16 January 2017

HYBRIDAN
DEDICATED TO BROKING

What a year it was!

2016 got off to a rocky start. Not long into January, after just a few trading days, global equity markets lost more than US$4tn of value due to investor sentiment towards China's economic slowdown and depreciating currency. This was immediately followed by a slump in the oil price. By the third week of January, Brent Crude hit its year low at $27.10 a barrel causing an immediate sell off in the energy sector. Once the Q1 dust had settled, attention turned to the UK's vote on whether to remain a member of the EU. The Brexit vote result proved to be a genuine shock for markets, with many investors having believed that the UK would stay within the European Union. Attention soon turned to the equally ill-tempered US Presidential elections and all the political and economic unknowns that Trump's victory has spawned. As a result, AIM, has seen a roller-coaster of a year in 2016.

All this was against the backdrop of an ever-increasing regulatory burden and changes to tax incentives, making it harder for smaller companies to raise capital. As we expected the number of companies quoted, has contracted. At the time of writing this, the market had c.982 companies (though around 25 are currently suspended) compared to c.1,044 this time last year. Now this would appear negative, but in fact it should give investors more confidence. AIM has undergone a process of natural selection. The higher quality companies have continued to strive and achieve, the average market value of those currently on AIM is c.£80.814.1m compared to c.£73.076.6m in 2015. Whilst the lower quality companies have fallen by the wayside, their 'so called' advisers have followed suit. Many AIM NOMADs and brokers have refocused their resources in other jurisdictions, markets and the private arena in 2016, with a period of consolidation and higher than average employee churn rate. AIM may be losing companies, but the average quality of those staying has improved.

The AIM IPO market has remained sluggish. There were 44 admissions (excluding introductions and re-admissions) to AIM for the twelve months ending December 2016, compared to 38 in 2015. And it is not all doom and gloom. At the time of writing if you had invested in all 44 IPOs, year to date, you would be up c.47%, an impressive outperformance of the relevant benchmark indices. In terms of delistings, 132 companies left AIM in the twelve months to December 2016, of which 6 transferred to the Main Market. The net reduction in companies on the junior market over the year was 68 including re-admissions and migrations from the main market.

In 2017, we are likely to see further departures from AIM and new admissions may well remain below previous levels. The burden of regulatory pressures and the effects of political uncertainty will again be felt. But we will see higher quality companies that can hopefully do AIM proud.

HYBRIDAN LLP
20 Ironmonger Lane, London, EC2V 8EP
Website: www.hybridan.com
@HybridanLLP

Darshan Patel
Tel: 020 3764 2345
Email: darshan.patel@hybridan.com

Although IPO activity on AIM has been broadly flat in 2016, and considerably down against 2014 levels (87 against 44), AIM has had some stand out performers amongst its new issues, as well as some disappointments.

Company	Admission Date	Funds Raised (£m)	Issue Price (p)	Share Price Performance to 28/12/2016
BLUE PRISM GROUP PLC	18/03/2016	10	78	461%
FRANCHISE BRANDS PLC	05/08/2016	3.5	33	100%
MAXCYTE INC	23/03/2016	10	70	100%
HOTEL CHOCOLAT GROUP PLC	10/05/2016	12	148	93%
CERILLION PLC	18/03/2016	10	76	84%
PREMIER ASSET MGMT GRP LTD	07/10/2016	47.36	132	-5%
TIME OUT GROUP PLC	14/06/2016	90	150	-8%
SEC SPA	26/07/2016	3.36	151	-17%
COGENPOWER PLC	12/02/2016	1	20	-44%
GUSCIO PLC	24/05/2016	1.5	4	-69%

Source: London Stock Exchange

Blue Prism Group PLC (LON:PRSM 480.15p / £306.73m)
The UK-based software Company focusing on the emerging global technology of Robotic Process Automation burst onto AIM in March raising £10m at 78p with a market capitalisation on admission of £48.5m, now well in excess of £270m. The monies raised were used in an extensive sales and marketing push of its Robotic Process Automation products. This investment has begun to bear fruit with total customers now at 153 (FY 2015: 57). The ambition of the Company is to create a 'big British' software champion, and with a post year-end trading update showing the Company expects its financial performance to be ahead of previous expectation, dare we say: could this be the next ARM Holdings?

Franchise Brands PLC (LON:FRAN 67.50p £33.23m)
The group of international multi-brand franchisors with a combined network of over 400 franchisees in 12 countries, but predominantly in the UK, floated on AIM in August and has not failed to impress in the following four months. The Company raised £3.5m at a price of 33p per share giving it a market cap of £15.55m. The proceeds were raised to acquire complementary franchise brands, for general working capital purposes and repayment of shareholder loans. The monies have already been put to use with the Company acquiring Barking Mad Limited for £0.9m. The half-yearly report published in September for the six months ended June 2016 showed revenue up 10%, a gross profit margin of 66.8% and profit before tax up 18.3%.

MaxCyte INC (LON:MXCT 222p £96.12m)
The developer and supplier of electroporation technology and instrumentation to biotechnology and pharmaceutical firms engaged in cell

therapy, drug discovery and development, biomanufacturing, gene editing, and immuno-oncology came to AIM in the tail end of March raising £10m at 70p. The proceeds were earmarked to fund pre-clinical and human clinical trials for the CARMA platform, to expand in new geographies outside of the US and to invest in product development and new applications. Half-yearly report for the six months ended June 2016 showed revenues increase by 30.3%, gross margins of 89.5% and a cash balance of $12.2m.

Hotel Chocolat Group PLC (LON:HOTC 294.9p £332.76m)
The manufacturer of premium chocolate and cocoa-related products, and seller of these direct to customers floated on AIM in May raising £12m at 148p giving it a market cap of £167m, up to £319m by the end of the year. The monies were raised to accelerate the Group's growth strategy, which includes: Store Rollout, Digital Innovation and Increasing UK Manufacturing Capability. The Group sells its products online and through a network of 84 stores in the UK and abroad, with 94% of FY15 sales occurring in the UK. Preliminary results for the period ended 26 June 2016 showed revenue up 12% to £91.1m, EBITDA up 57% to £12.3m and profit after tax up 229% to £6.7m.

Cerillion PLC (LON:CER 149.87p £43.53m)
The billing, charging and customer relationship management software solutions provider, which spun out of Logica PLC, charged on to AIM in March raising £10m at 76p to fund the cash consideration for the acquisition of the entire issued share capital of the operating business and provided the firm's PE backers with an exit. The IPO gives the Company the ability to enhance its public profile and market positioning; to allow Cerillion to capitalise on growth opportunities through the use of its shares to fund potential mergers and acquisitions and in due course to provide long term equity incentives to motivate and act as a retention tool for key staff. Final results showed revenue up 6% to £14.8m, profit before tax up 4% to £2.3m and a total dividend of 3.9p per share.

Premier Asset Management Grp LTD (LON:PAM 147.4p £156.22m)
The retail asset management group with a focus on delivering investment outcomes for investors through relevant products and active management across its range of investment strategies, which include multi-asset, equity and absolute return funds raised £47.36m at 32p on IPO in October to eliminate all debt and support long term growth ambitions. The Group has a particular focus on multi-asset and income investment management, which addresses strong retail investor demand in these sectors. In December, the Group released its final results for the year ended September 2016, which showed AUM up 22% to £5bn, EBITDA up 36% to £10.9m and PBT of £2.5m (FY15: £(0.8m)).

Time Out Group PLC (LON:TMO 137p £182.98m)

The multi-platform media and e-commerce business with a global content distribution network comprising magazines, online, mobile apps, mobile web and a physical presence via live events and Time Out Markets in Lisbon, London and Miami came on to AIM in June. It came onto the markets with high expectations, being the second largest primary raise on AIM in 2016 at £90m at 150p for debt repayment, and to accelerate the Group's growth plans to scale and further monetise its platforms focusing on digital advertising, e-commerce and Time Out Markets. However, the Company's share price has struggled to gain any upward momentum and has remained underwater since its IPO. The timing of the IPO was poor, arriving on to market a week before the EU Referendum vote. Nor was the Company helped by the fact it is still primarily print focused, which has taken a beating in 2016. But there are signs of change, digital revenue was up 33% to £6.8m for the six months ended 30 June 2016.

Sec SpA (LON:SECG 133p £15.89m)

The public relations and advocacy business arrived on AIM in July raising £3.36m at 151p allowing the Company to make and integrate acquisitions. In mid-September, the Company acquired the majority shareholding in Bellenden Limited (trading as Newington). The initial consideration, for 60% of the issued share capital of Newington, comprises a completion cash payment of £1.22m and a further cash payment of £0.17m. Moreover, the Company also acquired the majority shareholding in Martis Consulting SP z o.o. The consideration, for 60% of the issued share capital of Martis Consulting, comprises a completion cash payment of approximately €1m. The final price to be paid will depend on Martis Consulting's 2016 EBITDA. However, the half-yearly results for six months ended June 2016 showed revenue falling to €8.9m, EBITDA fell 46% to €0.74m and profit for the year down 57% to €0.36m. Couple with a lack of liquidity in shares (74.57% not in public hands) the price has fallen by 17% since IPO.

Cogenpower PLC (LON:CGP 10.5p £5.68m)

Cogenpower is a low-carbon energy business, using sustainable generation to supply cost effective and cleaner energy to urban communities. The Company was the first AIM quoting of the year raising £1m at 20p to continue and accelerate the development of the Group in particular to: assist in repaying short-term credit facilities with UniCredit; provide additional funding for the development of Esseti; and meet general working capital requirements. The Company abandoned its gas and electricity retail business in September, as it was no longer worth pursuing and published its interim results for the six months ended June 2016 which showed a decrease in revenue of 20% to €3m, loss from operations of -€756k (H12015: €224k) and an increased bottom line loss of -€929k (H12015: -€165k). As a result, and coupled with poor liquidity, the shares have fallen 44% since IPO.

Guscio PLC (LON:GUSC 1p £1.69m)
The Company that develops IP focused on tracking and assessing physical literacy and development in children came back on to market after initially cancelling trading of its share on AIM on 10 March 2016 due to the Company not implementing its investing policy in accordance with the AIM Rules. The Company, having undertaken suitable acquisitions, returned raising £1.5m at 4p to be utilised for working capital purposes and the potential recruitment of a CEO. The Company acquired 70% of Sportsdata Limited and 100% of Dataplay Holdings Limited on 24 May 2016, the consolidated results therefore reflect the inclusion of these two businesses from that date. The Company released its final results in December for year ended September 2016, which showed losses had widened. Guscio's pre-tax loss was £3.9m from a loss of £812k the year before.

An IPO is a major milestone in the life of a company. Much of the time it will be the most important transaction they ever undertake. It is the gateway to the capital markets and their numerous benefits, but it also brings accountability for the advisors and directors to their new investors.

The question of price has certainly been the final straw for many potential M&A deals over the past 18 months, a problem which has also caused potential floats to sink. Unless companies coming to the market can be more pragmatic about valuations, the trend of buckling IPOs will continue. Prime examples of companies stuttering at valuations are: Biffa (BIFF.L) priced at 180p giving a market cap of £450m where it had previously been expected to list at between 220p-270p. Moreover, TI Fluid Systems, First Utility, Pure Gym and OfficeFirst found investors were not willing to stump up the asking price cancelled or postponed IPO plans.

The case for floating a company must also be compelling. If a management team has not thought their strategy through, then with no doubt they will be easily exposed when conducting investor road shows. Management needs to understand how to demonstrate their model in a simplistic way. Investors see countless propositions and do not have all day to hear how their business works. If they are not able to do clearly and concisely demonstrate an investment case, combined with realism about valuation expectations, the chances of success are limited.

We believe there is no magic to a successful IPO but that the following ingredients make for the most effective recipe: strong financial track record, a competitive advantage ideally supported by robust intellectual property, a respected management team, experienced & influential NEDs, good forward visibility (if possible with recurring revenue) in provable high-growth sectors and settles with a general agreement on valuation and one in which new proceeds are raised in sufficient volumes allowing the company to grow and develop.

Disclaimer

This document, which does not constitute research, has been issued by Hybridan LLP for information purposes only and should not be construed in any circumstances as an offer to sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This document has no regard for the specific investment objectives, financial situation or needs of any specific entity and is not a personal recommendation to anyone. Recipients should make their own investment decisions based upon their own financial objectives and financial resources and, if any doubt, should seek advice from an investment advisor.

The information contained in this document is based on materials and sources that are believed to be reliable; however, they have not been independently verified and are not guaranteed as being accurate. This document is not intended to be a complete statement or summary of any securities, markets, reports or developments referred to herein. No representation or warranty, either express or implied, is made or accepted by Hybridan LLP, its members, directors, officers, employees, agents or associated undertakings in relation to the accuracy, completeness or reliability of the information in this document nor should it be relied upon as such.

Any and all opinions expressed are current opinions as of the date appearing on this document only. Any and all opinions expressed are subject to change without notice and Hybridan LLP is under no obligation to update the information contained herein. To the fullest extent permitted by law, none of Hybridan LLP, its members, directors, officers, employees, agents or associated undertakings shall have any liability whatsoever for any direct or indirect or consequential loss or damage (including lost profits) arising in any way from use of all or any part of the information in this document.

This document should not be relied upon as being an independent or impartial view of the subject matter and, for the avoidance of doubt, does not constitute "independent investment research" for the purposes of the Financial Conduct Authority rules. The individuals who prepared this document may be involved in providing other financial services to the company or companies referenced in this document or to other companies who might be said to be competitors of the company or companies referenced in this document. As a result both Hybridan LLP and the individual members, directors, officers and/or employees who prepared this document may have responsibilities that conflict with the interests of the persons who receive this document. Hybridan LLP and/or connected persons may, from time to time, have positions in, make a market in and/or effect transactions in any investment or related investment mentioned herein and may provide financial services to the issuers of such investments.

In the UK, this document is directed at and is for distribution only to persons who (i) fall within Article 19(5) (persons who have professional experience in matters relating to investments) or Article 49(2) (a) to (d) (high net worth companies, unincorporated associations, etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or (ii) are Professional Clients or Eligible Counterparties (as those terms are defined in the rules of the Financial Conduct Authority) of Hybridan LLP (all such persons referred to in (i) and (ii) together being referred to as "relevant persons"). This document must not be acted on or relied up on by persons who are not relevant persons. For the purposes of clarity, this document is not intended for and should not be relied upon by persons who would be classified as Retail Clients (as defined by the rules of the Financial Conduct Authority).

Neither this document nor any copy of part thereof may be distributed in any other jurisdictions where its distribution may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Distribution of this report in any such other jurisdictions may constitute a violation of UK or US securities law, or the law of any such other jurisdictions.

Where possible this document is made available to all relevant recipients at the same time and it is not intended for Retail Clients as defined in the FCA Rules. Dissemination of research is monitored to ensure that it is only provided to Professional Clients.

Hybridan LLP and/or its associated undertakings may from time-to-time provide investment advice or other services to, or solicit such business from, any of the companies referred to in this document. Accordingly, information may be available to Hybridan LLP that is not reflected in this material and Hybridan LLP may have acted upon or used the information prior to or immediately following its publication. In addition, Hybridan LLP, the members, directors, officers and/or employees thereof and/or any connected persons may have an interest in the securities, warrants, futures, options, derivatives or other financial instrument of any of the companies referred to in this document and may from time-to-time add or dispose of such interests.

Neither the whole nor any part of this document may be duplicated in any form or by any means. Neither should this document, or any part thereof, be redistributed or disclosed to anyone without the prior consent of Hybridan LLP.

Hybridan LLP is a limited liability partnership registered in England and Wales, registered number OC325178, and is authorised and regulated by the Financial Conduct Authority and is a member of the London Stock Exchange. Any reference to a partner in relation to Hybridan LLP is to a member of Hybridan LLP or an employee with equivalent standing and qualifications. A list of the members of Hybridan LLP is available for inspection at the registered office, 2 Jardine House, The Harrovian Business Village, Bessborough Road, Harrow, Middlesex HA1 3EX.

If you would like to unsubscribe, please email enquiries@hybridan.com with "unsubscribe me".