

JULY 2010

# AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

## AIM debut for bank acquisition vehicle

AIM is set for its biggest flotation this year when 'Project New Bank', a vehicle set up to acquire parts of state-controlled high street banks hits the junior market.

Fronted by Lloyd's of London chairman Lord Levene and Sir David Walker, best known for his review into bank governance, the new bank will first join AIM before stepping up to the main market. The company would be expected to make a small acquisition of an existing operation that has a banking licence before going for bigger targets.

The company is expected to raise £50m "in the next few weeks", before making bids for parts of Northern Rock, Royal Bank of Scotland and Lloyds. Northern Rock is expected to be privatised next

year. RBS has been ordered to sell off 300 branches by the European Commission's competition authorities, while Lloyds has to sell 600 branches.

The flotation could mean a fees bonanza for Cenkos and investment boutique Kinmont, the advisers to the deal. Cenkos will be the bank's nominated adviser.

Billions of pounds have already reportedly been committed in principle to the project by institutional shareholders including Aviva, F&C and Invesco.

The new bank, though, is unlikely to have everything its own way. It faces competition for bank assets from Richard Branson's Virgin Money, National Australia Bank and a number of private equity groups.

## Palmaris set to cash in stake

AIM-quoted Palmaris Capital will be one of the winners from the proposed flotation of Scottish surface coal miner Scottish Resources Group.

Palmaris owns 16% of SRG, which hopes to float in the next few weeks. A valuation of £200m or more has been suggested for SRG even before it raises £25m of new money. That valuation suggests that Palmaris's stake could be worth £32m. Palmaris has said that it might sell all or some of the stake in the flotation. This will depend on the demand for shares from institutions.

The Palmaris share price recently reached a high of 15.75p but it has

fallen back to 12.75p, which values the company at £19.9m. The SRG investment is in the books at £15.5m. That is not the initial cost of the investment so it does not provide an indication of the capital gain that could be liable to tax. Palmaris, then known as Waverley Mining Finance, has been a shareholder since 1994. The initial 26% stake was diluted by subsequent share issues.

SRG, formerly known as Mining (Scotland), produced 3.4m tonnes of coal in the year to March 2010 and made an operating profit of £33m. Debt was £60.5m.

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## general news

# AIM celebrates fifteen years of success



AIM celebrated its 15th birthday on 19 June and it continues to outperform the main market so far this year. AIM remains an important source of finance for growing companies.

The Main Market is lower this

year but AIM is around 5% higher. This carries on from its strong performance in 2009. New issues are still thin on the ground but there are some in the pipeline. The exodus to the standard listing predicted by some has not happened. In fact, there are still companies, such as Manganese Bronze and Havelock Europa, that are swapping their premium listing for an AIM quotation.

AIM-quoted companies have raised £61.4bn over the past 15 years and 144 companies have moved from AIM to the Main Market or the Specialist Fund Market. More than 3,000 companies have joined AIM over its life. Although there were only 1,243 companies still on AIM at the end of May 2010 most of the other companies have left for positive reasons, such as takeovers and transfers to the Main Market. Also, every time there is a reverse takeover of an existing AIM company the enlarged company is deemed to be a new entrant so that swells the total number of new entrants.

# Polo ends talks with Caledon

Polo Resources and fellow coal miner Caledon Resources have called off their merger but continue to work together. Polo has also rejected an indicative all-share offer from 4% shareholder Laxey Partners. Laxey wants to acquire Polo through a new company and then sell off all its assets and return the cash to shareholders.

Polo and Caledon could not agree on merger terms because of market volatility. However, Polo has invested £2.13m in a placing at 30p a share and it owns more than 27% of Caledon, which has drawn down a £14.9m loan from Polo in order to repay £14.5m of loan notes in July.

Polo has sold its Mongolian joint venture for an initial \$15m, with \$20m more to come. Polo will receive a 0.5% net royalty on coal sold until the total payments reach \$50m. Polo might pay a 3p a share special dividend following the sale of its stake in uranium explorer Extract Resources for \$138m, although the disposal requires shareholder approval.

# Good news from Catcher for EnCore and Nautical

EnCore Oil and Nautical Petroleum are the two best performers on AIM in the past month following the Catcher prospect oil discovery.

At the beginning of June there was initial news of the discovery at Catcher in the UK Central North Sea block 28/9 and by the end of the month it was being talked of as one of the largest North Sea oil finds for a decade.

The Catcher East 28/9-1Z sidetrack well encountered excellent quality oil-bearing sandstones very similar to those in the Catcher discovery well. Just a few days later there was more good news from another appraisal well.

It is thought that there could be as much as 300m barrels of oil-in-place at the Catcher feature, half of which might be recoverable.

Both EnCore, which is the operator, and Nautical have 15% stakes in the Catcher block. That means that they could each have an interest in more than 20m barrels of oil.

The companies are seeking to buy a number of new site surveys over potential drilling locations in Block 28/9.

There will be further drilling later this year and in early 2011.

## advisers

# Vantis demise sparks purchases by rivals

AIM-quoted accountant Vantis has gone into administration and the administrator has wasted little time in selling off the more attractive parts of the business.

FTI Consulting was appointed administrator at the end of June. There will not be anything left for shareholders after the disposals.

Vantis was lumbered with high borrowings after its acquisitive growth in the years following its flotation on AIM in May 2002. The biggest deal was the merger with fellow AIM-quoted accountant Numerica in 2005.

The business was not generating the cash to service the debts and make a significant dent in them. Management was trying to find a way of refinancing the company but did not succeed. They tried to raise cash to reduce Vantis's debts but failed to make sufficient progress in either selling assets or attracting new investors. Any new investment would have been highly dilutive to existing shareholders.

Vantis has been embroiled in a dispute over its involvement in the winding up of part of US billionaire Allen Stanford's business empire and last month the High Court of Antigua removed the company as the liquidator of Stanford International Bank.

This appointment appeared to be a way for Vantis to generate cash to help it reduce debts but it became mired in disputes with its counterparts in the US.

Vantis had already warned that the litigation surrounding its appointment as liquidator to Stanford International Bank meant that the timing of revenues from this work was uncertain.

Trading in the shares was suspended on 14 June at 10.25p. Chief executive Paul Jackson and Nigel Hamilton-Smith, head of business recovery, announced their resignations at that time.

Investec resigned as nominated adviser and the quotation will be cancelled on 30 July.

RSM Tenon, which recently moved from AIM to the Main Market, snapped up some of the best assets the day after Vantis went into administration. RSM Tenon paid an initial £5.7m, plus £500,000 transaction costs, with a further £1m payable depending on the collection of debtors.

RSM Tenon bought offices in London, Leicester, Epsom and the Thames Valley as well as the Vantis IFA business. There are 300 employees transferring with the businesses. The

acquisition adds additional small business clients and increases the size of the group's business recovery operation in the Thames Valley as well as doubling the size of RSM Tenon's activities in London. It will cost £3.6m to integrate the assets into RSM Tenon.

The assets acquired generated revenues of £27m and a profit before central costs of £4.1m in the year to April 2010. RSM Tenon believes that they will be earnings enhancing in the first full year of ownership.

Some of the other Vantis offices were bought by partners in those locations.

AIM-quoted insolvency specialist Begbies Traynor took on the Vantis tax business in London. It bought the work in progress for what it calls "a sensible figure". The specialisation of the business is fraud investigations. Seven people are joining the company, including Don Mavin, who will become managing partner of the enlarged BTG Tax business in London.

Begbies reported an 11% increase in revenues to £69.1m in the year to April 2010. Underlying pre-tax profit was 6% higher at £10.4m with all of it effectively coming from the insolvency business.

### ADVISER CHANGES - JUNE 2010

| COMPANY                         | NEW BROKER               | OLD BROKER         | NEW NOMAD          | OLD NOMAD          | DATE       |
|---------------------------------|--------------------------|--------------------|--------------------|--------------------|------------|
| Avacta Group                    | XCAP                     | Daniel Stewart     | Grant Thornton     | Daniel Stewart     | 01/06/2010 |
| City of London Investment Group | Canaccord/Singer         | Singer             | Singer             | Singer             | 01/06/2010 |
| Deo Petroleum                   | First Energy Capital     | Merchant John East | Merchant John East | Merchant John East | 04/06/2010 |
| Byotrol                         | Arbuthnot                | Charles Stanley    | Arbuthnot          | Charles Stanley    | 07/06/2010 |
| Focus Solutions                 | FinnCap                  | Daniel Stewart     | FinnCap            | Daniel Stewart     | 07/06/2010 |
| Directex Realisation            | Libertas                 | Canaccord          | Libertas           | Canaccord          | 08/06/2010 |
| Persian Gold                    | Alexander David          | FinnCap            | Cairn              | FinnCap            | 08/06/2010 |
| European Goldfields             | Liberum/Evolution        | RBC                | Liberum            | RBC                | 10/06/2010 |
| Ablon Group Ltd                 | Religare/ING             | KBC Peel Hunt/ING  | Religare           | KBC Peel Hunt      | 10/06/2010 |
| Hartest Holdings                | Westhouse                | Astaire            | Westhouse          | Astaire            | 10/06/2010 |
| Origo Partners                  | Liberum                  | Liberum            | Liberum            | Smith & Williamson | 11/06/2010 |
| Hellenic Carriers Ltd           | Panmure Gordon/Jefferies | Jefferies          | Panmure Gordon     | Jefferies          | 15/06/2010 |
| Oak Holdings                    | Cairn                    | Arbuthnot          | Cairn              | Arbuthnot          | 16/06/2010 |
| Energy XXI (Bermuda)            | Seymour Pierce           | Collins Stewart    | Seymour Pierce     | Collins Stewart    | 17/06/2010 |
| MTI Wireless Edge               | Allenby                  | Execution Noble    | Allenby            | Execution Noble    | 23/06/2010 |
| Metrodome Group                 | Charles Stanley          | Astaire            | Charles Stanley    | Astaire            | 25/06/2010 |
| Treveria                        | Singer                   | Numis              | Singer             | Numis              | 30/06/2010 |

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## company news

# Assetco focuses on outsourcing growth opportunities in the Middle East

*Outsourced fire services*

[www.assetco.com](http://www.assetco.com)

**Assetco** made the mistake of trying to expand too quickly and buying a wide range of fire and safety-related businesses but it has taken the decision to focus on its core operations. These are its outsourced fire services contracts in London and Lincolnshire and in the Middle East.

The Middle East, in particular, offers potential for growth in the next few years. The timing of growth in the UK is more uncertain. Since Assetco reversed into Asfare in 2007 it has been talking about adding to its customer base in the UK. The potential contracts for other UK fire service regions still haven't materialised and are unlikely to in the short term.

Assetco is winning more business from its existing UK customers but the main short-term growth is likely to come from recently won contracts



in the UAE and Abu Dhabi. The three-year contract for outsourced fire services in the UAE started just after the new financial year commenced and should generate £13m a year. The contract to operate an emergency services training centre should start making a significant contribution in 2012-13. The ten-year contract could generate £2.5m profit a year.

Revenues from continuing

|                       |       |                    |
|-----------------------|-------|--------------------|
| <b>ASSETCO (ASTO)</b> |       | <b>56.5p</b>       |
| 12 MONTH CHANGE %     | -10.3 | MARKET CAP £m 51.3 |

operations grew from £34.1m to £45.2m in the year to March 2010. The reported profit jumped from £1.25m to £12.1m but, stripping out the changes relating to derivatives, the profit increased from £5.8m to £10.8m. There was also a £5.3m loss from discontinued activities. Assetco is still selling some of these businesses.

Net debt has fallen from £76m to £68.5m at the end of March 2010. Gearing remains at more than 100% but there are assets for sale that are in the books for around £10.3m and that will help to further reduce the debt. The final dividend was 1.5p a share and a dividend of at least 1p a share will be paid when the assets are sold.

# Mavinwood refocuses on data services

*Data management services*

[www.mavinwoodplc.com](http://www.mavinwoodplc.com)

**Mavinwood** has got rid of its emergency repairs businesses and is concentrating on its document storage/data management operations. New chief executive Charles Skinner, who built up the Brandon Hire tool hire business, is keen to make acquisitions in order to grow faster.

Skinner wants to buy document-scanning businesses whose profit contribution can be increased through their integration with the company's existing operations. He is also keen to sell additional services to the current customer

|                        |       |                   |
|------------------------|-------|-------------------|
| <b>MAVINWOOD (MVW)</b> |       | <b>0.45p</b>      |
| 12 MONTH CHANGE %      | -77.5 | MARKET CAP £m 6.9 |

list. This could come from licensing products and services or by acquiring businesses in new areas.

The Peter Cox damp-proofing business is the only non-core business left. Last year's figures show another large loss but Mavinwood should return to profit this year - Cenkos forecasts an underlying profit of £2.9m for 2010. The shares are trading on a modest

rating of less than four times prospective earnings.

Net debt is down to £11.6m at the end of 2009 from three times that level one year earlier. It is forecast to fall to £9.1m by the end of 2010 but this will depend on how acquisitions are funded. Lord Ashcroft's Geraldton owns 87% of Mavinwood and it is supportive of the management's strategy. It is willing to provide more funds but it will also be happy to have its stake diluted. That will make the shares more liquid and attractive to investors.

## company news

# Online fashion retailer ASOS sets its sights on expansion in the United States

Online fashion retailer

[www.asosplc.com](http://www.asosplc.com)



Online fashion retailer **ASOS** continues to produce impressive growth and it intends to expand its international presence.

Revenues grew 35% to £223m in the year to March 2010, with international sales nearly doubling to £63m. Although the gross margin fell, operating margins improved from 8.4% to 9.1%. Pre-tax profit rose 44% to £20.3m. Younger customers

have proved more resilient and that is why ASOS has continued to prosper. ASOS is offering free delivery in the UK whatever the size of the order but delivery takes up to six days. First-quarter revenues are 48% ahead of the same period last year.

The main focus is growing international revenues, with a dedicated US website being launched. ASOS believes it will be able to offer 3-4 days delivery to US customers.

ASOS suggested a year ago that it might consider a move to the Main Market. Chief executive Nick Robertson (pictured, left) says that there was some concern about AIM last year but his investors are now happy for the company to stay on that market. He is "happy being a big

|                   |             |
|-------------------|-------------|
| <b>ASOS (ASC)</b> | <b>860p</b> |
| 12 MONTH CHANGE % | +142.3      |
| MARKET CAP £m     | 633.3       |

fish in a small pool".

Net cash was £15.6m at the end of March 2010. The business is cash generative but this year capital spending is likely to be around £30m. That includes £20m of investment in a new warehouse in Barnsley. The initial capacity will be £600m but it will put ASOS in a strong position to move towards its target of annual revenues of £1bn in five years' time.

Analysts are forecasting profits of around £27m for this year. That puts the shares on around 34 times prospective earnings for 2010-11, which leaves little room for disappointment.

# Corporate business provides opportunities for Park

Vouchers supplier

[www.parkgroup.co.uk](http://www.parkgroup.co.uk)

**Park Group** is no longer dominated by its Christmas hamper business and more than 90% of revenues come from its voucher operations.

The vouchers can be redeemed at a number of different stores. Although Park has lost some stores because they have gone bust, such as Woolworths, it has managed to add others to the list. The company's main Love2shop voucher has added Debenhams, Superdrug and Clinton Cards among others in the past year.

Revenues grew 5% to £263.2m in the year to March 2010, with nearly all of that coming from vouchers. Christmas savings still account for three-fifths of that revenue but the growth is coming from corporate

|                         |               |
|-------------------------|---------------|
| <b>PARK GROUP (PKG)</b> | <b>21.25p</b> |
| 12 MONTH CHANGE %       | +6.3          |
| MARKET CAP £m           | 35.1          |

customers, including Avon and Santander. Corporates use the vouchers as part of employee incentive schemes or as a way of retaining customers.

However, a sharp reduction in interest income meant that profit fell from £6.2m to £5.3m. Underlying operating profits improved from £4.8m to £6m. That improvement is coming from both sides of the business as the internet helps to provide cost savings.

There was no contribution from

the new flexecash prepaid card product. This will generate revenues this year. It can be used as a lower-cost alternative to vouchers and it has an order book worth £9m for this year.

There was £15.5m in the bank at the end of March 2010. That is Park's own cash, it does not include money in trust of £21.5m. The total dividend was unchanged at 1.32p a share, which represents an attractive yield of 6.2%.

The Corporate side continues to grow and Christmas savings are showing signs of recovery. Profits of £6m are forecast for this year, putting the shares on less than nine times prospective earnings.

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## company news

# Bango sets its sights on Verizon Wireless

Mobile internet billing systems

www.bango.com

Mobile internet billing platform developer **Bango** is growing rapidly in the US and if it can sign up Verizon Wireless to its service it will cover the whole of the US market.

Revenues grew 48% to £26.1m in the year to March 2010, while the underlying loss fell from £650,000 to £250,000. UK, European and rest of the world revenues fell and US revenues were sharply higher. By the end of the year Bango had signed up mobile networks covering 65% of US mobile users. Bango hopes to sign up Verizon, which will give it coverage of all mobile phone networks in the US.

Revenues outside of the US are

## Bango will focus its resources on the US market

set to continue to stagnate because Bango wants to focus its resources on the US market where there are the most opportunities.

There was a cash outflow during the year but a share placing in January at 43p a share left Bango with cash of £2.7m at the end of March 2010. This should be enough for its immediate needs.

Bango still needs significant

|                   |       |                    |
|-------------------|-------|--------------------|
| BANGO (BGO)       |       | 85p                |
| 12 MONTH CHANGE % | +86.8 | MARKET CAP £M 30.6 |

growth in revenues to move into profit. Even if Verizon is signed up to the service it will not make a 12-month contribution in the year to March 2011. Cenkos forecasts full-year revenues of £51.2m – nearly double last year's figure. That would be enough to make Bango profitable. A profit of £1.9m is forecast for 2010-11, rising to £3.2m in 2011-12. This would make the business a strong cash generator. The share price is roughly double the January placing price.

# SRT exploits strong position in marine market

Marine tracking technology

www.softwaread.com

**Software Radio Technology** is starting to benefit from countries around the world making AIS marine positional technology mandatory for smaller boats. SRT is on course to become profitable this year.

Existing mandates from governments cover 500,000 vessels over the next three years and there are more to come. At the moment SRT controls the lower-priced end of the market and there is little competition but this will not be true for ever. SRT continues to spend on R&D so that it can maintain its lead over any competitors.

SRT increased its revenues from £2.52m to £3.56m in the year to

|                                 |      |                    |
|---------------------------------|------|--------------------|
| SOFTWARE RADIO TECHNOLOGY (SRT) |      | 18.5p              |
| 12 MONTH CHANGE %               | +640 | MARKET CAP £M 18.2 |

March 2010. The loss was cut from £1.28m to £386,000. SRT already had an order book worth \$4m by the beginning of this financial year. Most of this should be for delivery over two or three months and the majority of orders are for the newer Class A transceiver where gross margins are higher. Since the year end further contracts have been won. That means that SRT should generate more in revenues in the six months to September 2010 than in the previous year.

Gross margins could reach around

50% depending on the change in the product mix. Overheads should not go above £2m a year so SRT has a good chance of moving into profit in the first half of this year.

The former TETRA radio operations were all closed down in 2008-09 but SRT still owns the technology. It recently received an upfront payment of \$225,000 from a licence agreement with Swiss Space Sensors Technology AG and there could be future royalties from this deal but there are no related costs.

SRT has a strong balance sheet because it is able to demand advance payments from customers. There was £952,000 in the bank at the end of March 2010.

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## dividends

# Wynnstay targets steady growth in dividends

Agricultural products and retail

[www.wynnstaygroup.co.uk](http://www.wynnstaygroup.co.uk)



### WYNNSTAY GROUP (WYN)

|                   |        |
|-------------------|--------|
| Price             | 262.5p |
| Market cap £m     | 43.2   |
| Historical yield  | 2.5%   |
| Prospective yield | 2.7%   |

### Dividend

Volatile raw material prices are always going to make it difficult for Wynnstay to produce smooth growth in its profits over the years. The general trend has been upwards but there have been years when profits dipped. Even so, Wynnstay has consistently increased its dividend since it moved from Ofex (Plus-quoted) to AIM in 2004.

Initially, Wynnstay paid one dividend each year but it paid its first interim in 2006. Dividend growth has been steady rather than spectacular. Increases rarely exceed 10% but this still provides a relatively good growth in income for shareholders.

The latest interim dividend was increased from 2.2p a share to 2.4p a share. The total dividend for the full year could be 7p a share, up from 6.5p a share for 2009-10.

Wynnstay can afford to pay the dividend because the business is a good cash generator. It does not generate cash at the interim stage but it does for the year as a whole.

### Business

Wynnstay reported a 7% increase in revenues to £120.3m in the six months to April 2010. The agricultural division generated lower revenues because of a decline in agricultural commodity prices. In contrast, the retail side increased its revenues from £25.6m

to £32.6m. That was boosted by the purchase of wholesaler Youngs Animal Feeds which contributed around £4.5m. Even so, country stores and Just for Pets both increased sales.

Wynnstay's profit improvement also came from the retail business. Overall pre-tax profit rose from £3.16m to £3.55m. Grain trading made a smaller contribution to the profit figure this time.

There was net debt of £10.5m at the end of April 2010 but that is a high point in the financial year. Since then Wynnstay has raised £4m from a placing at 235p a share and much of that went on the purchase of Woodhead Seeds. Net debt could be below £4m by the end of October.

House broker WH Ireland forecasts full-year profits of £5.7m on slightly lower revenues of £212.5m. That puts the shares on a prospective multiple of 10.

The net asset value is 287p a share, which is more than the current share price. That includes goodwill of £8.6m. Excluding goodwill, the NAV is around 228p a share.

Wynnstay believes it has a strong enough balance sheet to make more bolt-on acquisitions. There are not many rivals looking to acquire at the moment and Wynnstay is in a good position to acquire family-owned agricultural merchants that lack a successor to take over their management.

## Dividend news

Womenswear retailer **Jacques Vert** is paying its first dividend since 1995. Although the 15-year gap coincides with the birth of AIM, Jacques Vert was fully listed at that time. Management did not want to return to paying dividends until the balance sheet was strengthened. Strong cash generation increased the cash figure from £4.5m to £12.6m in the year to 24 April 2010. Operating profit more than doubled from £2.38m to £5.35m and margins continue to improve. The 0.65p a share final dividend is payable on 15 October and the shares go ex-dividend one month earlier. The yield is just under 4%.

Investment in turning around the Vianet business and the costs of restructuring the group meant that **Brulines** reported a fall in pre-amortisation profit from £5.03m to £4.56m in 2009-10. A profit of £5.5m is forecast for 2010-11. The real-time monitoring systems provider is still spending cash on acquisitions, particularly in the petrol forecourt sector even though bid talks with AIM-quoted Universe Group were unsuccessful. The total dividend for the year was increased from 5.35p a share to 5.5p a share. The yield is nearly 5%.

Marine fluid handling systems supplier **Hamworthy** is continuing to increase its dividend despite a dip in profit in the year to March 2010, with a further fall expected this year. The total dividend rose 5% to 9.17p a share to reflect the longer-term outlook. Cash generation was strong because of reduced working capital. Net cash rose from £55.5m to £72.3m in March 2010. A weak shipbuilding market has led to lower revenues and a much reduced order book – it was down to £142m from £260m a year before. There are signs that more ships are likely to be ordered over the next couple of years. The yield is just over 3%.

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**expert views**

**Expert view: The broker**

## Affordable luxury investment

By **DAVID STODDART**

**L**uxury brand Mulberry has delivered an adjusted pre-tax profit of £6.1m in the year to March 2010, slightly ahead of our forecast of £6m. That is no great surprise given the company's track record. Of greater significance for the share price is the incredibly strong current trading statement. That has led us to increase our forecasts substantially.

The Mulberry brand is firmly established in the affordable luxury brand segment in which it has substantial scope to expand its geographic coverage, not least into China.

### The Mulberry brand is firmly established in the affordable luxury brand segment

Sales growth for the year was 23%. Mulberry's performance improved as the year progressed, with H2 revenues increasing 29%. UK retail sales increased 39%, including LFL growth of 35%. Wholesale revenues were broadly flat.

Gross margins slipped from 60% to 59%. There were several moving parts in the calculation. The weaker performance of the wholesale operation would normally have a favourable sales mix impact on the gross margin. However, additional clearance activity in the retail business, especially in the early part of the year prior to the acceleration in sales, led to the margin slippage. There are increasing signs of margin pressure from materials and labour costs.

The group has a strong balance sheet, with net cash of £12.2m at the end of March 2010. The net cash figure is likely to fall to £2.6m this year due to investment in the London head office, a replacement store in Bond Street,

new stores and extending the factory but the cash pile should build up again in future years.

### Impressive turnaround

Mulberry's track record in the years after flotation was, to be generous, unimpressive. Indeed, under founder Roger Saul, only one of the five years up to 2003 saw a profit.

This culminated in a 'rescue' refinancing in late 2003 underwritten by Challice, now the group's largest shareholder. At that point Godfrey Davis became chairman and CEO: Mulberry's

recovery dates from that change.

The initial phase of the turnaround from sporadic to consistent profit focused on unpicking the mistakes of the past. Management reduced excessive expenses aggressively and also began work to dismantle the distribution network which had been assembled in what might be described kindly as an ad hoc fashion.

Once the business's underlying profitability had been improved, management moved to establish an international distribution channel strategy. In Asia, the strategy was to find local partners with both the expertise and the scale to develop large-scale businesses in sizeable territories. Hence, in late 2004, Mulberry inked deals with Club 21 (a company sharing common ownership with Challice) to develop North and South East Asia and with Mitsui and Sanki Shoji to develop Japan.

Subsequent progress in Japan was unsatisfactory, perhaps unsurprising

in the light of reports from other luxury brands in the region, and that partnership was dissolved. Club 21 continues to expand in Asia. Mulberry later signed a deal with Chaloub Group to develop in the Middle East.

Mulberry had a joint venture with Challice in the US but it took full control of the operation in 2009. The plan is to develop the US market principally via the internet and wholesale customers. There is scope to open additional stores but there are no ambitions for an aggressive rollout. The US operation is early stage and therefore still loss-making. The deal to take sole control of the US was structured to ensure that the income statement impact was broadly neutral.

### Confidence

Mulberry clearly continues to get its offer to the consumer right. This reinforces confidence that the plans to extend the number of geographic markets in which it operates will yield positive results.

Mulberry has reported LFL sales in full-price shops and department store concessions up by 44% for the first 10 weeks of this financial year. Even allowing for weaker sales in outlet stores, retail LFL sales are ahead by 36%. Mulberry forecasts wholesale deliveries for autumn/winter to be 84% ahead of the equivalent period.

We have increased our pre-tax profit forecasts by 36% to £9.5m and 34% to £13m for the year to March 2011 and the year to March 2012 respectively. Our target price, which is based on a DCF analysis, increases even faster from 250p to 330p.



DAVID STODDART is a research director at FinnCap.

 feature

# Technology companies fall to US buyers

Much recently has been made about the possibility of US tech companies using their burgeoning cash piles to buy British firms, but a mini-wave of takeovers suggests it has started already on AIM.

Companies leave AIM for many reasons, but a takeover by a US firm has become the route out for an increasing number of technology firms quoted on the junior market.

In the past six months, more than 10 Aim-quoted tech firms have been bought. In a majority of these deals the acquirer was North American and prepared to pay handsomely. In many cases, the bid was pitched at more than double the prevailing market value.

These bids for technology companies come at a time when other forms of M&A on the junior market have slowed since the start of 2010.

Latest figures from accountants UHY Hacker Yong show that the

AstraZeneca, the pharmaceuticals group; BAE Systems, the defence contractor; and construction firm Balfour Beatty were pinpointed by S&P as operating in the type of sector and on the relatively low earnings multiples that would attract interest.

S&P's reasoning is straightforward enough. US firms are piling up cash at the moment after the shock of the credit crunch.

Technology giants Apple, Google, Microsoft and Cisco are said to be sitting on a combined cash pile of \$147bn.

The total amount of cash sitting in US company balance sheets overall is much higher than even that total.

that European tech stocks have always traded on a 25%-35% discount to their US peers, but the relative valuations are even more attractive today.

If US firms are looking at companies the size of AstraZeneca, a deal for an AIM company that would cost about a week's worth of cash flow looks like a mere bagatelle.

A mini-wave of takeovers of AIM-quoted tech-focused companies suggests there is evidence to back up the theory and, on AIM anyway, US companies are buying at present.

## Creative attractions

Companies that operate in the new 'creative' or mobile technology sectors have proved especially popular. In a typical deal, American giant Broadcom Corporation has just snapped up Innovision Research & Technology, a British wireless specialist, for £32m. The AIM-quoted company's shareholders will get 35p in cash for each Innovision share, nearly double the price the previous day.

Broadcom is a big player in semiconductors for mobiles and is currently worth around \$16bn.

It wants the Gloucestershire-based Innovision to beef up its wireless connectivity business. The Americans think Near Field Communications, one of Innovision's specialities, will become increasingly adopted in smart phones and other mobile devices.

"We are proud to have developed NFC technology to the leading position it is in today and feel that now is an appropriate time to allow a global corporation with the commitment and financial resources to progress it to the next level and commercial roll-out," said Innovision's boss David Wollen.

## Technology giants Apple, Google, Microsoft and Cisco are said to be sitting on a combined \$147bn cash pile.

number of completed deals in the three months to end June fell by 40% to 12, from 20, in the previous quarter.

Lawrence Sacker, a partner at UHY, says that the recovery in share prices on AIM over the past year might be part of the reason. "With AIM share prices recovering so strongly over the past year, the bargain basement prices just aren't so available," he says.

### US cash piles

But while undoubtedly true across the market overall, for tech companies there are other forces at work and it is not just AIM companies that are under threat.

A report last month by Standard & Poor's suggested several well-known UK giants could fall prey to US bids.

According to US magazine *Forbes* in April, the 1,244 non-financial companies in the S&P 1500 Index were sitting on \$1.18trn in cash, 27% more than a year ago. Long-term debt levels have risen only 6% in the past year, it added.

That must be burning a big hole in some corporate pockets.

Add in the effects of a weak pound, even after the recent rally in sterling following the austerity Budget, and the possibility that takeovers in the UK could become harder if the new government suddenly decides to be more protective and it's easy to see why acting now might make sense if you have been eyeing a target in the UK.

"It is a perfect storm," said Paul Lewington at Piper Jaffray, who says

## feature

That perhaps gives another insight into the increasing appeal of AIM tech firms to their US rivals.

### Jam today

AIM investors have mixed feelings about tech firms with many being a disappointment dating all the way back to the dot.com crash.

Mobile technology, instant billing systems, graphics and video enabling

## Companies that operate in the new 'creative' or mobile technology sectors have proved especially popular.

software have been jam tomorrow ideas for years, but with the advent of iPhones, iPads, Bluetooth and more, for some AIM-quoted tech firms their commercial time may finally have come.

Pitney Bowes said a need to boost its presence in the customer relationship software market was behind its acquisition of customer software group Portrait Software.

"Portrait's product portfolio is ideally positioned to develop customer data and customer communication channels, rapidly delivering business benefit by deriving customer insight in a fast, flexible and affordable manner," the US firm said.

The Pitney Bowes Group recognises value in the domain expertise and client goodwill that the current Portrait management team has developed in the CRM space, and is attracted by the broad application of Portrait's customer-centric product range, it added. It paid £44m (31p a share) for Portrait.

Pitney's bid coincided with Portrait making a significant profit for the first time since 2001, but even companies with a stronger track record are disappearing.

Intelek's recently agreed cash takeover from US firm Teledyne was another US/UK deal. Intelek's speciality is satellite and microwave communication. It has been solidly

profitable over the past five years, if not shooting out any lights.

Teledyne, which has a market capitalisation of approximately \$1.4bn, sees Intelek as a way to extend its presence and know-how.

The offer was pitched at 32p per share, again more than double the previous day's close.

Other North American-Anglo AIM deals in recent months include Constellation Software mopping up

health club membership software specialist Gladstone and Cybit's takeover by US private equity group Francisco. Buyout vehicle Cyberspace Bidco offered 75p a share for Cybit, which valued the company at £22.8m. Cybit reckoned that it would be able to grow faster as a private company.

### New Constellation

The timing of Constellation's takeover of Gladstone is perhaps also revealing of the intentions of US firms.

Constellation, a Canadian company

## Disappointed, large shareholders may find it difficult to sell in the market

that reports in US dollars, has been flirting with Gladstone for some years. It built and sold a 10.6% stake and then bought back into Gladstone in 2008.

TSX-listed Constellation offered 25p a share for the membership software developer at the end of 2008 but Gladstone's board rejected the bid and Constellation failed to pass the 50% acceptances mark and the bid was unsuccessful. Constellation retained 29.9% of Gladstone and the purchase of a further 13.64% of Gladstone for £2.17m took its stake to 43.48% in March. That meant that Constellation had to make a mandatory offer of 33p

a share for Gladstone.

The sterling exchange rate with the dollar was just below \$2/£ at the time Constellation bought its initial stake roughly two years ago. It paid around 25p a share at that time, which was equivalent to 50 cents a share. When the 25p a share bid was launched in 2008 the exchange rate was around \$1.70/£ so the expected cost would have been about 42 cents a share.

The exchange rate was around \$1.50/£ at the time of the successful bid so the underlying cost of that bid was 50 cents a share.

This indicates that the underlying cost of Gladstone to Constellation was not much more at 33p a share than it would have been at 25p a share back in early 2008. That makes the higher bid price look less generous than it might appear at first.

At around the time it was bidding for Gladstone Constellation was building up a 13% stake in recruitment software provider Bond International Software. The initial stake was acquired following a Bond profit warning at the end of 2009.

Some institutional shareholders appear to have become impatient with Bond. This is the thing that can make AIM tech companies vulnerable.

Disappointed large shareholders may find it difficult to sell in the market so they are pleased if someone offers to buy their stakes.

Constellation is likely to spend a few months integrating Gladstone but it might consider a bid for Bond in the next year or so.

While it is true that all of these bids could just be part of the natural order of things in business as big companies expand and buy smaller ones, technology companies still quoted on AIM might do well to spruce up just in case there are potential bidders eyeing them up.

## statistics

# Market Performance, Indices and Statistics

| AIM SECTOR INFORMATION |                 |                |
|------------------------|-----------------|----------------|
| SECTOR NAME            | % OF MARKET CAP | % OF COMPANIES |
| Financials             | 25.3            | 24.3           |
| Oil & gas              | 19.3            | 9.1            |
| Basic materials        | 18.3            | 13             |
| Industrials            | 11.2            | 18.7           |
| Technology             | 7.8             | 9.8            |
| Consumer services      | 6.8             | 11.8           |
| Consumer goods         | 4.3             | 5.2            |
| Health care            | 4.1             | 5.5            |
| Telecoms               | 1.5             | 1.4            |
| Utilities              | 1.1             | 1.1            |

| KEY AIM STATISTICS               |          |
|----------------------------------|----------|
| Total number of AIM              | 1,243    |
| Number of nominated advisers     | 62       |
| Number of market makers          | 49       |
| Total market cap for all AIM     | £60.51bn |
| Total of new money raised        | £67.51bn |
| Total raised by new issues       | £33.40bn |
| Total raised by secondary issues | £34.11bn |
| Share turnover value (2010)      | £12.12bn |
| Number of bargains (2010)        | 1.39bn   |
| Shares traded (2010)             | 63.14bn  |
| Transfers to the official list   | 144      |

| FTSE INDICES       |         |                           |
|--------------------|---------|---------------------------|
| INDEX              | PRICE   | ONE-YEAR CHANGES % CHANGE |
| FTSE AIM All-Share | 653.26  | +22.7                     |
| FTSE AIM 50        | 2657.59 | +22.2                     |
| FTSE AIM 100       | 2948.19 | +24.6                     |
| FTSE Fledgling     | 3935.41 | +14.7                     |
| FTSE Small Cap     | 2662.16 | +18.7                     |
| FTSE All-Share     | 2505.19 | +15.8                     |
| FTSE 100           | 4838.09 | +14.3                     |

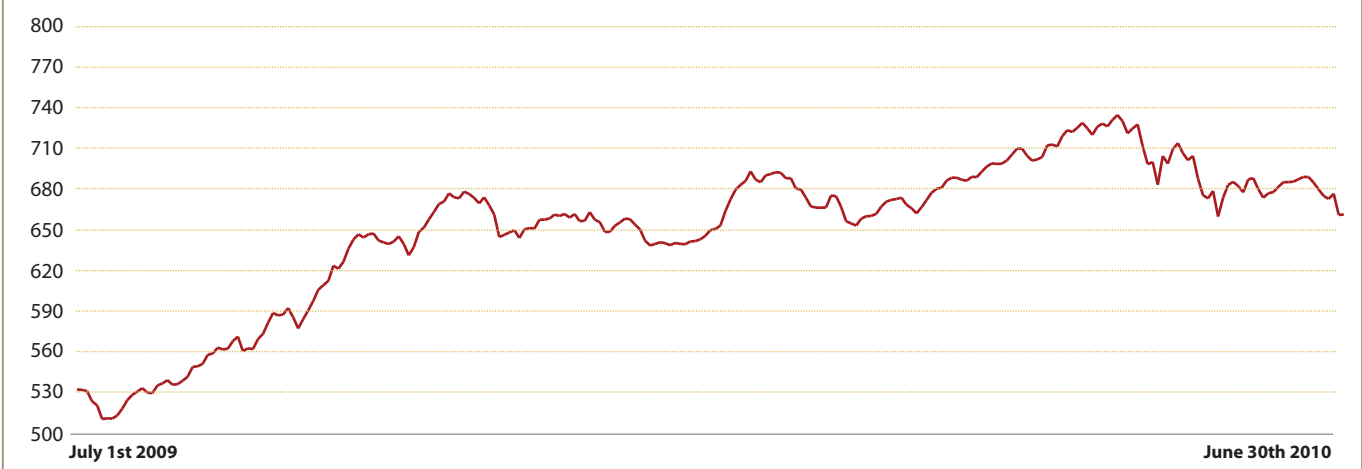
| COMPANIES BY MARKET CAP |     |
|-------------------------|-----|
| MARKET CAP              | NO. |
| Under £5m               | 309 |
| £5m-£10m                | 184 |
| £10m-£25m               | 276 |
| £25m-£50m               | 185 |
| £50m-£100m              | 129 |
| £100m-£250m             | 101 |
| £250m+                  | 49  |

| TOP 5 RISERS OVER 30 DAYS  |             |           |            |
|----------------------------|-------------|-----------|------------|
| COMPANY NAME               | SECTOR      | PRICE (p) | CHANGE (%) |
| EnCore Oil                 | Oil and gas | 58        | +256.9     |
| Nautical Petroleum         | Oil and gas | 180       | +254.7     |
| Intelek                    | Electronics | 31.5      | +117.2     |
| Medgenics Inc              | Health      | 17.5      | +84.2      |
| Innovision Research & Tech | Technology  | 34.25     | +80.3      |

| TOP 5 FALLERS OVER 30 DAYS |             |           |            |
|----------------------------|-------------|-----------|------------|
| COMPANY NAME               | SECTOR      | PRICE (p) | CHANGE (%) |
| imJack                     | Telecoms    | 0.68      | -77.5      |
| Davenham                   | Financials  | 0.5       | -76.5      |
| Astaire Group              | Financials  | 1         | -66.7      |
| Sefton Resources           | Oil and gas | 0.75      | -60        |
| Deo Petroleum              | Oil and gas | 57.5      | -55.8      |

### AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on 2 July 2010, and we cannot accept responsibility for their accuracy.


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finnCap is a client focused institutional broker and corporate advisor, with a strong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients,

and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In August 2007, private client

stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

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



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