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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET
AIM JOURNAL

AIM's female shortfall

According to analysis by City compliance adviser ionStar, only 18 of 300 executive directors on the boards of the constituents of the FTSE AIM 100 index are women. The new entrants to AIM so far in 2015 have an even worse ratio of women on the board.

There are a wide spread of sectors included in the AIM 100 and the size of these boards ranged from four to 12 people. It might be thought that newer AIM companies might be different but it does not appear to be the case. There were 18 new entrants and reintroductions to AIM by Easter and there is only one female executive director, who is on the board of Chinese investment company Grand Group, out of 46 executives at flotation. Eight out of 107 directors on the boards of these AIM new entrants were women – four in the last two flotations.

"It was disappointing to discover how poorly women are represented among the leading 100 companies on AIM", according to ionStar founder and managing director Liz Hughes. ionStar (www.ionstar.co.uk) offers a network of independent compliance advisers to financial services companies.

No premium for BCA

Marwyn-backed AIM shell Haversham has completed the acquisition of used cars seller BCA and moved to the standard list because it does not meet the requirements for a premium listing. BCA does eventually want to move to a premium listing. An attempt by BCA to float at the end of last year had to be shelved.

Haversham, which has been renamed BCA Marketplace, acquired BCA for £1.23bn in cash and shares. Avril Palmer-Baunack is executive chairman of the enlarged group. Most of the cash payment will be financed by a £1.03bn placing at 150p a share. In November 2014, Haversham raised £30m at 120p a share. The acquired businesses are expected to make annual EBITDA of at least £80m. BCA auctions vehicles in 12 European countries and also owns the WeBuyAnyCar.com vehicle buying website, which provides additional vehicles to auction. Management believes that changes in the European market will lead to additional demand for its auction services.

Standard list shell Cleeve Capital is moving the other way on 21 April when it completes its acquisition of Satellite Solutions Worldwide, which will be the new name of the AIM-quoted holding company. Cleeve is paying £5m in shares for the satellite broadband services provider, which has 11,000 subscribers in the UK and Europe. The plan is to be a consolidator in the satellite broadband services market.

In this issue

HubInvest publishes AIM Journal
www.hubinvest.com

general news

Profit recovery for larger brokers

Results from larger AIM brokers show that they have been prospering but Hume Capital has run out of money and closed. Panmure Gordon, Shore Capital and N+1 Singer have all reported higher profit but there is still overcapacity in the small company broking sector.

Panmure Gordon's improved 2014 profit enabled it to return to paying dividends for the first time since 2007. Pre-tax profit increased by 84% to £2.15m. The 2.5p a share dividend is covered nearly four times by earnings. Growth in corporate finance income was behind the improved profit, even though Panmure raised less money for its clients than in 2013, with net commission and trading income lower.

Shore Capital Group's equity capital markets division grew its profit by 60% to £9.75m last year. Shore raised £2.4bn for clients, which included the flotation of Camden Market owner Market Tech Holdings at the end of the year. Secondary commissions also held up well – in contrast to Panmure. Shore is the third-largest market maker on the London stockmarket. The dividend was increased from 8p a share to 10p a share.

Leonard Curtis Recovery was appointed as special administrator to broker Hume on 16 March. Hume, formerly known as XCAP, had already had its membership of the London Stock Exchange suspended. Many of the Hume brokerships and some of the key staff were snapped up by Beaufort.

Hume was not a nominated adviser. Goldman Sachs International is the latest firm to give up its status as a nominated adviser on AIM. Goldman was not an active adviser because it did not have any clients at the beginning of the year.

Quindell disposal

Quindell is selling its professional services operations to Australian legal firm Slater & Gordon for £637m and this should enable Quindell to return 100p a share to shareholders and repay debt of £45.6m. The disposal covers the legal business, business process services for insurers and medical reporting services. There could be more cash to come depending on settlements of current hearing-loss cases but the disposal document admits that Quindell has so far settled a "relatively small numbers of cases", which suggests this business was not doing as well as expected. Quindell will be left with a rump of telematics and insurance software and services businesses, many of which have a relatively short track record. Quindell will continue to provide software to the acquired companies on a royalty-bearing basis.

AIM Investor Focus returns

AIM Investor Focus is holding its latest event at finnCap's office in London on 21 April. The participants are NAHL, Christie, EMIS and Fairpoint. Further details can be found at http://www.blackthornfocus.com/events/aim-investor-focus/april-2015.

Personal injury claims lead generator NAHL joined AIM last May at 200p a share and it has gone to a significant premium even though Lloyds Development Capital and Inflexion have each sold their 15% stakes, having already sold shares in the flotation, while founder Alan Kennedy has sold his 9% stake and non-exec Samantha Porteous her 7.5% shareholding. Old Mutual, Artemis, Hargreave Hale and Schroders have all bought shares. NAHL continues to grow and recently diversified into conveyancing leads. The shares yield 5.5% and the dividend is growing.

The profit of business valuation and stocktaking services provider Christie continues to recover following a slump into loss in 2008. In 2014, underlying pre-tax profit improved from £943,000 to £3.36m and the dividend was increased by 50% to 2.25p a share. The corporate transactions market has been buoyant and this has offset the tough trading conditions in the stocktaking division.

Healthcare software provider EMIS has grown organically and via acquisitions since it joined AIM. Last year, organic revenue growth was 11%. EMIS has 53% of the UK primary care software market and 36% of the community pharmacy software market.

Debt management and legal services provider Fairpoint reported a 15% increase in pre-exceptional profit to £9.25m in 2014. This included the initial contribution from the legal firms acquired last summer. Fairpoint remains strongly cash generative and continues to be a consolidator in the IVA sector.

advisers

Beaufort snaps up Hume clients

ADVISER CHANGES - MARCH 2015

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Goldstone Resources Ltd	SI Capital	WH Ireland	Strand Hanson	WH Ireland	02/03/2015
Sierra Rutile Ltd	Investec/RBC	RBC	RBC	RBC	04/03/2015
RM2 International SA	RBC	RBC/Cenkos	RBC	Cenkos	09/03/2015
Legendary Investments	Peterhouse/Beaufort	Beaufort	Grant Thornton	Grant Thornton	10/03/2015
Constellation Healthcare Technologies Inc	Stifel Nicolaus/finnCap	finnCap	finnCap	finnCap	13/03/2015
Sareum Holdings	WH Ireland/Hybridan	Hybridan	WH Ireland	Sanlam	16/03/2015
Karelian Diamond Resources	Beaufort	Hume	Sanlam	Sanlam	17/03/2015
Kibo Mining	Beaufort	Hume	RFC Ambrian	RFC Ambrian	17/03/2015
Motive Television	Beaufort	Hume	Sanlam	Sanlam	17/03/2015
Regenersis	Peel Hunt/Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	17/03/2015
CloudTag Inc	Whitman Howard	Keith Bayley Rogers	Cairn	Cairn	18/03/2015
Fusionex International	RBC/Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	18/03/2015
Jiasen International Holdings Ltd	Beaufort	Beaufort/Hume	Cairn	Cairn	18/03/2015
RTC Group	WH Ireland	Allenby	WH Ireland	Allenby	18/03/2015
Cyan Holdings	Beaufort/Allenby	Hume/Allenby	Allenby	Allenby	19/03/2015
Herencia Resources	RFC Ambrian	WH Ireland	WH Ireland	WH Ireland	19/03/2015
Oilex Ltd	Westhouse	Strand Hanson	Strand Hanson	Strand Hanson	19/03/2015
Ortac Resources Ltd	SP Angel	SP Angel/Cantor Fitzgerald/ Loeb Aron	SP Angel	Cantor Fitzgerald	19/03/2015
Sefton Resources	Cornhill	Dowgate	Allenby	Allenby	19/03/2015
Vela Technologies	Vicarage Capital	Allenby	Allenby	Allenby	19/03/2015
Xtract Resources	Beaufort/Cenkos	Cenkos/Hume	Cenkos	Cenkos	19/03/2015
Galileo Resources	Beaufort/Daniel Stewart	Hume/Daniel Stewart	Beaumont Cornish	Beaumont Cornish	20/03/2015
Great Western Mining Corporation	Beaufort/Davy	Hume/ Davy	Davy	Davy	20/03/2015
Stratmin Global Resources	Beaufort	Hume	Strand Hanson	Strand Hanson	20/03/2015
DDD Group	Beaufort/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	23/03/2015
Ferrum Crescent Ltd	Beaufort	Hume	RFC Ambrian	RFC Ambrian	23/03/2015
Landore Resources Ltd	Strand Hanson	Hume	Strand Hanson	Strand Hanson	23/03/2015
Northcote Energy Ltd	Beaufort/Cornhill	Hume/Cornhill	Beaumont Cornish	Beaumont Cornish	24/03/2015
Orogen Gold	Beaufort	Hume	Cairn	Cairn	24/03/2015
Tricor	Allenby	Hume/Allenby	Allenby	Allenby	25/03/2015
Arcontech Group	finnCap	Northland	finnCap	Northland	26/03/2015
Eurasia Mining	Beaufort/Loeb Aron/ WH Ireland	Loeb Aron/ WH Ireland	WH Ireland	WH Ireland	26/03/2015
NewRiver Retail Ltd	Peel Hunt/Liberum	Liberum	Liberum	Liberum	27/03/2015
Coral Products	Daniel Stewart	Hume	Cairn	Cairn	30/03/2015
Alecto Minerals	Beaufort	Hume	Strand Hanson	Strand Hanson	31/03/2015
China Nonferrous Gold	Investec	Hume/Investec	Investec	Investec	31/03/2015
Circle Oil	Investec	Liberum	Investec	Investec	31/03/2015
Inland Homes	Stifel Nicolaus	finnCap	Stifel Nicolaus	finnCap	31/03/2015
Nostra Terra Oil & Gas	Sanlam	Hume	Sanlam	Northland	31/03/2015
Sylvania Platinum	GMP /Liberum	Liberum	Liberum	Liberum	31/03/2015
Ukrproduct Group Ltd	ZAI	Cantor Fitzgerald	ZAI	Cantor Fitzgerald	31/03/2015

company news

Optimal Payments merger reduces dependence on single major customer

Online payments processor *www.optimalpayments.com*

OPTIMAL PAYMENTS (OPAY)			528p
12 MONTH CHANGE %	+46.7	MARKET CAP £M	861.7

Online and mobile payments processor **Optimal Payments** is acquiring London-based rival Skrill, which also provides online vouchers. The enterprise value of the deal is €1.1bn, which will be partly financed by a deeply discounted rights issue and coincide with a move to a premium listing on the Main Market.

The enlarged business will be able to offer more than 100 payment types in more than 22 languages and 41 currencies. The merger reduces Optimal Payments' dependence on its biggest customer, which accounts for more than a quarter of its revenues – the same customer provides 7% of Skrill's revenues. The combined revenues will be $697m and the deal will be earnings enhancing in the first full year, helped by annual cost savings of $40m.

Annual cost savings will be $40m

The shares go ex-rights on 17 April and the five-for-three rights issue at 166p a share closes on 1 May. The premium listing will start on 5 May. The 37.5 million shares issued to Sentinel Group as part of the acquisition will be retained by the vendor for at least 180 days.

Optimal was originally known as Neteller, which ran into problems in the US during 2006 when the US cracked down on payments services providers dealing with online gaming firms. The share price is not back to its peak of a decade ago but it is still above the 2004 Neteller flotation price of 200p (unadjusted for any rights issues). Ironically, one of the positives of the Skrill deal is the opportunities expected in the North American regulated online gaming market.

Nanoco displays wish to move to a premium

Quantum dots developer *www.nanocotechnologies.com*

NANOCO (NANO)			124p
12 MONTH CHANGE %	+14.5	MARKET CAP £M	267.4

Cadmium-free quantum dots developer **Nanoco** is moving to a premium listing on 1 May, having in six years gone from a small company with developing technology to a much larger business with deals with major companies, including Dow Chemical and Osram, in a sector that could become worth billions of pounds. This has been achieved thanks to its AIM quotation providing access to money to invest in the development of the business and its technology. There is even a chance that Nanoco could make a profit in the year to July 2016.

As part of the switch in markets, Nanoco is raising £20m at 105p a share for further research and development. There was net cash of £9.2m at the end of January 2015 and a cash outflow from operations of £3.19m in the previous six months.

So far, production of the quantum dots has been in-house but licensing partner Dow is building a large-scale plant in South Korea with production for the displays market set to start in the middle of this year. The 15-year global deal with Dow only covers displays and it will produce royalty income without the need for capital investment by Nanoco. Quantum dots enable reduced energy consumption and a brighter image. LG has already been signed up as a customer. Other target markets are LED lighting, solar and bio-imaging.

Nanoco was formed in 2001. In the spring of 2009, it reversed into shell company Evolutec through an all-share offer. The shares were trading at around 21p each at the time the deal was announced, which means that Nanoco was valued at £39m. The current share price is not far off the original flotation price of 125p for Evolutec nearly eleven years ago.

company news

Accumuli ends building phase by securing bid from NCC

Online security *www.accumuli.com*

ACCUMLI (ACM)			28.25p
12 MONTH CHANGE %	+ 32.9	MARKET CAP £M	45.1

Online data security services provider **Accumuli** has agreed a cash and shares bid from NCC valuing the company at around £50m. The two companies have worked together in the past and the business fits well with NCC's consulting activities in the IT security sector and will provide additional products to sell to existing customers.

NCC, which itself started out on AIM before moving to the Main Market, is offering 5.97p a share in cash plus 0.1218 of a NCC share for Accumuli. The deal should go through in time for the new shareholders to receive the next NCC dividend, although the yield is not as high as it would have been for Accumuli.

> The bid is valued at 30p a share

Just before the bid, Accumuli acquired RandomStorm, which is involved in the assessing and managing of IT risk, for £8.9m. At that time, Accumuli was expected to make a 2015-16 profit of £4.3m and earnings per share of 2.1p.

The bid values Accumuli at around 30p a share but the value depends on the movement in the NCC share price, which has fallen since the bid announcement. The company was originally called NetServices but it refocused on a buy-and-build strategy in the managed security services sector in May 2010. The first acquisition was made later in the year and financed by a placing at 6.5p a share. Accumuli has since then built up a business with forecast annualised revenues of £27m. The bid is well above that 2010 placing price but it is still below the 71p a share that NetServices floated at in 2006.

Learning Technologies continues consolidation plans

e-learning services *www.ltgplc.com*

LEARNING TECHNOLOGIES (LTG)			22p
12 MONTH CHANGE %	+17.3	MARKET CAP £M	78.3

Acquisitions have made **Learning Technologies Group** into a major player in the fragmented e-learning market and helped it to expand in the US. There is a strong base on which to build an even bigger business in a fragmented market sector.

In 2014, revenues jumped 97% to £14.9m, which includes £6.6m from LINE and Preloaded, which were acquired during the year. There was organic growth as well. Underlying pre-tax profit improved from £1.38m to £1.83m even though the South American joint venture made a bigger loss. Net cash was £4.36m at the end of 2014, although there could be deferred consideration of up to £3.4m over more than one year for Preloaded. The final dividend of 0.07p a share makes a total of 0.1p a share for the year.

LINE has been merged with Epic to become LEO and the integration process is being finalised. The full benefit of the £700,000 of cost savings will show through this year. E-learning games developer Preloaded has high margins and has done even better than expected.

Considering, the original reversal of Epic into shell company In-Deed Online was done at a notional price of 5.88p a share in 2013, and chairman Andrew Brode and chief executive Jonathan Satchell sold shares at 7p each at the time to improve liquidity, Learning Technologies has made solid progress in a period of around 18 months. Six shareholders still own around 80% of the company even after further share disposals.

The order book continues to improve. House broker Numis forecasts a 2015 profit of £3.7m, which puts the shares on 31 times earnings. That reflects the potential for the business over the long term but appears expensive in the short term.

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company news

Clinigen seeks to reinvest cash in earnings-enhancing pharma acquisitions

Pharma products and services *www.clinigengroup.com*

CLINIGEN (CLIN)			536.5p
12 MONTH CHANGE %	- 0.7	MARKET CAP £M	442.9

Pharma services and products supplier **Clinigen** is not only growing its profit; it is also generating large amounts of cash that can be reinvested in acquisitions. In the six months to December 2014, revenues were 17% higher at £72.6m, with underlying profit edging up from £10.9m to £11.1m. There was £11.3m in cash generated from operations, taking net cash to £12.9m. The interim dividend was increased by 10% to 1.1p a share.

The clinical trials supply division sources products used in clinical studies and is the largest revenue generator. Revenues grew 29% but it is a lower-margin business and those margins were reduced in the period due to the mix of products sourced.

The speciality pharma division focuses on hospital-only medicines and remains dependent on anti-viral product Foscavir even though it has acquired other products in order to reduce that dependence. High gross margins mean that the majority of gross profit comes from this division even though it generates around one-fifth of revenues. The US Foscavir distribution agreement with Hospira has been extended until the end of 2019.

Acquisitions could significantly enhance earnings per share

The GAP (Global Access Programs) division, which helps to provide early access to drugs not yet available in certain markets, was hit by the ending of the low-margin Enzalutamide programme but the rest of the business grew in the first half. Although revenues fell, the gross profit contribution was higher.

A profit of £29.2m is forecast for the year to June 2015, which puts the shares on 20 times earnings. Peel Hunt believes that Clinigen has the potential to exceed expectations if, among other things, European restrictions are lifted on the use of Cardioxane, which is a support therapy for cancer sufferers undergoing chemotherapy, and there is a broader use of the drug in paediatrics. The broker also believes that Clinigen has current resources to finance acquisitions of up to £88m and that could significantly enhance earnings per share. In reality, Clinigen will be able to make use of its shares as well. The acquisitions could be additional products to sell through the distribution business or help to expand the GAP division.

Silence cash call for RNA interference studies

Biotechnology *www.silence-therapeutics.com*

SILENCE THERAPEUTICS (SLN)			285.62p
12 MONTH CHANGE %	- 7.6	MARKET CAP £M	148.8

Silence Therapeutics has raised £38.9m at 240p a share to go towards the development of treatments based on its RNA technology that enables genes to be turned on and off. Silence has nearly £60m in cash which can fund pre-clinical studies of its potential treatments as well as enabling it to employ more international scientists.

RNA (ribonucleic acid) and DNA are the two types of nucleic acids found in cells. RNA interference can be used to silence genes that cause a disease. This can be used to treat cancer, diabetes and heart disease among other things. A European patent for RNAi trigger modification has been upheld after challenges by four parties. Silence is also working on messenger RNA (mRNA), which can restore missing genes or create gene expression.

Just before the fundraising, Silence announced results from a phase IIa trial of Atu027 in the treatment of pancreatic cancer that showed that patient survival times improved with higher dosages. The trial also confirmed the safety of the treatment. The results will be used in deciding how to progress with other studies, including a phase Ib head and neck cancer study.

Clear income picture for Vislink

Broadcast technology *www.vislink.com*

Dividend

Broadcast and surveillance technology supplier Vislink has been paying one dividend a year since the 1999 figures but for the seven years prior to 2014 the dividend was held at 1.25p a share – even though it was not always covered by earnings. On top of the dividend, in 2011 there was a tender offer following the disposal of oil sector CCTV business Hernis, which returned nearly £5m to shareholders. The latest dividend was increased to 1.5p a share and the dividend could be increased again this year now that a comfortable earnings cover has been built up.

A rise to 1.6p a share is forecast for 2015, which should be covered around three times by forecast earnings. The dividend paid during 2014 was covered five times by cash generated from operations. Net cash was £380,000 at the end of 2014 and could increase to more than £3m by the end of this year, although that will depend on acquisition activity.

Business

The original core operations of Vislink were providing equipment to TV companies for broadcasting live news and events, plus surveillance systems. Vislink has changed from a pure broadcast technology and equipment supplier to a wider product range with a significant contribution from software. The key to that transformation was the acquisition of Pebble Beach Systems, which contributed £8.3m of revenues for the nine months of 2014 it was included in the group. Pebble Beach, which supplies content management and automation software, provides higher margins and a greater percentage of recurring revenues than the rest of the business.

VISLINK (VLK)	
Price (p)	50.3
Market cap £m	61.9
Historical yield	3%
Prospective yield	3.2%

Group revenues improved from £59.9m to £61.9m in 2014. The Pebble Beach contribution offset the effect of a one-fifth reduction in broadcast equipment revenues, although surveillance equipment revenues grew. The broadcast technology operations have always had good and bad periods and although the swings are not as bad as they have been in the past this can still hit profit – the technology contribution fell from £6.8m to £5.9m.

Revenues grew in Europe but there were sharp declines in the Americas, Middle East and Africa. There should be some benefit to come from the Olympics in Rio.

Trading conditions are still tough but the equipment businesses are expected to improve margins following a reorganisation – which cost £900,000 last year – so a modest rise in revenues is expected to lead to a significant improvement in operating profit this year. This will offset an expected dip in the margins of Pebble Beach to a more normal level.

Underlying pre-tax profit is forecast to improve from £7.1m to £7.7m in 2015. The shares are trading on around ten times prospective 2015 earnings. This is a modest rating given the growth prospects and strong cash generation of the business.

Dividend news

Structural steel and safety equipment supplier **Billington** has reinstated its dividend as its profit continues to recover. A final dividend of 3p a share is covered more than four times by earnings. Net cash was £3.6m. All the subsidiaries are profitable. Billington still has spare capacity and the growth in profit will depend on winning new work at good margins. House broker WH Ireland upgraded its 2015 profit forecast for the second time this year to £2.3m. That is still cautious and the outcome could be better if margins improve more quickly than expected.

Specialist IFA **Frenkel Topping**, which has £619m under management, is set to continue to increase its dividend even though profit will be held back in 2015 because of the additional fee earners taken on in order to widen the geographic coverage of the personal injury awards management business. In 2014, pre-tax profit improved from £1.39m to £1.57m and the dividend per share was raised from 0.58p to 0.71p. A further increase to 0.8p is expected this year even though the forecast profit is £1.5m. The benefits of the investment should show through in increased business in 2016 when a profit of £2m is forecast.

International staffing company **Empresaria Group** announced a doubled dividend of 0.7p a share with its 2014 figures, although it is still covered nearly 14 times by earnings. Pre-tax profit improved from £5.4m to £6.1m on flat revenues. The main profit improvement came in Germany following a restructuring, which offset a dip in profit from the rest of the world. Net debt continues to fall thanks to cash generated from operations and it was £9.8m at the end of 2014. Next year, the rest-of-the-world contribution should recover as newer offices start to make money. A 2015 profit of £7m is forecast.

expert views

Expert view: The broker

Gable set to motor

By DUNCAN HALL

The Italian commercial fleet motor insurance market presents a substantial and attractive specialist area for insurance company Gable. The arrangement with Milan-based insurance underwriting managing agent Movinsure, in conjunction with a well-protected reinsurance programme, should offer long-term attractive returns.

Gable is a European non-life insurance company underwriting a range of specialist policies for the commercial sectors. The company is Cayman-registered and regulated in Liechtenstein. The business has a demonstrable record of consistent expansion.

Premiums

In 2006, Gross Written Premiums (GWP) was £6m, while for 2015, we estimate GWP will grow by more than 40% to £115m. The group is capitalised at £60m, with cash of £42m on the balance sheet, which is expected to grow. Gable has capital in place to write up to £125m of business.

Within global insurance markets, the presence of surplus capital for reinsurance in particular is providing Gable with the opportunity to expand its business without incurring undue additional insurance cost or risk, making expansion timely as authorities look to the SME sector across Europe as the engine for long-term economic growth.

Movinsure

The recently announced five-year agreement with Movinsure covers the underwriting of third-party commercial motor fleet policies on an exclusive basis. Italy is one of Europe's top four insurance markets and Gable has been looking for some time for a suitable route to enhance market presence. The appropriate insurance licences were granted in 2014 and the reinsurance panel will be led by fast-growing Qatar Re.

The Italian non-life insurance market is worth c€34bn pa (according to PwC 2014), 55% of which is represented by motor insurance. Through Movinsure, Gable has identified an accessible high-end commercial fleet opportunity worth €2bn annually.

Following recent market consolidation, the non-life market is dominated by Unipol, Generali and Allianz. Gable is targeting specialist areas within the fleet commercial market. Movinsure's MD, Carlo Fiana, is also MD of Berkshire Hathaway Italia. The lower than average spend per capita on insurance in Italy also makes the market potential attractive to insurers.

Gable has indicated that the agreement may be worth €10m GWP (£7.2m) in 2015 based on discussions with fleet operators. The size of the market suggests the Movinsure business could become significant to Gable.

No details were disclosed on the reinsurance quota terms expected to apply to the Movinsure business, making it too early to adjust our estimates. We assume reinsurance will reduce Gable's risk while a ceding commission will improve returns.

Financials

Following Gable's trading update in February, we introduced revised estimates. The impact of an exceptional fire claim (£3m in total) and the euro's weakness (€1m) lie behind downgraded pre-tax profit expectations for 2014 from £8m to £4.7m, giving earnings per share of 2.9p. For 2015, our revised pre-tax profit estimate becomes £9m (previously £13m) for earnings per share of 5.9p. Likely earnings progression steps up to £11.7m for 2016, providing the growing momentum to justify our target share price of 70p.

If investors are looking for comfort, we believe the sustained rapid progress in GWP should provide appropriate grounds. The group has incurred losses in France but Gable remains committed to the market, and by handling claims effectively, the company is securing market presence and recognition amongst brokers.

The halving of profit expectations during the year was reflected progressively in a share-price reduction, which took the shares from 80p to 44p. However, from this point forward, with the prospect of a recovery in profit, investors should be commensurately rewarded on the upside.

> Gable has capital in place to write up to £125m of business

DUNCAN HALL is research director for the services and consumer sectors at finnCap.

feature

Micro caps returning to the spotlight

Most institutional investors have shunned the smaller end of the market in the past couple of decades, with net outflows of funds from the sub-sector in many years. However, there are new funds focused on micro caps and AIM VCTs that have had a strong fundraising period. This is good news for AIM companies.

There appears to be a growing appetite for micro cap company investment, with more money flowing into funds that invest in these very small companies. AIM companies will have a chance to tap these funds to finance their growth.

To some people smaller companies mean companies with a market value of £1bn or less, which is why many smaller company funds have most of their money in relatively large companies. River & Mercantile launched a micro cap investment trust at the end of last year and Miton has just launched the Miton UK MicroCap Trust. Other fund managers, including Downing, Octopus and Marlborough, also have micro cap funds. Not all of the cash will go into AIM companies but they will get a significant amount of the money if they have a good investment reason for wanting funding.

The money going into these trusts is a drop in the ocean compared with the value of the Royal Dutch Shell bid for BG but it is enough to have a positive effect on micro cap companies, which tend to be defined as having a market value of less than £150m, although some, such as Downing, define them as being valued at less than £100m.

VCTs

Venture Capital Trust fundraisings reached a nine-year high in 2014-15 and it is thought that the reduction in lifetime pension allowances to £1m could provide a further boost in the future. VCTs have £3.46bn under management and because of eligibility rules they are also focused at the micro cap end of the market.

VCTs raised £420m in 2013-14 and the Association of Investment Companies says that the total rose to £429m in 2014-15. This is the fourth-highest figure in the twenty years of VCT investment. The past figures have been adjusted to exclude enhanced share buybacks, which are no longer allowed.

While the increase in money raised is small there appears to be a significant chunk going into AIM VCT fundraisings. The AIM VCTs managed by AMATI, Hargreave Hale, Octopus and Unicorn all increased the size of their offers for subscription in the spring and these latest offers appear to have raised around £75m in the tax year that just ended and there will be more raised in the new tax year. That is more than the total amount raised by VCTs in 2003-04.

Many of the generalist funds also invest in AIM companies and many of these have raised significant amounts of capital.

It is not just high earners that invest in VCTs. According to figures from the HMRC, in the 2012-13 tax year, 50% of the VCT investors who claimed tax relief invested less than £10,000.

NSCI

The Numis Smaller Companies Index (NSCI) is 60 years old and over that period the smallest companies have outperformed the larger ones. Since 1955, the index has achieved a 15.3% compound annual return, which is better than for the FTSE All Share index. Last year, the NSCI made a return of 0.8%, which was similar to the FTSE All Share, having outperformed in the previous two years.

The average size of the constituents of the NSCI, which excludes AIM companies, was £318m at the beginning of 2015, with the largest constituents valued at more than £1bn.

The Numis 1000 is an index that covers the smallest companies and it has performed even more strongly over the longer term than the NSCI. One pound invested in the Numis 1000 in 1955 would have been worth £11,161 at the end of 2014 – more than twice the value of £1 invested at the same time in the NSCI.

Interestingly, companies that floated more than two decades ago performed strongly and did better than more recent flotations. It probably comes as little surprise that companies that floated between four and seven years ago were the worst performers, as were some of the most recent new admissions.

This is not just a UK phenomenon. Between 2000 and 2014, smaller companies performed better than the larger companies in 85% of world markets.

Miton

Gervais Williams is backing his view in his latest book, The Future is Small, published by Harriman House, that AIM will be the best-performing world market for many years to feature

come by launching the Miton UK MicroCap Trust. Williams has been a fund manager for three decades and manages a number of smaller company funds, including investment trust Diverse Income Trust.

Miton UK MicroCap is seeking to raise £100m at 50p a share, via a placing, offer for subscription and intermediaries offer– although that can be increased to £150m if demand is strong enough. There is also provision for the issue of a further 200 million ordinary and/or C shares over the months after the initial offer closes. The ordinary shares will be issued at net asset value plus issue expenses.

Williams believes that the ease of availability of credit and increased globalisation have led to an increased focus on larger companies since the end of the 1980s. Micro cap companies tend to be focused on the domestic economy. This means that in this shorter period of time the performance of the FTSE All Share has been similar to the NSCI.

Williams believes that the market has changed and the prospects for micro cap companies are more like they were in the period prior to the late 1980s.

Williams is particularly keen on what he calls "regular businesses with good cash flow" rather than the more speculative micro cap companies. Due diligence is important and these new micro cap funds are in a better position to undertake this, making them attractive to both institutions and small investors seeking exposure to the sub-sector.

The five main things that Williams is looking for in a potential investment are turnover growth prospects, sustained or improving margins, a forward-looking management team, a robust balance sheet and a valuation that is based on low expectations that can potentially be beaten. If a company has these qualities then it has a good chance of being a good long-term performer.

One risk is the potential illiquidity of micro cap companies. This means that the micro cap fund managers need to be careful what they buy and they need to be prepared to hold for the longer term to get the main benefits – even if they want to sell they could find it difficult. On the plus side, there is an opportunity to buy these shares at a discount to their true value because of that lack of liquidity and the fact that they are under-researched because of the limited opportunity for brokers to generate trading commissions.

VCT fundraisings have reached a nine-year high

There are around 200 AIM companies that are valued at less than £150m and pay dividends. Some of these are valued at less than £5m, such as PHSC, which is capitalised at £3.6m and yields 5.3%. The yield is attractive but it may be difficult to build up a significant stake. There were 14 trades in PHSC during March and a fortnight in the middle of the month when there was no trading. The largest of these trades was 25,000 shares, which was valued at less than £8,000.

There are around 200 AIM companies that are valued at less than £150m and pay dividends

However, if Miton UK SmallCap does find a stake in a tiny, illiquid company with a sound balance sheet it will be able to hold on to those shares for the long term.

That is because investment trusts' are closed-end funds that have a stated number of shares that does not change unless the board decides to issue more or buy back existing shares. Unit trusts have inflows and outflows of money, potentially on a daily basis, depending on market sentiment and the needs of individual holders. If holders want to redeem their investment then, depending on the level of uninvested cash, the manager of the fund will have to sell part of its existing shareholdings.

There is a concern that investment trusts can trade at a significant discount to their NAV. An investment trust can try to reduce any discount by buying back shares.

Opportunity

Research conducted for venture capital investor Albion Ventures shows that two-thirds of IFAs believe that small companies are attractive investment opportunities for their clients and 37% of clients are seeking to invest in UK small businesses. These investors are a combination of new and existing investors in smaller companies.

According to Albion managing partner Patrick Reeve: "With favourable economic tailwinds and a supportive investor community small firms have a tremendous window of opportunity to make a mark".

There are undoubtedly plenty of opportunities in the micro cap sector and there is set to be plenty of cash ready to be invested in those companies with a sound business and financial argument. River and Mercantile UK Micro Cap Investment Company investment manager Philip Rodrigs believes that there is plenty of value in companies below £100m and he should complete the investment of the £50m raised last year by the summer.

Investors can sometimes be attracted to an investment area when performance has already been strong and they may have missed out on the best period. In the case of micro caps, that should not be the case.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	26.1	18.3
Industrials	14	16.7
Consumer services	13.9	11
Technology	11	10.8
Healthcare	10.6	7.2
Consumer goods	7.7	5.9
Oil & gas	7.3	11.9
Basic materials	5.7	15.3
Telecoms	2.4	1.4
Utilities	1.3	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	716.2	-15.8
FTSE AIM 50	3693.66	-19.9
FTSE AIM 100	3224.94	-15.9
FTSE Fledgling	7358.78	+8.6
FTSE Small Cap	4590.79	+2.8
FTSE All-Share	3663.58	+3
FTSE 100	6773.04	+2.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	267
£5m-£10m	126
£10m-£25m	213
£25m-£50m	166
£50m-£100m	130
£100m-£250m	128
£250m+	58

KEY AIM STATISTICS

Total number of AIM	1088
Number of nominated advisers	39
Number of market makers	54
Total market cap for all AIM	£72bn
Total of new money raised	£90.5bn
Total raised by new issues	£39.5bn
Total raised by secondary issues	£51bn
Share turnover value (2015)	£5.09bn
Number of bargains (2015)	0.97m
Shares traded (2015)	49.6bn
Transfers to the official list	171

TOP 5 RISERS OVER 30 DAYS

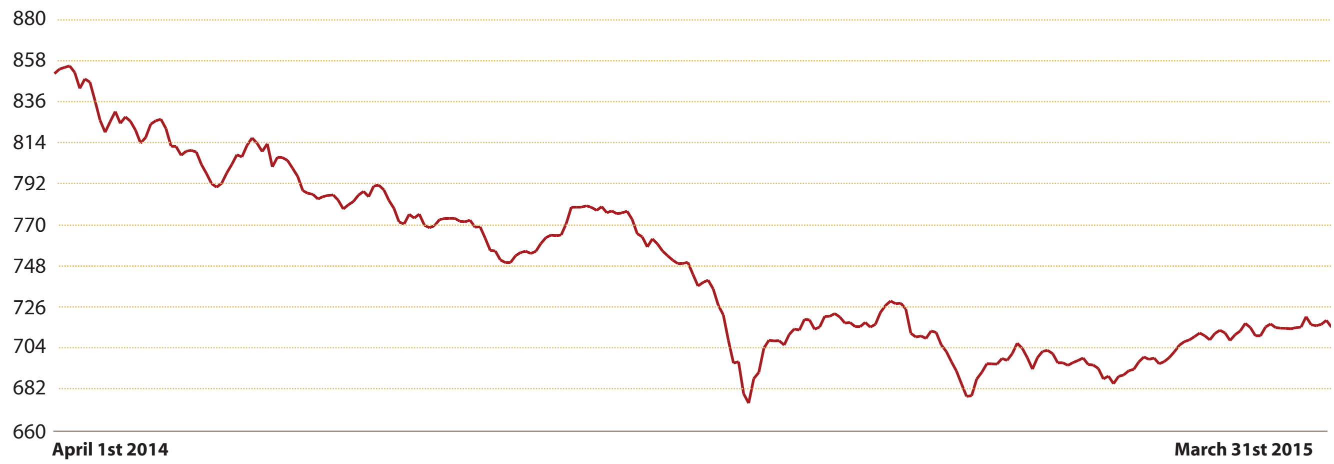
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Daniel Stewart Securities	Financials	1.7	+385.7
AFC Energy	Cleantech	26.75	+201.4
Amphion Innovations	Technology	7.75	+138.5
Bellzone Mining	Mining	1.21	+130.5
Oilex Ltd	Oil and gas	3.62	+107.1

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Digital Globe Services Ltd	Support services	45.5	-65.1
African Potash Ltd	Mining	0.37	-59.5
Clean Air Power Ltd	Cleantech	1.62	-50.4
Armadale Capital	Mining	0.02	-50
Eclectic Bar Group	Leisure	50	-24.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st March 2015, and we cannot accept responsibility for their accuracy.

sponsors

Partners for growth

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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