Lookback at AIM first half of 2017

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An ordinary Start!

So far 2017 has seen mixed results for global equity markets. Despite the doubts with the election of Donald Trump, his plans to cut taxes, increase infrastructure spending and reduce the regulatory burden on business gained a positive reaction from the US markets. Over January 2017, US equities had major success, as the S&P 500 registered an all-time high, achieving a gain of 1.9%, as well as the Dow Jones Industrial Average, surpassing 20,000, something which has never been accomplished before. However, European equities have struggled to gain any significant ground in the first half of 2017, in part due to political instability in the UK and higher US rates. In fact, over January UK equities retreated, as gas and oil stocks capitulated to some profit-taking and healthcare stocks were impacted amid uncertainty over the US drug pricing outlook. AIM therefore, has had quite an interesting year thus far.

In the five months to June 2017, there have been 39 departures from AIM and, of those, ten companies have chosen to delist. SMEs may not be fully informed about the responsibilities of listing and corporate governance requirements, including listing costs, and the failure of companies to grow into their listing has contributed to a sharp rise in exits. Although some SMEs join AIM to raise finance for growth, many SMEs join AIM to rebalance their capital structure. If this deleverage fails to materialise, many companies feel obliged to delist from AIM, usually a few years after an IPO admission. A gradual trend of decline can be seen, as AIM has been losing companies every year since 2007, now with only c.966 companies compared to c.1012 companies in May 2016. Nevertheless, investors should not panic, but rather should be pleased, considering that some of the weaker, companies have left AIM. In May this year, the average market capitalisation of AIM constitutes equated to c.£96,000,000 (the highest quantum in nearly a decade) compared to c.£75,000,000 in May 2016, providing investors with more than enough reassurance to continue searching for propositions in the market.

There have been 13 admissions (excluding introductions and re-admissions) so far in 2017, compared to 20 admissions during the same five-month period in 2016, showing a continued decline in AIM IPO admissions. Having said that, thanks mainly to Eddie Stobart who raised £393m on admission, April saw £446.5m raised through the five IPO admissions, the highest quantum since May 2015. A revival in commodities, such as platinum and natural gas whose prices hit an all-time low last year, has helped the FTSE AIM 100 Index to gain a 47.36% rise from this time last year.

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In the second half of 2017, we should expect to see a further net loss of companies from AIM and new admissions are likely to remain below previous levels. Of course, new entrants with growing revenue and healthy margins will continue to attract investment, with ambitious investors looking to support ambitious entrepreneurs.

With 13 IPOs since the start of 2017, compared to 20 IPOs this time last year, the AIM Primary market has been relatively quiet this year. Nevertheless, 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 29/06/2017
ALPHA FX GROUP PLC	07/04/2017	30	196	142.34%
RAMSDENS HOLDINGS PLC	15/02/2017	15.59	86	79.0%
GBGI Ltd	22/02/2017	32	150	19.3%
DIVERSIFIED GAS & OIL PLC	03/02/2017	39.65	65	10.0%
SAFFRON ENERGY PLC	24/02/2017	2.50	5	1.0%
EDDIE STOBART LOGISTICS PLC	25/04/2017	392.87	160	-1.9%
VELOCITY COMPOSITES PLC	24/05/2017	14.4	85	-7.1%
ANGLO AFRICAN OIL & GAS PLC	06/03/2017	10	20	-13.75%
INTEGUMEN PLC	24/04/2017	2.25	5	-40.0%

Alpha FX Group PLC (LON:AFX 475P £143.33m)
The UK-based corporate foreign exchange service provider focusing on UK corporates that trade internationally, managing exchange rate risk, has gone from strength to strength since joining AIM earlier this year in April 2017. Raising £30m at a share price of 196p with a market capitalisation on admission of £64.20m and now £142.51m, Alpha FX Group are the biggest winners thus far this year. £17m of the £30m raised upon readmission was used to repay shareholders, leaving the remainder of the monies to expand the size of its FX forward book.

Ramsdens Holdings PLC (LON:RFX 154p £47.85m)
The financial services provider and retailer, with 3 franchised stores providing services and products such as buying precious metals, selling and retailing new/second hand jewellery, raced onto AIM during February 2017 raising funds of £15.6m at a share price of 86p. Since admission to AIM, directors have already acted to ensure the introduction of 12 new stores per annum from April this year, over a medium term. The proceeds were raised to repay outstanding loan notes and selling shareholders.

GBGI Ltd (LON:GBGI 179p £154.34m)

GBGI Ltd is a popular integrated provider of international benefits insurance in over 120 jurisdictions, including South America, North America, Asia, Africa and Europe. Known for its tailored insurance products, GBGI Ltd raised £32m at an issue price of 150p per share. The monies will be used to strengthen the Company's financial position, maintain growth, provide enhanced financial flexibility and make payments to shareholders. With a share price of 132p on May 10th, GBGI has made a sound recovery and should be pleased with its progress so far going into the second half of 2017.

Diversified Gas & Oil PLC (LON:DGOC 70p £43.53m)
The Company, based in the US, is a gas and oil producer, which covers the areas of Ohio, Pennsylvania and West Virginia. The £39.7m that was raised on Admission at 65p per share was the largest listing of an oil and gas Company on AIM, since that of Savannah Petroleum in August 2014. The monies will be used to repurchase bonds and to repay existing debt facilities.

Saffron Energy PLC (LON:SRON 7.25p £6.12m)
Established in November 2016, Saffron Energy is an onshore natural gas producer, which acquired Northsun Italia S.p.A, a company incorporated in Northern Italy. Saffron now has applied for a third production licence in San' Alberto and first gas is expected in Q4 2017. Should it gain the licence its area of production would cover approximately 65.5km^2. The £2.5m raised on admission will be put to good use, funding and accelerating the development of all three gas fields, especially the San' Alberto and Bezecca fields.

Eddie Stobart Logistics PLC (LON:ESL 156.99p £567.84m)
Focusing on building a balanced portfolio across the E-Commerce, Retail, Manufacturing, Industrial and Bulk Retail and customer sectors, the supply chain and logistics organisation raised a mighty £393m, the largest primary raise so far in 2017. Floating onto AIM with the highest market cap this year, £572.70m, there were high hopes for Eddie Stobart, with the shares below the issue price. The Board will hope to improve towards the second half of 2017. Whilst £270m of the £393m raised on admission was for selling shareholders Stobart Group and DBAY Advisors, £37m is going towards strengthening the Company's e-commerce capabilities, by acquiring the multichannel logistics specialist IForce.

Velocity Composites PLC (LON:VEL 78.95p £30.43m)
The supply chain Company, who provide several benefits in terms of waste reduction, scalability, material efficiency, repeatability and reduced process time to their customers came onto AIM in May, raising £14.4m at 85p per share. £5m of the gross proceeds will be used in an EIS investment, reducing investors tax, into new product development and/or new geographical markets, while another £3m will be used for working capital and balance sheet management. Additionally, Velocity intend to use some of the monies on new product development for new customers, as well as to develop a research and development centre in North West England, where new products can be designed and developed for global customers. Both the share price and market capitalisation have decreased since admission, and despite both profit and revenue matching management expectations for the current financial year up to date, directors believe all profits will be generated in the second half of 2017.

Anglo African Oil & Gas PLC (LON:AAOG 18.25p £9.501m)
An independent oil and gas developer located in the UK that floated on AIM at the start of March raising £10m at 20p. Using the £10m that was raised upon admission the Company is set to acquire Petro Kouilou S.A, which has a 56% share of the Tilapia field, located 1.8km offshore from the Republic of Congo. Should the Company's plans for a major increase in production by undertaking two workovers on the existing producing well, as well as drilling into deeper geological structures be successful, we could well see a rapid increase in production from currently 38 bopd to 750 bopd. Furthermore, with oil prices set to remain above US$30/barrel, the board of directors have disclosed their aim to declare a dividend, only when production has reached 1,000 bopd, a sustainable level. Whilst its market capitalisation has reduced by 10.37%, it did manage to secure admission on AIM and feels confident that with the support of its local partner it will have success.

Integumen PLC (LON:SKIN 3p £4.77m)
Developing and commercialising technology and products set to improve physical appearance, hygiene and general health outcomes, the personal health Company has raised £2.25m at a price of 5p per share. The proceeds raised will be used primarily to fund the development, sales and marketing of its services, as well as to provide working capital. Unfortunately for the Company, without finalised products, investors are reluctant to purchase shares and so poor liquidity has led to the share price performance falling 40% since IPO.

The last two years has seen a dramatic decrease in the number of companies that are coming onto Aim. With only 13 IPO admissions so far this year compared to 41 IPO admissions at the same point in 2015, it is evident that IPO admission is still on the decline. While some IPO admissions, such as Alpha FX Group have had major success since their admission earlier this year, where if you had invested you would be up 142.34%, others have failed to reach their full potential, such as Eddie Stobart Logistics which is sitting just below the admission price.

So why are fewer companies joining AIM? With the shadow of Brexit continuing to loom over the market, it is fair to say AIM has become increasingly volatile and unpredictable, causing companies to delay IPOs, until the market stabilises, which may take some time. Volatility on the market should by no means prevent companies from pursuing an IPO as a strategy for growth, due to the fact that the long term benefits comfortably outweigh the short-term implications of difficult markets. Raising funds and capital by going public is a safe, dependable and long term strategy for registering growth and sales. Additionally, a lower than expected demand can cause a company to reduce IPO valuations and in some cases postpone the IPO issue, until the return of a suitable environment, where demand is higher. Investors are more risk adverse nowadays, looking for opportunities with a potential for huge profits rather than small ones.

Why are some IPOs more successful than others? When considering an IPO, companies should ensure that their management team know and have a sound strategy, which they can carry out effectively in an efficient and professional manner and communicate effectively at investor roadshows. If the management team present poorly, investors will go and look for other propositions elsewhere on the market, so it is important to keep presentations short, yet full of key detail.

Furthermore, some companies provide valuations which are unrealistic and theoretical, annoying investors, rather than attracting them with more practical and realistic valuations. When companies pose high valuations with just an idea rather than a physical product or evidence to back their business model, investors are less willing to part with their cash since they are unwilling to take risk when there is increased uncertainty over what a company promises. Other factors which can also influence investors willingness include key political, social and economic considerations, and in most instances these are beyond the direct control of the company itself and market forces determine investor choices.

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