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Looking Forward on the markets H2 2017

The AIM market turned twenty-two in June and it is fair to say it has had its fair share of difficultiesH1 2017 saw a further net loss of constituents and we ask what will the rest of 2017 hold in store. Arguably the stability of the UK government, Brexit and the shift in global monetary policy will be the biggest themes for the remainder of the year.

Since the start of the year, AIM has seen a continued decrease in the number of equities traded on the junior market. This downward trend and increasing average value has left AIM with only c.959 companies on the market at a market value of £93.5bn, meaning that the average market cap is now £97.5m. This continued trend implies that the market is now being driven by an increasingly demanding investor base which is creating a core of higher quality companies with more solid revenues and earnings. This looks to continue through the remainder of the year as the number of companies on AIM will probably drop even further.

The reasons for delisting can range from takeover bids to running out of money, or simply a company no longer being able to justify the costs of being quoted. 2017 has been a year where we have seen an increase in the level of takeovers. We believe that AIM has many high growth businesses, trading at very low multiples, which make attractive targets for foreign companies; for whom, FX has swung in their favour.

In 2017, there have been 28 new issues, 18 IPOs, 2 Transfers to AIM and 8 Re-Admissions bringing in £441.96m in money raised. As at June 2017, the Health Care sector had raised the most new money (Pharmaceuticals & Biotechnology), suggesting that it will be a strong year for that sector. However, AIM experienced 47 cancellations year to date June 2017 of which 37 were cancellations, 2 were transfers to Main Market and 8 were reverse takeovers. Thus, leaving AIM with a deficit of 19 companies for year to June 2017.

Currently of the 959 companies on AIM, only eight have valuations over £1bn accounting for 0.8% companies holding 19% of the total value. In total, c.349 companies have valuations of over £50m meaning that 36.9% of companies hold 89.8% of the total value of the index, whilst the 455 companies with valuations of less than £25m account for only 4.4% of the value. The Company with the highest Market Cap is ASOS PLC which is valued at £4.79bn, whilst the lowest valuation for a Company with trading ongoing is Mayan Energy Limited with a market cap of £230,000.

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Ten Companies to look out for in 2017:

In January 2017, the team put out a list of "stocks to watch" for the year. At the midway point, progress has been strong with the strongest 6 months performances from InnovaDerma, EVR Holdings and Warpaint.

Companies	Ticker	Market	Market Cap Jan 17 (£m)	Market Cap Jun 17 (£m)	Market Cap change (%)	Price Jan 17 (p)	Price Jun 17 (p)	1 Month Share Price Performance (%)	6 Month Share Price Performance (%)	1 Year Share Price Performance (%)
InnovaDerma PLC	IDP	Standard List	25.69	49.49	92.64	216.9	410.5	46.86	89.25	486.42
Warpaint London PLC	W7L	AIM	125.1	154.89	23.81	193.9	240	-21.82	23.77	147.42
Gear4Music PLC	G4M	AIM	109.63	146.13	33.29	553	725	10.1	31.1	425.36
EVR Holdings PLC	EVRH	AIM	60.54	83.92	38.61	6.4	8.75	1.4	36.71	883.14
Amryt Pharma PLC	AMYT	AIM	40.2	51.56	28.25	19.3	24.75	-6.17	28.23	59.36
Petards Group PLC	PEG	AIM	10.74	11.42	6.33	29.25	31.5	-5.26	7.69	154.54
Sound Energy PLC	SOU	AIM	499.5	557.4	11.59	75.12	77	13.23	2.5	345.08
TouchStar PLC	TST	AIM	6.6	5.93	-10.15	105.5	94	-6.93	-10.9	70.59
GAN PLC	GAN	AIM	25.56	19.61	-16.76	36.5	26.5	-1	-27.39	-15.87
Van Elle PLC	VANL	AIM	105.52	76.4	-27.59	131.9	95.5	-7.7	-27.59	-4.5

Updated prices as of closing mid-on 30th June 2017 and from the opening mid-on 3rd January 2017

1. **InnovaDerma PLC (LON: IDP 376p/£49.49m) ***
   InnovaDerma brings innovative and clinically proven brands and products in anti-ageing, hair loss and beauty to the homes of millions of men and women around the globe. Its products are backed by evidence based research, independent studies on efficacy, money back guarantees and a large testimonial pool from its client base and experts around the globe. Following great success in Australian and Europe the Company made its Foray into the States in October 2016. Moreover, the Group undertook significant corporate activity in the first half including the acquisition of Stevie K cosmetics and Charles+Lee in February 2017 and ProlongTM in May 2017. The Company also announced in May 2017 the development of innovative and highly-effective topical haircare range for men and women to aid hair regrowth and hair thickening which will be sold through Superdrug's top 400 stores throughout the UK from August 2017. On 1 June 2017, it was announced that the Company has secured a distribution deal with Boots Ireland for Skinny Tan in 65 stores out of their 80 stores, with the product available from July 2017. As well as expanding in to different territories, which enables the Company to extend their flagship products together with a robust balance sheet means the Company is strongly positioned for future growth and positions them for what could be an extremely successful H2 following on from their trading statement in mid-June. The recent FY June 2016 trading statement showed impressive revenue growth of 80 percent c. to £9m and underlying profit before tax increase of 355 percent to £1.28m.

2. **Petards Group PLC (LON: PEG 29.25p/£11.06m) ***
   Petards, a developer of advanced security systems with an ever-evolving functionality of their product suite has placed the Company in a strong position with the key players in the train building industry, with customers including Siemens, Hitachi, and Bombardier. The Ministry of Defence (MoD) also remains a core customer. On 4 July 2017, Petards were awarded two significant contracts totalling £1.5m in value. These contracts are with Leonardo MW (previously AgustaWestland S.p.A) and the MoD. The MoD also extended their existing contracts for mobile radio equipment by a year to September 2018. In addition to the contracts, the Group won two more contracts in H1 2017. The first coming in late March with a supply contract for Stadler Bussnang AG with its eyeTrain CCTV and Automatic Selective Door Opening systems worth £4.3m. The second contract came in May 2017 to supply Bombardier Transportation with Petards eyeTrain systems worth £3m. Following a terrific performance in the shares, they have dipped slightly in the last month providing potential interest for investors. As of 31 March 2017, the Company had an order book of £21m of which £13m is scheduled for delivery by year end. With on-going discussions with both new and existing customers for further exciting projects, the Board remains confident about the prospects of the Group for 2017. This means that Petards is looking at a promising second half of the year with consensus forecast predicting revenues for the year to be £16.2m with profit at £1.05m.

3. **Amryt Pharma PLC (LON: AMYT 23.00p/£48.44m)**

Amryt intends to further develop Episalvan® as a new treatment for a hereditary skin disorder called Epidermolysis Bullosa (EB) in both Europe and the U.S. In the short period since the formation of the Company, it has finalised its protocol design for the proposed pivotal phase III study in EB and has submitted it to the European Medicines Agency for approval which it has subsequently gained. Amryt also had a meeting with the FDA in early Q4, 2016 and begun phase III testing for EB in April 2017. Given the unique characteristics of their EB product and the lack of any available treatment options currently, they believe this market offers a significant commercial opportunity for the Company. Amryt has an attractive mix of approved, late stage and early stage products focused on rare and orphan conditions where there is significant unmet need. The outlook for Amryt Pharma is very bright with testing proceeding as scheduled for Episalvan® EB phase III as the Company aims to bring their revolutionary new product to market in 2018. Furthermore, the Company is excited about its Lojuxta business due to it exceeding expectations for revenue for the first three months and this, alongside significant opportunities to increase revenue and expand into other territories, will be a major focus for the Company in the coming quarters.

Sound Energy PLC (LON: SOU 48.75p/£385.47m)

The flagship well in Tendrara (Morocco), TE-7, was estimated to contain between 300bn and 500bn cubic feet of gas based on works carried out to date. However, further drilling has been completed and the Company's has reported an increase of the Company's internal preliminary volume estimates over the Tendrara greater TE-5 horst and Lakbir and TE-4 highs to a total of 1.03 Tcf (gross), consisting of a mid-case 0.63 Tcf of Gas Originally in Place (GOIP) (gross) on the TE-5 horst and an additional 0.4 Tcf unrisked GOIP (gross) over the Lakbir High and the TE-4 high up-dip of the well. Prior to the drilling of TE-8 the Company had internally estimated GOIP over the TE-5 horst of between 0.3 Tcf and 0.5 Tcf (gross). Sound Energy, with its 27.5% interest in the Tendrara licence, intends to commission a CPR on Tendrara following TE-8, which is expected to confirm the contingent resources based on the field development plan. However, on the 3 July 2017 news broke that Sound Energy’s main Italian exploration in Badlie had been unsuccessful wiping out a predicted £500m revenue stream and knocking the share price down 20 percent in a day. Despite this, the long-term prospects remain strong with the wells in Morocco functioning to full potential as well as new announcements of success at a secondary site in Morocco called Koba-1, means that the Company can bounce back from their disappointment over the Italian wells.

4. **EVR Holdings PLC (LON: EVRH 7.88p/£79.13m)**

EVR holdings is looking to take advantage of the new wave of Virtual Reality headset offerings by focusing on virtual reality content creation via its subsidiary MelodyVR. In addition to the content already available from around 500 recording artists and 58 music venues. The Company announced in March 2017 that its subsidiary MelodyVR Ltd entered into an agreement with UMG Recordings Services, INC, a subsidiary of Universal Music Group, the world's leading music-based entertainment company. The worldwide, multi-year agreement, licenses the creation and distribution of Virtual Reality content featuring UMG's artists. Under the agreement, MelodyVR will receive the right to produce and distribute VR content created with Universal artists. Moreover, EVR Holdings announced in June 2017 that MelodyVR Ltd entered into a Global Partnership and Windows Mixed Reality App Collaboration Agreement with Microsoft Corporation, the world's largest software company. Under the non-exclusive agreement, MelodyVR and Microsoft will collaborate to launch the MelodyVR platform across all Windows Mixed Reality devices and in addition, Microsoft will provide MelodyVR with funding and technical expertise to support the partnership. The Company also announced in June 2017 the net proceeds of a Placing of approximately £4.7m will be used to make further investments into the Company's original content library as well as to extend the capacity of its live music capture and digital content creation capabilities both in the UK and overseas, expanding upon existing resources and infrastructure, increasing global marketing efforts as well as research and development in areas such as post production and camera technology. This is an early stage play, but with a very strong management team, a tier 1 customer list and technological know-how and IP, puts it in a strong position in a large and rapidly growing market.

5. **Touchstar PLC (LON: TST 95p/£5.99m)**
   Touchstar, formerly Belgravium Technologies PLC, designs and builds mobile computing devices and develops software solutions used in a range of field-based delivery, logistics and service applications. Touchstar On Board has seen its new cloud based back office system being ordered by two airlines. The package incorporates stock and pricing management for the customer and is fully integrated to the mobile devices on the aircraft, together with the Chip and Pin technology necessary for payment. Touchstar Access Control has also secured a significant contract for two Access Control Systems within UK government departments, and another system sale within the defence arena. Later during 2017, Touchstar will launch a rugged tablet device for the in-vehicle and logistics market, operating with a faster processor than is currently available and using the latest Android operating system. The Company intends to continue to invest in development and aims to enhance its portfolio of logistics products to ready themselves for more planned launches in 2018, but for the time being are comfortable with the current market expectations for the Group.

6. **Van Elle (LON: VANL 92.5p/£74.60m)**
   Founded in 1984, Van Elle is a ground engineering contractor which arrived on to AIM in the tail end of October 2016 with high hopes, and it has not failed to deliver. The Group offers a wide range of geotechnical techniques and services to customers in a variety of

construction end markets. Over the Company's 32-year history, it has created a strong reputation within the core ground engineering markets, built on service quality, technical expertise, innovation, safety, and the successful delivery of value-driven solutions to customers. A stalwart Company of British engineering, the Company has achieved impressive year-on-year growth that has delivered despite geopolitical shocks such as Brexit and the US election. Van Elle has begun the current financial year positively and continues to secure new work across all four of its Divisions. As a result, for the nine months to 31 January 2017, the Group delivered total revenues of £70.8m, representing growth of 16.4 percent on the prior year. In addition, to complement its current capabilities, the Group has strengthened the senior management team with several key divisional appointments to support the growth and ambition of the business. Looking ahead, Van Elle continues to be optimistic about the long-term opportunity within its rail business, given the ongoing need for maintenance of the UK track network as well as significant capital programmes such as track-bed stabilisation and the electrification of major routes. Consequently, the Board expects to report results for the year ended 30 April 2017 in line with its revised expectations.

7. **Warpaint London PLC (LON: W7L 225.00p/£146.83m)**

Warpaint London is a colour cosmetics business. It is made up of two divisions: Close-out and Own-brand. The second and larger Own-brand division consists primarily of the Group's flagship brand, W7 – an extremely creative, design-focussed cosmetic brand proposition with a focus on the 16-30 age range, delivering high-quality cosmetics at affordable prices. W7 brand has grown organically since its inception in 2002 and now contains over 500 items which are sold into high street retailers and independent beauty shops across the UK, Europe, Australia, and the US. The Company continues to trade in line with expectations and so far in 2017, and has seen encouraging growth across all their sales territories worldwide, especially the US which has delivered double-digit sales growth compared to the same period last year. Warpaint produced a revenue growth of 33.1 percent to £22.5m for year-ended 2016 leading to an adjusted profit before tax increase of 10.9 percent to £6.1m. They launched a new Very Vegan range of products in Q1, whose early sales figures, whilst modest, are looking quite positive. Further, their E-Commerce strategy remains a growing contributor to the Group which is supported by celebrity endorsements, particularly through social media and the Company expect the importance of on-line sales to continue to grow over the next few years. With a flexible supplier base and a tight control of working capital the business remains inherently cash generative with consensus forecasts predicting revenue to increase to £31.9m in 2017.

8. **Gear4Music (LON: G4M 742.50p/£150.87m)**

Gear4Music, the retailer of musical instruments and music equipment launched in 2003 by Chief Executive Officer Andrew Wass, has grown quickly, boosting sales from £12.3m in 2013 to £56.1m in the February 2017 year-end report. The Company sells own-brand musical instruments and music equipment alongside well known premium brands including Fender, Yamaha, and Roland, to customers ranging from beginners, to music enthusiasts and professionals in the UK, and since 2012, in Europe. They have recently completed the construction of a new 50,000 square foot property which will act as the Group's long-term head office in York whilst providing capacity for further expansion. Having experienced rapid growth in the UK and now internationally, the Company's own-brand products are doing wonders for their gross margins. Gross profit for the year ending 28 February 2017 increased by £6m (+65%) to £15.15m (FY 2016: £9.18m) on the same period last year, leading to a pre-tax profit of £2.6m compared to break even for FY Feb 2016. The Company has built solid financial and operational foundations to the business opening it up for further scalability in domestic and foreign markets. The Company wants to enhance its global proposition and is confident of long term growth in the future. The momentum across the Group, but particularly in Europe, has given confidence to accelerate investment in infrastructure to scale-up further. The associated additional investment of c.£1m will mean profitability will be more H2 weighted for the current financial year. The business continues to trade in line with the Company's expectations and the Company's current investment strategy reinforces the confidence they have in their prospects for this year and beyond with current predictions stating that revenue will top £80m by 2018.

9. **GAN PLC (LON:GAN 25.50p/£17.86m)**
GameAccountNetwork is a developer and supplier of online gaming content and enterprise-level business to business gaming software systems. The Company has developed an Internet Gaming System (IGS), which it licences to online and land-based gaming operators as a turn-key technology solution for both regulated real-money and simulated online gaming. The IGS, developed in London under a UK Gambling Commission licence, is certified to the highest technical standards currently required by gaming regulators. Effective cost cutting-measures and a targeted expansion to low cost markets are being implemented to help the Company return to profitability, last achieved in 2013. The Company also gained five new US casino clients as well as winning a full Casino Service Industry Enterprise Award. GAN recently released on 05 July 2017 their Key Performance indicators for Q2 2017 which saw a 16.7% increase in Active Player days over Q1, however, a 9.2% decrease on average revenue per daily active user which reflects strong growth in higher-margin Simulated Gaming. Consensus forecasts predict revenue for 2017 to be £9.9m and for that to increase to £12.1m in 2018 up from £7.9m in 2016.

Conclusion

Our stock picks show that AIM can generate some spectacular performers, even as the number of companies traded on the market continued fall. Some Standard List of the Main Market companies have performed well with companies like InnovaDerma making strong gains since joining.

The sector focus of the UK Small-Cap market has transformed greatly over recent years. There has been a shift from speculative and high-risk sectors (particularly resources) towards technology and earnings- driven companies. Some financial services companies have performed impressively after listing, with Alpha FX Group being the stand out performer, with its shares rising 142% since its debut.

UK markets have continued to allow those quoted companies that have a realistic path to growth to raise capital, and we expect that focus on delivery to remain crucial to companies being able to attract new investment. As always, there needs to be a coherent plan for the use of funds and a clear pathway to delivering value changing milestones. The days of funding being available for greenfield mineral exploration, life-style businesses, early stage blue-sky research projects and acquisition war-chests appear to remain firmly in the past. Many companies who pursued such financing strategies have flown the AIM nest, likely to the ultimate benefit of those that remain. Those that survive will continue to need to improve their investment rationale to attract capital from ever more discerning investors.

What is abundantly clear is that the “IPO pot” does not equate to the size of the “Schedule 1 pot,” meaning that investors’ quality thresholds and valuation expectations remain reassuringly firm and that IPO failure rates remain high.

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