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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM reaches fifteenth anniversary

AIM is approaching its fifteenth birthday on 19 June and, although the number of companies traded on it continues to decline, it remains a strong market and provider of investment for growing companies.

AIM was originally partly designed by the London Stock Exchange to be a feeder market for the Main Market but there have been many more companies going the other way in its history. However, the fact that 17 of the constituents of the FTSE 250 index were originally on AIM shows that it is helping to develop new, larger companies.

They do not include gold miner Centamin Egypt, which will join the FTSE 250 on 21 June. More than £67bn has been raised for AIM companies and AIM has shown that it can survive when other junior markets around the world disappear when the times get tough.

The London Stock Exchange said in its recent results that it invested £6.1m in its Tokyo AIM venture during the year to March 2010. That seems a large investment for what is still a limited market. It would be interesting to know just how much the London Stock Exchange has invested in AIM itself over the past few years and whether it comes up to that figure.

It looks likely that AIM will continue to generate investment for companies for some time to come.

Rockhopper hits oil in the Falklands

Falkland Islands explorer Rockhopper Exploration confirmed at the beginning of June that it had made a significant oil discovery at its 100%-owned Sea Lion prospect in the North Falkland Basin.

Rockhopper drilled the well in late April/early May after Desire Petroleum failed to make a commercial discovery on an adjacent block. On the basis of the information gathered from Rockhopper's well independent evaluator RPS Energy has revised its best estimate of recoverable reserves from 170m barrels to 242m barrels, with significant upside potential. Broker Oriel Securities reckoned that the oil discovery could be worth 750p-800p a share on an unrisked basis prior to the increase in share capital from the £48.5m placing at 280p a share.

Shares in Rockhopper are more than 600% higher than one year ago. Shares in other Falkland Islands oil and gas explorers have also risen on the back of the discovery but they have no interest in Sea Lion so the increase is more modest.

Falkland Oil and Gas Ltd has started drilling an exploration well at Toroa F61/5, which is in the East Falkland basin. Rockhopper will get the drill rig back after this so it can drill on its Ernest prospect.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Secondary fundraisings fuel AIM growth

For the first time since the beginning of 2000 more new money has been raised by existing AIM companies over the history of the junior market than by new issues. This comes as the fifteenth anniversary of AIM approaches on 19 June.

The balance has only slightly tipped in favour of secondary fundraisings, with £33.69bn raised over the life of AIM up until the end of April 2010.

The figure raised by new issues over the same time period is £33.39bn. The trend appears to be continuing so the gap is likely to widen over the coming months, with new issues remaining scarce.

For most of AIM's history the money raised by new companies was a much larger figure than the total secondary fundraisings by existing AIM companies. There was a period in 1999-2000 when secondary fundraisings started to outstrip new issues cash but this was relatively short-lived.

In nine years out of the 15 years prior to the start of 2010 – taking 1995 as a full year – new issues raised more than secondary issues. That has not been true in the past three years.

It appears that 2010 is on course to become the seventh year when secondary issues raise more than new issues.

The figure is already more than three times the new issue money raised so far this year.

The number of companies on AIM continues to fall. There were few references to AIM in the recent results statement from the London Stock Exchange but it did say that the reduction in the number of AIM companies would hold back growth in UK annual fees to around 10% this year.

England boss buys Mercury shares

England cricket boss Giles Clarke has acquired a 10.6% stake in AIM-quoted recycling firm Mercury Recycling.

Westleigh Investments, an investment company headed by the chairman of the England and Wales Cricket Board, bought 3.62m shares in Mercury at 7.5p a share. Westleigh got the shares for a good price because the share price has never been as low as the buying price – it did hit 8.5p a share five days before the purchase. Following the purchase the share price recovered to 10.75p.

Most of Cardiff-based Westleigh's investments are unquoted although Clarke is also non-executive chairman of AIM-quoted, South America-focused oil and gas producer Amerisur Resources.

Mercury Recycling recycles lighting and other products containing mercury. Its revenues fell 9% to £2.79m in 2009 after sales of new lamps fell sharply during the recession. Profits fell from £534,000 to £343,000. Net debt was £363,000 at the end of 2009.

Eagle is Fundamental-e guilty of market abuse

Former Fundamental-e Investments director Simon Eagle has been fined £2.8m for market abuse and banned from working in the financial services sector.

This is the largest fine ever levied on an individual by the FSA. The regulator found that Eagle deliberately tried to ramp the shares of AIM-quoted Fundamental-e in 2003-04. It was described as a complex, prolonged and abusive scheme for Eagle's own benefit. At the time he was running broker SP Bell and he was accused of having a disregard for its clients.

Eagle bought 85% of tiny computer components supplier Fundamental-e in 2003 and subsequently acquired SP Bell, which then sold Fundamental-e shares to clients. Some of the clients introduced to SP Bell by Eagle were deemed by the FSA to have insufficient funds to trade. Many clients did not even know that the shares had been bought and sold on their behalf by the broker. In order to defer payment for the shares, many trades were rolled over from client to client without being settled. These trades were carried out via market maker Winterflood.

The Fundamental-e share price more than quadrupled to 11.75p over a 14-month period. The shares were then suspended in July 2004 when the share price slumped and SP Bell was closed down.

Eagle fought the FSA's charges all the way and managed to delay the case. That is why it took six years to publish a judgement.

Winterflood failed in its appeal to have a £4m fine, relating to its involvement in the scheme, overturned.

Astaire up for sale after Hoodless bid failure

AIM adviser Astaire has effectively been put up for sale following its failure to complete the takeover of rival broker Hoodless Brennan. Astaire's majority shareholder Evolve Capital says that it does not want to be involved in Astaire's management and this marks the end of the broker's consolidation strategy. It appears that Astaire could be broken up.

Astaire has bought Dowgate, St Helen's Capital and Ruegg over the past year but could not get regulatory approval for the £3.6m bid for Hoodless Brennan because of accounting problems at Astaire's retail broking subsidiary, Rowan Dartington. The "potentially irrecoverable debtor balances of up to £1.4m" at Rowan Dartington have been reduced to £1.04m, but Rowan Dartington has been fined £511,000 by the FSA for a failure of financial controls.

These problems have been compounded by litigation relating to Izodia, a former AIM-quoted software company whose cash went missing. Corporate Synergy, a dormant subsidiary of Astaire, has been hit by a claim from lawyers for Izodia for £4m plus interest. Astaire, then known as Corporate Synergy, was involved in a concert party that built up a stake in Izodia in 2002. Edward Vandyk, who is stepping down from the board of Astaire and Evolve, and Astaire finance director Chris Roberts joined the Izodia board but left after a few weeks. Orb bought out the other members of the concert party and ended up controlling the company and siphoning off the cash.

Astaire has reported its 2009 figures. They showed an increase in its underlying loss from £2.3m to £3.7m. This excludes intangible write-downs and £897,000 of restructuring costs but includes the fine. The net asset value of the business was £14.3m at the end of 2009 and there was still net cash of £7.81m.

The Astaire and Evolve board relationships are being unwound. Chris Roberts has resigned as a director of Evolve, as has James Noble, who will become chairman of Astaire. Oliver Vaughan has resigned as chairman of Astaire but remains executive chairman of Evolve. David Snow appears to still be on both the Evolve and Astaire boards.

ADVISER CHANGES - MAY 2010

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
designcapital	Rivington Street	Rivington Street	Strand Hanson	Allenby	04/05/2010
Pinnacle Telecom Group	Rivington Street	Zeus	Zeus	Zeus	04/05/2010
Amerisur Resources	RBC	Astaire	RBC	Astaire	05/05/2010
iPoint-media	Libertas	Libertas	Libertas	Merchant John East	05/05/2010
Pathfinder Minerals	Daniel Stewart	Beaumont Cornish	Daniel Stewart	Beaumont Cornish	05/05/2010
Renewable Energy Generation	Piper Jaffray	Numis	Smith & Williamson	Smith & Williamson	06/05/2010
Timestrip	Cairn	FinnCap	Cairn	FinnCap	06/05/2010
xG Technology Inc	Allenby	Cenkos	Allenby	Cenkos	06/05/2010
GoldStone Resources Ltd	Orbis/Westhouse	Westhouse	Westhouse	Westhouse	07/05/2010
Oxford Advanced Surfaces	Cenkos	Novum	Cenkos	ZAI	07/05/2010
Travelzest	Merchant John East	Investec	Investec	Investec	10/05/2010
Clean Energy Brazil	Singer	Numis	Singer	Smith & Williamson	11/05/2010
Metals Exploration	Renaissance Capital	Westhouse	Westhouse	Westhouse	11/05/2010
Strontium	SVS/Cairn	Cairn	Cairn	Cairn	11/05/2010
Max Petroleum	JP Morgan/Macquarie	JP Morgan	WH Ireland	WH Ireland	13/05/2010
EIH	Singer	Seymour Pierce/Singer	Singer	Seymour Pierce	17/05/2010
Medgenics Inc	Nomura Code/SVS	SVS	Religare	Religare	17/05/2010
Sabien Technology	Altium	Arbuthnot	Altium	Arbuthnot	17/05/2010
Green Compliance	Collins Stewart/Zeus	Collins Stewart/Zeus	Collins Stewart	Zeus	19/05/2010
Mountfield Group	Arbuthnot	Daniel Stewart	Arbuthnot	Daniel Stewart	19/05/2010
North River Resources	Ambrian/Ocean Equities	Ambrian/Ocean Equities	Strand Hanson	Astaire	19/05/2010
Renewable Power & Light	Cairn	Fiske	Cairn	Grant Thornton	19/05/2010
Prosperity Voskhod Fund Ltd	Cenkos	Meritum Securities	KPMG	KPMG	20/05/2010
Avisen	Brewin Dolphin	Zeus	Brewin Dolphin	Zeus	20/05/2010
imJack	Daniel Stewart	Daniel Stewart	Daniel Stewart	Strand Hanson	20/05/2010
Seeing Machines	Daniel Stewart	Daniel Stewart	Daniel Stewart	Grant Thornton	21/05/2010
X-Phonics	Old Park Lane / WH Ireland	WH Ireland	WH Ireland	WH Ireland	21/05/2010
Albemarle & Bond	Collins Stewart	Collins Stewart	Collins Stewart	Smoth & Williamson	24/05/2010
Plantic Technologies	Matrix	Nomura Code	Matrix	Nomura Code	24/05/2010
e-Therapeutics	Panmure Gordon	Canaccord	Panmure Gordon	Canaccord	25/05/2010
BlueStar SecuTech Inc	Westhouse	Seymour Pierce/Singer	Westhouse	Seymour Pierce	26/05/2010
MBL Group	Brewin Dolphin	Seymour Pierce	Brewin Dolphin	Seymour Pierce	27/05/2010

company news

Blinkx does not have to search for rapidly growing revenues

Video search engine technology developer *www.blinkx.com*

Video search engine operator **Blinkx** is beginning to fulfil its early promise. New services are on the way but the existing operations will fuel growth this year.

Blinkx produced better than expected full-year revenues in the year to March 2010. They more than doubled from $14m to $33.7m. Blinkx is loss-making but that is mainly attributable to more than $10m spent on R&D during the year. R&D is likely to stay around this level or even slightly reduce over the next couple of years.

Founder and chief executive Suranga Chandratillake (pictured) says that more and more sectors are generating advertising revenues and the range of advertisers is likely to continue to broaden. It is possible that revenues could almost double again this year. The newly launched

mobile video search site will not make a large contribution this year but it will underpin growth further ahead.

The newest product is Cheep, which hijacks users about to buy products online and points them towards a cheaper alternative retailer of the product. This could be released in the second half of this year.

The main software is licensed from Autonomy although Blinkx has also developed technology of its own

BLINKX (BLNX)			27.5p
12 MONTH CHANGE %	+61.8	MARKET CAP £M	84.5

around that software. The exclusive rights to the software run out in two years. Even if rivals did licence the software after the exclusivity period they would still be a long way behind Blinkx in terms of launching a commercial service.

Blinkx would like to make acquisitions in order to widen the customer base of the group. Net cash was $14.6m at the end of March 2010.

The exact outcome for the year is difficult to predict. Daniel Stewart is expecting revenues to rise to $57m in 2010-11. That would equate to a prospective 2010-11 multiple of around 10 times and that multiple should fall sharply the following year.

Velti seeks dual listing on Nasdaq

Mobile marketing technology *www.velti.com*

Mobile marketing technology provider **Velti** plans to float on Nasdaq. When the plan was announced the US stock market was stronger but Velti appears to be going ahead with the flotation.

The move reflects the enormous progress made by Velti since it joined AIM as a Greece-focused business. The US is becoming an increasingly important market for the group.

Velti has filed a registration statement with the SEC but there is no share price or cash-raising figure included. Velti wants to raise cash

VELTI (VEL)			477.5p
12 MONTH CHANGE %	+230.4	MARKET CAP £M	179.2

in order to pay off its borrowings and fund organic and acquisitive growth. Net debt was $19.2m at the end of 2009. Existing shareholders will also sell shares.

Velti appointed Wilson Cheung as finance director last October. He was formerly finance director of NASDAQ-listed semiconductor firm AXT Inc and will provide expertise on US stock markets.

Velti switched to US GAAP in 2009 so the latest figures do not match with the past figures reported by the firm. The company increased revenues from $62m to $90m in 2009. Gross margins were much better but overheads were much higher. Even so, a loss of $3.82m was turned into a profit of $8.9m.

Velti has acquired US-based Media Cannon. The developer of mobile advertising tools and technology will fit well with the existing operations of Velti and enable it to supply a wider range of services.

company news

Gulf Keystone builds up cash pile to finance Kurdistan exploration

Oil and gas explorer *www.gulfkeystone.com*

Kurdistan-focused oil and gas explorer **Gulf Keystone Petroleum** has raised £114.2m to finance its exploration and development for the rest of 2010 and early 2011. Executive chairman Todd Kozel says that the cash will ensure that the company will be able to maintain its momentum.

The share placing was at 75p a share and it was taken up by new and existing investors. A placing in March at 76.5p a share raised £16m. Gulf Keystone has drawn down a total of £19.96m of its standby equity distribution agreement with YA Global Master SPV. There is still £10.04m available under the facility. The most recent draw-down of £2m was done at 80.14p a share. Prior to that, non-executive director Lord Truscott sold half of his 1m shares on 1 April at 85.22p a share.

A work-over rig will be at the Shaikan-1 well during June

Gulf Keystone holds production sharing contracts on four exploration blocks in Kurdistan. Gulf Keystone intends to drill three appraisal wells at its Shaikan discovery and complete an extended well test at Shaikan-1. There will also be an exploration well on the Sheikh Adi licence. The company intends to acquire further 3D seismic data over its two licence areas. There will also be spare cash to invest in further interests in Kurdistan.

GULF KEYSTONE PETROLEUM (GKP)	77.25p
12 MONTH CHANGE % +402.6	MARKET CAP £M 401.6

A work-over rig will be in place on the Shaikan-1 well during June. The current information is that the upper Jurassic discovery zone could produce 8,000-10,000 barrels of oil per day. There is an estimated 4.2m barrels of oil in the Shaikan licence area, where Gulf Keystone has a 75% working interest.

Japan Residential secures funding

Property investor *www.jricl.com*

Japan Residential Investment Company is raising £35m gross from a placing and open offer at 40p a share. The Guernsey-incorporated Japanese property investor is issuing the shares at a large discount to its last stated net asset value of 91.2p a share.

JRIC raised £100m at 100p a share when it floated on AIM in October 2006. The new cash will be used to reduce borrowings. Net debt was £147.8m at the end of 2009, although that excludes £6.44m of restricted lender cash reserves.

The investment company refinanced its loan facility with Mizuho Trust Bank in February 2010.

JAPAN RESIDENTIAL INVESTMENT COMPANY (JRIC)	40p
12 MONTH CHANGE % +13.5	MARKET CAP £M 40

The loan was reduced by around £9m. JRIC has to refinance ¥5.4bn (£40.9m) of debt in 2011 and a further ¥10bn (£75.7m) of debt in June 2012. JRIC says that its current debt levels are unsustainable because property values have fallen and loan refinancings are going to be at lower loan to value percentages.

The cash being raised will reduce the risk of forced disposals and cut the loan to value to 51%. JRIC has sold Cradle Shitenoji in Osaka for ¥319m (£2.43m) as part of its strategy to dispose of non-core holdings. Three other disposals have been earmarked.

The open offer is unusual in that different sizes of shareholding get the chance to buy different numbers of shares.

Any investor with more than 800,000 shares has been given the chance to become involved in the firm placing. Those shareholders with between 121,334 and 800,000 shares can apply for 0.875 shares for every share they own, or any number of shares up to their maximum entitlement. The smallest shareholders can apply for 106,167 shares each at a total cost of £42,467.

company news

Jetion continues to grow solar capacity

Solar cells and modules manufacturer *www.jetionsolar.com*

JETION SOLAR (JHL)			68p
12 MONTH CHANGE %	+19.3	MARKET CAP £M	51.2

China-based **Jetion Solar** did well to continue to prosper even though average selling prices for its solar cells and modules more than halved. Jetion appears to be able to sell as much as it can make and it is increasing its capacity. However, profits are not as buoyant as sales.

Although revenues fell by 30% to \$176.8m in 2009 sales volumes rose sharply because average selling prices fell even faster. Pre-tax profit was 6% higher at \$21.3m. There was a sharp increase in other operating expenses during the year but that was mainly down to a rise in impairment losses on trade receivables from \$1.82m to \$6.51m. This related to past contracts and should not be as high in 2010.

More of the cells manufactured by Jetion are going into its own solar modules, which have higher margins. Module capacity was increased to 200MW earlier this year and cell capacity will be a similar amount by the autumn. For the time being Jetion will have to buy additional cells from outside suppliers, which will hamper margins in the short term.

The recent weakness of the euro has hit Jetion

Jetion is starting to build up its sales in North America but the main market is Europe. Germany has dominated revenues but with the reduction in solar tariffs in that country Jetion is trying to diversify European revenues. Italy should be a strong market.

The recent weakness of the euro has hit Jetion but first-quarter sales were strong. Wafer prices are rising but Jetion has managed to buy wafers competitively up until now. Whether that can continue is another thing.

A sharp rise in trade creditors has boosted the cash position at the end of 2009. Net cash was £10.6m but there will be significant capital expenditure during 2010.

The Jetion share price has fallen sharply following the results announcement on worries about the new German tariffs and the negative effect of the euro exchange rate movements. Jetion admits that this year's profit outcome is dependent on the euro.

Disposal boosts eServGlobal balance sheet

Mobile telecoms software *www.eServGlobal.com*

ESERVGLOBAL (ESG)			32.25p
12 MONTH CHANGE %	+74.8	MARKET CAP £M	63.5

Telecoms transactions software provider eServGlobal has sold its pre-paid mobile telecoms charging platform to Oracle for up to £65m (\$93.75m), which was more than the company's market value at the time of the announcement. The company will continue to develop its mobile money and value added services business and might return some of the cash to shareholders.

Warranties and indemnities will be covered by putting £14.4m of the purchase price in an escrow account for two years with half released after one year.

Customers want post-paid as well as pre-paid charging platforms and eServGlobal would find it increasingly difficult to compete in this market. This business made up more than two-fifths of eServGlobal's revenue in the year to June 2009.

The remaining operations include HomeSend, the global money transfer hub, mobile loyalty software and messaging services. Some of these operations are still in their infancy so there will be an initial fall in revenues following the disposal and profits will be sharply lower. Underlying EBITDA is expected to fall from a range of £52m-£54m in the year to June 2010 to around £2.9m the following year.

Australia-based eServGlobal will assess its capital requirements and then decide how much cash can be returned to shareholders. There should be news of this in the second half of 2010.

Education Development not concerned by spending cuts

Vocational qualifications and assessments *www.ediplc.com*

EDI Supporting learning and performance

EDUCATION DEVELOPMENT INT (EDD)	
Price	109p
Market cap £m	61.9
Historical yield	1.5%
Prospective yield	1.8%

Dividend

Vocational qualifications and assessments provider Education Development International doubled its interim dividend to 0.8p a share but this should not be taken as a sign of what will happen to the final dividend. It is really a rebasing of the interim payment so that there is not such a big difference between the two payouts. The policy is that the dividend should be covered around eight times.

Analysts are forecasting a total dividend of between 1.76p a share and 2p a share for the year to September 2010, up from 1.6p a share last time. The higher end of the range looks feasible.

The dividend does not stretch the balance sheet which included £7.4m of cash at the end of March 2010. That was after buying back £2.17m-worth of shares in six months. Management intends to balance dividend payments and share buy-backs while also retaining enough cash to finance acquisitions.

Business

Revenues grew 5% to £13.4m in the six months to March 2010, while underlying pre-tax profit improved from £4.06m to £4.43m. Currency gains relating to the international qualifications business fell from £430,000 to £18,000. This was a period where EDI was increasing its investment in its business in order to prepare for future growth. Annualised overheads have increased by £1.1m. Analysts expect full-year profits to be nearly £10m, against £8.6m last year.

Much of the growth in the business is coming from sectors where EDI has built up its presence in recent years. That includes security and care home staff training. EDI is winning market share in its main sectors, particularly from the Oxford and Cambridge assessment business. EDI is actively looking for acquisitions that would take it into new qualification sectors. It also wants to build up its psychometrics and publishing operations.

Jim Slater has been reducing his stake in EDI since the 2008-09 figures were published late last year. This shareholding fell below 3% after the latest interims.

However, Slater Investments, which is run by Jim's son Mark, has increased its stake to 6.31%. Other big shareholders include Invesco, JO Hambro, BlackRock UK Smaller Companies Fund and Octopus Investments. Chief executive Nigel Snook owns 5.4% of EDI.

Worries about government spending on training appear to have had a detrimental effect on the EDI share price. These uncertainties have been unsettling for the sector. Around 50% of group revenues are not dependent on the government but the outlook for government-funded work is not bad. Even the recent spending cuts provided a boost for vocational training using money saved elsewhere in the budget.

Chief executive Nigel Snook says that he will set out the company's three-year strategy this autumn when things are clearer.

Dividend news

Housebuilder **Telford Homes** is back paying dividends after one year of preserving its cash. The total for the year to March 2010 is 2p a share, still well below the 10p a share paid out two years ago. Telford's policy is to pay out dividends covered three-and-a-half times by earnings over a number of years. The plan is to continue to increase dividends year-on-year even though profits are likely to fall this year. Pre-exceptional profits improved from £7.3m to £8.1m in the year to March 2010 but they will be much lower this year due to a lack of projects commencing in the past couple of years. That means that there are fewer homes to sell. Net debt fell from £107.2m to £37.2m at the end of March 2010. This was because the stock of homes declined as sales were completed.

William Sinclair has increased its interim dividend by 50% to 1.5p a share. The horticultural products company normally makes a loss in the first half but it reported a profit of £187,000 in the six months to March 2010. The peat harvest has started well but the weather will have the final say on the full-year outcome. The total dividend is forecast to increase from 3.5p a share to 4.25p a share. That would be covered just over 1.8 times by forecast earnings.

Printing.com has maintained its total dividend at 3.15p a share in the year to March 2010 even though it is not covered by earnings. This reflects the positive outlook for the company and the strong balance sheet with net cash of £1.29m at the end of March 2010 even after last year's 2p a share special dividend costing £887,000. Cash generation is strong and there is little need for capital expenditure because the Manchester printing operations still have spare capacity.

expert views

Expert view: The broker

Empresaria is well placed for recovery

By MARK PADDON

Empresaria looks well placed to capitalise on increasing demand in the recruitment sector as the global economy improves as well as increasing profitability from its maturing businesses in the higher-growth emerging economies.

Empresaria is an international specialist staffing business with approximately 800 employees in 35 operating companies with 130 offices located across 17 countries with a strategic rationale to build a balanced and diverse portfolio of operations across specialist market sectors and geographies with an emphasis on temporary staffing.

The 2009 results showed the group moving back into profit with a second-half adjusted PBT of £3.7m

Business model

The business model is equity based, formed on the philosophy that in order to attract and retain good entrepreneurs, the interests of the management and the business have to be aligned through the issue of equity to the key managers of the business. This model is similar to that successfully executed at fully listed outsourced facilities management services provider MITIE Group and indeed, the two companies shared a chairman in David Telling until 2003.

Each business unit is operationally autonomous within a decentralised structure but with strict financial disciplines imposed by the group. Across the group, the business owns cumulatively around 65% of the equity in its individual companies with the balance owned by the individual management teams. The equity model typically works as follows:

- Managers hold the equity for a minimum of five years, although in practice this is often held over longer timeframes. After this initial period, they can offer the equity to the group to purchase. While Empresaria has no obligation to accept (and therefore there is no put option in place as such), there is a moral obligation and the group accepts the offer in most instances.
- Pricing of the equity is based on a 10x multiple of the average post-tax profits over the previous three years. If the PE of the group is less than 10x, the equity valuation is based on a 0.5 point discount to the current group multiple. In Germany, and also in some low tax territories, pricing is done on a lower multiple of pre-tax profit.
- The group can settle in shares or cash and historically has settled through equity.
- Selling managers have a two-year lock-in imposed and there is second generation equity available where appropriate.

International profile

The internationalisation of the business over recent years has taken the business from a pure UK profile to one where 46% of Net Fee Income (NFI) was sourced from Continental Europe in 2009 and 19% from the Rest of the World. Over time, management expects the higher growth markets within the Rest of the World to contribute an increasing proportion of net fee income.

Until 2009, the group had an unbroken record of revenue growth since its formation 13 years ago. However, in line with its staffing company peers, the business experienced weaker demand through the latter part of 2008 and during 2009 as a result of the weaker global economic conditions.

The 2009 results showed the group moving back into profit, with a second-half-adjusted PBT of £3.7m following an adjusted loss before tax of £0.5m in the first half. This reflected a 15% reduction in the cost base following management initiatives as well as an "improved trading environment". In the recent AGM statement, the group highlighted better trading to varying degrees across each of its businesses and geographies.

Following the AGM statement, we expect profitability to recover in the current year to an adjusted PBT of £5.5m. This is 22% above the pre-AGM consensus PBT of £4.5m and reflects growing temporary numbers in Germany, a slight shift in the mix towards permanent and improving profitability from maturing businesses in the emerging economies.

At 39p a share, Empresaria is trading on a 2010 PE of 6.6x, a discount of 52% compared with the average for the peer group of 13.8x. Comparing the rating on 2007 earnings, the stock is trading on a peak PE of 4.3x, a discount to the peer group of 22%. A move to the peer group average would imply a target price of 50p.

MARK PADDON is a research director at FinnCap.

feature

Main movers remain a select bunch

More AIM companies are considering a move to the Main Market but there won't be a flood of departures from the junior market.

Three AIM companies switched to the Main Market during May. This is the first time that many have transferred in one month since July 2008. Predictions that a large number of AIM companies will transfer to the Main Market are proving wide of the mark but there should be a steady flow for the rest of the year.

Fears that the new standard listing will lead to a rush for the AIM exit appear to be wrong at this stage because the companies that are going are opting for premium listings. Moving to a premium listing is the same as it has always been and has not got any easier.

The number of transfers from AIM was much higher in the early days of the junior market but they became scarcer nearly ten years ago. There were fewer in 2005 than in May 2010. In recent years they have increased and they are more significant in terms of market value. The nine companies that moved to the Main Market last year currently have a combined market value of more than £7.5bn.

Companies move because they feel that they will increase their profile, improve the liquidity of their shares and attract new investors that would not look at them if they do not have a regulated market listing.

These can be benefits of moving but there is no guarantee that they will materialise. If a company transfers when it is worth much less than £200m it can get lost on the Main Market. Some of the least liquid shares on the whole of the London Stock Exchange are in the FTSE Fledgling index of the smallest listed companies. It really depends on how attractive the company is to investors, not the market it is on.

> The nine companies that moved last year have a combined market value of more than £7.5bn

Tenon switch

One of the most recent graduates to the Main Market is RSM Tenon, which switched at the end of May. The accountant provides an example of what a company can achieve on AIM, even if it has not been a smooth ride.

Tenon floated as a shell company on 30 March 2000, when it raised £50m at 100p a share, and made its initial acquisitions later in the same year. The business was built up via acquisition but this caused problems after the first few years and the business had to be integrated properly and made more efficient.

Tenon's merger with RSM Bentley Jennison last year created an accountancy business that is seventh in the Accountancy Age league of accountants based on UK fee income. The deal valued the RSM business at £76m. A placing at 45p a share raised £40m to help finance the deal. The combined business, which has been rebranded RSM Tenon, has annualised revenues of £250m. Management believes that it was a good time for the combined group to move to the Main Market.

The other two companies that moved in May were worth well over £300m each – more than twice the size of RSM Tenon. Online gaming group Sportingbet was the 31st largest company on AIM at the end of April 2010 and coal bed methane producer Great Eastern Energy was 25th.

Early leavers

One of the things that stands out about the early transfers to the Main Market is that many were still very small companies.

Out of the first 92 companies to move from AIM to the Main Market, 29 made the return journey. Some of these came back to AIM in little more than a couple of years.

Robotic Technology Systems was the 92nd AIM company to move to the Main Market. Although RTS is not the most recent company to return to AIM it is the most recent mover to the Main Market to make the journey back. RTS returned to AIM on 20 June 2005 after less than three years away. None of the 50 subsequent companies that moved have returned.

This means that nearly one-third of the early transferees returned to AIM. The main reason for this was their size. They may have been higher profile on AIM but they got lost in the bigger pool that they moved to.

There was also another major factor and that was that technology companies had enormous valuations at the turn of the century and some felt that it was appropriate to leave the junior market. However, those valuations soon fell sharply and many of the technology companies came back to AIM a few years later.

Other companies that have moved have been taken over or even gone bust, such as Erinaceous, but there are plenty that have hung on to their Main Market status. In fact, there feature

are 17 former AIM companies in the FTSE 250 index with gold miner Petropavlovsk a possibility for the FTSE 100 index in the near future. Software provider Baltimore is the only former AIM company to have been in the FTSE 100 but its value slumped soon afterwards.

AIM bound

There are still companies coming the other way. The educational and retail fit-out business Havelock Europa believes that it is better suited to AIM because of its size and it will be able to reduce costs. It will also be easier to make acquisitions.

Black cab maker Manganese Bronze and Alphameric, which has just sold its betting systems business, are also moving to AIM. These three companies are worth less than £100m in total.

They could have moved to a standard listing but they feel that AIM is a better market for them. CML Microsystems chose to switch from a premium listing to a standard listing in July rather than move to AIM.

More to come

Medusa Mining Ltd, which is already listed on the ASX and TSX, is set to move to the Main Market. The Philippines-focused gold producer is waiting for the documentation to be finalised.

Entertainment One, the film and TV programme rights owner and distributor whose library includes Twilight: New Moon, is on course to move to the Main Market in July in order to broaden its attraction to investors. It will also re-domicile from the Cayman Islands to Canada.

Closed-ended fund Vision Opportunity China Fund plans to move to the Main Market. It intends to apply for a Premium Listing before the end of September. Guernsey-registered Vision invests in small businesses in China.

A number of property investment companies are considering the switch. Macau Property Opportunities Fund is seeking a Premium Listing. One of the reasons it cites is eligibility for inclusion in the FTSE All-Share index. Moscow-focused property developer RGI International has promised its new shareholder Synergy that it will "use its best endeavours to ensure that RGI's ordinary shares are admitted to trading on the Main Market". Dolphin Capital Investors Ltd's investment manager is exploring the option of a Main Market listing. Dolphin invests in residential resort properties in southeastern Europe.

Falklands oil and gas explorer Rockhopper Exploration is the latest company to talk about moving to the Main Market following its recent fundraising. Rockhopper, whose share price has soared in recent weeks, raised £48.5m at 280p a share to help finance the development of its oil discovery north of the Falklands. It will not be easy extracting the oil and the share price could be volatile, particularly if things do not go to plan.

Three out of these seven companies are in the top 50 AIM companies by market capitalisation and the rest are valued at well over £100m. There are more than 50 AIM companies that are valued at £250m or more and these are most likely to consider a switch to the Main Market. Any smaller companies need to consider whether they really will gain from the move.

AIM TO MAIN TRANSFERS

YEAR	NUMBER OF TRANSFERS
1996	2
1997	20
1998	25
1999	14
2000	19
2001	7
2002	5
2003	3
2004	4
2005	2
2006	3
2007	13
2008	12
2009	9
2010	4

FORMER AIM COMPANIES IN FTSE 250 INDEX

COMPANY	DATE OF MAIN MARKET TRANSFER
Hiscox	21/07/1997
Unite Group	11/04/2000
Big Yellow Group	07/06/2002
Aquarius Platinum	17/07/2002
Northumbrian Water Group	23/09/2003
Melrose	09/12/2005
Connaught	06/11/2006
Genus	12/11/2007
Domino's Pizza	19/05/2008
BlueCrest AllBlue Fund Ltd (ex-Close AllBlue)	19/06/2008
Synergy Healthcare	07/07/2008
Lamprell	06/11/2008
Lancashire Holdings	16/03/2009
Petropavlovsk (ex-Peter Hambro Mining)	22/04/2009
Booker Group	01/07/2009
Hansteen Holdings	06/10/2009
Afren	03/12/2009

Source: Digital Look

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	25.3	24.3
Oil & gas	19.2	9.2
Basic materials	18.7	12.9
Industrials	11.4	18.7
Technology	7.6	9.8
Consumer services	7.1	11.8
Consumer goods	4.2	5.3
Health care	4	5.5
Telecoms	1.5	1.4
Utilities	1.1	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	686.56	+33.9
FTSE AIM 50	2679.17	+26.2
FTSE AIM 100	3134.38	+38.5
FTSE Fledgling	4075.03	+26.0
FTSE Small Cap	2748.92	+21.2
FTSE All-Share	2673.17	+19.5
FTSE 100	5188.43	+18.3

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	308
£5m-£10m	180
£10m-£25m	280
£25m-£50m	192
£50m-£100m	121
£100m-£250m	118
£250m+	54

KEY AIM STATISTICS

Total number of AIM companies	1,253
Number of nominated advisers	62
Number of market makers	48
Total market cap for all AIM	£64.52bn
Total of new money raised	£67.08bn
Total raised by new issues	£33.39bn
Total raised by secondary issues	£33.69bn
Share turnover value (2010)	£9.69bn
Number of bargains (2010)	1.08bn
Shares traded (2010)	54.52bn
Transfers to the official list	142

TOP 5 RISERS OVER 30 DAYS

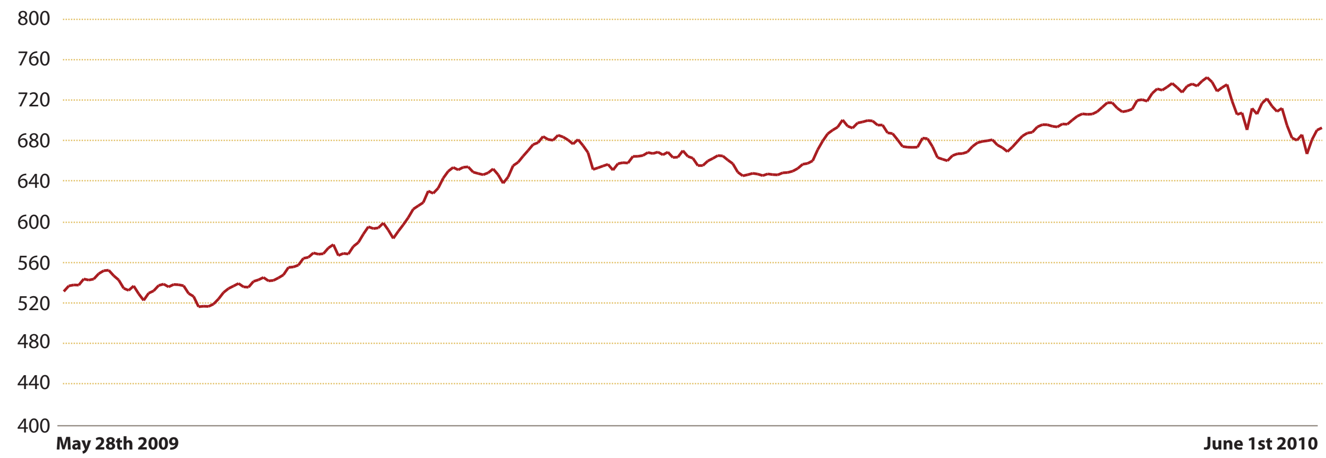
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Rockhopper Exploration	Oil and gas	262	+555
Twenty	Marketing	4.5	+140
Desire Petroleum	Oil and gas	89	+114.5
Blinkx	Technology	27.5	+111.5
Advanced Power Components	Electronics	19.5	+95

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Charles Street Capital	Shell	0.33	-71.1
Matra Petroleum	Oil and gas	1.77	-66
Mercator Gold	Mining	0.97	-62.9
GMA Resources	Mining	1.2	-58.3
Hertford International	Shell	1.875	-53.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 28th May 2010, and we cannot accept responsibility for their accuracy.

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finnCap

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 June 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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