Northland

NORTHLAND
Clear thinking, straight talking

www.northlandcp.co.uk

OCTOBER 2016

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

In this issue

Football pools float

Sportingbet founder Mark Blandford is planning to use an AIM-quoted vehicle to buy the Littlewoods pools business from fully listed Sportech. Private equity firm Burlywood Capital LLP has offered £97.25m for the pools business. Sportech has responded positively and agreed to a period of exclusivity.

Burlywood, which was set up by Mark Blandford and Andrew Burnett in 2012, will use the AIM-quoted company to raise cash via a share issue to institutional investors and fund the rest of the deal with a £30m debt facility. Cenkos will be the new company's nominated adviser and broker.

A company was set up in June and that company changed its name to The Football Pools (Holdings) on 27 September. Mark Blandford and Andrew Burnett resigned as directors on 20 September. They each own 2.5 million shares of 1p each in the company. Three new non-executive directors have been appointed, including former Sportech chief operating officer Ian Hogg.

Littlewoods started its pools business in 1923 and in recent years it swallowed up its rivals Vernons and Zetters. The business was rebranded as The Football Pools and modernised. The pools are no longer paper-based; instead players can use the website or a mobile app. However, there is a lot more competition from other forms of gaming than there used to be. The existing management will continue running the business.

In order for the deal to go ahead, the acquisition vehicle has to raise the required funds and the Sportech shareholders will have to vote in favour.

Winterflood profit dip

Weaker stock market trading levels have hit market makers as well as brokers. Winterflood Securities was hit by these lower volumes last year and this meant that its profit contribution to its owner, Close Brothers, fell.

The decline in trading was particularly evident in AIM, where Winterflood is the most active market maker. In the year to July 2016, the average number of bargains per day fell by 14% to 51,864. Operating income fell 13% to £82.3m, while pre-tax profit slumped from £24.6m to £19m. The profit includes a £1.9m gain on the disposal of Euroclear shares, down from a £3.5m gain in the previous year.

There was a recovery in trading during the second half of the period and there were only four days when a loss was made, down from 13 days in the first half. Winterflood has benefited from an upturn in retail investor activity in recent weeks.

general news

Fox Marble signs Kosovo government deal

Kosovo-focused marble-quarrying group Fox Marble is becoming involved in a new corporate vehicle set up to open 40 marble quarries in Kosovo over the next five years. This could create more than 2,000 jobs in the eastern European country. The new company will need to raise at least €100m in order to carry out its plans.

Fox Marble is taking a 59% stake in US-based Stone Alliance and it will provide technical, planning and initial marketing services. The AIM-quoted company was chosen as the partner of the Kosovo government because it has shown that it can develop marble projects in the country and help to attract inward investment.

Fox Marble chairman Andrew Allner will own 1% of Stone Alliance, while Dr Etrur Albani, who recently stepped down from the board, will have a 10% stake. Fox Marble chief executive Chris Gilbert, who will have the same role in Stone Alliance, can earn an interest of up to 3% subject to performance. The rest of the shares will be held by local partners and advisers.

Stone Alliance has been granted commercial advocacy by the advocacy centre of the United States Department of Commerce. This means that it will receive "active support" from the US government.

A non-binding memorandum of understanding has been signed with the parliament of Kosovo. Stone Alliance will raise the finance required to open the quarries and build at least two factories to process the raw marble into cut and polished products. Each quarry is likely to have a local minority partner.

Latest Focus

The latest AIM Investor Focus is being held at the offices of Edison Group at 280 High Holborn, London, on 18 October. Presentations will begin at 11am and there are four AIM-quoted companies booked to inform investors about their prospects. These are flooring products manufacturer James Halstead, international PR group Next Fifteen Communications, premium funding lender Orchard Funding and industrial holding company Volvere. The first three companies pay dividends and James Halstead and Next Fifteen have a long track record of providing income for shareholders. Orchard floated last year and has just commenced dividend payments. Volvere is focused on growing its net asset value through buying companies, improving their performance and then, generally, selling them. More information is available at www.blackthornfocus.com/apply/aif201610.

Integumen buys Venn's pharma development firm

Venn Life Sciences is selling its healthcare products development business in order to concentrate on its contract research operations. The buyer is Integumen, which plans to join AIM after putting together a number of deals to form a wider-ranging pharma development business.

Prior to the deal, Venn capitalised £1.29m of debt, taking its stake in Innovenn to 70%. The rest is owned by Helium Rising Stars. Innovenn was started in 2014 and acquired the Labskin artificial skin and anti-acne treatment assets of AIM-quoted Evocutis for £200,000. The cash drain has been limited – the reported 2015 loss was £385,000 – but these activities have masked the progress of the core business.

Venn director Anthony Richardson and Innovenn director Declan Service have both been directors of Integumen since it was formed on 28 May. They each own one of the two initial shares. Integumen is acquiring Innovenn for 4.59 million shares at 100p each and assuming debt of £146,000. Because of the related parties the deal has to be agreed by Venn shareholders.

Integumen has also entered into a conditional agreement to acquire the assets of US OTC Pink sheets-quoted Enhance Skin Products Inc, which is involved in research and development on the use of hyaluronan for deep hydration of the skin. The trademark is Visible Youth. In the three months to July 2016 revenues were $185. Integumen is paying £3.03m ($3.94m), of which £2.72m will be paid in shares at 100p each and the rest will be the assumption of liabilities.

There are also plans to acquire oral health and wound care assets. The treatments will need cash to progress their development and Integumen has already secured a €1m bank facility.

advisers

Mixed news for brokers

Panmure Gordon is investing up to £2m over ten months to take a 49% stake in new agency broker PrimeXtend. Xtend Group will own the rest of the company. The business will trade under the Panmure Gordon name.

In the six months to June 2016, Panmure Gordon's net fee income rose from £13.1m to £14.9m and underlying profit recovered from £415,000 to £2.02m. Panmure Gordon has drawn down £3m of a £5m funding facility provided by major shareholder Qinvest.

Cenkos Securities reported a 71% decline in interim revenues to £15.3m. Even if the large one-off transaction that generated £26.7m is excluded, the decline is 42%. Pre-tax profit slumped by 91% to £1.7m. A 1p a share interim dividend has been declared. The number of nominated adviser and broker clients fell from 125 to 119.

Numis says that its revenues in the year to September have gone above £100m for the first time. Equity sales and research activities grew trading revenues by 13%. Shore Capital's capital markets division reported a rise in interim revenues but profit was flat at £3m.

Kuwaiti European Holding Group has bought a 23.1% stake in WH Ireland as part of its strategy to expand in its home region and the UK. Rupert Lowe and David Ross have both sold shares in the AIM broker.

ADVISER CHANGES - SEPTEMBER 2016

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
1PM	Cenkos	WH Ireland	Cenkos	WH Ireland	01/09/16
Adamas Finance Asia Ltd	finnCap	WH Ireland	WH Ireland	WH Ireland	01/09/16
Alexander Mining	Turner Pope/Northland	Northland	Northland	Northland	01/09/16
M Winkworth	Stockdale	Liberum	Stockdale	Liberum	01/09/16
Premier Technical Services	Numis	Panmure Gordon	Numis	Panmure Gordon	01/09/16
Fusionex International	Peel Hunt/ Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	06/09/16
Sirius Petroleum	Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	Cairn	08/09/16
Tiger Resource Finance	Beaufort/finnCap	finnCap	finnCap	finnCap	08/09/16
Inspiration Health	Cenkos	WH Ireland	Cenkos	WH Ireland	09/09/16
Avacta Group	finnCap	Numis	finnCap	Numis	12/09/16
Crystal Amber Fund Ltd	Winterflood	Numis	Allenby	Allenby	12/09/16
Gaming Realms	Peel Hunt	Cenkos	Peel Hunt	Cenkos	13/09/16
Abzena	Numis/N+1 Singer	N+1 Singer/Cenkos	Numis	Cenkos	19/09/16
Ascent Resources	Northland/Stockdale	Stockdale	Stockdale	Stockdale	19/09/16
Berkeley Energia	Peel Hunt/WH Ireland	WH Ireland	WH Ireland	WH Ireland	19/09/16
EKF Diagnostics	N+1 Singer/ Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	19/09/16
Stratmin Global Resources	Allenby/Optiva	Beaufort/Optiva	Allenby	Strand Hanson	19/09/16
Venture Life Group	Turner Pope/ Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	21/09/16
Sanderson Group	N+1 Singer	Panmure Gordon	N+1 Singer	Panmure Gordon	23/09/16
GLI Finance Ltd	Liberum	Panmure Gordon	Liberum	Panmure Gordon	26/09/16
Water Intelligence	finnCap	WH Ireland	finnCap	WH Ireland	26/09/16
Avingtrans	N+1 Singer/Numis	Numis	Numis	Numis	27/09/16
ClearStar Inc	finnCap	Cenkos	finnCap	Cenkos	27/09/16
RhythmOne	Numis	Numis/Citigroup	Numis	Citigroup	27/09/16
OptiBiotix Health	finnCap	Peterhouse/Hybridan	Cairn	Cairn	28/09/16

company news

Fairpoint on course to drop debt and follow legal course

Legal services *www.fairpoint.co.uk*

The decision by **Fairpoint** to move into legal services came at just the right time. It has built up a significant legal business but the growth is being masked by the decline of the original debt management operations.

Debt management should be completely run down by the end of 2016. In the first half, revenues were one-third lower at £2.6m and the profit almost halved to £800,000. It takes more time to handle cases and the legal requirements are greater, so the remaining business will be taken on by a partner. There will be restructuring costs of £2.5m and impairment write-downs of £5.5m.

IVA activity continues to decline and Fairpoint is not spending money on marketing. This business should continue to generate cash. The claims management side gets its leads from the debt businesses, so it is also declining, but this could be merged into related legal services activities.

Organic growth was 4%

Overall, the problems with debt-related activities were broadly offset by growth in legal services. In the six months to June 2016, pre-tax profit was slightly lower at £4m on revenues 24% higher at £28.3m. Organic growth was 4%.

Conveyancing demand is uncertain but the changes to whiplash claims that were planned by the government might be delayed. A good thing about Fairpoint is that it has a spread of legal activities and is not dependent on any one form of work.

FAIRPOINT (FRP)			80.5p
12 MONTH CHANGE %	-54.5	MARKET CAP £M	24

Net debt was £15.6m at the end of June 2016 and there is £8.6m of additional facilities. Equity Development forecasts a decline in full-year pre-tax profit from £10.5m to £7.75m. The dividend is likely to remain unchanged at 6.8p a share and that would still be twice covered by earnings. This should mark the bottom for Fairpoint and it is trading on around six times this year's prospective earnings and yield of 8.4%.

NetPlay seeks consolidation opportunities

Interactive gaming *www.netplaytv.com*

Interactive gaming company **NetPlay** is rebuilding its profit following tax changes. The contract with ITV has been extended for a further three years until April 2019. ITV and Channel 5 provide a TV presence that helps to promote the company and its games. Vernons bingo has been launched and NetPlay is developing further games, while on top of this there are consolidation opportunities.

In the six months to June 2016, net revenues grew 15% to £14.7m although this improvement came from the B2B business, which provides online digital marketing, acquired last year. The core business had a weak second quarter. Lower marketing costs helped underlying pre-tax profit to improve 30% to £1.44m. The cost base has been realigned to cope with the new point of consumption tax. Active depositing players have increased from 63,411 to 65,200.

NETPLAY (NPT)			8.5p
12 MONTH CHANGE %	-21.7	MARKET CAP £M	23.7

The interim dividend is unchanged at 0.22p a share. Corporate cash levels have fallen to £7.5m, mainly because of the special dividend paid earlier in the year. This still provides plenty of funds to make add-on acquisitions.

Trading has recovered in the third quarter. A full-year profit of £2.6m is forecast, which puts the shares on less than nine times prospective earnings. An unchanged dividend provides a 6.6% yield. Around one-third of the NetPlay's market capitalisation is covered by its cash balance, which will grow if no acquisitions are made. Henderson has trimmed its stake to below 10%.

company news

PuriCore puts fresh focus on biopharmaceuticals developments

Pharmaceuticals *www.puricore.com*

PuriCore is selling its supermarket retail-focused business in order to concentrate on its pharma activities. PuriCore will be a focused biopharmaceuticals developer and it will have minimal ongoing revenues.

US-based Chemstar Corp, which provides food safety and sanitation services to retailers, is paying $13.5m in cash for the business, which provides products and services to keep food and flowers fresh. The deal includes a royalty-free licence for the relevant technology and the use of the Sterilox brand in certain sectors. In the six months to June 2016, the division's revenues improved from $8.4m to $10.8m and gross margins more than doubled to 41.2%. This helped the business return to profit.

The focus is on two clinical trials

Earlier this year, PuriCore resolved its problems with the US Environmental Protection Agency (EPA) about its concentrate products. PuriCore agreed to stop selling ProduceFresh to retailers until it is registered as a pesticide with the EPA and also paid $550,000 to the regulator.

The remaining business generates royalty income from a wound-care product. The core activity is developing treatments based on high concentrations of hypochlorous acid that can be used for inflammatory diseases in dermatology and ophthalmology.

PURICORE (PURI)			30.5p
12 MONTH CHANGE %	+54.4	MARKET CAP £M	15.3

The focus is on starting clinical trials for two potential treatments in 2017. One of these is for a topical gel for treating inflammatory skin disease and the other for allergic conjunctivitis. There was $12.8m in the bank at the end of June 2016 and the disposal proceeds will help to finance the required increase in costs of development and clinical trials.

The share price jumped by one-fifth on the news of the disposal. Non-executive chairman Charles Spicer bought 34,801 shares at just under 29p each.

Ascent secures route to gas sales in 2017

Oil and gas *www.ascentresources.co.uk*

Oil and gas explorer **Ascent Resources** says that it expects to generate its first gas sales from the 75%-owned Petisovci field in Slovenia in the first quarter of 2017 following the signing of the INA Industrija Nafte gas sales agreement. This is cheaper and quicker than waiting for permission to build a local processing plant.

Gas with excess water removed will be supplied from Petisovci using the section of Slovenian pipeline acquired earlier this year. This pipeline has been tested but it needs to be recertified and a short pipeline will be required to connect the gas separation plant to the export pipeline. The gas will be sold at the Croatia border, which is 5 kilometres from the field.

ASCENT RESOURCES (AST)			1.18p
12 MONTH CHANGE %	+883.3	MARKET CAP £M	N/A

Ascent will have to work on existing wells in order to get them ready for production. Ascent initially receives 90% of revenues to cover the past investment of €42m.

Even though £2.8m of loan notes have been converted into shares there are still £8.2m of loan notes due to be redeemed on 19 November 2016. The plan is to extend the redemption date. There is enough cash to finance trading activities into the first quarter of 2017. However, further finance will be required for capital investment.

Geoenergo owns the other 25% of Petisovci and the current concession is due for renewal in 2022. The project has an estimated NPV, based on a 10% discount, of €200m.In the longer term, Ascent wants to build a processing plant in Slovenia in order to remove excess carbon dioxide and sell locally but its IPPC permit was withdrawn in May following a court decision. An appeal is being prepared.

company news

Premier acquisition strategy pays off and fires further bid activity

Support services *www.ptsg.co.uk*

PREMIER TECHNICAL SERVICES (PTSG)			68.5p
12 MONTH CHANGE %	-18.9	MARKET CAP £M	64.6

A combination of acquisitions and organic growth helped **Premier Technical Services** to increase interim revenues by 57% to £18.5m. There is more to come from the five acquisitions made by the access and safety and electrical services business last year plus the more recent purchase of UK DryRisers, which takes the group into fire suppression.

In the six months to June 2016, underlying pre-tax profit was 48% ahead at £3.5m, with growth coming from both the access and safety and electrical services divisions. The high-level cleaning business was restructured to focus on higher-margin operations. The interim dividend was increased by 52% to 0.7p a share.

There is plenty of scope for more acquisitions

Access and safety is the biggest division, although its market share is a modest 7%. There is plenty of scope for more add-on acquisitions in this and other divisions. There is also potential for cross-selling services as well as adding new ones. The UK DryRisers businesses, which install and maintain dry and wet riser systems, were acquired for up to £5.1m. The businesses made a pre-tax profit of £1.1m last year.

There was a small cash inflow in the first half but this was because of the timing of payments and there should be a more substantial cash inflow in the second half. At the end of 2016, net debt should remain at around £8.8m, where it was at the end of June, but that is after paying an initial £3m for the latest acquisition and the interim dividend. Premier is seeking further acquisitions and has a £14m debt facility.

New house broker Numis forecasts a rise in full-year profit from £5m to £7.5m, with £8.5m pencilled-in for 2017. The shares are trading on ten times prospective 2016 earnings.

Private equity bidder returns to clinch Powerflute deal

Packaging board *www.powerflute.com*

POWERFLUTE (POWR)			89.25p
12 MONTH CHANGE %	- 3	MARKET CAP £M	259.4

Nordic Packaging and Container has launched a recommended 90p a share cash bid for **Powerflute**, which values the packaging board and paper manufacturer at £268m. That is a premium of 22% to the price before the bid was announced. The bidder has also separately agreed to acquire the Smurfit family's 27.5% stake for 80p a share.

Private equity firm Madison Dearborn, which was in bid discussions with Powerflute at the end of 2015, is behind this bid. At that time the bid was 90p a share but there was a separate bid of 79p a share in cash plus a contingent value right of 6p a share for the Smurfit family's shares. The contingent amount would have been paid 18 months after completion and be dependent on EBITDA of €66m for the previous 12 months. Sir Michael Smurfit was an adviser to Madison Dearborn and he was going to be permitted to reinvest some of the proceeds from the bid. The independent directors decided to terminate discussions before Christmas.

Since then, there has been a €0.03 a share dividend paid. In the six months to June 2016, revenues dipped from €179.7m to €176.1m, although pre-tax profit was marginally higher at €18.5m. Net debt had increased from €37.1m to €42.9m, following tax and dividend payments. There was a dip in revenues and profit contribution from the packaging papers division and an improved performance from coreboard. However, trading conditions are tough.

Chief executive Marco Casiraghi and finance director David Walton will continue to manage the business after it is acquired.

Yu Group dividend powers ahead

Energy supplier *www.yugroupplc.com*

Dividend

Even before it moves into profit, electricity and gas supplier Yu Group has announced a maiden dividend of 0.75p, although it is not being paid until January. A growing dividend is planned.

A total dividend of 2p a share is forecast for 2016 and Yu should break even this year. An expected 3p a share dividend for 2017 should be covered more than four times and a 2018 dividend of 5.6p a share will have a similar earnings cover.

Yu could become highly cash generative. It is expected to end 2016 with cash of £6.6m and this could rise to £10.3m a year later – one-quarter of the company's market capitalisation.

Business

Yu joined AIM on 17 March 2016. It focuses on supplying electricity and gas to small and medium-sized businesses. The company raised £7.5m gross at 185p a share, while existing shareholders raised £2.5m.

The cash raised by the company is helping to increase the pace of growth. For example, the company needs to provide collateral for letters of credit with trading counterparties in the wholesale markets. This helps to reduce the risk of energy price moves. According to a government report back in 2014, every 12,500 electricity customers require £3.5m of collateral and £1m of collateral is required for the same number of gas customers.

Yu gains new customers through telesales, direct selling to corporates and independent brokers. There are more than two million potential customers.

Yu could reach profitability in the second half of 2016. Yu is still building up its revenues and they were £5.1m in the first half of 2016, up from £1.29m in the first half of 2015, but higher operating expenses meant that there was an underlying interim loss. Fixed costs are being controlled so that more of the increase in revenues will drop through to profit.

YU GROUP (YU.)	
Price (p)	292.5
Market cap £m	41.1
Historical yield	nil
Prospective yield	0.7%

At the end of 2015, there were contracted revenues of £8.4m for this financial year. By the time that the interims were published, the 2016 contracted revenues were £15.1m. There is also £14.3m of contracted revenues for 2017. To put this in perspective, house broker Shore Capital forecasts 2016 revenues of £15.1m and 2017 revenues of £29.5m.

In order to achieve its forecasts, Yu has to add more customers and retain as many existing ones as it can. The renewal rate is currently greater than 80% and management says that margins generally increase after a renewal. Service levels are important in retaining customers that have been initially attracted by better prices.

Legal & General has trimmed its stake to below 4%, following a share price gain of around 50% since flotation. A pre-tax profit of £2.3m is forecast for 2016, doubling to £4.7m the following year. The shares are trading on less than 13 times 2017 earnings – following a 19% upgrade after the interims.

Dividend news

Cello has put the dispute about VAT on work for charities behind it and the share price has started to recover. The interim dividend was increased by 19% to 1p a share even though underlying pre-tax profit was flat. The healthcare marketing division has a strengthening market position but it was held back by the costs of building up the biotech-focused business and the poorly performing UK consumer side. The broader-ranging marketing division, Cello Signal, continues to improve its margin and this part of the business includes the potentially lucrative Pulsar software – a subscription product that analyses social media.

Manx Telecom offset the fall in interim revenues from the data centre division due to the loss of a major online gaming customer through growth in machine2machine (M2M) connection and other global services. Underlying interim pre-tax profit of £8.3m was in line with the previous first half and cash generated from operations helped cut net debt from £56.1m to £53.1m. There was a 6% increase in interim dividend to 3.7p a share. A forecast total 2016 dividend of 10.9p a share should be covered more than 1.2 times by earnings.

Caledonia Mining Corporation is investing in increasing annual capacity at the Blanket mine in Zimbabwe to 80,000 ounces of gold but continues to pay a quarterly dividend. The twelfth quarterly dividend in a row is 1.375 cents a share and a full-year dividend total of 5 cents a share is expected. There was 13,400 ounces of gold produced in the third quarter, a 23% increase on the same period in the previous year. Caledonia is on track to produce 50,000 ounces of gold in 2016. House broker WH Ireland forecasts an increase in 2016 revenues from \$49m to \$63.2m and expects an underlying pre-tax profit of \$18m, rising to \$31.6m in 2017.

Expert view: The broker

A tiddler not to be thrown back into the water

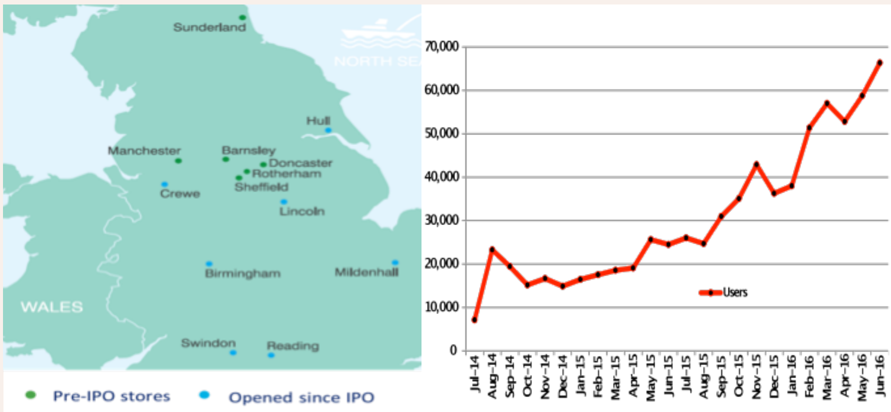
By Michael Campbell

Fishing Republic* (FISH.L), is a well-established in-store and online fishing tackle retail business in the UK and the largest by floorspace at over 66,000 square feet. The business listed on the AIM market in June 2015 and at the time of listing there were seven stores, in Rotherham, Sheffield, Doncaster, Barnsley, Sunderland, Manchester and Hull. The store in Hull has been relocated to a 9,100 square feet site, and four new stores were added to the network (two acquired in Lincoln and Swindon and two opened in Birmingham and Crewe), taking the total network of stores to eleven. Management recently announced the opening of a further two new stores, one in Cambridgeshire and one in Reading. This will further expand the store network to thirteen stores, almost double the number of stores at IPO, and will increase floorspace to c. 75,000 square feet by the end of 2016. The business is also seeing strong growth in sales derived from own websites, which increased by c. 153% year on year, in the first half of the year, on the back of an increase in the number of online users to its websites.

A differentiated offering

Management is creating a differentiated retail experience for customers, by creating a "destination store" effect. In order to achieve this, stores are required to be of a minimum size, generally larger than 4,000 square feet, so the appropriate store format and layout is achieved, in addition to stocking a very wide variety of fishing tackle consumables and equipment. This allows management to create the desired "destination store" feel. The store in Crewe is an example of this. It is 11,000 square feet and stocks a very wide variety of fishing tackle consumables and equipment. It is also located alongside water, where customers are encouraged to try out fishing equipment at the water's edge. This aids in creating the "destination store" feel.

EXIBITS / STORE LOCATIONS AND ONLINE USER GROWTH TO OWN WEBSITES



Source: Company Data

Creating shareholder value

Management wants to increase the scale of the business in both the store footprint and online and in so doing this will create value for shareholders:

- Management has a two pronged approach to increasing the store footprint across the country; one by opening new stores in areas where there is high demand for fishing tackle but is not sufficiently served. This will increase the geographic footprint of the business and should not only bring in new customers through the doors but also give it greater buying power with suppliers.
- Secondly, management will continue to consider additional acquisitions (two stores acquired since float). This will help to accelerate the growth of the business and again help build scale and increase buying power with suppliers which will enhance the margins for the business.
- Drive, the online business, specifically focuses on sales via its own websites. In order to achieve this management has allocated additional investment in online marketing and search engine optimisation capabilities. This is a key area of focus for management and will allow the business to capture greater margin.

Fishing Republic operates in a highly fragmented market where there are c.2,300 specialist fishing tackle retailers in the UK alone, so there remain plenty of acquisition opportunities for further growth.

The business is well capitalised after raising £3.75m in June 2016. This will enable management to continue to expand the store footprint across the UK, whilst simultaneously investing in own websites, in order to drive additional scale. The enhanced scale will improve margins and ultimately this translates into greater returns for shareholders.

**Northland Capital Partners, acts as Nominated Adviser and Broker to Fishing Republic.*

MICHAEL CAMPBELL is a director of research at Northland Capital Partners Limited.

expert views

Expert view: The lawyer

High Court rules on standard of care of financial advisers

By Simon Charles

Mr and Mrs O'Hare sued Coutts Bank, alleging breaches by Coutts of its duty to exercise reasonable care and skill when giving advice on principally five investments to them as private investors. The High Court, in the case of O'Hare and another v Coutts & Co [2016] EWHC 2224 (Queen's Bench), held that Coutts was not liable in this case and that the private investors should bear responsibility for their own investment decisions.

The O'Hares had signed an agreement entitled "Agreement to Provide Investment Advice" which, among other things, obliged Coutts (for no fee) to provide, "advice about the investment services we offer and the kinds of investment that would in our view be most appropriate for you." Coutts' remuneration would follow in circumstances where the O'Hares committed to suggested investments/ investment products.

The O'Hares entered into various investments suggested by Coutts, spanning the period 2001 through 2010. The O'Hares lost money as a result of these investments. They alleged that Coutts had failed to adequately describe the risks associated with the loss-making investments.

They further alleged that the exposure they assumed as a result of the loss-making investments comprised a significant and inappropriate proportion of their wealth and that the investments were unsuitable for them as they failed to match their risk appetite profile. The O'Hares claimed against Coutts in contract under the investment advice agreement, and in the tort of negligence, for breach of duty of care, negligent misrepresentation and breach of statutory duty for failure to comply with the Conduct of Business Sourcebook (COBS). There was another claim related to a previous settlement agreement between the O'Hares and Coutts but that is not relevant here.

Defence

Coutts defended the allegations. It said the investment advice it provided was appropriate and that the investments were suitable for the O'Hares. They were experienced, sophisticated investors who could afford to invest in high-risk and potentially high-return products. It also argued that the fact of poor performance on the part of the investments, assessed necessarily in hindsight, did not reflect inherent unsuitability of the investments at the time they were suggested and made. There was also a limitation argument raised as regards certain of the investments but this is outside the scope of this article.

The High Court rejected all of the O'Hares' claims, finding that Coutts had complied with its duties to the O'Hares in contract and in tort. Specifically, the High Court found that Coutts had assumed an obligation to inform the O'Hares as to appropriate products, either following request or unprompted, in each case having assessed the O'Hares' appetite for risk and circumstances and investment objectives. Accordingly, Coutts had discharged its obligations in bringing to the attention of the O'Hares such products. Specifically, the question then became whether Coutts had breached its duties in having recommended the particular investments which caused the O'Hares loss.

> The O'Hares were experienced and sophisticated investors

Findings

The High Court found that Coutts had explained the nature of the products to the O'Hares and that the O'Hares were experienced and sophisticated investors. The High Court considered in detail the test for whether Coutts had acted in accordance with an implied term of reasonable care and skill to make recommendations on "suitable" products and found there was no or little prevailing consensus within the financial services market as to how a financial adviser should manage a client's appetite for risk.

It also found that the regulatory obligations imposed by COBS was, "strong evidence of what the common law requires" and added, "nothing" to the duties imposed on Coutts arising from the relationship.

Ultimately, the High Court found that the O'Hares were responsible for their own investment decisions as they had entered into the relevant products on an informed basis.

The High Court further found, applying principles from a negligence case decided last year, that Coutts was not under an obligation to "save" the O'Hares from their own investment decisions and accordingly were not negligent in having suggested and recommended them.

The direction of travel of the decisions of the Courts is to pass risk to an informed, experienced and sophisticated investor in circumstances where the investor has some element of choice in the matter concerned such that responsibility for making poor investment decisions shall increasingly be found to rest with that investor and not with the introducer or adviser.

SIMON CHARLES is a corporate partner of Marriott Harrison LLP and advises public and private companies, NOMADs, sponsors, brokers and private and institutional investors.

feature

AIM's dollar earners

Sterling seems to fall to new lows every other day. AIM has a number of solid companies that have significant earnings in dollars and other currencies and they will benefit from the exchange rate movement.

Sterling has been falling to levels not reached for more than three decades following the vote to leave the EU. That is not good news for importers but AIM companies generating substantial revenues outside of the UK should benefit.

Resources companies have been helped because commodity prices are generally expressed in dollars, so those companies translating revenues and asset values into sterling have increased their value to UK-based shareholders. However, many of the resources companies do not have significant revenues.

There are soundly based businesses with most, or even all, of their revenues in dollars and other overseas currencies. An example is security and risk services provider Red24, which earns most of its revenues in dollars and also has exposure to other currencies.

Red24 also provides an example of the problem of trying to predict currency movements. It has a crisis response management centre in South Africa and it hedged its rand exposure during last year's general election. That led to a £167,000 loss. Red24 is currently subject to a bid from iJet International Inc, which has already increased its indicative offer from 24p a share to 26p a share.

There could be other bid targets as there are plenty of companies on AIM, in the technology and other sectors, with strong market niches or products and they could be snapped up by overseas predators at an attractive price.

Cello is a marketing services company with a strong position in the health marketing sector and it has built up a strong position in the US market. It could provide a good add-on for a rival that does not have the same breadth of services.

Of course, some of the share prices of these dollar earners started rising ahead of the EU referendum as well as afterwards.

Craneware

Craneware is based in Scotland but its market is hospitals in the US. Craneware provides these US hospitals with software that ensures that they charge the correct fees to patients and insurance companies. Hospitals want to make sure that they are claiming all the revenue that they are entitled to but there are still plenty that do not have the software to do this, so the market continues to grow. Hospitals pay monthly for the software and tend to be on five-year contracts so there are good-quality recurring revenues providing 85%of total revenues with around a quarter of costs in the UK.

In the year to June 2016, underlying profit rose from £13.1m to £14.5m and a profit of £17.1m is forecast for 2016-17. The three-year contracted revenue backlog is £149.1m – three times last year's revenues.

Craneware is developing healthcare analytics software and that will increase the size of its potential market.

Clinigen

Pharmaceuticals and pharma services provider Clinigen has been highly acquisitive since joining AIM and has the potential to grow rapidly even if the economy is weak. Demand for its pharma services is strong and the growing portfolio of speciality pharmaceutical products will lead to a much higher profit contribution from the division.

This is an international business with less than one-fifth of revenues coming from the UK and around 30% from the US, with the rest spread around the world. Asia is a growth area and there is scope to build a greater presence in South America.

In the year to June 2016, underlying pre-tax profit was £51.2m and with a full contribution from acquisitions next year it should rise to £62.5m. A recovery in the share price since June has only taken it back to previous levels.

IQE

Epitaxial semiconductor wafers supplier IQE is a technology company with good growth prospects from new product areas. It would require a significant investment to replicate the production facilities that IQE has in the UK, US and Asia.

In the six months to June 2016, pre-tax profit rose from £5.9m to £10.1m. Revenues are currently dominated by wireless, which has suffered a dip in demand recently, but it is still a growth market. Photonics and other newer areas will be a major growth driver. Importantly, IQE has spare capacity to cope with growth.

Full-year pre-tax profit is expected to increase from £17.6m to £19m and the business is cash generative even after capital investment. Net debt is expected to fall from £30m at the end of 2016 to £10m one year later. Semiconductor-related businesses tend to be cyclical so IQE is unlikely to achieve an exceptionally high rating but the growth prospects for the newer product areas and the US dollar revenues mean that the shares are attractive.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	19.9	17.8
Consumer services	17.4	10.8
Healthcare	13.8	9
Industrials	13.8	16.4
Technology	10.5	11.6
Consumer goods	8.6	6
Basic materials	7.2	15.1
Oil & gas	6.4	10.5
Telecoms	1.5	1.5
Utilities	0.8	1.3

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	819.1	+12.9
FTSE AIM 50	4641.01	+20.2
FTSE AIM 100	3929.47	+18.4
FTSE Fledgling	8415.92	+9.5
FTSE Small Cap	4986.9	+4.3
FTSE All-Share	3755.34	+12.6
FTSE 100	6899.33	+13.8

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	224
£5m-£10m	104
£10m-£25m	197
£25m-£50m	150
£50m-£100m	142
£100m-£250m	112
£250m+	76

KEY AIM STATISTICS

Total number of AIM	1007
Number of nominated advisers	33
Number of market makers	49
Total market cap for all AIM	£80.6bn
Total of new money raised	£98.4bn
Total raised by new issues	£41.4bn
Total raised by secondary issues	£57bn
Share turnover value (2016)	£19.1bn
Number of bargains (2016)	3.79m
Shares traded (2016)	257.9bn
Transfers to the official list	181

TOP 5 RISERS OVER 30 DAYS

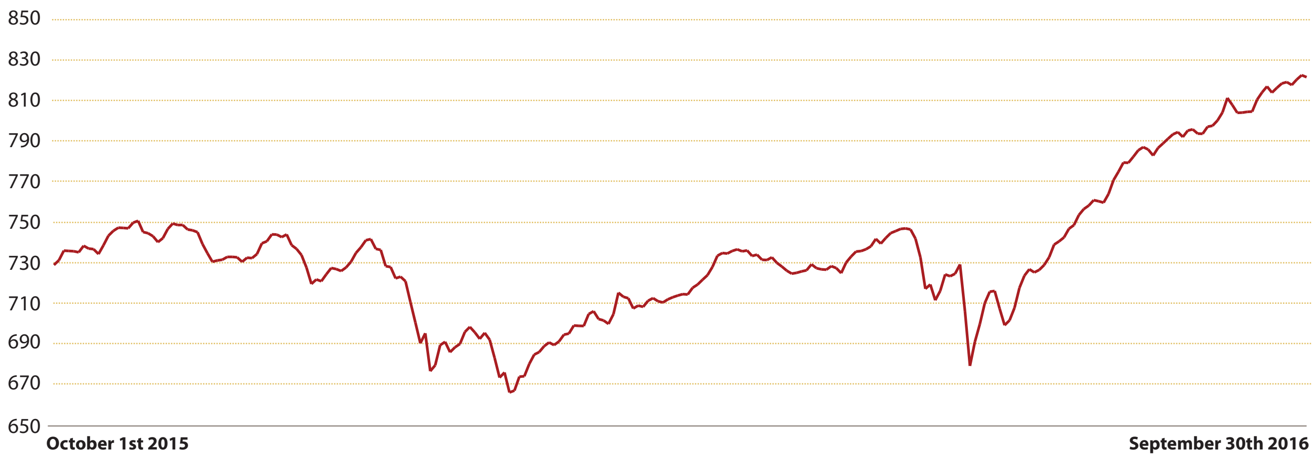
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Origo Partners	Financials	1.88	581.8
Cluff Natural Resources	Oil and gas	4.8	190.9
Progility	Training	1.58	152
CloudTag Inc	Leisure	19.75	147.7
Altitude Group	Software	54.25	146.6

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Juridica Investments Ltd	Financials	16.75	-75.9
Xcite Energy Ltd	Oil and gas	2.22	-68.7
Crawshaw Group	Food retailer	33.5	-59.4
SKIL Ports & Logistics	Transport	9.75	-58.5
ZincOx Resources	Cleantech	0.35	-50

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th September 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.

Northland Capital Partners is a privately owned company managed and controlled by its employees.

Marriott Harrison LLP

Marriott Harrison LLP is pleased to be sponsoring the AIM Journal. We are firmly embedded in the AIM community as legal advisers to nomads and brokers, investors and public companies, with a well-respected team of partners and associates with good experience and strong track records in the market. The backgrounds of our 12 corporate partners with Magic Circle, other significant City and international law firms stand us in good stead in advising on legal issues arising out of corporate finance transactions. Two of the partners in the team, Simon Charles and Andrew Williamson, formerly worked as nomads and Main Market sponsors. The team has international capability, with particular expertise in the film and television production, healthcare and life sciences, leisure and hotels, technology, music, recruitment, renewables and cleantech, resources, retail and telecoms sectors.

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.

PUBLISHED BY:	Hubinvest Ltd,	**MOBILE / TEL:**	07729 478 474 / 020 8549 4253
ADDRESS:	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	**EDITOR:**	Andrew Hore
		PRODUCTION & DESIGN:	David Piddington

SPONSORSHIP & ADVERTISING aimjournal@hubinvest.com
or telephone 020 8549 4253