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AIM JOURNAL

Deloitte predicts AIM upturn

Accountancy firm Deloitte expects the number of AIM companies to increase in the first half of 2012. It argues that the shake-out in the junior market in recent years appears to have run its course.

In recent years a general attitude has prevailed that there were too many companies on AIM. "However, we believe that natural churn since then means that AIM is effectively much changed now and should be looked at afresh," argues Richard Thornhill, capital markets director at Deloitte.

Thornhill believes that if AIM starts to grow in numbers this will spark a more positive outlook from investors.

The number of AIM companies has fallen by one-third since the peak at the end of 2007 but Deloitte points out AIM cancelations reached a six-year low in 2011.

Deloitte says that only nine of the largest 50 companies on AIM at the end of 2007 remain on the junior market. Most of the others have moved to the Main Market or been taken over so they have not left for negative reasons. This is further evidence that AIM has changed significantly in recent years – both at the larger and smaller ends of the market.

Sports Stars plans Mourinho series

Portugal-based Sports Stars Media plans to join AIM in February and raise up to £1.75m to finance the development of 26 episodes of a CGI animation TV series involving José Mourinho.

The first series to be produced by Sports Stars Media (www.sportsstarsmedia.com) will include a character based on Real Madrid football manager José Mourinho. The series has the working title of Mourinho and The Special Ones and the target audience will be children aged six to 12 years. The rights to use José Mourinho's name, image and likeness in the animation series and associated merchandise are subject to Sports Stars Media joining AIM by 15 February at the latest.

Chief executive Ruben Dias and production director Pedro Maria were involved in the production of pre-school children's animation Gombby's Green Island, via their company Big Storm Studios, and they believe that the experience they gained will help with the commercialisation of Mourinho and The Special Ones.

A subsidiary of Sports Stars Media will receive a fee for distributing 52 episodes of Gombby's Green Island and has a call option to buy the intellectual property lasting until the end of 2014.

Former Motive TV director Ian Buckley is a non-executive director of Sport Stars Media. A placing and offer for subscription at 1p a share should value the company at up to £3.75m.

In this issue

general news

AIM Disciplinary Committee issues record fine to Seymour Pierce

Seymour Pierce has been fined £400,000 by the AIM Disciplinary Committee (ADC). This is a record fine although £200,000 of it has been suspended and will be payable if the AIM broker is censured again for acts that happen in the next two years.

The charges relate to Seymour Pierce's conduct as nominated adviser to one of its AIM-quoted clients and as a proposed nominated adviser to a company seeking admission to AIM.

Security firm Legion appears to be the company involved in the first of these cases. Legion ran into trouble with HMRC and it was not able to pay the money it owed. Legion informed the market that a director had loaned it money but it did not tell the market the underlying reasons. A later trading statement said trading was in line with expectations but failed to reveal an increase in debt. That statement led to an 80% rise in the share price and the ADC says it gave a misleading impression. A few weeks later the shares were suspended and a further week later administrators appointed. Legion went into liquidation on 28 July 2011.

Seymour Pierce was aware of the deteriorating financial position but failed to challenge Legion about this and ensure that the company informed the market.

The second case relates to the suitability of one of the directors of the proposed new issue. Seymour Pierce did commission reports on the individual but it should have commissioned a more detailed report and not relied on the word of the individual.

Bahamas plans junior market

The Bahamas International Stock Exchange (BISX) is the latest stock market to plan the launch of a junior market along the lines of AIM. Keith Davies, BISX's chief executive, says he was planning to open the micro listing facility last year but the timing was not right. Davies believes that things have changed and it is an opportune moment to launch the market. The junior market will be aimed at companies that want to raise around $1m to grow their businesses. AIM-quoted oil and gas explorer Bahamas Petroleum Company has stated that it would like to be quoted on the BISX to provide local investors with exposure to its offshore-Bahamas oil and gas exploration and this new market would provide an alternative to a full listing.

US network security developer Virogen hopes AIM will kick-start business

US-based network and data security technology developer Virogen Inc wants to join AIM in the first quarter of 2012. In a news release Virogen says that "it has initiated the application process" for AIM.

California-based Virogen's trading business is called Tiger Team Technologies (www.tigerteamtech.com), which has developed software for tracking storage and reproduction of sensitive information across intranets and the internet. The technology was originally developed in 2004-05 and the initial focus was the medical sector but Virogen believes that there are wider opportunities. The strategy is to provide services to clients and this will generate recurring revenues. In a document dated 6 May 2011, Virogen estimated that marketing and other expenses of $1m-$3m would be incurred over three years.

Virogen shares are already trading on the OTC market in the US (OTC:VRNI) but it has no revenues.

Virogen lost $79,000 in the three months to September 2011. "The company does expect to acquire clients on an ongoing basis over the next several quarters", according to the quarterly report.

The balance sheet shows total assets of $15.4m at the end of September 2011 but total liabilities are the same number. The assets are mainly in the form of goodwill and capitalised research and development, while $13.3m of the liabilities relate to money owed to chief executive Paul Hogan. There was just over $13,000 in the bank. Virogen will undoubtedly require more cash to move the business forward.

Virogen has also started the application process to join the Frankfurt Stock Exchange but that is unlikely to happen until nearer the end of 2012.

advisers

Canaccord launches £253m bid for Collins Stewart

Broker consolidation continues with Canadian broker Canaccord Financial bidding for Collins Stewart Hawkpoint.

Canaccord, which recently lost out in the bidding for Evolution, is offering 57.6p a share in cash plus 0.072607 of a Canaccord share for each Collins Stewart Hawkpoint share. At a Canaccord share price of C$8.50, the agreed bid is worth £253.3m (96p a share). That is a 90% premium to the Collins Stewart Hawkpoint share price prior to the announcement of the bid. A dividend of 2.6p a share will still be paid.

The combined group will have operations in 12 countries and Canaccord expects the deal to be earnings enhancing.

Meanwhile, Oriel Securities is said to be interested in buying Hoare Govett from Royal Bank of Scotland. Peter Meinertzhagen, a former chairman of Hoare Govett, is a director of Oriel. Cenkos is rumoured to be interested in Panmure Gordon.

Arden Partners hopes that a reduction in competitors will help it to prosper in the future. A sharp fall in corporate finance revenues was partially offset by higher broking revenues but group revenues still declined from £13m to £12.4m in the year to October 2011. A loss of £512,000 was turned into a profit of £612,000 as admin expenses were reduced. Underlying profit fell from £1.3m to £1.2m. There is £5.2m in the bank even though the trading investments have increased and Arden has spent £1.19m on buying back its own shares. Future trading is uncertain because of the confusing global outlook.

Daniel Stewart Securities has managed to maintain its revenues but it still fell into loss in the six months to September 2011. Revenues edged up from £3.53m to £3.58m as corporate finance revenues rose even though the number of transactions completed halved to 11. A profit of £191,000 was turned into a loss of £606,000. That was after a staff retention payment of £361,000 and higher international costs. An office in Hong Kong is planned so costs will be even higher next year.

ADVISER CHANGES - DECEMBER 2011

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
K3 Business Technology Group	finnCap	Canaccord Genuity	finnCap	Canaccord Genuity	01/12/2011
TomCo Energy	Numis	Westhouse	Numis	Westhouse	01/12/2011
Netplay TV	Singer	Panmure Gordon	Singer	Panmure Gordon	02/12/2011
Redhall Group	Canaccord Genuity	Altium	Altium	Altium	05/12/2011
Itacare Capital Investments	Cenkos	Numis	Cenkos	Numis	06/12/2011
eServGlobal	Charles Stanley / Cenkos	Cenkos	Cenkos	Cenkos	07/12/2011
Ncondezi Coal	Canaccord Genuity / Liberum	Liberum	Liberum	Liberum	07/12/2011
Paragon Diamonds	Fox-Davies	Fox-Davies	Fox-Davies	ZAI	07/12/2011
Acta	Seymour Pierce	Altium	Altium	Altium	08/12/2011
Westminster Group	Fairfax IS	XCAP	Fairfax IS	Zeus	08/12/2011
Great Western Mining	Shore	Libertas	Shore	Libertas	12/12/2011
Telit Communications	Canaccord Genuity	Investec	Canaccord Genuity	Investec	12/12/2011
African Medical Investments	Daniel Stewart	Matrix	Seymour Pierce	Seymour Pierce	13/12/2011
Patagonia Gold	Mirabaud	Matrix	Strand Hanson	Strand Hanson	14/12/2011
Driver Group	Charles Stanley	Altium	Charles Stanley	Altium	15/12/2011
Prezzo	Cenkos	Altium	Cenkos	Altium	16/12/2011
SimiGon Ltd	finnCap	Evolution	finnCap	Evolution	16/12/2011
Sterling Energy	Liberum	Evolution	Liberum	Evolution	16/12/2011
Cello Group	Cenkos	Altium	Cenkos	Altium	19/12/2011
Ceres Power Holdings	Evolution	Morgan Stanley / Jefferies	Evolution	Morgan Stanley	19/12/2011
Healthcare Locums	Investec	Fairfax IS / Jefferies	Investec	Fairfax IS	21/12/2011
Alkane Energy	VSA	Altium	Altium	Altium	22/12/2011
Baobab Resources	Shore	Fairfax IS	Grant Thornton	Grant Thornton	22/12/2011
Empresaria Group	Allenby	Altium	Allenby	Allenby	22/12/2011
Mulberry Group	Barclays	Altium	Altium	Altium	22/12/2011
Asian Plantations Ltd	Macquarie / Panmure Gordon	Panmure Gordon	Strand Hanson	Strand Hanson	23/12/2011
Belgravium Technologies	WH Ireland	WH Ireland	WH Ireland	KPMG	23/12/2011
Mobile Streams	Singer	Singer	Singer	Grant Thornton	28/12/2011
Asia Ceramics	WH Ireland	Alexander David / WH Ireland	WH Ireland	WH Ireland	30/12/2011

company news

European Goldfields recommends bid from Canadian rival

Gold miner *www.egoldfields.com*

European Goldfields, one of the largest companies on AIM, has agreed a C$2.5bn bid from Eldorado Gold Corporation. That values each share at C$13.08 (824p), which is a 48% premium over the share price on the previous trading day.

Vancouver-based Eldorado is offering 0.85 of one of its shares and C$0.0001 in cash for each European Goldfields share. The C$2.5bn (£1.57bn) valuation is based on Eldorado's closing price of C$15.39 a share on 16 December. European Goldfields shareholders will own 22% of the enlarged group.

The bid will be via a plan of arrangement under the Yukon Business Corporations Act. This requires two-thirds of the votes cast in a European Goldfields general meeting to be in favour of the deal. The meeting should be held in the middle of February. There is a mutual termination fee of C$75m.

> The combined group will have pro forma net cash of C$365m

The European Goldfields board argues that the bid compares favourably to recent bids for other gold miners. They also believe that Eldorado's management expertise will help to accelerate the exploitation of its mining projects. Shareholders will retain exposure, and potential upside, for the existing assets and also gain exposure to Eldorado's mining assets. The group will be more geographically diversified, with interests in Europe, China and South America.

EUROPEAN GOLDFIELDS (EGU)			740p
12 MONTH CHANGE %	-17.8	MARKET CAP £M	1360.4T

Eldorado claims to be one of the lowest-cost gold producers. Combined current gold production is 650,000 ounces a year, rising to 1.5m ounces by 2015. The combined attributable proven and probable gold reserves are in excess of 27.4m ounces.

The combined group will have pro forma net cash of C$365m. Eldorado's dividend policy is partly based on the ounces of gold sold during the financial year. European Goldfields shareholders do not receive a dividend so their income will be enhanced.

Paragon entertains ideas of own attractions

Attractions designer *www.marwyncapitaltwo.com*

Third-party attractions designer **Paragon Creative** has reversed into cash shell Marwyn Capital II to create Paragon Entertainment Ltd in a deal worth up to £4m. Up until now Paragon has produced attractions for clients but it wants to own and operate its own attractions and floating on AIM will help it achieve this ambition.

The attractions, which include interactive exhibits and models, are sited in museums, shopping malls, theme parks and other sites. Clients include the Tower of London and the Space Park Bremen. More than 1,000 attractions have been designed and produced by Paragon and it feels that it can retain more of the potential revenues by owning attractions.

PARAGON ENTERTAINMENT (PEL)			8.75p
12 MONTH CHANGE %	-22.2	MARKET CAP £M	13.9

It took Marwyn two years to find the right acquisition. The shell paid £1.75m in cash and £1.5m in shares (37.8m shares at 4p each) for Paragon. A further £750,000 may be payable in cash and/or shares depending on the settlement of potential liabilities.

Paragon has also raised £2.5m at 4p a share, a big discount to the market price, in order to finance growth. This and the existing cash in the shell will help to fund the acquisition and leave £2m to invest in the business.

The acquired business lost £151,000 on revenues of £4.34m in the year to August 2011. That loss was struck after directors' remuneration of £878,000 and that will be lower following the reversal. However, the new directors of the group are participating in a management incentive scheme that could provide them with a bonus of 10% of any increase in shareholder value in the next five years.

Paragon has 70% of expected 2011-12 revenues already in its contracted order book.

company news

Alpcot Agro hopes to revive the fortunes of Landkom International

Agriculture *www.landkom.net*

Nasdaq OMX First North-quoted **Alpcot Agro** has launched an agreed bid for Ukrainian agricultural commodities producer Landkom International. A rival cash offer from Jersey-based agricultural investor JadenFinch Ltd was subsequently rejected by Landkom even though JadenFinch increased its indicative cash offer from 2.3p a share to 3p a share

Shareholders will receive one Alpcot share for every 22.16 Landkom shares they own. Alpcot shares had closed at SEK6.25 (58.2p) on the day before the bid, which values Landkom at £11.4m (2.62p a share).

Alpcot plans to list on the Main Market of NASDAQ OMX Stockholm by the summer of 2012. It has been quoted on the First North market

Alpcot has better yields and its costs are lower

since 19 October 2009. Alpcot has successfully raised $20m from a placing, which was a condition of the bid. This cash will help to pay off Landkom's creditors and borrowings. Landkom had $24.1m of short-term liabilities at the end of September 2011, including $14.1m owed to agri-supplier Amako.

Landkom raised £54m at 52p a share when it joined AIM in November 2007. The financial crisis in 2008 meant that Landkom could not expand as originally planned. It is not in a strong position because cash flow is weak despite relatively good harvests. Tractors are not up to the

LANDKOM INTERNATIONAL (LKI)			3.12p
12 MONTH CHANGE %	- 49	MARKET CAP £M	13.6

job and need to be replaced.

Both companies trade at significant discounts to their NAVs and they are also losing money. Landkom shareholders will own 16.4% of the enlarged group and option holders a further 0.6%.

Alpcot controls approximately 181,400 hectares of agricultural land in Russia and 18,800 hectares in Ukraine.

Landkom controls 79,230 hectares in Ukraine and 64% of that was harvested last year. Rapeseed, wheat, maize, soya bean and barley have been produced. Alpcot has a similar crop mix and its yields are better and costs are lower.

DP Poland accelerates store openings

Pizza retailer *www.dppoland.com*

DP Poland, the Domino's Pizza master franchise owner for Poland, is raising up to £3.75m in order to finance further store openings to move the business closer to critical mass.

DP Poland is raising £2.75m from a firm placing at 60p a share and giving existing shareholders the chance to participate in the fundraising through a one-for-11.86714 open offer at the same price. The issue price was a 10% discount to the market price at the time. The open offer closes on 6 February and could raise up

DP POLAND (DPP)			68.5p
12 MONTH CHANGE %	+ 13.2	MARKET CAP £M	14.1

to £1m. The new shares are eligible for EIS relief. Shareholders will be able to subscribe for additional shares if they are available. The additional subscriptions will be scaled back if the offer is oversubscribed.

DP Poland originally raised £6.5m at 50p a share when joining Aim in July 2010. The net proceeds of the latest fundraising will be £3.52m – assuming full subscription. There was £1.53m in the bank at the start of November 2011.

Management wants to reach 20 stores in 2012, which is a level where it can start to sub-franchise. So far 12 stores have been opened in the Warsaw area. The first was opened in February and sales from the early stores opened continue to grow.

DP Poland has made good progress but the share price has gone backwards over the past 12 months. The placing price is barely more than 50% of the share price high in March 2011.

company news

Ashok Leyland takes control of bus maker Optare

Bus manufacturer *www.optare.com*

Optare has raised £4m through a placing at 0.27p a share, which gives the Indian commercial vehicle manufacturer Ashok Leyland and associated companies 75.1% of the bus manufacturer. UK rival Alexander Dennis said it was interested in bidding for Optare but the refinancing went ahead because Ashok was not willing to consider any bid.

Alexander Dennis requested information on the Optare business to enable it to make a decision on whether to make a bid. Edinburgh-based Alexander Dennis was part of Mayflower Group, which went into administration in 2004 and was later acquired by investors including Stagecoach Group boss Brian Souter. The company has three brands – Alexander, Dennis and Plaxton.

Ashok intends to retain the AIM quotation

Ashok owned 26% of Optare prior to the refinancing. Even if Alexander Dennis had acquired the rest of the shares it would have been limited in what it could do with the company because it would own less than 75% of Optare.

The Optare share price more than halved when the heavily discounted refinancing was announced. Ashok, which is part of the Hinduja Group, intends to retain the AIM quotation.

Ashok will also provide borrowing facilities for Optare. The existing facilities were extended for an interim period and the interest charge is eight percentage points above base rate. Ashok will provide a new facility of up to £12m and owning at least 75% of Optare was a key part of the deal.

OPTARE (OPE)			0.55p
12 MONTH CHANGE %	- 83.1	MARKET CAP £M	12.1

Optare's production has been consolidated at Sherburn and this means that costs will fall in 2012.

Optare has won an order worth up to £18m from South Africa. The order is for 190 Solo SR midibuses for the City of Cape Town. The buses will be produced by Busmark 2000 in Cape Town. The components and sub-assemblies will be supplied by Optare.

Optare's order book is worth £59m. There is a further round of UK funding for 'green' buses from April 2012.

US acquisition expands Scapa's medical division

Tapes and adhesive films *www.scapa.com*

Technical tapes and adhesive films manufacturer **Scapa Group** has bought a business that will significantly expand its medical division. Scapa has paid an initial $30m in cash for Webtec Converting, a contract manufacturer and packager of adhesive-backed medical devices.

Webtec manufactures wound care, diagnostics and electronics products. Webtec recently won a contract to supply a silicone-based dressing, which could be a significant revenue generator for the company. The deal broadens Scapa's portfolio of medical products and gives this business scale. There should also be cross-selling opportunities.

SCAPA (SCPA)			50.5p
12 MONTH CHANGE %	+ 32.9	MARKET CAP £M	73.4

The deal will be earnings enhancing. Webtec is forecast to increase its revenues from $27m in 2010 to $29m in 2011. In 2010, Webtec made an operating profit of $3.6m and it had a net asset value of $9.3m.

Up to $15m more may be payable depending on the profit performance in 2012 and 2013 - up to $10m in 2012 and $5m in 2013.

Medical will account for around two-fifths of Scapa's revenues but the strategy is for the three main divisions – the others are electronics and industrial – to be a similar size.

At the interim stage, Scapa reported flat revenues of £98.6m but an increase in underlying profit from £2.7m to £4.5m. In the year to March 2012, Scapa is forecast to increase its profit from £6.1m to £8.3m. A full contribution from Webtec in the following year should help the profit rise above £11m.

Schroders and Old Mutual have both increased their stakes in Scapa since the acquisition was announced.

IDOX strengthens market position as well as dividend

Document handling software *www.idoxgroup.com*

IDOX (IDOX)	
Price	24.25p
Market cap £m	83.7
Historical yield	2.5%
Prospective yield	3.3%

Dividend

Document management and planning software provider IDOX has been paying dividends since the final dividend of 0.1p a share for the year to October 2007. Since then the dividend payments have grown rapidly.

The final dividend for the year to October 2011 was 0.36p a share, which took the total for the year to 0.6p a share, an increase of one-third on the previous year.

If the earnings are adjusted for amortisation, exceptional charges and share-based charges, the figure is 2.47p a share, which is equivalent to a dividend cover of 4.1 times. A forecast increase in dividend to 0.8p a share should still be covered 3.5 times by 2011-12 forecast earnings.

Net debt was £2.4m at the end of October 2011, which is little more than the cost of last year's dividend plus the £300,000 spent on share buy-backs. According to house broker finnCap, acquisitions will push up the debt figure to £8.1m by next October. However, cash generated from operations could reduce the net debt figure to £400,000 a year later.

Business

IDOX has been widening its customer base in recent years. The business used to be dependent on the local government sector but recent acquisitions have helped to boost the customer base in the private sector. The acquisitions have also given IDOX global coverage.

More than 90% of UK local authorities are customers of IDOX and it is a leading provider of software relating to land, people and property.

McLaren Software was acquired in 2010 and this took IDOX into the engineering document management market. The recent purchase of CTSpace has strengthened the company's position in this market.

The most recent acquisition was Interactive Dialogues, which is a UK and Belgium-focused e-learning and information services business that covers compliance with competition law and the Bribery Act. This acquisition cost €2m in November with a potential earn-out of up to €200,000 in another 12 months.

Neither Interactive Dialogues nor CTSpace contributed to the figures for the year to October 2011 but the previous acquisitions helped revenues grow from £31.3m to £38.6m. Underlying profit improved from £7.8m to £10.5m.

The public sector's revenue contribution fell from 84% to 78% last year. Acquisitions mean that the current pro forma figure is 56%. Further acquisitions are planned and a £22m debt facility gives IDOX plenty of scope to move ahead with its strategy.

There is a small recruitment business but the growth is expected to come from the core business. An underlying profit of £13.5m is forecast for 2011-12, rising to £14.4m in 2012-13. The shares are trading on less than nine times 2011-12 earnings.

Dividend news

A strong increase in profit enabled **William Sinclair** to push up its dividend by 24% to 6.2p a share, providing a yield of 4%. The peat and horticultural products supplier's pre-tax profit rose from £2.06m to £3.18m in the year to September 2011. Net cash was £2.65m. There is no final agreement on compensation for the winding down of peat production at Bolton Fell and it has been referred to the courts. Natural England paid £9m in April 2010 but Sinclair believes that it is owed even more than the total of £12m on offer. The company estimates that the winding down has cost £600,000 in profit in the past two years.

Engineering recruitment firm **Morson** is cutting its dividend following disappointing trading and higher than expected borrowings. The final dividend, which was 4p a share last year, will be passed. The interim dividend was maintained at 2p a share, which represents an annual yield of nearly 5%. An unchanged total dividend of 6p a share would still have been covered around 1.8 times. Defence aerospace, nuclear and transport markets are difficult. A profit of £7m is forecast for 2011, falling to £6.4m in 2012. However, the timing of payments means net debt was around £40m at the end of 2011 – averaging £35m throughout the year.

Solid State increased its interim dividend by 25% to 2.5p a share on the back of figures showing a 28% rise in pre-tax profit to £704,000 in the six months to September 2011. The batteries and electronic components distributor reported a 10% increase in revenues to £11.4m and the previously loss-making Rugged Systems Ltd made a positive contribution. Since the end of the period, Solid State has paid £200,000 for Blazepoint, which is a former competitor in the rail and defence sectors.

expert views

Expert view: The broker

Post-RESORBA acquisition forecast upgrades for AMS

By DR KEITH REDPATH

The acquisition of RESORBA in December makes good strategic sense for woundcare products developer and manufacturer Advanced Medical Solutions (AMS). Not only does it provide AIM-quoted AMS with additional profitable revenues, but it adds direct sales channels in Germany, the Czech Republic and Russia through which AMS can now sell its own woundcare and wound closure products.

The RESORBA deal is earnings enhancing in the year ending December 2012, adding £3m of pre-tax profit to our estimates.

Strategic fit

RESORBA manufactures surgical sutures and collagen products, and has its own direct sales operations in Germany, the Czech Republic and Russia. It is also a third-party distributor, selling AMS's LiquiBand product range for example. RESORBA has three manufacturing sites and employs 175 people.

RESORBA provides AMS with a good strategic fit, and presents several upside opportunities for which the company is now developing plans.

The most obvious is the immediate addition of revenues and profit to the group but on top of this is the group's direct sales forces in Germany, the Czech Republic and Russia that already market LiquiBand and that can now sell the broader AMS portfolio of woundcare and wound closure products. AMS will be able to unwind the InteguSeal distribution deal with Kimberly-Clark in these new territories and sell direct.

There are also potential opportunities to take RESORBA products into the global AMS distribution network, subject to appropriate regulatory approvals (eg, sutures) as well as a new market for LiquiBand in oral surgery, subject to regulatory approval. RESORBA also provides AMS with access to new materials for woundcare product development, such as collagen, and the expertise that comes with it.

In the year ending 31 December 2010, RESORBA recorded sales of €20.1m, up from €19.1m in 2009. Adjusted EBITDA was flat at €7.2m.

> RESORBA manufactures surgical sutures and collagen products

Full price

At €63.8m AMS looks to have paid a full price for RESORBA, representing 3.2 times 2010 sales and 8.9 times 2010 adjusted EBITDA. The purchase has been funded through a mixture of debt and equity: £34m was raised through a placing of 47.2m shares at 72p each, and on top of that a €25m term loan facility and an £8m revolving credit facility have been secured.

The acquisition came too late in the year to make any significant contribution to the 2011 figures so we leave our 2011 revenue and profit forecasts unchanged. Revenues are forecast to rise from £31.9m to £35.2m in 2011, while adjusted pre-tax profit is expected to increase from £5.6m to £6.6m.

Upgrade

The 2012 forecasts have changed significantly but they do not include any potential contributions from the new opportunities that have been outlined above.

The revenue forecast has been moved ahead from £40.1m to £59.2m, while the pre-tax profit forecast increases from £7.6m to £11.6m. Gross margin is forecast to improve from 46.5% to 48%, while EBIT margin should rise from 18.5% to 21.8%. Fully diluted earnings per share have been upgraded from 4.9p to 5.3p – based on a tax rate of 7%.

The cash-flow statement and balance-sheet forecasts have been updated to reflect the acquisition. Net debt of £16.2m is estimated for the end of 2011 but strong cash flow is expected to reduce net debt to £8.5m by the end of 2012.

We have raised our target share price to 90p, equivalent to a prospective 2012 PE ratio of 17, from 70p and change our recommendation from Sell to Hold.

> The deal is earnings enhancing in the year ending December 2012

Dr Redpath is a research director specialising in health care and pharmaceuticals at FinnCap.

feature

AIM hopes for better year in 2012

AIM numbers continue to decline but it is the lack of new companies rather than the number of cancellations that is the problem.

AIM had a far tougher time in 2011 than in the previous two years when its recovery went from strength to strength. Last year, that recovery stalled and AIM went backwards in terms of performance, although there was progress in other areas. After two years of strong performance AIM suffered a sharp decline in 2011 as investors became wary of shares and smaller companies in particular.

The FTSE AIM All-Share index lost a quarter of its value during 2011, while the FTSE All-Share index for the Main Market lost less than 8% and even the smaller Main Market company index measures outperformed AIM. This in stark contrast to 2009 and 2010, when the FTSE AIM All-Share rose by 66% and 42.7% respectively and significantly outperformed the Main Market.

There is no great shock that in such turbulent financial times investors will look to companies they feel are more secure because they are larger – not always a sound assumption, though.

New blood

The number of new entrants and re-admissions to AIM in 2011 was the lowest since 2009, when there were only 36. The only other year when the figure was lower than the 89 in 2011 was 1998. Back in 1998, the market value of AIM was £4.44bn, which is little more than the £4.34bn raised by new entrants and existing companies in 2011.

The new admissions raised £608.8m in 2011 – less than half the amount raised in 2010. It is not just the number of companies that is lower. In 2009, £740.4m was raised, an average of £20.6m per company which was three times the average in 2011.

The new admissions include 23 companies that were reintroduced due to reverse takeovers or changes in domicile. That figure does not include Sylvania Resources, which switched domicile to the Bahamas and returned as Sylvania Platinum a few days later. If this is taken into account there were 65 new companies that joined AIM last year.

AIM numbers

The number of AIM companies has continued to fall but the rate of decline has slowed. That is mainly attributable to a much lower number of companies cancelling their AIM quotations. AIM had 1,143 companies at the end of 2011, down from 1,195 a year earlier. There were 119 cancellations in 2011– excluding the Raven Russia preference shares and readmissions – which is three-quarters of the previous year's number.

One-third chose to leave because they felt that AIM was not right for them, while a further 10 moved to the Main Market. The number taken over fell from 62 last year to 34 in 2011 but it is still a significant proportion of the total. The other main reason for leaving was financial difficulties.

Even the amount raised by existing AIM companies was relatively low. The figure of £3.73bn was lower than the previous two years and much lower than the amounts raised at the peak of the market in the past decade. To put this into perspective, £1.23bn was raised in December 2010.

This means that there was little help from new money to offset the decline in AIM's capitalisation last year. AIM's market value fell from £79.4bn at the end of 2010 to £62.2bn at the end of 2011. This is still higher than the figure at the end of 2009 when there were 1,293 companies on AIM.

Not all the decline in market value has come from falling share prices. The 10 companies moving to the Main Market, such as Avocet Mining, Petra Diamonds and Kentz Corporation, probably account for around £3bn of the reduction in AIM's capitalisation.

Takeovers also had an effect. The £2bn-plus all-share bid for Western Coal Corp, which was one of AIM's largest companies, was completed in April. However, most of the other takeovers were relatively small, with the £153m acquisition of internet services and consultancy provider Group NBT one of the few others to be worth more than £100m.

One area that has seen a significant amount of takeover activity is the technology sector. This is a sector where there has been activity at the larger and smaller ends of the market. According to PwC, the total value of global technology deals was €69bn in 2011,

> AIM started 2011 breaking new records for the average number of daily bargains

which is 90% more than in 2009 when they reached a low point.

Falling stock market valuations made many AIM technology companies attractive bid targets with some managements involved in buy-outs – financial software developer Parseq, for example. Group NBT, IT security firm Norkom, healthcare IT provider System C Healthcare and Workplace Systems are some of the technology companies that have been acquired during the year.

There appears to be more takeover activity to come. K3 Business Technology Group and Prologic are examples of software companies that feel that their valuations are too low and they have effectively put themselves up for sale.

Liquidity

AIM started 2011 breaking new records for the average number of daily bargains in one month but trading levels declined during the second half as stock markets in general were hit by global financial turmoil. The average daily bargains peaked at 26,852 in February and the numbers remained strong up until the summer. The numbers fell but were still relatively good. They reached a low of 18,210 in December.

The overall daily average for 2011 was 22,811, which was still well above the average of 16,055 in the previous year. Every month achieved an average better than the average for the whole of 2010. The best year prior to 2011 was 2007 when the daily average was 16,460. For the years between 2007 and 2010 the averages had been around a narrow range of 15,632 and 16,460. So 2011 represents a step forward in liquidity.

The oil and gas sector accounted for 43.2% of all the bargains on AIM in 2011, although that is down from 45% in 2010. The sector accounts for 23.9% of AIM's market value.

Average daily turnover values are still a long way from their peak in 2007 but there was an improvement from £129.3m in 2010 to £153.8m in 2011 – barely more than half of the 2007 figure of £296.6m.

The oil and gas sector accounted for 43.2% of all bargains

2012

There have already been a number of fundraisings completed or announced this year. Pizza retailer DP Poland and bus manufacturer Optare are both mentioned in this edition and Falkland Oil & Gas Ltd has announced a £48.5m placing since the beginning of 2012. There is a long way to go to reach the January 2011 figure of £567.2m, though.

There have been positive comments about the potential for the number of AIM companies to increase this year. This is mainly down to the decline in cancellations but if new companies are not joining then numbers will not increase.

There are companies planning to join AIM but ones that have made firm announcements have delayed their entrance. China-focused cleantech company Auhua Clean Energy initially said it would join AIM on 16 December but this has been put back twice and the latest estimate is late January. Shell company Carta Acquisitions was due to raise £50m and join AIM on 9 January but this did not happen.

Uranium explorer U3o8 Holdings intends to switch from Plus-quoted to AIM in late January, having initially planned to move earlier in the month. Mobile phone services developer Voiamo has also delayed its flotation until late January.

Tangiers Petroleum and Sports Stars Media are both due to float in February. Lettings agency Belvoir Lettings hopes to raise £6m-£8m by joining AIM, although only £3m would be new money. Belvoir has 142 franchised offices. In the longer term, student accommodation provider FreshStart Living, robotic medical equipment developer Freehand and US IT security products developer Virogen Inc (see page 2) are considering AIM flotations.

These and other flotations need to happen if AIM numbers are to start growing again but if economic conditions in Europe remain uncertain then many potential AIM entrants might postpone or give up on their flotations. This is not something that AIM can control.

REASONS FOR LEAVING AIM

REASON	2011	2010	2009	2008	2007
Choosing to cancel quotation	40	47	111	54	17
Financial problems	20	15	51	41	16
Takeover	34	62	50	68	74
Shares suspended for six months	8	9	18	7	6
No nominated adviser	2	2	16	15	15
Winding up	3	11	12	11	4
Move to Main Market	10	11	10	12	13
Shell without suitable acquisition	2	3	7	8	17
Total	**119**	**160**	**275**	**216**	**162**

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	23.9	11.4
Basic materials	19.2	15
Financials	17.9	22.2
Industrials	11.1	18.7
Technology	7.8	9.8
Consumer services	6.2	10
Health care	5.9	5.6
Consumer goods	5.7	5.2
Telecoms	1.5	1.1
Utilities	0.8	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	693.18	-25.2
FTSE AIM 50	2818.8	-21.1
FTSE AIM 100	3129.07	-26.8
FTSE Fledgling	4081.64	-14.3
FTSE Small Cap	2748.77	-14.8
FTSE All-Share	2857.88	-7.6
FTSE 100	5572.28	-6.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	279
£5m-£10m	156
£10m-£25m	246
£25m-£50m	204
£50m-£100m	119
£100m-£250m	91
£250m+	48

KEY AIM STATISTICS

Total number of AIM	1,143
Number of nominated advisers	61
Number of market makers	59
Total market cap for all AIM	£62.21bn
Total of new money raised	£77.1bn
Total raised by new issues	£34.91bn
Total raised by secondary issues	£42.2bn
Share turnover value (2011)	£38.61bn
Number of bargains (2011)	5.73m
Shares traded (2011)	176.87bn
Transfers to the official list	160

TOP 5 RISERS OVER 30 DAYS

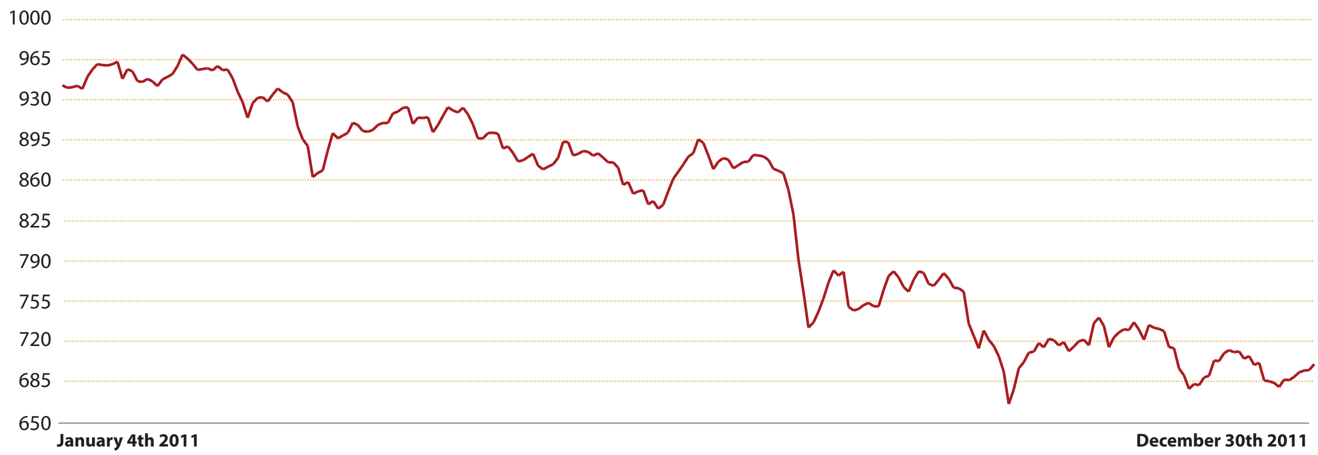
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Angel Mining	Mining	3.12	+229
Leed Petroelum	Oil and gas	0.22	+175
Forbidden Technologies	Technology	44	+166.7
Zoltav Resources	Mining	6.72	+111.8
Hot Tuna International	Shell	0.075	+100

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Carpathian	Property	€ 0.01	-87.9
Environ Group (Investments)	Construction	1	-73.3
Pursuit Dynamics	Technology	67	-69.3
Optare	Transport	0.55	-66.2
Global Brands	Food	0.42	-62.2

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st December 2011, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus. finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. This helped finnCap become the fastest growing broker in both 2009 and 2010. finnCap is ranked as the number two broker/nominated adviser on AIM by overall client numbers. It is number one ranked in healthcare, technology and industrials sectors.

finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. It has also been shortlisted for best research at the AIM Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for two years running.

finnCap has a strong track record of raising money for clients and it has advised on £280m of fundraisings and more than £300m of M&A transactions since April 2009. More than £140m was raised for clients in the year to April 2011.

Clients have a combined market value of around £3bn, with an average market capitalisation of approximately £40m. The top 20 clients have an average market capitalisation of more than £100m.

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