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AIM JOURNAL

Midwich and Frontier join AIM 50

Audio-visual products distributor Midwich Group and video games developer Frontier Developments are the new entrants to the FTSE AIM 50 index in the September quarterly review. Midwich has been on AIM since May 2016 and the share price has almost doubled. The Frontier share price is more than seven times the level it was at the beginning of 2017.

Oil and gas company Amerisur Resources and Telit Communications drop out of the AIM 50. The Telit share price slumped just before the quarterly review because its boss, Oozi Cats, resigned after it was revealed that he changed his name before Telit joined AIM because the US authorities had indicted him more than a decade ago under a different name.

New admissions Eddie Stobart Logistics and Greencoat Renewables join Frontier Developments; WANdisco, which is returning after a recovery in its share price; and UK Oil and Gas Investments in the FTSE AIM 100 index. They replace telematics technology provider Quartix, Sinclair Pharma, Pantheon Resources, Telit and another company with management problems, BNN Technology.

Melrose Industries remains on the cusp of the FTSE 100 index. In contrast, Petra Diamonds has dropped out of the FTSE 250 index and it joins recent AIM graduate Sirius Real Estate in the FTSE SmallCap index.

Warehouse REIT seeks £150m

Warehouse REIT is raising up to £150m via an offer for subscription and intermediaries offer at 100p a share. There is scope to increase the fund raising to £200m if there is sufficient demand. This means that money raised by AIM new admissions in 2017 is likely to be the highest since 2014.

The REIT plans to pay quarterly dividends, with the first dividend of 1p a share payable in early 2018. The plan is to build up to a total dividend of 5.5p a share in 2018-19.

The investment focus is UK warehouse assets, which have generated strong rental growth in recent years on the back of online shopping and related delivery requirements. The plan would be to acquire warehouse assets with good transport links where investment can improve the returns available. A loan to value of between 30% and 40% is thought to be optimal.

The acquisition of a property portfolio from Tilstone will form the basis of the REIT and payment includes £16m-worth of shares as well as cash and the repayment of debt. The portfolio has an NAV of £108.9m and been built up over the past four years. This will enable the early payment of dividends.

In this issue

general news

Fevertree in the running for three AIM Awards

Mixer drinks supplier Fevertree Drinks is on the shortlist for AIM company of year for the second year running, having won the inaugural AIM growth business award in 2016 – where it is also back on the shortlist. The other companies on the AIM company of the year shortlist are online fashion retailer boohoo.com, semiconductor wafers manufacturer IQE and patent translation services provider RWS. Last year's AIM company of the year was document storage services provider Restore.

It has been a good year for boohoo.com and its share price and that is reflected in its award nominations. Mahmud Kamani and Carol Kane of boohoo.com are jointly on the shortlist for AIM entrepreneur of the year and the retailer is also on the shortlist for the global achievement award, the newest AIM award, along with Fevertree Drinks, ASOS and photonics equipment supplier Gooch & Housego. IQE is also on the shortlist for the best technology award, along with Blue Prism, First Derivatives and Summit Therapeutics. The IQE share price is ten times the level it was two years ago.

The AIM newcomer of the year, sponsored by Northland Capital, has a shortlist including Alpha FX Group, Eddie Stobart Logistics, LoopUp Group and Warpaint London. Corporate foreign exchange services provider Alpha FX is the best-performing new AIM admission in 2017, while cosmetics supplier Warpaint London, which joined AIM near to the end of 2016, has performed even better than Alpha FX. The share price of conferencing technology developer LoopUp has soared on the back of its recent interim figures.

The awards dinner will be held in London on 12 October.

Science purchase

Consultancy and product development services provider Science Group paid an initial $17m (£13m) for US-based Technology Services Group, which provides scientific advisory and regulatory services to businesses involved in the agricultural, chemicals, consumer, cosmetics, medical and food and drink sectors. This will increase exposure to the US and provide an entry to the continental European market. It will cost up to £1m to integrate the acquisition, which made a pre-tax profit of £800,000 on revenues of £15.5m in the most recent financial year. Science Group made an underlying pre-tax profit of £5.79m in 2016. The acquisition is a particularly good fit with Science Group's international food and beverages regulatory services business, Leatherhead Food Research.

appScatter raises cash to launch its app distribution platform

B2B SaaS-based app distribution platform provider appScatter has joined AIM in order to raise funds to make the most of its first-mover advantage and limited competition. The company raised £9m at 65p a share, £1.2m of which went towards paying the costs of the flotation. The company was valued at £41.1m at the placing price.

The distribution platform is already used by 800 income generating users with more than 3,000 apps but the full launch will happen in October. There are thousands of potential customers that have registered but have not subscribed to the service as yet. The attraction of the appScatter platform is that there are more 300 app stores in operation around the world, which means that putting an app on each store and monitoring its use is difficult. This can be done all at once through the appScatter platform, which already covers at least 50 of these app stores and the number is rising.

Each app published via the platform costs $50/month and there is a charge of $10/seat/month with a minimum of five seats sold. Larger customers will publish dozens of apps and have more users. There are also plans for future add-on services which it is hoped will help with customer retention. This will provide solid recurring revenues once the client base is built up. There were no revenues before this year but invoiced sales were £700,000 in the first five months of 2017.

The company has been heavily loss-making, with an underlying loss of £3.6m in 2016, and it will require much more than that to break even. The directors' salaries will cost £500,000 this year, nearly one-fifth lower than last year, though. Founder and chief executive Philip Marcella still owns just over 26% of the company.

Nasdaq First North gains growth market status

Nasdaq First North, the Scandinavian market run by US stockmarket Nasdaq, has been granted UK growth market status. This will help it compete with AIM for investors and companies.

One of the benefits of this status is that trades in the shares of companies quoted on the market are not subject to stamp duty thanks to the changes made a couple of years ago that exempted AIM shares from stamp duty. Nasdaq First North appears to want to persuade UK companies to use it to raise their growth finance rather than raising cash via AIM.

Nasdaq First North is the junior market in Scandinavia and it has certified advisers, just like nominated advisers on AIM, which make sure that companies comply with rules and regulations. It is effectively a combination of four First North markets sited in Stockholm, Helsinki, Copenhagen and Iceland.

The monthly statistics for August 2017 show that there are 305 companies on the market, wth a combined value of €15.6bn – less than one-sixth of the value of AIM. There have been 3.77 million trades so far this year, compared with 3.85 million for the whole of 2016 and 2.18 million in 2016. There have been 6.5 million trades on AIM this year.

SaltX Technology Holding is the most traded company, with 67,598 trades in August, with the second most traded company being Starbreeze, with less than 50% of that level.

According to the Nasdaq First North website (www.nasdaqomxnordic.com), one of the companies that is quoted on the market is Gate Ventures, which lost its quotation on AIM after the resignation of its nominated adviser. Limited liquidity had contributed to the share price rising to excessive levels. Chinese-backed media investor Gate originally gained a quotation on Britdaq after leaving AIM but it appears to have switched to Nasdaq First North. There was one trade in Gate on Nasdaq First North during August.

Avocet Mining, which was formerly quoted on AIM but is currently on the Main Market, also appears to be traded on Nasdaq First North, as is former standard-listed shell Cleantech Building Materials. There are a few other UK-registered companies and Jersey-registered The Scottish Salmon Company.

■ AIM nominated adviser and accountant Smith & Williamson and asset manager Rathbone Brothers have ended merger talks. The talks cost Rathbones an estimated £5m. Rathbones believes that the merger made sense but an appropriate deal could not be secured.

ADVISER CHANGES - AUGUST 2017

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Sabien Technology	Beaumont Cornish	Stockdale	Beaumont Cornish	Stockdale	01/08/17
Telit Communications	finnCap/Berenberg	Canaccord Genuity/ Berenberg	finnCap	Canaccord Genuity	07/08/17
Echo Energy	Hannam	Brandon Hill	Smith & Williamson	ZAI	10/08/17
Osirium Technologies	Stifel Nicolaus	Panmure Gordon	Stifel Nicolaus	Panmure Gordon	11/08/17
Bahamas Petroleum Company	Shore	Shore/Canaccord Genuity	Strand Hanson	Strand Hanson	14/08/17
Frontier Developments	Liberum/finnCap	finnCap	Liberum	finnCap	15/08/17
Rockhopper Exploration	Peel Hunt/Canaccord	Canaccord Genuity Genuity	Canaccord Genuity	Canaccord Genuity	15/08/17
Action Hotels	Beaufort/Zeus	Zeus	Zeus	Zeus	16/08/17
Tiger Resource Finance	Beaufort	Beaufort/finnCap	Beaumont Cornish	finnCap	16/08/17
Zinc Media Group	Peterhouse/ N+1 Singer	N+1 Singer	N+1 Singer	N+1 Singer	24/08/17
Morses Club	Panmure Gordon/ finnCap	Numis/Panmure Gordon	Panmure Gordon	Numis	31/08/17

company news

Churchill China hosts continued global export growth and invests in the future

Tableware manufacturer *www.churchill1795.com*

CHURCHILL CHINA (CHH)			1002.5p
12 MONTH CHANGE %	+22.3	MARKET CAP £M	110.6

Churchill China continues to grow the revenues of its hospitality division, with export growth helped by the decline in the pound. A flat UK market was more than made up for by higher overseas sales. The focus on added-value products, and different patterns and shapes, is helping to improve margins.

In the six months to June 2017, revenues were 8% higher at £25.8m, while pre-tax profit improved from £2.04m to £2.66m. The interim dividend was 17% higher at 7.4p a share.

There have been lower-levels of new installations in the UK but replacement business is still satisfactory. Exports were 24% higher and even stripping out currency movements the growth was 12% and the growth was spread around the world. Exports make up the majority of sales and investment in sales and marketing should continue the growth. Retail sales fell from £3.5m to £2.9m as production was moved to higher-margin hospitality products.

Exports make up the majority of sales

Churchill's success is partly based on investment in production efficiency. Investment continues in capacity, materials handling and logistics. Next year a £1.5m manufacturing extension is planned. There is plenty of cash to finance this investment. Net cash was £10.3m at the end of June 2017.

N+1 Singer has raised its full-year pre-tax profit forecast from £7.2m to £7.5m and increased the 2018 forecast by the same amount from £7.7m to £8m. This year's dividend forecast has been raised from 23p a share to 24.3p a share, giving a forecast yield of 2.4%. The shares are trading on 19 times 2017 prospective earnings.

Empresaria continues on growth track

Recruitment *www.empresaria.com*

EMPRESARIA GROUP (EMR)			136.5p
12 MONTH CHANGE %	+25.8	MARKET CAP £M	66.9

International staffing firm **Empresaria Group** had a strong first half but the growth came from acquisitions. The second half should show organic growth from the other activities as they benefit from investment earlier in the year.

Empresaria grew its net fee income by a quarter to £34.4m at the interim stage, while underlying pre-tax profit grew nearly as fast from £3.7m to £4.6m. A change in the geographic mix of profit and lower levels of prior-year charges meant that the tax rate fell from 37% to 33%, further boosting earnings per share.

The UK and Asia Pacific each contribute around one-third of net fee income, with the rest coming from Europe and the Americas. The majority of operating profit comes from Europe and Asia Pacific, with the latter boosted by the Rishworth aviation recruitment acquisition.

Political uncertainty continues to hold back progress in the UK and changes to minimum wages and client mix have hit margins in Germany. New office openings will help Asia Pacific to continue to grow. The US will start to benefit from investment in additional consultants later this year and into 2018.

Organic growth will contribute to the forecast rise in full-year pre-tax profit from £9.2m to £12.6m. Empresaria does not pay an interim dividend but the final dividend should be 13% higher at 1.3p a share. Net debt was £15.9m at the end of June 2017 but it should fall to £10m by the end of the year thanks to strong second-half cash generation. That is a similar net debt level to the end of 2016.

The shares are trading on less than ten times prospective 2017 earnings. That is low for an international growth business with a strong track record and good cash generation.

company news

Berkeley Energia secures sovereign wealth fund backing for Salamanca uranium project

Mining *www.berkeleyenergia.com*

BERKELEY ENERGIA LTD (BKY)			52.5p
12 MONTH CHANGE %	+20.7	MARKET CAP £M	134.3

Berkeley Energia has secured funding from the sovereign wealth fund of the Sultanate of Oman of up to $120m. This should fully finance the development of the Salamanca uranium mine in Spain and move it into production. The sovereign wealth fund can appoint a non-executive director and has the right to match any potential uranium offtake transactions that Berkeley Energia can secure with other parties.

The funding includes a $65m convertible loan, with a conversion price of 50p a share, which could be converted into a 28% stake in the mining company. If Berkeley Energia raises cash at less than 50p a share, the conversion price will change to that fundraising price – with a floor conversion price of 27p a share. Conversion of all or part of the convertible can happen once technical completion of the centralised processing plant at Retortillo has happened. There are also three tranches of options that are exercisable at a weighted average price of 85p a share. The initial tranche is exercisable at 60p a share, the second at 75p a share and the third at 100p a share. These options would raise a total of $55m and could give the sovereign wealth fund a total stake of 37%.

> The $65m loan is convertible at 50p a share

Any offtake agreement with the significant investor will have an annual cap (based on a rolling 12-month period) of not more than £1m of uranium concentrate production or 20% of annual production. There is a 30-day period during which the sovereign wealth fund can match new long-term offtake contracts with third parties. This does not affect any current offtake agreements.

The funding deal ensures that the mine development can go ahead as long as shareholders vote in favour at the general meeting.

Amiad begins to rebuild margins

Water treatment *www.amiad.com*

AMIAD WATER SYSTEMS LTD (AFS)			119.5p
12 MONTH CHANGE %	-19	MARKET CAP £M	27.1

Interim profit recovered at **Amiad Water Systems** but the Israel-based water treatment and filtration systems provider still has some way to go to regain previous margin levels. Management does believe that it can get back to operating margins of around 10%. The five-year plan is to grow revenues from $106m to $150m.

In the six months to June 2017, revenues were 6% higher at $55.7m with all the main divisions showing an improvement. There was a small improvement in gross margin to 39.6% but the main improvement in pre-tax profit from $1.7m to $3.2m was due to a tight hold on overheads and a rise in net interest income due to hedging profit. Operating margins improved from 3.5% to 4.8%. Back in 2015 the underlying operating margin was 7.4% and it has been in double figures in the past.

Amiad has previously missed business by not offering the full range of irrigation products and the product range has been widened with new products being developed. Ballast water has been a difficult market to break into but the company is gaining the certifications it requires and is also talking to potential partners. Regulation changes mean that this should be a growth market but if Amiad does not make progress in the next six months it will move resources to other markets.

Net debt was $8.1m at the end of June 2017. Currency movements are likely to hold back full-year profit growth. The shares are trading on nine times prospective 2017 earnings.

Diurnal on brink of gaining European approval for children-focused adrenal insufficiency drug

Pharmaceuticals *www.diurnal.co.uk*

Diurnal Group, the specialist pharma company focused on hormonal diseases, is on course to launch its first treatment next year. Infacourt is a treatment focused on children with adrenal insufficiency and phase III trial results were positive. Paediatric use marketing authorisation has been applied for in Europe. Diurnal has replied to questions from the regulator and management is hopeful that market authorisation can be gained in Europe by the end of this year. That would enable initial sales to be generated in 2018. Revenues are likely to be modest in the year to June 2018. A US clinical trial for Infacourt has commenced.

Infacourt is a preparation of hydrocortisone, a synthetic version of cortisol, and there is no current licensed treatment of this type designed specifically for children.

Initial sales could be generated in 2018

Diurnal intends to market Infacourt directly in the main European markets with the help of a deal with Ashfield Healthcare.

Diurnal has been quoted for fewer than two years, having raised £28.4m after expenses at the end of 2015 via a placing at 144p a share and a five-year, interest-free convertible issued to IP Group with a conversion price of 144p. Diurnal has made significant progress since then and the share price is slightly lower than the initial flotation price. There is still cash of £19.9m in the bank, following a £10.4m outflow from operations in the year to June 2017, while the convertible loan is still in issue.

DIURNAL GROUP (DNL)			132.5p
12 MONTH CHANGE %	-6.4	MARKET CAP £M	69.7

There is a second treatment being developed. Chronocourt is a treatment for congenital adrenal hyperplasia and adrenal insufficiency, which has orphan drug designation from the US Food and Drug Administration. A European phase III trial has recruited three-quarters of planned participants and results should be published in the middle of next year. Chronocourt has gained its first US patent, which lasts until 2033. Earlier-stage products are also being developed.

Diurnal is likely to require further cash to take full advantage of the prospects for Infacourt but confirmation that there is a commercial product will help.

Tax Systems broadens pre-2020 offerng

Tax accounting software *www.taxsystemsplc.co.uk*

Accounting software provider **Tax Systems** plans to be in a strong position when HMRC forces companies to lodge quarterly tax returns in 2020. This is a cash-generative business but before its reversal into AIM shell Eco City Vehicles one year ago it was not focused on growth. This has changed under the new management, headed by Gavin Lyons who built up IT security company Accumuli, and a broader range of services is being offered.

The company has already bought an automated data business that has been linked with the main software product, AlphaTax. This is the type of cross-selling opportunity that management is seeking. Tax Systems is developing additional products as well as making acquisitions. A new cloud-based product has been launched.

TAX SYSTEMS (TAX)			80p
12 MONTH CHANGE %	+2.9	MARKET CAP £M	64.6

The business cost £73m last year and £45m was raised via a placing at 67p a share. Even after cash generation from operations, Tax Systems is likely to have net debt of around £20m at the end of 2017. This suggests that further large acquisitions are likely to require share issues.

The interims show organic growth of 7% and customer retention levels are high. House broker finnCap forecasts a 2017 profit of £5m, rising to £5.7m in 2018. The shares are trading on 19 times prospective 2017 earnings.

Premier goes to new level with Brooke acquisition

Testing and inspection services *www.ptsg.co.uk*

Dividend

Premier Technical Services Group joined AIM on 11 February 2015 and it has grown its profit and dividend strongly since then. Castleford-based Premier paid a dividend of 1p a share in 2015 and this increased to 1.4p a share for 2016. This year's total dividend is forecast to be 1.6p a share and it is expected to rise to 1.8p a share next year. The dividend cover is expected to be nearly 5.5 times in 2017, which is similar to 2016. However, the dividend forecasts were not raised along with earnings at the most recent forecast upgrade so there is scope for higher dividend increases.

Business

Premier floated with the strategy of making add-on acquisitions in its niche markets to supplement organic growth. There are three divisions: access and safety, electrical services and high-level cleaning. The first two make up more than 90% of revenues.

The access and safety division offers safety testing and cradle maintenance. The electrical services division provides lightning protection, steeplejack services and testing of fire alarms, fixed wire and other products. The cleaning operations cover high-rise buildings, specialist abseiling and chewing-gum removal.

In 2016, revenues grew by 52% to £39.2m, which followed growth of 43% the previous year. Importantly, organic growth was around 20% in each of the two years. Acquisitions can grow pre-tax profit but it is not always the case that earnings per share grow because of share issues. In Premier's case the 2016 earnings per share rose by 57% to 7.63p.

PREMIER TECHNICAL SERVICES (PTSG)	
Price (p)	168.5
Market cap £m	175.2
Historical yield	0.8%
Prospective yield	0.9%

The acquisition of lightning protection and steeplejack services provider Brooke Edgeley (Industrial Chimneys) Ltd for an initial £14m was the biggest purchase that Premier has made. The total cost could rise to £20m, depending on performance, which is not much less than Premier paid for 21 acquisitions in the previous decade.

Brooke enhances Premier's number one position in lightning protection and boosts its coverage in Scotland and western England. In the year to April 2017, revenues were £10.6m and pre-tax profit was £2.1m.

Premier raised £15m via a share placing at 120p a share to finance the Brooke deal. House broker Numis has raised its 2017 earnings per share forecast by 5% to 8.7p even though Brooke is not included in the first half. A full-year contribution enabled the 2018 earnings forecast to be raised by 12% to 9.2p. A rising tax rate will hold back earnings per share growth over the medium term.

Premier has increased its revolving credit facility from £10m to £12m and the overdraft from £4m to £8m. Net debt is forecast to be £9.3m at the end of 2017. The interim figures will be published on 26 September.

There are plans to launch a fourth division offering training services and this will be built up via acquisition.

Dividend news

Belvoir Lettings maintained its interim dividend at 3.4p a share and having rebuilt the cover there is scope for a small improvement in the total for the full year, possibly to 6.9p a share. This could still be more than 1.5 times covered if pre-tax profit rises from £2.8m to £3.9m as forecast. The lettings agent grew faster than the market in the first half of 2017. In the six months to June 2017, revenues were 15% higher at £4.92m and underlying pre-tax profit was 51% ahead at £2.1m. The second half will include a contribution from the recently acquired mortgage services provider Brook Financial Services. Belvoir is backing franchisees in their purchases of rivals in their franchise areas.

Somero Enterprises Inc had a tough first half in the US but the international nature of the business enabled further growth in profit. The strongest growth in the concrete-levelling equipment supplier's revenues was in Europe and Latin America, but the former is not back to the revenues it generated a decade ago. Net cash was $18.3m but that was before the 13.3 cents a share special dividend, whichcost $7.5m. The interim dividend has been raised by 10% to 2.75 cents a share and there could be a further special dividend in the next couple of years.

IT healthcare software and services provider **EMIS** reported a 1% increase in interim revenues to £79.2m even though the healthcare market is tough, particularly when it comes to hospital services. EMIS's recurring revenues were 84% of the total. Profit was slightly lower. There could be a small fall in full-year profit to £37m but the 10% increase in interim dividend to 12.9p a share indicates the strength of cash flow and the longer-term potential. Net cash was £10.5m at the end of June 2017.

expert views

Expert view: The broker

AdEPT Telecom – transformational acquisition

By Mike Jeremy

AdEPT Telecom* recently completed its largest transaction to date with the acquisition of Atomwide Managed Services, a UK specialist in the provision of educational IT and ICT solutions supplying over 4,000 schools and over 2 million users, local authorities and Regional Broadband Consortia (RBCs). Atomwide is the largest provider of schools IT/ICT systems in London via the London Grid for Learning (LGfL). The acquisition represents a strong fit with AdEPT's Managed Services operations, its emphasis on the public sector and its South East regional focus.

Since 2015 AdEPT has embarked on a series of acquisitions that have reduced its reliance on the provision of telecommunications connectivity, from 75% of total revenue to 34% following the Atomwide acquisition, and the active development of managed and value-added services. AdEPT acquired Centrix in May 2015, for £7m. Centrix was subsequently integrated and became the basis for provision of in-building unified communications and WiFi-based managed services for larger business, hospitals and business centres. A year later AdEPT acquired Comms Group UK, a provider of unified communications and managed services for smaller businesses, for an initial consideration of £3.6m. It added in November of the same year, CAT Communications (initial consideration £1m) which was integrated into AdEPT's Fleet operations centre. In February 2017 the acquisition of Our IT Department, based in Chingford, the City and St Neots (initial consideration £4.75m), introduced IT remote support and cloud services, such as Microsoft 365. Each acquisition has been earnings-enhancing from the outset, and key management is retained and incentivised.

Atomwide

Atomwide is highly profitable. It reported March 2017 revenue of £7.53m, 80% of which is recurring, and operating profit of £1.86m (24.7% margin). The initial consideration is £12m (net of £6.2m cash acquired), representing a step change in the scale of acquisitions to date. AdEPT funded the initial consideration through a combination of £4.7m in additional bank debt drawn from its £30m joint RBS and Barclays facility and a £7.3m convertible bond provided by Business Growth Fund.

An indication of the scale and capability of Atomwide's services is provided by the scope of the LGfL network it supports from its data centre in Orpington. Service provision extends to over 4,000 sites across the UK and 60 Local Authorities, servicing 1.1m students, 800,000 parents, 245,000 staff accounts and 12,000 school governors. The network processes annually over 225,000 admissions applications for secondary school places, provides delivery of 565,000 SMS texts and over 50,000 mobile application alerts via its ParentComms service. It filters 1bn web requests, with scanning and cleansing of over 1m emails daily, provision of 5m content pages per month.

Atomwide's attraction lies in its ability to extend the provision of services outside its London stronghold, and the applicability of its offering as a one-stop solution for school governors taking on the responsibility of the Multi-Academy Trust (MAT) model, involving the provision of unified services to groups of schools. Its services cover key areas in a secure format suited to multiple sites – communications, web access, safeguarding, parental engagement and educational resources – via a unified sign-on (USO) system that means one username and password gives access to all appropriate services for that user. For communications, Atomwide's Unified Sign On StaffMail service – with 1.2 million users - enables remote access via secure accounts. Data backup is available via GridStore RedStor Backup Pro to meet disaster recovery plan requirements for off-site backup of critical IT systems. Web services include domain name registration, hosting, and remote access to enable staff to securely connect to schools' local networks via website or dedicated VPN, for home-work or multiple site requirements, firewall, antivirus software and email filtering. Safeguarding tools include (USO-based) secure identity provision and authentication, and WebScreen™ (2.0) web filtering – compliant with 'Keeping Children Safe in Education' and Internet Watch Foundation directives. Parental engagement services include online payment software, access to pupil information such as report cards, automated messaging linked to schools' MIS and downloadable apps, and school status, date confirmation and other communications. Finally, a secure gateway provides access to a range of cloud-based educational resources.

AdEPT now has full-year run-rate revenue of £48m and EBITDA of £10.5m (Northland Capital Partners March 2019 estimates). AdEPT currently trades on a March 2018 PE of 12.3x (NCPE) and EV/EBITDA of 9.4x, with a dividend yield of 2.5%. This represents a PE discount of 37% against its AIM telecom peers and EV/EBITDA discount of 7% (NCPE). Post-acquisition, net debt/EBITDA (FY18 NCPE) stands at 2.2x excluding convertible debt.

**Northland Capital Partners acts as Nominated Adviser and Broker to AdEPT Telecom*

MIKE JEREMY is a director of research at Northland Capital Partners.

expert views

Expert view: The lawyer

AIM disciplinary proceedings against ZAI to be held in private

By Simon Charles

ZAI Corporate Finance has been battling it out against the London Stock Exchange, going all the way up to the Court of Appeal, only to be rebuffed for largely the same reasons as it was rebuffed by the High Court earlier this year. ZAI brought an action for judicial review against the London Stock Exchange, arguing that a hearing before the AIM Disciplinary Committee against ZAI should be held in public and not, as the Committee directed, in private.

Both Courts analysed the relevant provisions of the AIM Disciplinary Procedures and Appeals Handbook – May 2014. I reproduce below some of the relevant rules:

C18.3 – Other than as set out in these rules, and other than as between the parties and their advisers, all parties shall keep confidential any matters relating to any proceedings save where disclosure is permitted or required by law.

C22.1 – The AIM Disciplinary Committee will usually conduct hearings in private, although an AIM company or nominated adviser which is subject to proceedings has the right to ask for such hearing to be conducted in public. An AIM company or nominated adviser requiring such hearing to be conducted in public shall notify the Chairman at least five business days prior to commencement of the hearing.

C22.8 – At a hearing the AIM Disciplinary Committee may:

> C22.8.2 – make any directions which may be given at a pre-hearing review, and vary any direction which has been made; and
>
> C22.8.3 – make all such directions with regard to the conduct of and procedure at the hearing as the AIM Disciplinary Committee considers appropriate for securing a proper opportunity for the parties to present their cases and otherwise as may be just.

At first glance, the inclusion in the Handbook of the words, "usually", "right to ask for such hearing to be conducted in public" and "requiring such hearing" would suggest an absolute right for an AIM company or a nominated adviser to direct that the hearing be held in public. This was, broadly, the approach which ZAI took in its initial pre-action protocol letter in respect of the judicial review application. It argued that there is an automatic exception to the general rule of privacy when a contrary request is made; that the use of the word "require" and an absence of express factors for the Committee to regard against such an application strengthened that position.

The Court of Appeal arrived at a rejection of ZAI's claim with very little if any hesitation but after some interesting analysis of the meaning of the rules and, crucially of course, their context.

Conclusion

Three "interlocking" factors led Munby LJ to the conclusion which he reached.

First was the natural meaning of the language used in Rule C22.1, finding that "usually" and "has the right to ask for" is the language of discretion. He found that for "requiring" to be the axiom between a discretion and an absolute right was placing too much emphasis on that one word, and, tellingly, there is no "right to require". It was held that the two key phrases, "the right to ask" and "require" had to be read together and in the broader context of the Rules. The Court of Appeal found that ZAI had the right to ask for or request a public hearing but that the Committee retains ultimate discretion as to what directions to set.

Second, the overall scheme of the Rules and specifically those in C18.3, C22.8.3 (and C23.6 and C25.1, not reproduced above) would not sit comfortably with a nomad having an absolute right of direction itself.

Third, outwith the Rules, the context of regulating a financial and commercial market, with sensitive information about third parties potentially becoming public, also did not make sense for there to be an absolute right of direction on the nomad's part. Finally, as Mostyn J noted in the original High Court judgment and which Munby LJ repeated, an absolute direction right could lead to an absurd result that the Committee's proceedings may be handled in a worse position than open Court proceedings given the confidential and sensitive nature of the underlying facts (eg if the issue concerned, say, a defence contractor and the disclosure of sensitive information).

Some observations were made as to the discretionary context of the regime but that ZAI's approach had not been to argue a point on the exercise of discretion, nor had the Court found evidence of any error in the Committee's decision or reasoning. Finally, there was an Article 6 "fair and public hearing" case made, which on the facts failed.

The Court of Appeal's decision was unanimous, Lewison LJ and Lindblom LJ concurring.

SIMON CHARLES, Partner and Head of Equity Capital Markets, Marriott Harrison LLP

feature

QCA sets out post-Brexit vision

A position paper from the Quoted Companies Alliance sets out what it believes should happen to the regulation of smaller companies and stockmarkets when the UK leaves the European Union.

The Quoted Companies Alliance (QCA) has published Future of the UK Market Structure for Quoted Companies (www.theqca.com), which is designed to provide advice to the government on ways to ensure that UK stockmarkets efficiently provide capital to small companies. This also involves suggestions on what should happen when the UK leaves the EU.

The QCA believes that the government should prioritise the needs of smaller companies, which represent a significant part of the UK economy.

Market structure

It is important that stockmarkets are easily accessible to companies and that the ongoing requirements and regulations are clearly understandable. This also involves different markets that meet the requirements of different types and sizes of companies. These markets also need to be effective in terms of liquidity and access to investors. The QCA argues that it is important that AIM and NEX Exchange can continue to prosper.

There is likely to be a reassessment of the EU prospectus rules in order to make it more straightforward for companies to raise money to grow their businesses. There is also a need to make it easier for investors to obtain as much financial and business information about companies as possible. The MiFID II regulations make independent research less likely to be published when investors need as much information as they can obtain.

One of the suggestions is to allow variable-voting shares in companies as long as they follow "an appropriate corporate governance code". For the past three decades non-voting and variable-voting shares have been frowned upon by investors and most of the companies that had this type of split structure have moved to a one-share, one-vote position. NEX-quoted brewers Shepherd Neame and Adnams still have variable-voting shares for historical reasons but it does not seem likely that split-voting structures will be welcomed by investors.

> The FCA should weigh up the relative cost of regulation against any adverse effects

Tax incentives are an important part of the mix. The Enterprise Investment Scheme and Venture Capital Trusts have been successful but being part of the EU has limited what the UK government has been able to do with these incentives. The QCA believes that some of the requirements should be simplified so that it takes less time to gain assurance about the eligibility of fundraisings.

EU exit

The QCA talks about adjusting EU legislation and supervision to suit UK market standards and one of the main things it highlights is overhauling the market-abuse regulation and revising prospectus rules. These have proved a particularly burden on smaller quoted companies.

The QCA wants to keep free flow of capital, goods and services and it also wants to guarantee access to skilled labour from the EU without any prohibitive levies. Without this, the smaller company pressure group feels that the competitiveness of smaller companies will be hampered. It is questionable whether these elements can be retained while also dropping EU prospectus rules and other regulations that the QCA does not like.

FCA

The QCA argues that the FCA should "oversee the good operation of financial markets and deliver ongoing growth and productivity improvement in the UK". The argument goes that this would make the FCA weigh up the relative cost of any additional regulation against any possible adverse effects. This could mean that the effect on smaller companies will be assessed and a decision made on whether the regulation relating to the larger companies should also cover smaller companies.

Another suggestion is a fast-track team that will handle the listing of growth companies on the Main Market. This could encourage more companies to move from AIM to the Main Market. However, the loss of IHT relief and other tax benefits is probably a greater influence on whether a company switches from AIM to the Main Market.

On top of the views on the FCA, the QCA also believes that the regulatory burden on advisers and brokers should be eased. It argues that the balance of responsibility has tilted away from companies towards advisers. Given the recently proposed AIM regulation changes, this appears unlikely.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer services	18.6	10.6
Financials	16.7	16.7
Industrials	15.7	16.5
Healthcare	12.9	8.8
Technology	11.7	12
Consumer goods	10	5.7
Basic materials	6.2	14.1
Oil & gas	6.1	10.4
Telecoms	1.5	1.1
Utilities	0.5	1.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1010.91	+27.7
FTSE AIM 50	5874.67	+33.1
FTSE AIM 100	5162.65	+37.8
FTSE Fledgling	10423.55	+26.6
FTSE Small Cap	5715.18	+16.7
FTSE All-Share	4072.98	+10.2
FTSE 100	7430.62	+9.6

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	172
£5m-£10m	102
£10m-£25m	182
£25m-£50m	159
£50m-£100m	133
£100m-£250m	128
£250m+	88

KEY AIM STATISTICS

Total number of AIM	964
Number of nominated advisers	33
Number of market makers	48
Total market cap for all AIM	£96.3bn
Total of new money raised	£103bn
Total raised by new issues	£42.6bn
Total raised by secondary issues	£60.4bn
Share turnover value (2017)	£38bn
Number of bargains (2017)	6.51m
Shares traded (2017)	560.8bn
Transfers to the official list	183

TOP 5 RISERS OVER 30 DAYS

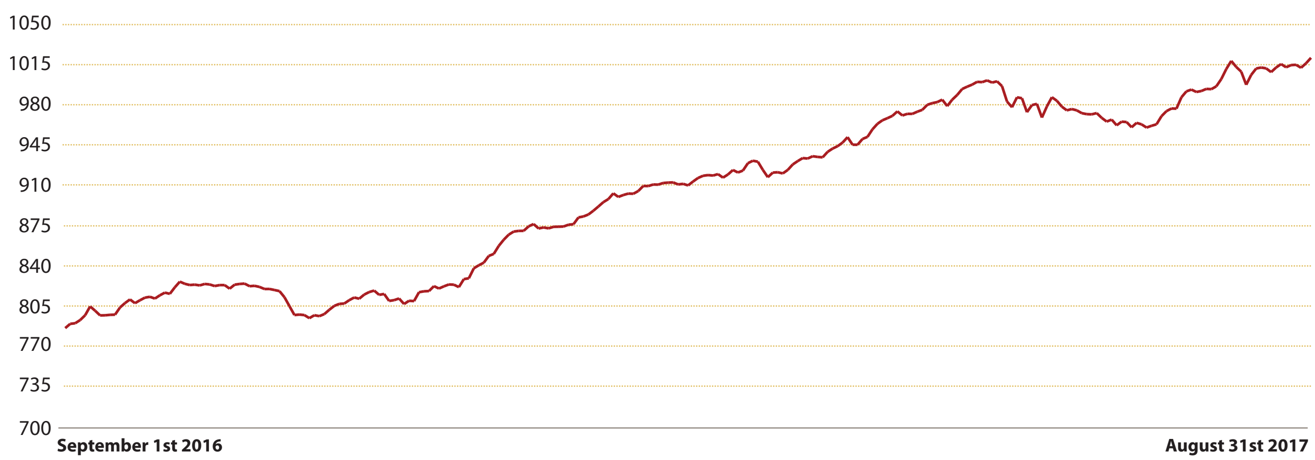
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Bezant Resources	Mining	1.95	+136.4
Weatherly International	Mining	1.02	+115.8
Frontier Developments	Software	1085	+68.9
Zoo Digital	Media	24.75	+62.3
Amur Minerals Corporation	Mining	9.58	+57

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Sphere Medical	Health	0.68	-88.3
entu (UK)	Household goods	1.4	-83.8
Nyota Minerals Ltd	Shell	0.01	-60
Galileo Resources	Mining	1.88	-57.1
Augean	Industrial	23	-55.3

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st August 2017, 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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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.

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