OCTOBER 2018

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

More cash for Burford

Litigation funding provider Burford Capital has raised a further £192.6m through a placing at 1850p. This is unlikely to be the last fundraising. Demand for litigation finance continues to grow, with Burford expanding into new areas, including additional parts of the US, Germany and Australia. This means that further bond or fund issues are on the cards.

In January, Burford raised $180m from an oversubscribed 6.125% bond 2025 issue that was closed early. The bonds are traded on the London Stock Exchange order book for bonds. That was the fourth retail bond issued by Burford and it is on the shortlist for innovative financing of the year at the 2018 AIM awards. This is the second year in a row that Burford has been on the shortlist and it won the inaugural award last year.

Burford joined AIM as a start-up nine years ago, when it raised £80m at 100p a share. The latest placing is the first since Burford raised £110m at 110p a share in 2010.

AIM-quoted lawyer Rosenblatt has launched Rosenblatt Litigation Funding Ltd, which was foreshadowed in its flotation prospectus, and an initial £2m of the flotation proceeds have been used to finance the business. The litigation funding subsidiary will be able to underwrite more cases where there are third-party costs, enabling Rosenblatt to avoid payments for external funding. The first case has been secured.

Prepaid prepares for flotation

Prepaid Financial Services is considering a flotation on AIM next year. The profitable pre-paid cards and payments technology business generated £44.8m in revenues in 2017. That is the tenth year of growth in revenues. Funds processed are expected to increase from €1.6bn to €2.5bn this year.

Prepaid Financial Services started trading in 2009 and products include virtual cards, which can be used to shop online without having to use a bank or credit card, and multi-currency cards, where up to 15 currencies can be handled on one card.

There is an Ireland-based holding company, but the core business is based in the UK. Prepaid Financial Services is included in the inaugural FT Future 100 UK index, which includes fast-growing, innovative and environmentally conscious UK companies.

Most of the growth has been organic but there have been acquisitions as well. This has been done without institutional investment in the company. Founders Noel Moran and his wife Valerie Willis still run the company. Prepaid Financial Services has issued more than four million prepaid cards and it operates in 24 countries.

In this issue

02 GENERAL NEWS
Quiz slumps

03 ADVISERS
Tough times for brokers

04 NEWS
DP Poland matures

06 NEWS
Sigma soars

07 DIVIDENDS
Strix turns on dividend

08 EXPERT VIEWS
Motif awaits approval

09 FEATURE
Budget proposals

11 STATISTICS
Market indices and statistics

general news

Quiz's sales shock

Fashion retailer Quiz has disappointed the market with its second-quarter trading statement. The problems are not just on the high street because there was also slower growth in online sales. The share price has subsequently fallen to around three-fifths of the July 2017 placing price of 161p a share. Along with footwear retailer Footasylum, which has also disappointed following its admission to AIM, Quiz needs to regain investor confidence.

The trading statement was slipped out at 2.38pm on Friday 5 October. Admittedly, the statement was originally expected to be on 11 October. Group revenues were 19% ahead at £66.7m in the six months to September 2018 but trading in September was disappointing.

Although sales from stores and concessions were higher, the like-for-like figure was lower in September. Sales from third-party retailers' websites have flattened out when compared with the second half of last year. The good news is that sales from Quiz's own websites increased by 70% in the first half. These online sales generate higher margins than sales via other websites and are helping Quiz to maintain its gross margin. International sales were 16% ahead at £11.6m. Quiz had already stated that it would need to provide £400,000 for money owed by House of Fraser.

Peel Hunt has cut its 2018-19 pre-tax profit forecast from £12.2m to £7.8m. The forecasts for the following two years have been cut by around one-third. The expected dividend for this year has been halved to 1p a share.

Clinigen capability

Pharma services provider Clinigen is paying an initial $150m for CSM Parent, which will expand its supply and distribution network in Europe and the US and provide cost savings of at least £1m a year. Clinigen will be able to bring in-house services that were previously outsourced. The deal will be earnings enhancing in the first full year after acquisition, even though Clinigen raised £80m at 845p a share to help finance the deal. Up to $90m more could be paid for CSM if it meets profit targets. Clinigen has shown that it can take on debt because the strong cash flow of the business will reduce this rapidly. Clinigen has also spent an initial €7.5m on Switzerland-based speciality pharma company iQone.

Green Man's AIM platform

Video game e-commerce platform provider Green Man Gaming plans to join AIM later this month. The company also has a video game publishing business, which helps independent developers to market their games. This is an international company with more than 90% of revenues outside the UK.

Green Man is the latest video games-related business to plan to come to the market and the previous ones, such as Team17 and Sumo, have performed well since gaining a quotation. Eden Ventures owns 36% of Green Man and wants to sell at least 50% of that stake or 100% of it if there is sufficient demand from investors.

The new holding company was recently set up. In 2017, Green Man Gaming Ltd increased its revenues from £37.2m to £47.5m, while gross margin improved from 12% to 13%. The pre-tax loss fell from £2.38m to £931,000. A reduction in working capital and a £1.09m tax credit meant that £4.86m was generated from operating activities. Website development costs of £1.65m were capitalised during the period. There was cash in the bank of £4.39m at the end of 2017.

Green Man has been growing its revenues at around 25% a year and joining AIM will help to make the brand better known.

■ Summerway Capital is a new shell floating on AIM It plans to acquire UK-based consumer and household goods businesses and brands. The initial target would be valued at between £20m and £100m. The founder shareholders are executive chairman Ian Anton; Benjamin Shaw, who has previously worked with shell specialist Marwyn; and Mark Farmiloe. The three men owned one-third each when the company was formed in August. The plan is to join AIM on 19 October and new shares will be issued at 100p each. Any cash raised will fund overheads and due diligence carried out on potential transactions.

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Hard times for smaller brokers

Smaller company brokers are having a tough time this year, with some deals being delayed and additional time and cost spent on new regulations, such as GDPR and MiFID II.

Interim revenues from the capital markets activities of Shore Capital fell by 8.5% to £13.5m and pre-tax profit was nearly one-fifth lower at £2.7m. Since the end of the first half, Shore has floated Nucleus Financial on AIM. Shore has taken a decision to invest in its corporate research activities.

First-half revenues from Cenkos Securities fell from £29.2m to £18.1m. This does not include the closed office in Singapore. The decline in revenues is partly attributable to the fact that in the corresponding period £10.6m of revenues related to one transaction. In the first half of 2018, the most generated by one transaction was £2.4m. The revenues of the nomad and broking operations were flat at £2.55m. The disappointing trading led Anthony Hotson to step down as chief executive after 15 months in the role.

Even Numis, which generally has larger clients, had a weaker second half in the year to September 2018. Full-year revenues will be 3% higher, but that represents a sharp fall in second-half income.

WH Ireland has raised £2m at 100p a share in order to provide additional regulatory capital. Oceanwood Capital Management has increased its stake to 25.8% and Polygon Global Partners raised its shareholding to 29.4%. M&G Investments has taken a 14.2% stake. Most of the additional shares were acquired from former shareholders, although all three participated in the placing. WH Ireland says that trading has improved at its corporate finance and broking activities since April.

■ Spanish bank Santander is thought to be interested in buying AIM broker Peel Hunt. At the beginning of the century KBC acquired Peel Hunt for £218.5m, but the management team acquired the broker nearly a decade later for £74m.

ADVISER CHANGES - SEPTEMBER 2018

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Angus Energy	Stockdale	Optiva	Stockdale	Beaumont Cornish	03/09/18
Urban Logistics REIT	N+1 Singer	Canaccord Genuity	N+1 Singer	Canaccord Genuity	03/09/18
Tekcapital	Novum/finnCap	Dowgate/finnCap	finnCap	finnCap	07/09/18
Gresham House	Canaccord Genuity/ Jefferies	Liberum	Canaccord Genuity	Liberum	07/09/18
Polemos	Leander/Peterhouse	Peterhouse/Novum	Beaumont Cornish	Beaumont Cornish	10/09/18
ECSC	Allenby	Stockdale	Allenby	Stockdale	11/09/18
Cradle Arc	SP Angel	Tamesis/SP Angel	Strand Hanson	Strand Hanson	12/09/18
Quadrise Fuels International	Stockdale/Peel Hunt	Peel Hunt	Smith & Williamson	Smith & Williamson	12/09/18
Christie Group	Stockdale	Panmure Gordon	Stockdale	Panmure Gordon	13/09/18
Miton Group	Liberum/N+1 Singer	Peel Hunt	Liberum	Peel Hunt	14/09/18
Mortgage Advice Bureau	Numis	Zeus/Canaccord Genuity	Numis	Canaccord Genuity	14/09/18
Reabold Resources	Whitman Howard / Turner Pope	Whitman Howard/ Turner Pope	Strand Hanson	Beaumont Cornish	17/09/18
Immupharma	Stanford Capital/ SI/ Northland	Northland/Bryan, Garnier	Northland	Northland	19/09/18
Kefi Minerals	SP Angel/Brandon Hill	Brandon Hill	SP Angel	SP Angel	21/09/18
Mi-Pay	Allenby	Zeus	Allenby	Zeus	25/09/18
Cora Gold	SP Angel/Mirabaud	SP Angel/Mirabaud	SP Angel	Allenby	27/09/18
Frontier IP	Allenby	Cenkos/Peterhouse	Allenby	Cenkos	27/09/18

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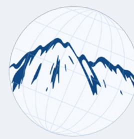

DP Poland heads towards maturity and cash generation at end of first decade

Domino's master franchise *www.dppoland.com*

DP POLAND (DPP)			32.75p
12 MONTH CHANGE %	-21.1	MARKET CAP £M	50.1

Domino's Pizza master franchises can be enormously cash generative, but it takes time to build them up and reach that point. Poland master franchise operator **DP Poland** floated on AIM in July 2010 and provides an example of the time it can take to make money. No outlets had been opened at that time.

By September 2018, there were 60 stores open across 27 towns and cities. There are 36 corporate stores and 24 are sub-franchised. There are a further eight store leases that have been signed. There are also two commissaries that supply dough and other ingredients. These could supply up to 150 stores, so there is plenty of room for further growth.

In the first half of 2018, system sales grew by 38% to £7.74m, with an increasing proportion of orders online. Like-for-like growth was 13%. Group revenues from corporate stores and franchise income improved by two-fifths to £6.39m. The loss was barely changed at £1.1m, but this was boosted by non-recurring items. The cash outflow for the six months was £612,000, which was flattered by a positive working capital movement. Net cash was £3.5m at the end of June 2018.

> Like-for-like growth was 13%

Once outlets are three or four years old they tend to be profitable, so the pace of opening new stores can mask the underlying progress of existing sites.

The original placing price was 50p, so investors can acquire shares at a significant discount to that price even though a significant business has been built up in the subsequent period.

DP Poland is set to continue to lose money until 2020, but it could generate cash from operations in that year. Capital expenditure is likely to be between £1.5m and £2m a year, so the cash pile is likely to be used up. As the outlets mature further and overheads are covered, profit and cash growth should be significant.

Brands prove profitable for Swallowfield

Personal care products *www.swallowfield.com*

SWALLOWFIELD (SWL)			295p
12 MONTH CHANGE %	-15.7	MARKET CAP £M	50.1

Tim Perman took over as chief executive in July and he believes the strategy of transitioning from contract manufacturer to personal care brands owner has worked for **Swallowfield**. Personal care brands will continue to be the main source of growth for Swallowfield, but the manufacturing operations provide expertise to help that growth.

Interim revenues were flat at £73.9m, although there was an extra week in the latest figure, with growth coming from the brands division, and lower revenues from manufacturing. Underlying pre-tax profit improved by 37% to £5m.

Swallowfield has changed its policy for product development spending and is capitalising around 30% of these costs. The total dividend was increased from 5.2p a share to 6.2p a share.

Brands generated nearly two-thirds of profit and 28% of revenues. There were 89 products launched last year and the Fish brand of male hair products was acquired in February. The focus is growing the core brands, particularly internationally.

There were delays in three manufacturing contracts and they have subsequently commenced. There is still cost pressure for steel and other materials, but price increases have been agreed with customers and manufacturing efficiency has been improved.

N+1 Singer forecasts a rise in pre-tax profit to £5.8m in 2018-19. That puts the shares on 11 times prospective earnings. That rating is more in line with a contract manufacturer than a brand owner.

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company news

Instem doubles SaaS bookings as FDA regulations boost demand

Life sciences IT *www.instem.com*

INSTEM (INS)			297p
12 MONTH CHANGE %	+83.9	MARKET CAP £M	47.2

Instem is starting to reap the benefits of the US Food and Drug Administration's new mandated standard for the exchange of non-clinical data (SEND). Not only are software revenues increasing, there is also a growing business offering outsourced SEND services.

In the first half of 2018, group revenues were flat at £10.5m, but there was a swing from a loss of £627,000 to a pre-tax profit of £81,000. That was after non-recurring costs of £373,000, down from £426,000. SaaS bookings doubled in the first half and revenues were 25% ahead.

The outsourced SEND services grew their revenues and bookings. In 2017, there were £956,000-worth of bookings from 62 deals. In the first half of 2018, there were bookings worth £2.5m from 75 deals and this will underpin growth in the second half. There are a range of large and small deals and repeat business from clients.

The second half is always stronger

Instem floated with a strategy of being a consolidator in the life sciences IT market, but it has not made an acquisition since 2016. Instem is still seeking acquisition targets, though. The focus is extending the product range and moving into new markets. There are also potential deals to provide third-party software to its customers.

The second half is always stronger and Instem has tended to be dependent on securing deals in the fourth quarter. The increase in SaaS revenues will mean that the fourth quarter will become less important in the future. The 2018 underlying pre-tax profit is expected to increase from £2.2m to £2.6m. The shares are trading on 26 times prospective 2018 earnings and that could fall to less than 20 the following year if the forecast profit of £3.4m is achieved.

Quixant set for second-half win

Gaming machine technology *www.quixant.com*

QUIXANT (QXT)			430p
12 MONTH CHANGE %	-3.4	MARKET CAP £M	283.8

An unusually strong first half in 2017 for **Quixant** makes the latest interims from the supplier of software and systems to the gaming machines sector appear worse than they are. This year should return to the normal pattern of a much stronger second half.

Interim revenues fell from $56.9m to $50.3m, with the main decline in Quixant gaming monitor sales. That is partly due to management avoiding low-margin business. Underlying pre-tax profit declined from $9.2m to $7.1m. finnCap forecasts a rise in full-year revenues from $109.2m to $119.7m, which suggests an improvement in second-half revenues of more than one-third. Smaller customers are winning market share from larger manufacturers.

Cash generation should also be much better by the end of the year. Trade receivables increased and stocks of vital components were built up. Net cash fell to $2.5m at the end of June 2018, but it should end the year at $10m.

There is the opportunity to grow in the Japanese market following gaming deregulation. Pachinko is currently the only gaming allowed but there will be casino developments by 2021. Densitron has not been a major factor in the growth in revenues since it was acquired but it has strong relationships in Japan, which will help to grow the Quixant gaming platforms business in the country.

Octopus has trimmed its stake from 4.4% to 3.9%, following the interims. The shares are trading on 23 times prospective 2018 earnings. The full-year dividend is expected to rise from 2.6p a share to 3p a share.

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Sigma Capital growth propelled by cash raised by The PRS REIT

Private rental housing developer *www.sigmacapital.co.uk*

SIGMA CAPITAL (SGM)			146.5p
12 MONTH CHANGE %	+92.8	MARKET CAP £M	130.7

Setting up The PRS REIT, which has raised £500m in equity plus £400m in debt, has turbo charged the performance of **Sigma Capital**. First-half revenues and profit were higher than the figures for the whole of 2017 thanks to income from the REIT. A final dividend is promised for this financial year.

In the six months to June 2018, revenues increased from £1.8m to £4.8m. The growth came from managed properties, with the majority of these revenues coming from The PRS REIT. In contrast, the increase in pre-tax profit from £1m to £4.2m came from a combination of managed properties and Sigma's own developments, which benefited from realised and unrealised gains on private rental properties. Cash generation from operations was modest in the first half. The proceeds of property sales have been reinvested in new developments.

First half profit quadrupled

Net debt was £2.7m at the end of June 2018. Since then, more properties have been sold to The PRS REIT and along with cash generated from operations in the second half this should return Sigma to a net cash position of £8.9m at the end of 2018.

The phasing of developments will determine the outturn for the year. There are eleven sites on course for the transactions to complete by the end of 2018, but some may end up falling into 2019. The 2018 forecasts have been trimmed by N+1 Singer, but it still expects pre-tax profit to more than treble to £12.2m. The NAV was 49.8p a share at the end of June 2018 and it is forecast to reach 57.8p a share by the end of the year. The PRS REIT is likely to raise more funds, so this will underpin future growth for Sigma.

Newmont provides much-needed cash for Orosur

Mining *www.orosur.ca*

OROSUR MINING INC (OMI)			9.65p
12 MONTH CHANGE %	-44.9	MARKET CAP £M	12

South America-focused miner **Orosur Mining Inc** was the best-performing AIM share in September following the announcement of a $2m cash injection by Newmont Mining Corporation. The subscription price of 5.4p (C$0.091) a share, was a 229% premium to the then market price. The share price more than trebled during September.

The cash will help to finance further exploration at the Anza gold and base metal project, 50km west of Medellín in Colombia. There is also an exploration and option agreement with Newmont, which will enable the international mining firm to earn up to 75% of the Anza project over three phases. Newmont will have to spend a total of $30m on Anza and make payments to Orosur totalling $4m in order to earn a 65% stake. The other 10% can be earned if a feasibility study is completed within four years. If Orosur does not want to provide any funding until commercial production starts, then Newmont's stake will increase to 80%.

Orosur had put its Uruguay gold mining operations on care and maintenance after it reported a loss for the year to May 2018. This was due to the mining of lower grades, which made production costs $1,435/ounce, compared with the $1,280/ounce average gold price received. This left Orosur with a weak balance sheet with net debt of $551,000 and minimal net assets following write-offs. Orosur has subsequently exited its investments in Chile. The cash raised from Newmont has strengthened the balance sheet and means that progress can be made at Anza, which is the main focus for Orosur.

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Strix switches on dividend income

Kettle controls *www.strix.com*

Dividend

Kettle controls supplier Strix joined AIM in August 2017 with a stated intention of providing a 2.9% yield for the part of the 2017 it was quoted, which is equivalent to 7% for a 12-month period. This yield is based on the original placing price of 100p a share.

As promised a 2.9p a share dividend was paid for 2017, while the latest interim is 2.3p a share. The full-year dividend is expected to be 7p a share, with a 10% increase forecast for 2019. The rise in the share price means that the yield is lower than expected at the time of flotation.

The 2018 and 2019 dividends should be twice covered by earnings. Even after paying dividends, net debt is set to fall from £30.8m at the end of this year to £18.2m at the end of 2019.

Business

Isle of Man-based Strix has 38% of the global market for kettle controls and it is more than three times the size of its largest competitor. One-third of global households own electric kettles. The US is a growing market because 15% of American households have electric kettles.

The regulated markets are growing at 3% a year and Strix has a 61% share of these markets. Strix has 19% of the less regulated markets, including Russia and South America, and new product launches will help to grow market share. These markets are growing at 8% a year.

The Chinese market has returned to growth and Strix has a 48% share. Strix has successfully protected its patents in China through the courts. The new VnQ brand will enable Strix to compete in unregulated markets.

STRIX (KETL)	
Price (p)	167.6
Market cap £m	318.4
Historical yield	1.7%
Prospective yield	4.2%

There is a factory on the Isle of Man, which produces 470 million components each year, and another in China. Most of the world's kettles are made in China. Barriers to entry include the relationships with customers, plus design and technological expertise. Strix works with around 450 brands and retailers around the world.

Two-thirds of manufacturing customers pay in advance, which explains the strong cash generative nature of the business. Strix's Aqua Optima brand filter jugs have potential to grow at 30% a year, but cash is not generated as quickly as in the core business. A chiller is being launched.

Filters generate around 5% of revenues and new technologies, including hot water on demand products, have a similar share of revenues. Management believes that these other markets could grow to around one-quarter of revenues.

In the first half of 2018, revenues were 1.5% higher at £42.9m, while underlying pre-tax profit was flat at £11m. The Isle of Man base means that the tax charge is low.

House broker Zeus forecasts pre-tax profit will improve from £26.9m to £29.1m this year. Pre-tax profit is expected to rise to £31.6m next year. The shares are trading on 12 times prospective earnings.

Dividend news

Keystone Law grew interim revenues by 30% to £19.9m thanks to strong recruitment, with a net 31 new lawyers taking the total to 297. Underlying pre-tax profit was 40% higher at £2.3m and the interim dividend is 2.5p a share. This progress means that Keystone is on target to improve full-year pre-tax profit from £2.9m to £4.4m and a total dividend of 7.5p a share is expected. The dividend is forecast to increase to 8.5p a share in 2019 and the dividend cover would be maintained at 1.5 times forecast earnings. Net cash was £5.3m at the end of June 2018 and, even after paying dividends, that figure could increase to £8m by the end of 2019.

Pension administration and financial services provider **STM Group** increased interim revenues by 6% to £10.8m and pre-tax profit by 11% to £2.1m. The interim dividend was increased by 17% to 0.7p a share. The main growth has come from the pensions business, helped by an acquisition in Malta. STM will continue to be a consolidator in the market. Higher tax charges mean that earnings per share will fall this year, but the total dividend is set to continue to grow by 11% to 2p a share, with a further 25% increase forecast for 2019.

The Property Franchise Group generated higher revenues from all its property-letting brands in the first half of 2018 and its online estate agency eweMove went from loss to profit in the period. The interim dividend is 14% higher at 2.4p a share. Full-year profit is expected to increase from £4.3m to £4.6m. This will enable management to increase the total dividend from 7.5p a share to 8.1p a share, which would be 1.6 times covered by forecast earnings. The proposed tenant fee ban could hold back profit.

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expert views

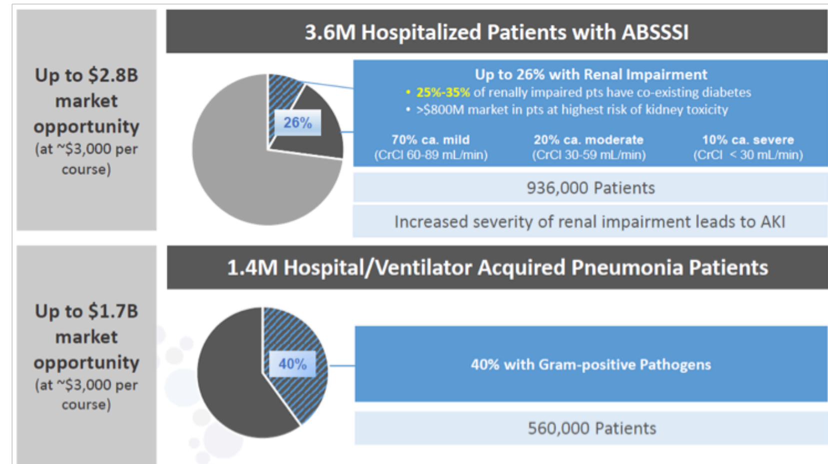
Expert view: The broker

Motif Bio: at the final step before commercialisation

By Liam Gascoigne-Cohen

Motif Bio* (AIM/NASDAQ: MTFB) is a clinical-stage company specialising in antimicrobials. Iclaprim, the company's lead antibiotic candidate, uses an underutilised mechanism of action to eliminate harmful bacteria. Iclaprim is pending commercial approval from the US Food and Drug Administration (FDA), to treat acute bacterial skin and skin structure infections (ABSSSI). The FDA has set a target decision date in February 2019. If approved, Motif is targeting a US commercial launch in H1 2019.

Figure 1: Motif Bio: Target market for iclaprim in ABSSSI and HABP



Source: Motif Bio Corporate Presentation September 2018

Positive regulatory environment

With antimicrobial-resistance a growing challenge, we feel there is a positive regulatory environment for new antibiotics such as iclaprim. Since June 2018, the FDA has approved Tetraphase's (NASDAQ:TTPH) Xerava for complicated intra-abdominal infections, Achaogen's (NASDAQ:AKAO) Zemdri for urinary tract infections and Paratek Pharmaceutical's (NASDAQ:PRTK) Nuzyra for ABSSSI and community-acquired bacterial pneumonia. The FDA has incentivised Motif throughout the clinical trial timeline, awarding fast-track approval (6 months compared with the usual 10 months) and waiving the $2.4m NDA submission fee. Taken together with iclaprim's successful clinical trials, positive regulatory environment and support of the FDA, there appear to be positive expectations with respect to potential approval. We must note, however, that there remains no certainty and the FDA requirements for approval will have to be demonstrably achieved.

Commercialisation

If the FDA approves iclaprim in February 2019, we expect a commercial launch during 2019. Regarding Motif's commercial strategy, we expect the Company to make its final decision, be it to partner with or to go it alone, during this ongoing FDA review period. Having a strong IP portfolio and market exclusivity is attractive for potential partners. As iclaprim has been designated a Qualified Infectious Disease Product (QIDP), if approved, it may receive up to 10 years of US market exclusivity. On top of this, the recent provisional approval of two patents adds an additional eight years and pushes its exclusivity over antibiotic iclaprim out to 2037.

Why ABSSSI?

ABSSSI is one of the leading causes of infection-related hospital admissions and there are c.3.6 million hospitalised ABSSSI patients. Of these patients, c.26% suffer from renal impairment, meaning their kidneys don't function properly. Vancomycin, a standard-of-care antibiotic for ABSSSI, has been shown to be harmful to the kidneys and can lead to poorer clinical outcomes with hospital costs to treat Vancomycin-associated kidney injury estimated at c.$17k per patient. Non-nephrotoxic iclaprim is ideally positioned to be able to provide a safer alternative treatment for ABSSSI patients suffering from impaired renal function, an addressable market of c.$2.8bn globally.

Outside of ABSSSI, the Company intends to progress additional disease indications including hospital-acquired pneumonia (HABP) and lung infections in patients with cystic fibrosis. Regarding HABP, the company plans to conduct a Phase 3 trial, subject to funding whilst the cystic fibrosis indication is in the preclinical stage of development but has been granted Orphan Drug Designation by the FDA.

Conclusion

With two successful Phase 3 trials complete, NDA acceptance from the FDA and a healthy cash balance, the pathway to the commercial launch of iclaprim has been significantly de-risked, with Motif in a strong financial position to market iclaprim upon FDA approval. As a result, we feel Motif is significantly undervalued.

**Northland Capital Partners acts as broker to Motif Bio*

LIAM GASCOIGNE-COHEN is a research associate at Northland Capital Partners.

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feature

QCA urges small-business tax overhaul

The QCA argues that the Chancellor of the Exchequer should make equity fundraising costs allowable against tax and make the playing field level between debt and equity. This is one of the proposals put forward by the QCA ahead of this month's Budget.

The Autumn Budget will be announced by the Chancellor of the Exchequer on 29 October and the Quoted Companies Alliance (QCA) has published a document called Generating growth in quoted companies, putting forward its ideas to make the UK tax system competitive and simpler, as well as provide certainty for smaller companies, so that long-term investment decisions can be made.

One way of doing that is to make the Office for Tax Simplification (OTS) better resourced and the government should assess the potential for the OTS to help to develop tax policy. Closer relationships with HM Treasury and parliament would enable this to happen.

The QCA argues that measures to prevent tax avoidance by large companies have unintentionally disproportionately affected smaller and medium-sized companies. It is particularly frustrating that the size thresholds vary between different tax rules.

The organisation's proposal is a tax gateway that would be focused on companies with a turnover of less than £200m, which would allow them to be exempt from some existing disclosure requirements.

Growth capital

Raising cash is key to growing a small business and the QCA wants share issues to be treated in a similar way to debt financing. At the moment, debt is more attractive in terms of the UK tax regime.

Link Asset Services estimates that quoted UK companies have a record debt of £390.7bn. The problem is that this does not differentiate between large and smaller company indebtedness.

There is the risk that interest rates will rise, making the level of indebtedness inappropriate, and raising cash through a share issue would be a way of reducing it. A strong capital base is always a good thing, but it is even more essential when the economy is going through a tougher or more uncertain period.

Debt may be good for a utility or long-standing business with regular revenues, but it is not ideal for a growing company that will have challenges as it builds up its operations.

Many European countries allow the costs of a fundraising, whether a new admission or secondary issue, to be deducted from taxable income or, in some cases, to be capitalised and amortised. The UK is out of step with this.

The QCA proposes that there should be tax relief on the costs incurred on raising equity, with a cap of £1.5m, in the tax year of the fundraising. This would cover both new listings and secondary fundraisings. The QCA argues that this would target the relief at smaller companies and encourage more of them to become quoted.

The table on page 10 shows where the money goes when cash is raised by a new entrant to AIM. This provides an indication of how costly it can be to float on AIM. It could cost more than £400,000 even before any new money is raised.

> The cost of floating is disproportionately higher for smaller companies than for larger ones

The cost of floating is disproportionately higher for smaller companies than it is for larger ones, because a large percentage of the funds raised goes in costs and cannot be used to grow the business. Reducing the tax bill would enable more to be invested in the company.

The cost of selling existing shares by shareholders would not qualify. The sellers would probably pay those costs, anyway.

The QCA has calculated that if tax relief is introduced for money-raising costs of up to £1.5m it would have cost the government £76m in the 12 months to December 2017. That is based on 1,053 new admissions and secondary fundraisings by companies on AIM and the Main Market.

It is assumed that a new admission would cost 7.5% of money raised and further issues would cost 5% of cash raised. A corporation tax rate of 19% is used in the calculation.

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feature

There is also an argument that when a flotation or other fundraising is aborted that the initial costs should be eligible for tax relief. This would bring things into line with a debt financing.

The alternative to a proposal of tax relief on £1.5m of equity cost would be to allow equity costs of up to £2m to be tax deductible, which would bring it in line with interest deductibility suggestions in the government's May 2016 consultation document.

Employee schemes

The QCA is also keen to encourage employee share ownership through Company Share Option Plans (CSOP). It wants the government to increase the £30,000 limit and remove the three-year holding period before options can be exercised with income tax relief. Another proposal is that a company should be allowed to issue the shares at a discount to the market price.

EIS and VCT

The QCA would also like Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) rules to be simplified. According to the report, the recent changes in rules have "led to increased waiting time for responses, which can stretch to up to 16 weeks".

This is holding back the process of companies raising money to grow.

The QCA is also keen that a new category of Business Property Relief that is distinct from EIS and VCT is created so that a new type of fund could invest in companies on AIM and other similar markets.

> The QCA proposes tax relief on costs of up to £1.5m that are incurred in raising equity

This would be a closed-end fund with a capped management charge of 1.5% of assets each year. These funds would have to invest at least 90% of their cash in companies that had a market capitalisation of up to £500m.

This would potentially provide more available investment for smaller companies, as well as potentially providing long-term investors with a lower-risk investment than EIS or VCT. Whether the government would want to set up yet another is scheme is questionable.

The problem with using market capitalisation for qualification for the funds is that a company could qualify one day and then be too large the next, and then qualify again a week later.

Fees in shares

Sexual health products developer Futura Medical is an example of an AIM-quoted company where non-executive directors take part of their remuneration in the form of shares. In the case of Futura, the service agreements include a provision that approximately 30% of annual remuneration is paid in Futura shares at a price based on the average closing mid-price of the last 10 trading days of the previous year.

One drawback is that income tax is required to be paid even though there is no cash payment. The QCA argues that the non-executive directors should be permitted to pay income tax after the shares have been cashed in.

Research

The QCA also believes that paid-for smaller company investment research should be exempt from VAT. This could help to increase the amount of research into smaller companies, which has been hit by MiFID II.

The QCA document called Generating growth in quoted companies is available at www.theqca.com/article_assets/articledir_330/165361/QCA%20proposals%20for%20tax%20reform%20Sep2018.pdf.

ESTIMATED COSTS OF JOINING AIM

Accountants	£100,000-£120,000
Lawyers	£120,000-£180,000
Nominated adviser's lawyers	£40,000-£60,000
Nominated adviser/broker fees	£100,000-£250,000
Fundraising commission	3%-4% of funds raised
Printing	£10,000
Registrars	minimum £4,000
Public relations	£36,000-£72,000
AIM admission fees	£10,000-£112,000 (plus VAT)

Source: Quoted Companies Alliance, February 2018

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	16.9	15.4
Industrials	16.8	17.1
Consumer services	16	10.8
Healthcare	12.8	9.4
Technology	12.1	12.5
Consumer goods	11	5.9
Oil & gas	7.5	10.9
Basic materials	5.2	13.6
Telecoms	1.1	1.2
Utilities	0.5	0.7

KEY AIM STATISTICS

Total number of AIM	942
Number of nominated advisers	31
Number of market makers	48
Total market cap for all AIM	£114.5bn
Total of new money raised	£110.7bn
Total raised by new issues	£44.6bn
Total raised by secondary issues	£66.1bn
Share turnover value (Aug 2018)	£46.1bn
Number of bargains (Aug 2018)	7.5m
Shares traded (Aug 2018)	364.4bn
Transfers to the official list	190

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1098.5	+9.4
FTSE AIM 50	6367.31	+10.1
FTSE AIM 100	5874.12	+14.9
FTSE Fledgling	11032.04	+5.4
FTSE Small Cap	5821.99	+1.9
FTSE All-Share	4127.91	+1.9
FTSE 100	7510.2	+1.9

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	131
£5m-£10m	102
£10m-£25m	177
£25m-£50m	167
£50m-£100m	126
£100m-£250m	137
£250m+	102

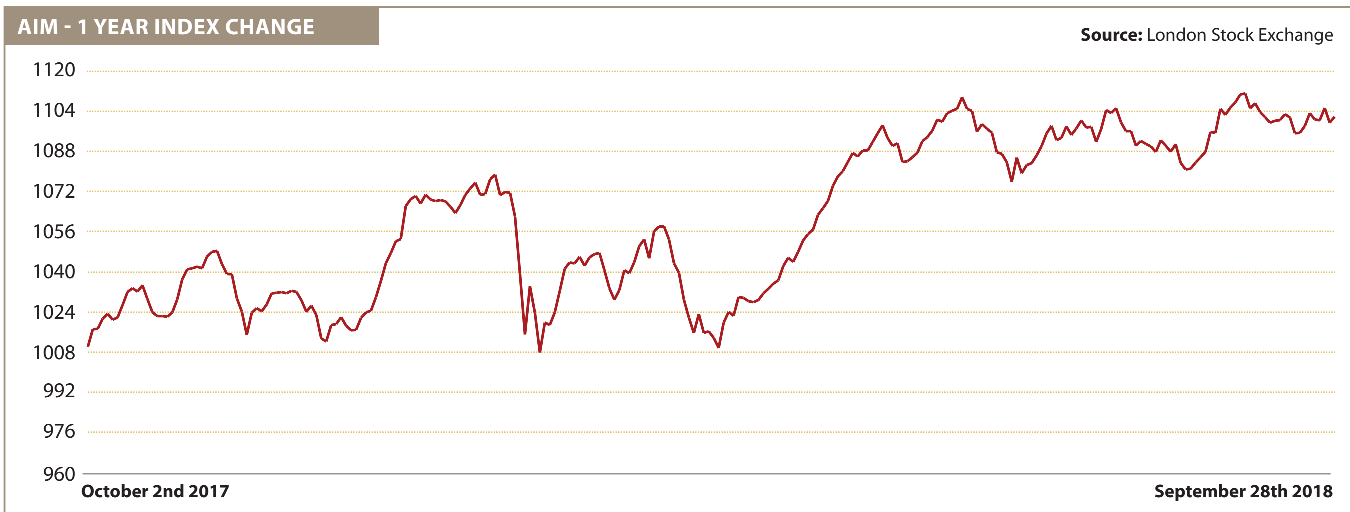
TOP 5 RISERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Orosur Mining Inc	Mining	9.65	+311
Green & Smart	Cleantech	7.25	+93.3
Filtronic	Electronics	29	+88.6
Clontarf Energy	Oil and gas	0.38	+87.5
Bidstack	Media	5.65	+79.4

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
OneView	Electronics	1	-87.9
Imaginatik	Software	2.15	-69.8
TLA Worldwide	Media	6.5	-68.3
Footasylum	Retailer	29.75	-64.6
Cradle Arc	Mining	1.5	-62

AIM - 1 YEAR INDEX CHANGE



Data: Hubinvest Please note - All share prices are the closing prices on the 30th September 2018, and we cannot accept responsibility for their accuracy.

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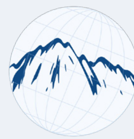

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Based in London, Northland Capital Partners Limited is an independent institutional stockbroker and corporate adviser. Northland enables growth companies to access capital and offers a full nomad service to AIM-quoted small and midcap companies. It 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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The team has international capability, with particular expertise in the healthcare and life sciences, technology, leisure and hotels, 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.

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