohoo.com*

Online fashion retailer **boohoo.com** continues to go from strength to strength. The latest set of figures beat expectations although it appears that margins came under pressure last year.

In the year to February 2018, revenues nearly doubled from £294.6m to £579.8m, while underlying pre-tax profit was three-fifths higher at £51m. Net cash increased from £58.4m to £133m by the end of 2017. There is up to £60m of capital expenditure planned for this year.

Gross margin fell from 54.6% to 52.8%, partly due to product mix and pricing policies, while operating margin slipped from 10.6% to 8.7%.

Net cash increased to £133m

EBITDA margin fell from 12.1% to 9.8% last year and boohoo.com provides guidance that EBITDA margin should stay within the 9% to 10% range this year.

The Pretty Little Thing retail brand generated nearly one-third of group revenues, while Nasty Gal generated £24.4m of sales.

The group has decided not to concentrate distribution on one site. The Burnley warehouse is being extended and can handle £1bn of sales, but Pretty Little Things is moving into a Clipper-managed warehouse in Sheffield. There could also be future investment in distribution capacity in Europe and the US. The UK still represents more than three-fifths of revenues but the fastest rate of growth last year was in the US where sales were 129% higher.

Peel Hunt has upgraded its 2018-19 pre-tax profit forecast to £68.4m, a 13% increase. This still leaves the shares trading on around 40 times prospective 2018-19 earnings, which does not leave much room for any disappointment.

BOOHOO.COM (BOO)			183.3p
12 MONTH CHANGE %	-2.8	MARKET CAP £M	2,106.7

Warpaint London scrubs up well

Cosmetics supplier *www.warpaintlondonplc.com*

Cosmetics supplier **Warpaint London** got off to a strong start in terms of its share price when it joined AIM at the end of 2016 at 97p a share. The share price more than trebled at one point but it has fallen back and the rating is looking attractive again.

Last year, the W7 brand grew sales by around 17% both in the UK and internationally, which currently accounts for 56% of the brand's sales. W7's sales are around ten times the level they were less than a decade ago and this shows how the brand has developed and widened the range of outlets where it is sold.

In 2017, Warpaint revenues grew from £22.5m to £32.5m, including one month from the Retra cosmetics business, acquired for £18.2m at the end of November. One thing to be aware of is that the close-out division, which buys up excess stock from brands and sells it to discount chains, was responsible for around 50% of that improvement because it was included for less than two months in 2016. On a proforma basis, the close-out business increased its revenues from £5.1m to £5.66m.

WARPAINT LONDON (W7L)			205p
12 MONTH CHANGE %	+0.7	MARKET CAP £M	158

Underlying pre-tax profit improved from £6.14m to £7.28m. The total dividend was 4p a share. Net cash was £1.97m at the end of 2017.

Retra owns brands, including Technic and Body Collection, which it supplies to high street retailers. The Christmas market is important, which will make Warpaint more second-half weighted, and revenues were £19m in 2017. This acquisition will be earnings enhancing.

A full contribution from Retra should lead to a rise in revenues to £55.3m and pre-tax profit to £12.5m in 2018. Net cash should improve to £7m. The shares are trading on 15 times prospective 2018 earnings.

Focusrite hits the right dividend notes

Audio equipment www.focusriteplc.com

Dividend

Audio hardware and software supplier Focusrite joined AIM in December 2014 when it raised £22.4m at 126p a share. That valued the company at £73.2m. There was a maiden interim dividend of 0.6p a share and the total for the year to August 2015 was 1.8p a share. The following year the dividend was raised to 1.95p a share and in 2016-17 it was increased to 2.7p a share. That was 4.5 times covered by underlying earnings.

The latest interim dividend was increased by one-third to 1p a share. The total dividend is expected to be more than 3p a share and that would be more than five times covered by forecast earnings.

There was net cash of £19.7m at the end of February 2018 so there is scope to further increase the dividends and still have enough to finance acquisitions.

Business

Focusrite has built a strong share in professional audio equipment markets during the three decades that it has been operating and it is starting to build share in other niches. This is an international business, which means that currency movements can have a significant effect on the figures. The US remains the largest market in terms of revenues but Europe has been growing strongly. Asia is a market that has yet to be fully exploited.

The original Focusrite branded business widened the scope of its product range by moving into lower price ranges that cover home users and egamers. Novation has taken the business into hardware and software for electronic music creation and Ampify offers music-making apps for people that want to try out their skills.

FOCUSRITE (TUNE)	
Price (p)	465
Market cap £m	263.7
Historical yield	0.6%
Prospective yield	0.7%

The strategy is to continue to grow the customer base and sell more products to these customers. Focusrite sells some third-party equipment and it is interested in buying existing brands in these areas, such as microphones and monitors. There is also potential to expand geographically via acquisition.

FocusritePro has been set up to sell audio products in other markets. The initial move has been into post-production in the US, where someone with experience in the sector was hired; they have already signed up a couple of the major film studios. Broadcast and educational establishments are other potential markets.

The latest interim figures were impressive thanks to strong Christmas sales. Revenues were 21% ahead at £38.8m and pre-tax profit was 26% higher at £5.8m. The rate of growth is likely to slow in the second half.

Underlying full-year pre-tax profit is expected to increase from £9.5m to £10.8m and most of this rise was already achieved in the interims. That puts the shares on more than 28 times prospective earnings for the year to August 2018. That reflects the strong position that Focusrite has in its markets and there is scope to increase earnings by investing the cash pile.

Dividend news

Recruitment software provider **Dillistone** is unexpectedly paying a 0.5p a share final dividend because it has not required as much cash as it thought to develop and launch its new GatedTalent executive information networking product. The underlying 2017 pre-tax profit was slightly better than expected, although it still fell from £1.46m to £300,000. Increased spending on GatedTalent was already in the calculations and there is more investment this year. Dillistone's FileFinder software is winning business on the back of the launch of GatedTalent and that has boosted the first-quarter order book. Even so, profit is expected to fall this year before recovering in 2019.

The Property Franchise Group increased revenues by 23% to £10.2m in 2017 and this led to a one-third improvement in pre-tax profit to £4.3m. This was despite the loss by online estate agency EweMove, where new management has been put in place. There was a modest year-end net cash position. The core lettings business has 52,000 tenanted managed properties and the company is well placed to take advantage of the growth in the private rental sector. The total dividend for 2017 is 7.5p a share and it could rise to 8p a share or more this year. The tenant fee ban could hit the business in 2019 but there is time to mitigate the impact.

Fryer management services provider **Filta Group Holdings** is paying a total dividend of 1.3p a share. Full-year revenues from continuing operations – the refrigeration business has been sold – increased from £8.5m to £11.5m, while underlying pre-tax profit improved from £1.59m to £1.82m. There was a small contribution from the new drain management business. Filta has bought its German master licence holder to repeat the successful fryer management franchise strategy used in the US, which is the biggest revenue contributor.

expert views

Expert view: The broker

Diamond prospects for TechFinancials

By Mike Jeremy

Established in 2009, TechFinancials* (TECH:L) is a specialist in the provision of trading technology for online brokers as well as access to exchanges for the mass market, with offices in Asia (Hong Kong), Europe (Ukraine, Cyprus) and the Middle East (Israel). It provides forex trading (Simplified Forex, backed by its MetaTrader5 analytical package), a trading platform (Ladder Options) and a CFD (Contracts For Difference) trading platform. Its offerings are also available on both iOS- and Android-based mobile and tablet devices, and is integrated with the WeChat, Chinese messaging and social media app.

Diamonds

From early 2017 TechFinancials investigated the feasibility of establishing an online diamond exchange, from which it began the process of developing a proprietary diamond valuation system underpinned by blockchain technology and the Etherium (ETH) cryptocurrency. The exchange is managed by Cedex Holdings Ltd., in which TechFinancials has a 2.0% holding with an option to acquire a further 90%, (totalling 87.4% on a fully diluted basis).

Representing an investable market worth an estimated US$80 billion annually, diamonds are seen as an increasingly attractive asset class for a number of reasons, exhibiting value resilience – even against previous metals such as gold, silver or platinum – and being both easy to transport and globally recognised. TechFinancials notes that having been an investment favoured by the middle class, diamonds are rapidly becoming popular among millennials.

TechFinancials identified a problem, and an opportunity, in the lack of transparency and standardisation in diamond valuation. Trading in diamonds as an asset class has been hindered by the fact that diamonds are not fungible, i.e. each diamond is unique. The matter of arriving at a suitable valuation has therefore relied on professional assessment.

This is traditionally based on the '4Cs': Colour grade; Clarity; Cut and Carat. In fact 'Colour' means absence of colour, with a higher grading based on absence of hue. Higher clarity means fewer inclusions or blemishes arising from a combination of heat and pressure affecting carbon during inception. Cut has a variety of measures – 'table size', 'crown height', 'pavilion depth and angle', etc., amounting to the overall ability to transmit light from its facets. Carat, in grades from 0.5 ct to 2 ct and up to 5 ct, defines weight, with one carat being 200 milligrams divisible into 100 units or 'points'.

TechFinancials concluded that the combination of '4Cs' in an assessment-based valuation process resulted in the absence of a valuation benchmark and with this trading opacity and lack of liquidity. The solution is a valuation process based on a machine-learning-based algorithm called 'DEX', available online, at https://cedex.com/#evaluate. CEDEX (CErtified Blockchain Based Diamond Exchange) also uses blockchain technology to match and verify trades, utilising its properties to establish an indelible ledger of valuation and trades. CEDEX aims to "create an open and transparent marketplace in which anyone will be able to liquidate diamonds or invest in diamonds as a new financial asset class" and address a market which TechFinancials estimates is worth US$350 billion.

In summary, the process involves four components: (i) diamond tokenisation, establishing ownership and composition; (ii) the blockchain-based exchange process, with automatic indelible audit trail; (iii) valuation based on DEX algorithms; and (iv) trading via the CEDEX Etherium-backed coin.

> Diamonds are rapidly becoming popular among millennials

Token sale

TechFinancials has funded the initiative through the private pre-sale of US$20 million worth of 25 million of CEDEX tokens on 30th March 2018, offering a 30% bonus to buyers of the first 10% of available, and a 15% bonus to buyers of the next 40% of available tokens. Priced at 1 Ethereum (1 ETH) per 900 CEDEX coins the sale completed within four hours. Etherium is the No.2 ranked cryptocurrency, with a market capitalisation of US$63 billion. With the presale completed successfully, TechFinancials launched the main sale of 50.0 million CEDEX tokens on 17th March. The outcome of the auction and distribution of tokens is planned to be announced on 8th May.

At its latest Interim results for the six months to 30th June 2017, TechFinancials reported revenue of US$6.97 million, gross contribution of US$4.87 million (70% margin) and an operating profit of US$0.56 million. The cash position was US$5.81 million.

As it has stated, TechFinancials is focused on profitable operations and on developing new areas such as blockchain-based products. On 6th February the company announced termination of the proposed sale of its shareholding in non-core subsidiaries B.O. TradeFinancials Ltd., (BOT) and MarketFinancials Ltd., (MF). As rapid progress and the development of CEDEX attests, TechFinancials is realising its strategy of diversification away from consumer markets, with the exception of trading Asia Pacific via its Joint Venture, DragonFinancials, and grasping new opportunities, especially those enabled by the application of blockchain technology.

**Northland Capital Partners acts as joint broker to TechFinancials*

MIKE JEREMY is a director of research at Northland Capital Partners.

feature

MiFID II already having effect on the small company end of the stockmarket

The Quoted Companies Alliance has published its latest annual investor survey and the focus is the effect of MiFID II on smaller company investment. The changes are already affecting how investors, companies and brokers interact. There could be further long-term consequences.

The Peel Hunt sponsored publication The New World of MiFID II – Unintended Consequences is the latest annual mid and small cap investor survey from the QCA. The decision was made to focus on MiFID II because of its significance but other topics, such as AIM and corporate governance, were covered.

Peel Hunt chief executive Steven Fine believes that "MiFID II is, without doubt, the most significant regulatory change to impact the financial markets since the Big Bang in 1986". MiFID II was implemented in January so it is still early days, but it is beginning to change the way that independent research is received. It appears that institutional investors are already noticing the impact on the quality and volume of published research on smaller companies.

There were eleven in-depth qualitative interviews and 100 online quantitative interviews with fund managers. The interviews were carried out by AIM-quoted market research firm YouGov. The in-depth telephone interviews were carried out between the end of November and December 2017, while the online survey was between 1 February and 9 March 2018.

The survey also covered how optimistic or pessimistic the fund managers were about prospects for the coming 12-month period. They were more optimistic about smaller companies than the UK economy as a whole, possibly because they believe that the departure from the EU could have less effect because smaller companies are more UK-focused.

MiFID II

MiFID II is the Markets in Financial Instruments Directive, which is EU legislation that regulates firms involved in financial instruments, such as shares and bonds. The initial MiFID came into force in the UK in November 2007. The latest version came into force in January 2018.

One of the key parts of the MiFID regulation concerns rules for research and inducements. The legislation effectively clamped down on institutional investors receiving free research with much tougher assessment of research costs for fund managers.

Nearly two-thirds of fund managers believe that the overall impact of MiFID II is negative.

Nearly two-thirds of fund managers believe that the overall impact of MiFID II is negative

Although one-fifth believe that is positive, the majority of fund managers admit that their decision-making process has been impacted by MiFID II.

There is a view that there have been unintended consequences of the regulations but fund managers believe that this is a situation they have to adapt to.

Research

Even after a few weeks, the effects on research are being noticed by the fund mangers, with 48% saying that they had noticed either a little less or a lot less research being produced. There were 15% that said they had seen a little more research.

This initial change is likely to gain momentum and 70% of fund managers believe that the volume of smaller-company research will decline. There are still 14% that believe that there could be a small increase in the volume of research that they will see.

It is not just volumes that they think will decline; they also believe that quality will slip. More than two-thirds of them think that the number of analysts covering smaller companies will decline and 45% believe that the research will be of lower quality. There are some optimists, though, with 19% thinking it could be of higher quality.

A majority of fund managers say

feature

that they have reduced research payments because of MiFID II, although 21% say the reduction was "not much".

Overall, 54% of fund managers believe that MiFID II will negatively impact the liquidity of smaller companies.

Independent research

Fund managers differentiate between what is perceived as independent and non-independent research. They assess the research on the basis of whether or not the analyst is being more positive because they are not independent.

Paid-for research is used by the fund managers but 41% believe that the quality is variable. It appears to depend as much on the individual analyst. Many of the analysts producing paid-for research are more experienced than those at the brokers.

Websites

Company websites are increasingly important when it comes to getting information out to investors. Three-quarters of fund managers believe that websites will be more important, although one believed that they would be much less important.

This is an important part of trying to get the story of the business to as wide a section of investors as possible. The respondents to the survey are institutional fund managers but it is also important to cultivate smaller investors. Small investor interest should help to improve liquidity.

Companies

If companies were to ask which analysts and brokers provide research to an individual fund manager, 55% of the fund managers say that they will tell them what research they receive, but 18% say they will not. If a company asks if their house broker is on the fund manger's research list then 64% will tell them.

One-third of the fund managers intend to publish the names of the research providers.

One of the effects of MiFID II is that companies will have to bear more of the costs of publishing research.

Brokers

The fund managers believe having the right broker will become even more important for a small company.

Nearly three-quarters of fund managers believe that there will be a reduction in the number of brokers, with 28% thinking there will be many fewer.

This, though, has been said for a decade or more. There have been plenty of brokers that have been swallowed up by rivals or closed during the period but the view that there are too many brokers continues. Even though brokers have exited the stockmarket there are newer brokers that have started up.

At the very least, it appears that brokers will have to assess their business models and decide whether they need to change them.

Three-fifths of the fund managers have reduced the number of brokers that they deal with.

The brokers and individuals that work for them that are currently successful are likely to continue to be so and the individuals will be highly sought after by other brokers who want to boost their position.

When asked if they were likely to recommend that companies changed their broker to a rival which had wider distribution of its research, 37% said that they probably or definitely would, although nearly as many said that they would not.

AIM

There is positive news about AIM. When asked about the attractiveness of AIM as a market for new admissions, 16% of fund managers said that it is very attractive and 50% that it is reasonably attractive.

There were 51% of the respondents to the survey that thought that AIM's credibility had improved over the last year or two. The increasing number of profitable, cash generative companies joining the junior market has helped, as well as the decline in the numbers of the more speculative resources companies.

> 51% of the respondents to the survey thought that AIM's credibility had improved

There remain fund managers who think that the credibility of AIM has worsened and who tend to avoid AIM companies and prefer those on the Main Market. These are very much in the minority.

Non-executive directors

Fund managers believe that the quality of non-executive directors on smaller company boards is variable, although 39% think the quality has improved slightly, and 3% improved significantly, over the past few years.

It is recognised that it is difficult to find good non-executive directors. The fund managers are particularly keen to have independent voices on small company boards. One criticism is that the non-executives do not engage enough with shareholders and many do not have a good enough understanding of the company's underlying business.

The investor survey publication can be downloaded from www.theqca.com/article_assets/articledir_286/143186/QCA_Peel_Hunt_Mid_and_Small-Cap_Investor_Survey_2018_Email%201.pdf.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	18.2	10.9
Financials	16.9	16.4
Industrials	15.9	17.2
Healthcare	12.8	9.2
Technology	11.2	13.1
Consumer goods	10.2	6
Oil & gas	7	10.7
Basic materials	5.9	14.1
Telecoms	1.3	1.1
Utilities	0.5	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1052.52	+9.2
FTSE AIM 50	5969.69	+10.1
FTSE AIM 100	5458.96	+15
FTSE Fledgling	10845.53	+10.7
FTSE Small Cap	5862.71	+6
FTSE All-Share	4127.68	+4.2
FTSE 100	7509.3	+4.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	147
£5m-£10m	111
£10m-£25m	179
£25m-£50m	157
£50m-£100m	123
£100m-£250m	141
£250m+	89

KEY AIM STATISTICS

Total number of AIM	947
Number of nominated advisers	32
Number of market makers	48
Total market cap for all AIM	£103.3bn
Total of new money raised	£107.9bn
Total raised by new issues	£43.5bn
Total raised by secondary issues	£64.3bn
Share turnover value (2018)	£17.4bn
Number of bargains (2018)	2.9m
Shares traded (2018)	126.7bn
Transfers to the official list	186

TOP 5 RISERS OVER 30 DAYS

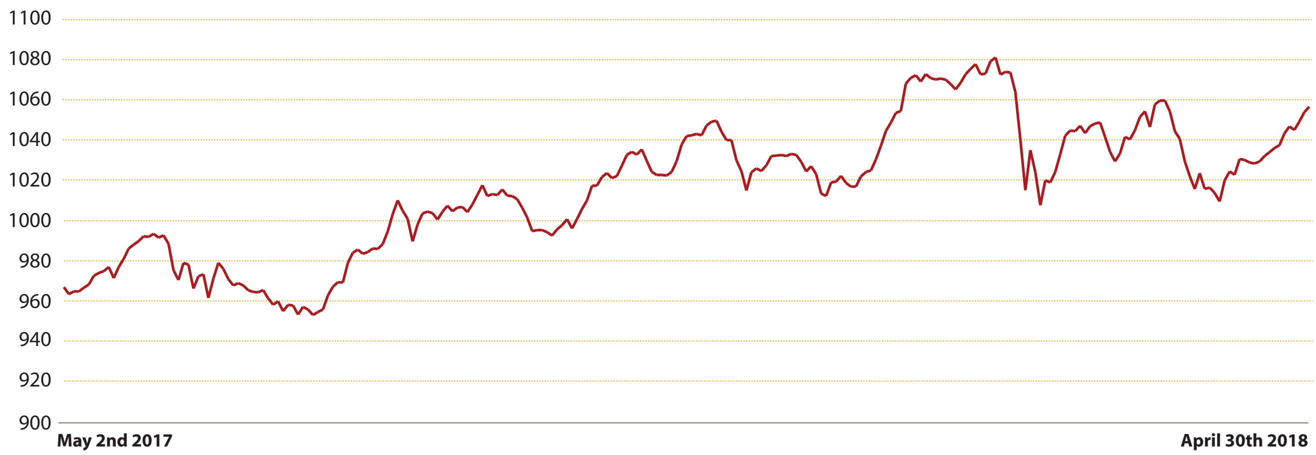
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Tern	Technology	20	+440
PhotonStar	Cleantech	0.555	+130
Pebble Beach Systems	Software	3.25	+110
Bushveld Minerals Ltd	Mining	23.15	+100
Tasty	Restaurants	25	+96

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Weatherly International	Mining	0.195	-89
Flowgroup	Electricity	0.0135	-81
Quadrise Fuels	Oil and gas	3.025	-74
ImmuPharma	Healthcare	29.7	-74
Nighthawk Energy	Oil and gas	0.115	-71

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2018, and we cannot accept responsibility for their accuracy.

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Northland Capital Partners

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.

Northland has a strong track record in advising and raising funds for growth companies. We always aim to provide innovative ideas and solutions that will enable our clients to fulfil their long-term growth ambitions in a wide range of sectors, including healthcare, TMT, consumer, resources and support services.

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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The team has international capability, with particular expertise in the healthcare and life sciences, technology, leisure and hotels, recruitment, renewables and cleantech, resources, retail and telecoms sectors.

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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