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AIM JOURNAL

In this issue

AIM's 21st birthday

AIM celebrates its 21st birthday later this month (see page 10). The junior market has changed significantly over its life, with the average size of companies increasing and more trades each day even if their total value is not as high as it was a decade ago. The new money raised by AIM companies is heading towards £100bn.

The first ten companies had an average market capitalisation of little more than £8m, compared with £72.1m in April 2016. The total value of AIM on the first day was £82.2m. Of those first ten companies, Athelney Trust is the only one still quoted but it has moved to the Main Market.

Any market is always going to take a few years to build up but even comparing AIM now with ten years ago shows that much has happened in between times. There are still a large number of very small companies but there are also more companies valued at more than £250m. ASOS is worth £3bn, which is more than the whole of AIM at the end of 1995.

The top ten companies by size back in April 2006 have moved to the Main Market or have been taken over. They were valued at just over £13bn, which was then one-sixth of AIM's total capitalisation. This shows how AIM has to regenerate over time.

Directa Plus takes off

Graphene supplier Directa Plus has got off to a strong start as a quoted company, having joined AIM on 27 May. A placing raised £12.8m at 75p a share for the Italy-based company and the uncertainties concerning the EU referendum have not proved a problem. The share price ended the first day at 105.5p and increased to 162.5p by the end of the following week.

Unusually for a graphene developer and producer, Directa Plus already has significant sales of product although it still loses money. The company has been trading for more than a decade and there are a wide range of potential uses for its graphene products, which it manufactures itself. In recent times, the graphene (in various forms) has been used in the manufacture of bicycle tyres, ski-wear and environmental remediation. The graphene market is forecast to grow to $1bn by 2022.

Directa Plus plans to open a new production facility in Thailand to service the Asian market. This should be completed in the first quarter of 2017. The Italian factory will also be expanded. The company needs to show that it can win business to warrant its current valuation.

general news

Pennant flies in Middle East

Following a tough 2015, Pennant International has bounced back. The logistics and defence training systems supplier has won two Middle East orders that will generate revenues of more than £13m in the period until the end of 2017, with potential for more business in the future.

Pennant will supply and install hardware and software for training systems to two aeronautical training colleges in the Middle East. They will be used for maintenance and aircraft marshalling training. There will be potential support revenues as well as further product sale opportunities as the colleges expand. One of these deals was trailed in the recent full-year results, which showed that Pennant had slumped into loss in 2015 because of delays to a major contract. At the end of last year, the order book was already in excess of the 2015 revenues of £9.9m.

These deals have led to forecast revenues for 2016 being upgraded from £14m to £16.2m and this leads to a one-third higher profit forecast at £2m – last year's loss was £2.1m. A partial recovery in the dividend from 1p a share to 2p a share is expected. The profit forecast for 2017 has been upgraded from £1.6m to £2.2m. There are other potential contracts in the pipeline which will underpin the forecasts and could even lead to additional upgrades.

Pennant is becoming less dependent on the Ministry of Defence as additional customers, including General Dynamics, are won. The Pennant share price has recovered to 48.5p but it is still half the level it was 15 months ago.

Time Out listing

Private equity firm Oakley Capital is floating digital media publisher Time Out on AIM on 14 June at a valuation of £190m. The company is raising £90m at 150p a share to pay off debt and roll out its food markets business in additional cities. Annual revenues are £70m but it is likely to lose money for the next few years as it invests in new operations.

Time Out magazine was launched in London in 1968 and it has become a global brand operating in 107 cities in 39 countries – including licensing arrangements. The first food market was launched in Lisbon in 2014 and the company wants to roll the concept out to other cities including Berlin, London, New York, Miami and Porto.

Seeing Machines losses continue ahead of spin-off

Vehicle operator monitoring technology developer Seeing Machines has signed a term sheet with a US investment fund that should mark the start of the process of spinning off the automotive-focused technology operations of the company into a separate company, which will concentrate on the development of this technology which will be included in new cars.

Seeing Machines will retain a significant stake in the spin-off, which is already trialling products with customers. The stake will be earned by licensing the technology to the spin-off and providing staff and assets from this side of the business. A driver monitoring system product has already been provided to a customer and it will be in cars that should be on the road in 2017.

The prospects for Seeing Machines will be transformed if the spin-off goes ahead because the development staff of this business are a significant cash cost. This deal would transfer around two-fifths of the current cost base so that it would be paid for by the new entity. Due diligence is ongoing and the company is in talks with other potential investors.

Seeing Machines has already licensed the rights to the mining-related uses to its technology to Caterpillar. The focus will be fleet, aerospace (where the technology can be used in aircraft and air traffic control simulators), and rail sectors.

Seeing Machines will continue to lose money this year, even including the one-off Caterpillar payment, and it is still uncertain when it will make sustainable profits. It is expected to have A$5m in cash at the end of June 2016 and a further payment of A$5m is due from Caterpillar in September.

advisers

New manager for Miton UK Value

AIM-quoted fund management firm Miton Group has appointed Andrew Jackson as the replacement fund manager for the CF Miton UK Value Opportunities Fund. He is the former fund manager of the Ecclesiastical (now known as EdenTree) UK Growth Fund, which he managed between November 2003 and July 2015. This outperformed the FTSE All Share index by generating a return of 263.7% over that period. Jackson takes up his new role on 27 June.

In April, Miton announced that George Godber and Georgina Hamilton were resigning. They were employed at the end of 2012 to set up the CF Miton UK Value Opportunities Fund, which at the end of April 2016 had assets under management of £590m. The fund has consistently outperformed the market. The cumulative return since launch is 56.7%

The largest eight investments in the fund are quoted on AIM and include motor dealer Vertu Motors, packaging board manufacturer Powerflute and linen-hire and dry-cleaning company Johnson Service Group. AIM companies account for 27.3% of the fund.

WH Ireland has won two new discretionary investment mandates from the Isle of Man government. No figure was put on the value of the funds that will be managed but the business was won after a lengthy tender process so this should be a significant increase in assets under management. WH Ireland had assets under management of £2.52bn at the end of November 2015.

WH Ireland has also outsourced the back-office operations of its private wealth management business that are currently undertaken in its Manchester office. The broker has signed a seven year agreement with SEI Investments (Europe) Ltd and the expectation is that the clients will be moved onto the SEI platform. The full benefits of improved efficiency will show through in the WH Ireland figures for 2017-18.

Earlier this year, the FCA restricted WH Ireland from taking on new corporate broking clients and other activities until 4 May due to the previous failure of its systems and controls. The broker no longer has any restrictions on its trading.

ADVISER CHANGES - MAY 2016

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Xeros Technology	Berenberg/Jefferies	Jefferies	Jefferies	Jefferies	03/05/16
Samuel Heath & Co	Cairn	Zeus	Cairn	Zeus	06/05/16
San Leon Energy	SP Angel/Whitman Howard/Brandon Hill	Brandon Hill/ finnCap/Macquarie	SP Angel	Stockdale	06/05/16
Chariot Oil & Gas Ltd	Peel Hunt/finnCap	Jefferies	finnCap	finnCap	09/05/16
Mortice Ltd	finnCap	Allenby	finnCap	Allenby	10/05/16
Best of the Best	finnCap	Panmure Gordon	finnCap	Panmure Gordon	11/05/16
Plus 500 Ltd	Berenberg/Liberum	Liberum	Liberum	Liberum	11/05/16
Lombard Risk Management	finnCap	Panmure Gordon	finnCap	Panmure Gordon	13/05/16
Craven House Capital	SI	Daniel Stewart	SPARK	SPARK	17/05/16
CPPGroup	Investec	Numis	Investec	Numis	18/05/16
Management Resource Solutions	Peterhouse/ Northland	Northland	Northland	Northland	24/05/16
Edenville Energy	Optiva	Cantor Fitzgerald	Northland	Cantor Fitzgerald	25/05/16
Helios Underwriting	Stockdale	Stockdale	Stockdale	Smith & Williamson	31/05/16
Igas Energy	Investec/Canaccord	Canaccord/Jefferies	Investec	Jefferies	31/05/16
ReNeuron Group	Stifel Nicolaus	Cenkos	Stifel Nicolaus	Cenkos	31/05/16

company news

Sinclair secures partner for US aesthetic treatments market entry

Aesthetic pharma — *www.sinclairpharma.com*

Aesthetic treatments supplier **Sinclair Pharma** has secured an important US distribution and marketing agreement for its Silhouette InstaLift product, which is a minimally invasive, non-surgical way to lift underlying facial tissue. The four-year deal is with ThermiGen Inc, which has a core customer base of dermatologists and plastic surgeons in the US, the largest aesthetics market in the world.

Thermi has an installed base of more than 1,000 systems in the US and the physicians will need to be trained to use Silhouette InstaLift in conjunction with these. Initial marketing has already generated interest.

This agreement follows the £132m disposal of the non-aesthetic businesses to Alliance Pharma. That was completed at the end of 2015 and improved Sinclair's balance sheet. The year end is being changed to December. Significant losses are expected this year and next. Net cash was £75.4m at the end of 2015 so Sinclair can afford to invest in developing its US operations and other expansion.

Net cash was £75.4m at the end of 2015

SINCLAIR PHARMA (SPH)			36p
12 MONTH CHANGE %	- 7.7	MARKET CAP £M	174.1

The aesthetics market is growing and Sinclair is expected to maintain its high gross margins. Sinclair already has a portfolio of products and it has plenty of potential growth in existing markets as well as additional markets around the world. Sinclair sells directly to the top four markets in Europe and it has just taken in-house the distribution activities in Brazil.

Sinclair has an annual option to take back US distribution rights to Silhouette InstaLift from 2018 onwards. The decision on whether to sell direct will be based on the timing of FDA approval for collagen stimulator Ellanse, which could be in 2019. By then US revenues could be built up to a level where going it alone could be viable.

Evgen launches phase II trial

Pharma — *www.evgen.com*

Evgen Pharma is developing treatments for cancer and neurological conditions using sulforaphane science and it has developed its own platform called Sulforadex. There is already scientific research that shows that sulforaphane, which comes from brassica vegetables, can have an effect on cancer tumours and also neuroprotective effects in stroke and brain injury cases. Evgen has commenced its first phase II trial for SFX-01 and it is set to start recruiting for a second by the end of this year.

The current phase II clinical trial is for aneurysmal subarachnoid haemorrhage (SAH), which is a form of stroke that leads to bleeding on the surface of the brain. House broker Northland believes that Evgen could sign up a partner in 2018, which would bring in additional cash in the form of milestone payments. This is a niche treatment but Northland estimates that a successful treatment could yield risk-adjusted, annual royalties of more than £5m in less than ten years' time.

EVGEN PHARMA (EVG)			20.75p
12 MONTH CHANGE %	- 8.2	MARKET CAP £M	15.1

The second phase II clinical trial will assess the effect of adding SFX-01 to existing breast cancer therapies. There is evidence that the active ingredient does decrease breast cancer stem cell populations. Regulatory approval is being sought so that recruitment can begin. This is a much larger potential market than SAH.

Evgen had cash of £7.13m at the end of March 2016 and this is expected to fall to £4.2m by next March. If a partner is brought in for the SAH treatment the following year then that would replenish the cash pile. If not, the cash will be running low by March 2017.

company news

Private rental-focused Sigma secures partnership with housebuilder Keepmoat

Private rental accommodation *www.sigmacapital.co.uk*

Private rental accommodation developer **Sigma Capital** has secured a partnership with Keepmoat, a housing and regeneration company. This follows on from a previous deal with Countryside Properties. The private residential sector is the fastest-growing part of the property market.

Keepmoat has not been involved in the private residential market before. This deal is expected to deliver more than 5,000 rental homes, valued at around £800m, by 2021. The focus is two-, three- and four-bedroom homes in the North East, Yorkshire and East Midlands. Keepmoat will secure the land and design and build the homes; Sigma will secure investment and lettings.

The deal should deliver more than 5,000 homes

Sigma has started to benefit from its development deals but there is a lot more to come. In 2015, revenues improved from £3.87m to £6.72m and pre-tax profit jumped from £214,000 to £2.14m. The revenues came from the sale of land at Norris Green and income from the initial private rental sector activities. NAV doubled from 17.4p a share to 35.9p a share at the end of 2015. There was cash of £25.1m at the end of the year. That will help to finance the self-funded residential developments.

SIGMA CAPITAL (SGM)			89.5p
12 MONTH CHANGE %	+32.1	MARKET CAP £M	79.3

The Gatehouse joint venture has already let 549 homes and annualised rental income should be £7m by the third quarter of 2016. There should be 550 self-funded homes finished by the end of 2017.

A profit of £8.7m is forecast for 2016, rising to £13.6m in 2017. The shares are trading on 11 times prospective 2016 earnings, falling to seven the following year.

CentralNic expects Instra boost

Internet domains *www.centralnic.com*

Domain names wholesaler and retailer **CentralNic** reported strong growth in line with expectations for 2015, helped by the sale of premium domains. CentralNic is set to grow rapidly and it will become less dependent on these one-off sales. The acquisition of domain names retailer Instra, which was completed at the beginning of 2016, combined with organic growth of existing operations, including higher-margin services, will provide another strong performance in the coming year.

In 2015, revenues grew 71% to £10.4m and underlying pre-tax profit more than doubled from £1.39m to £2.95m. Last year, a substantial proportion of that improved profit came from trading in premium domain names – part of the enterprise division - rather than the retail and wholesale domain names business, which have strong recurring revenues. As the group matures this one-off trading in domains will become less important. The enterprise division is also developing a range of software and services, including DomiNIC, which helps corporations to manage their domain portfolios.

CENTRALNIC (CNIC)			47p
12 MONTH CHANGE %	+36.2	MARKET CAP £M	45

New top-level domains continue to be launched and CentralNic is the number one in that part of the market. Six of CentralNic's domains are ranked in the top 25. That includes the largest - .xyz.

There was £5m left in the bank after paying for Instra, which is being integrated, and the benefits are yet to come through. Helped by the acquisition of Instra, the group profit could rise to £5.1m this year, which puts the shares on less than 14 times prospective earnings. Earnings growth will be held back by last year's share issues. Next year, profit could reach £7m, placing the shares on less than nine times 2017 prospective earnings. CentralNic is in a strong position to participate in further consolidation of the sector.

company news

Cambria cash generation keeps dealership acquisitions flowing

Automotive retailer *www.cambriaautomobilesplc.com*

Cambria Automobiles continues to benefit from the strong new car market and its interim figures were substantially higher. Cambria has grown without issuing any new shares since it joined AIM just over six years ago. This year's underlying earnings per share are set to be nearly 150% higher than they were in the company's first year as a quoted company. The dividend is set to treble over that period to 0.9p a share.

In the six months to February 2016, revenues were 15% higher at £278.4m, while underlying pre-tax profit was two-fifths ahead at £4.6m. The interim dividend was raised from 0.15p a share to 0.2p a share. Cambria is generating more profit from the sale of each new or used vehicle and improving its aftersales margin. Cambria has 30 dealerships representing 17 brands across England. They all trade under local names.

Cambria has grown without issuing shares

The business is highly cash generative and the cash has been used to finance acquisitions – more than £10m was spent in the first half. There was net cash of £326,000 at the end of February 2016 and there is a £37m, five-year bank facility to finance further acquisitions.

CAMBRIA AUTOMOBILES (CAMB)			78.5p
12 MONTH CHANGE %	+31.9	MARKET CAP £M	78.5

March trading in the car sector was strong. Cambria is forecast to make a profit of £10.5m this year, rising to £11.5m next year. That means that the shares are trading on just over nine times prospective 2015-16 earnings, falling to below nine next year. The share price has been strong in the past 12 months and it has held up well since the beginning of 2016.

Vertu begins to invest placing cash

Automotive retailer *www.vertumotors.com*

Automotive retailer **Vertu Motors** followed up a good set of annual figures with the acquisition of five profitable outlets in Derbyshire for £18.7m. This deal gives Vertu its first Toyota franchise and the other marques included in the deal are Land Rover, Nissan and Skoda. These outlets should be earnings enhancing in their first full year as part of the group.

Vertu started out at the end of 2006 as a cash shell when it raised £25m at 60p a share. A number of additional placings have helped the company to grow rapidly into the fifth-largest motor vehicle retailer in the UK. Even so, earnings per share have still doubled over the past five years. However, this year's earnings will be held back by the most recent £35m placing at 62.5p a share, some of which has gone on the latest acquisition.

VERTU MOTORS (VTU)			58.25p
12 MONTH CHANGE %	-7.2	MARKET CAP £M	231.4

In the year to February 2016, revenues grew from £2.07bn to £2.42bn, while underlying pre-tax profit improved from £22m to £27.4m. There was net cash of £23.1m on the balance sheet before the recent acquisitions and the dividend was increased from 1.05p a share to 1.3p a share.

The NAV of 58p a share is similar to the share price. More than one-third of the NAV is goodwill but considering the cash generated from the assets that is not a worry.

Prior to the latest acquisition, Edison forecast a full-year profit of £29.5m this year. A slight dip in earnings per share is expected, although that may depend on the performance of acquisitions, which means that the prospective multiple is ten. Even an increased dividend would be covered more than four times. Earnings per share should grow again next year.

Telford gets dividend from rental boom

Residential property developer *www.telfordhomes.London*

Dividend

Residential property developer Telford Homes has paid dividends for most of the past decade except for a hiatus in the year to March 2009 at the height of the credit crunch. Prior to that year the dividend had reached 10p a share. When it resumed it was a more modest 2p a share but it has grown rapidly since then and increased from 11.1p a share to 14.2p a share last year.

A dividend of 15.7p a share is forecast for this year, which will be covered nearly 2.4 times. Given the track record there is a good chance that the dividend increase could be higher, especially as profits are set to grow strongly over the next three years.

Business

Telford Homes has recovered significantly since the downturn. In the past five years the pre-tax profit has jumped from £3m to £32m as revenues have risen from £124.4m to £245.6m. Telford says that it has already secured more than 50% of forecast cumulative revenues for the next three financial years. That includes £70m of deposits received. This growth in revenues has been enhanced by the first sales in the fast-growing private rental sector.

The latest deal in the private rental sector came after the end of the financial year. Telford sold the Carmen Street development in London E14 to M&G Real Estate for £63.2m. The plan is to develop 150 homes and commercial space on the site. M&G will make an initial payment for the land and then stage payments throughout construction. This means that Telford will not have to use its debt facility to fund the development. There will also be 56 affordable homes that will be sold separately by Telford. The development should be completed in 2019.

TELFORD HOMES (TEF)	
Price (p)	371.25
Market cap £m	275.2
Historical yield	3.8%
Prospective yield	4.2%

As well as this type of forward sale, Telford is assessing whether it can form long-term partnerships with institutional investors.

Telford has historically focused on east London but it has widened its exposure to other parts of London. The development pipeline is worth £1.5bn, following the £23m acquisition of United House Developments last autumn, which added £500m. The focus on non-prime locations with good demand means that Telford is not as exposed to a downturn as a developer in prime locations would be. Demand is set to continue to outstrip supply in Telford's markets.

Just after the acquisition Telford raised £50m at 360p a share and this has reduced net debt to £18m. That figure is expected to increase but there is headroom of £140m on Telford's bank facility.

A profit of around £33m-£34m is forecast for this year and it could rise to £44m next year. The shares are trading at just over ten times this year's prospective earnings, falling to eight next year. The company is on course to make a profit of more than £50m in 2018-19 and towards £60m after that.

Dividend news

Engineering services provider **Renew Holdings** increased its dividend by 18% to 2.65p a share on the back of record interim results for the six months to March 2016. Pre-tax profit improved from £9.5m to £10.3m on revenues 5% higher at £265.1m. Net debt was reduced from £4.8m to £4.2m. The specialist building division made a higher contribution but most of the profit growth came from the core engineering services business. The target for 2016-17 is an operating profit margin of 4.5%, up from 3.5% in 2013-14, and that is achievable without acquisitions. This year's profit is forecast to improve from £19.7m to £21m.

Even though telecoms billing and CRM software supplier **Cerillion** has only been quoted for a few weeks it is paying an interim dividend of 1.3p a share. Cerillion increased its recurring revenues by 22% to £2.2m in the six months to March 2016. That is nearly one-third of total revenues of £6.85m, while underlying pre-tax profit improved by one-fifth to £703,000. The move into cloud-based services should enhance those recurring revenues and also enable the company to move into new sectors outside of telecoms because it will be viable for much smaller businesses to use the billing technology.

Germany-focused commercial property investor **Sirius Real Estate** reported a sharp increase in adjusted pre-tax profit from €13.2m to €24.6m in the year to March 2016. The benefits of the investment of the cash raised during the year are starting to show through. Funds from operations were €25m and 65% of this is being paid out in dividends, which total €0.0222 a share for the year. Adjusted NAV was 2% higher at €0.533 a share even though it was diluted by share issues. House broker finnCap forecasts that the dividend will rise to €0.027 a share, helped by the negotiation of cheaper debt facilities.

expert views

Expert view: The broker

Tungsten; a critical metal with positive fundamentals

By Ryan Long

Tungsten is a rather unfamiliar metal to the majority of investors that conjures up visions of filaments in light bulbs and seems as far from an exciting and up and coming investment as one can imagine. Indeed from the heady days of 2011 to 2015 the price of the most commonly traded form of tungsten ammonium paratungstate (APT) fell by about 60% due to increased supply and waning demand driven by global economic weakness. However, unlike with most metals the tide has now turned for tungsten, with the price up 20% since 2015, Based on our forecasts we expect the price to continue to increase by 85% to 120% by 2020.

Tungsten is not traded on a metal exchange, with most trades taking place between primary and secondary producers or tertiary manufacturers. For investors to gain exposure to the positive trend over the next four years the only tangible option is to invest in primary producers of tungsten-bearing concentrate or developers with near-term production potential. AIM-quoted tungsten plays include Wolf Minerals (WLFE.L), W Resources* (WRES.L), Premier African Minerals* (PREM.L) and Thor Mining* (THR.L).

What's it used for?

Tungsten carbide is the dominant consumer of primary tungsten, accounting for around 66%; mill products and lighting make up 20%; steel alloys make up 9%; and chemical and other uses make up the remaining 5%.

What will drive the price?

When looking at tungsten the only place to start is China, which currently accounts for around 64% of primary consumption; compared with 14% in Europe, 9% in the US and 7% in Japan; and 81% of global primary production, with Vietnam the second-largest producer at 5% and Canada & Russia the joint third-largest with 3% each. This is expected to change in 2016, with both the UK and Spain becoming significant producers.

Tungsten has been classified as a critical raw material by the British Geological Surveys, US Department of Defense and EC because of its economic importance, with few or no substitutes available and the potential supply risk created by China accounting for the majority of production.

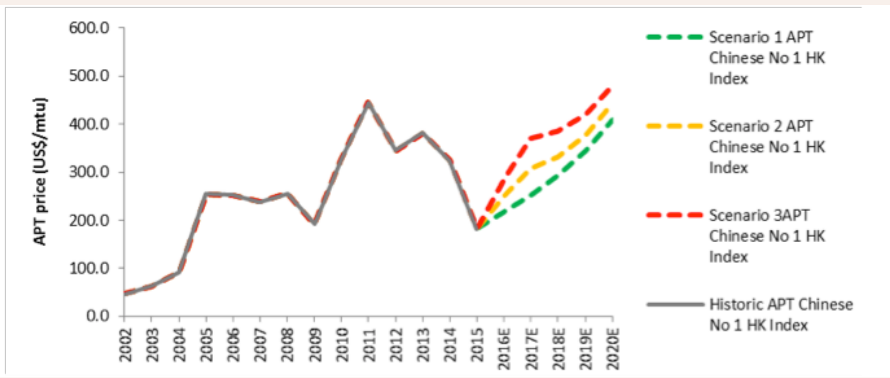
China historically restricted the export of its primary tungsten production through export quotas. However, in March 2014, following a joint complaint by the EU, the US and Japan, a dispute-settlement panel from the World Trade Organisation determined that China had not adequately justified imposing export duties and quotas on tungsten and other minerals, and that the restrictions violated WTO obligations.

China was forced to withdraw its quota system in January 2015, but by April 2015 the government issued a joint notice that there would be resource tax of 6.5% levied on tungsten. This became effective from May 2015. This tax resulted in lower margins for Chinese mines and effectively reduced their competitiveness and is likely to result in lower levels of production. Adding to the likelihood of a drop in Chinese supply is the fact that a significant number of Chinese primary producers are struggling to maintain production levels due to a lack of investment combined with decreasing grades.

Based on a number of variables we generated three scenarios for the general trend in APT price over the next four years. The general trend for all of these scenarios is positive. Society is becoming more energy conscious as fears about global warming and energy costs drive industries to be more energy efficient. Tungsten's durability, hardness and high melting point mean it will have an important role to play in addressing the challenges ahead.

**Northland Capital Partners acts as nominated adviser and/or Broker and/or provides commissioned research services to the company*

Chart 1: Forecast APT prices



Source: Northland Capital Partners estimates - 2015-2020 and Bloomberg 2013 – 2002-2014

RYAN LONG is a director of research, at Northland Capital Partners.

expert views

Expert view: The lawyer

Insider trading, trials and Tabernula

By Deirdre O'Neill, Corporate Associate, Marriott Harrison LLP

Operation Tabernula, an investigation initiated by the Financial Services Authority (FSA) in 2008 and continued by the Financial Conduct Authority (FCA) has involved a process of sifting through trading records, telephone calls, chat logs and eventually even coat pockets to discover a pattern of behaviour that has led to a series of criminal convictions.

These were unprecedented sentences for insider trading

Since this operation was initiated, the FCA, in partnership with the National Crime Agency, has reclaimed £44 million and has secured 27 criminal convictions related to insider dealing.

Dawn raids

In early 2010, across 16 locations in the UK, a series of dawn raids took place which involved the efforts of 140 staff in a bid to obtain key evidence in relation to individuals suspected of insider trading. As a result of these concerted efforts, in 2015 Julian Rifat, a trader at the Mayfair hedge fund Moore Capital, Graeme Shelley a trader at Novum Securities, and Paul Milsom an equities trader at Legal & General were sentenced for insider trading. The media focused on these individuals because of their flagrant abuse of position and the elaborate system they embarked on to financially benefit from privileged information.

Under the market abuse regime in the Financial Services and Markets Act 2000 (FSMA) a civil offence is committed where abusive behaviour occurs in relation to securities traded on a "prescribed market", which includes the London Stock Exchange's Main Market and AIM. One of the types of behaviour specified in FSMA which amounts to market abuse is where inside information is disclosed by an insider other than in the proper course of the execution of his employment, profession or duties (improper disclosure – s118(3)). Though a process known as "wall crossing" is designed to prevent trades being made by individuals with access to sensitive insider information, Rifat, Shelley and Milsom managed to circumvent this barrier by establishing a complex strategy of sharing information with each other on blue chip companies. Milsom and Rifat, with primary exposure to market-sensitive information, would pass the detail on to Shelley, who, using this information, would make heavy spread-bet and contract-for-difference trades via his brokers, making huge profits as soon as the market moved.

In a dawn raid, investigators found four pages of paper in a coat pocket in Shelley's home covered in his handwriting. The pages showed dozens of trades and unearthed how Shelley had meticulously detailed the size of the trades, the stock tickers, the transactions and the amounts owed. The three stooges were sentenced to no more than two years' imprisonment. Shelley received a two-year suspended sentence.

The most recent of the FCA's victories in Operation Tabernula has led to heavier sentencing, with the conviction and sentencing for a conspiracy that netted £1.1m profit between former corporate brokers Martyn Dodgson and Andrew Hind. In May 2016, sentences of 4.5 and 3.5 years' imprisonment respectively were imposed and are unprecedented sentences for insider trading.

In a sophisticated process of 'join the dots' and a methodical review of codenames, telecoms data, forum chats and unregistered phones used, as well as hidden surveillance via a wiretap, the FCA unlocked vital information that secured the convictions of Dodgson' and Hind, who were two of only five defendants brought to trial. The other three were acquitted. The allegations related to five different acts of insider dealing related to five different stocks.

In the USA, Federal prosecutors have racked up 91 convictions and collected almost $2 billion in fines. Comparable sentencing for crimes of this nature can be upwards of 10 years' imprisonment.

Through this series of successes, the FCA has shown a strong commitment to investigation. In spite of the time and complexity in doing so, it has embraced a sophisticated process that will continue. There is no doubt that this reiterates the sentiment of the FCA Director of Enforcement and Market Oversight that "the message is loud and clear that the FCA will not tolerate sophisticated predatory criminals abusing our markets".

DEIRDRE O'NEILL is an associate in Marriott Harrison LLP's corporate department and assists AIM companies and nomads in corporate and AIM regulatory matters

feature

AIM comes of age

AIM is 21 years old on 19 June and a lot has happened over its life. The junior market has done a lot of maturing over the past ten years in particular.

AIM will be 21 years old in the middle of June and while the number of companies currently on the junior market is well below the peak their overall quality is higher. That does not mean that there are not plenty of potentially risky companies on AIM but there are not as many as there have been at some points in the past.

For example, the changes to rules for shells and investing companies, both eleven years ago and more recently, have made many of those companies turn their attention to other markets, such as the standard list.

The total value of AIM of £73bn is lower than a decade ago but the average size of company has increased from £52.5m in April 2006 to £73.1m in April 2016. Larger companies account for a much bigger proportion of AIM than they have done before. Companies valued at more than £250m currently account for 50.2% of AIM's market value. This is despite online payments firm Paysafe and online gaming operator GVC moving to the Main Market in recent months.

In some ways April 2006 is a tough comparator because the market was relatively strong and it was the year that the most money was raised on AIM (£15.7bn). It was also the last year that more money was raised by new entrants than by existing AIM companies. There had already been 158 new admissions by the end of April 2006, which is more than in any year since 2007. In fact there were 62 new admissions in March 2006 alone, more than the whole of 2015.

It is not necessarily a bad thing that the new admission numbers are lower. Admittedly, a strong flow of new entrants is good for any market but when there are hundreds floating in one year – nearly 1,000 companies floated in 2005 and 2006 combined – the quality tends to fall dramatically.

Companies valued at more than £250m account for 50% of AIM

AIM'S TRANSFORMATION

INDEX	APRIL 2006	APRIL 2016
Number of companies	1,501	1,013
Total AIM capitalisation (£bn)	78.8	73
Average company size (£m)	52.5	72.1
Companies valued at less than £25m (%)	54.8	52.4
Companies valued at more than £250m (%)	3.1	6.8
Companies valued at more than £250m (% of AIM value)	34.6	50.2
Resources companies market value (% of AIM value)	27.5	9.6
Average daily bargains	16,295	21,990
Average daily turnover (£m)	272.4	114.4

Resources

Resources companies have become less significant to AIM in terms of market value, although they still account for one-fifth of companies on the market. At one stage well over two-fifths of AIM's market value was accounted for by mining and oil companies. They currently account for less than 10% of AIM's value.

There will always be fashions and sectors where growth is expected to be better than the rest of the market but hopefully AIM will not become as dominated by one area as it was a few years ago by resources companies.

Trading activity remains much higher than a decade ago, although it is below its peak in 2014 when there was an average of 26,585 trades each day. The strength of world stock markets always has an effect on trading levels so the fact that there is still an average of 21,990 trades a day is a positive. Paysafe had been averaging more than 2,000 trades a day before moving to the Main Market. The value of transactions has fallen, though, suggesting that it is the activity of smaller shareholders that is increasing.

AIM is becoming more mature but it should not forget that the point of the market is to give more risky, earlierstage businesses a chance to raise money to enable them to grow.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	22.1	17.9
Consumer services	17.2	10.7
Industrials	14.9	17
Healthcare	13.5	8.5
Technology	9.8	11.2
Consumer goods	7.9	5.8
Basic materials	6.3	15.2
Oil & gas	5.6	10.9
Telecoms	1.8	1.5
Utilities	0.9	1.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	739.5	-4.3
FTSE AIM 50	4104.23	+0.6
FTSE AIM 100	3486.98	-0.1
FTSE Fledgling	7665.31	-2.9
FTSE Small Cap	4596.01	-4.1
FTSE All-Share	3429.77	-9.7
FTSE 100	6230.79	-10.8

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	235
£5m-£10m	130
£10m-£25m	188
£25m-£50m	163
£50m-£100m	126
£100m-£250m	102
£250m+	69

KEY AIM STATISTICS

Total number of AIM	1013
Number of nominated advisers	33
Number of market makers	49
Total market cap for all AIM	£73bn
Total of new money raised	£96.5bn
Total raised by new issues	£40.9bn
Total raised by secondary issues	£55.6bn
Share turnover value (2016)	£9.49bn
Number of bargains (2016)	1.83m
Shares traded (2016)	121.8bn
Transfers to the official list	179

TOP 5 RISERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Origo Partners	Financials	1.68	+510.9
CloudTag Inc	Software	5	+122.2
Powerhouse Energy	Cleantech	0.95	+100
Vitesse Media	Media	2.5	+100
Ferrum Crescent	Mining	0.25	+85.2

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
DDD	Software	0.55	-66.2
Atlas African Industries	Oil services	0.15	-51.7
Petro Matad	Oil and gas	2.85	-51.6
Environmental Recycling Technologies	Cleantech	0.03	-50
Aureus Mining Inc	Mining	3.13	-50

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange

Data: Hubinvest Please note - All share prices are the closing prices on the 31st May 2016, and we cannot accept responsibility for their accuracy.

sponsors

Northland Capital Partners

Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It has excellent connections with investors, providing them with equity research, advice and trading services. Northland has assembled a team of highly motivated and experienced professionals that aims to deliver unparalleled service to our clients.

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

As the most successful growth market in the world, AIM is an important platform for helping small companies raise capital. At Northland, we see the AIM Journal as an opportunity for investors to learn more about the many great companies quoted on AIM.

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We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to AIM Regulation as a result of discussions held.

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