

Hybridan Market Sentiment: Q4 2020

- UK small cap sentiment remains buoyant, with the AIM market continuing to outpace the Main market thus far in the second half of the year. In the third quarter of 2020, the AIM market gained 9%, compared to a decline of 5% for the Main market, and for the year to the end of September 2020, the AIM market was flat while the Main market has dropped 22%.
- While a good portion of that performance will be down to gains made by a handful of the AIM market's biggest companies, most notably ASOS, the £5.4 bln online retailer that climbed 50% in the third quarter of 2020, institutional and retail investors have continued to be attracted to the plethora of high-growth companies in all sectors raising capital on AIM.
- In the second and third quarters of 2020, 275 companies raised capital in the face of the coronavirus pandemic, the largest number of fundraisings in a six-month period since at least 2016.
- It was perhaps timely that the AIM market turned 25 years old in June of this year, reminding issuers and investors alike of its ability to allow companies to access capital quickly at the most challenging of times.
- IPO activity, while still far reduced from previous years, has also shown some signs of coming back to life in the second half, with five companies having already listed on AIM since July, compared with three in the entire first half.
- Our daily *Small Cap Feast*, which tracks broad IPO activity in all small cap markets, including AIM, the Standard List and the Aquis Exchange, suggests the same number of IPOs are expected over the rest of the year, if not more.
- New listings with well-known entrepreneurs and backers, such as the Hugh Osmond-founded Various Eateries, which raised £25m on AIM, and the David Beckham-backed Guild eSports, which raised £20m on the Standard List, have helped overall sentiment.
- Retail investors continue to play a vital role in small cap markets, with some 80% of AIM-listed companies having an average trade size of less than £10,000. We advise managements that they ignore this vital source of liquidity at their peril.

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- The mood music in small caps and equities in general continues to be positive. Momentum in our own deal flow been incredibly strong throughout lockdown, including numerous placings, an RTO on the Aquis Exchange (AQSE), a number of block trades and several forthcoming IPOs in Q4. We are active across all UK markets, that being AIM, Main Market Standard List and AQSE, and have recently become an Aquis Corporate Adviser backing the new strategy of the Aquis team.
- Of course the possibility of future shocks arising from the pandemic, US election and Brexit cannot be discounted, which may lead to a decrease in risk appetite amongst investors.
- For now, however, investors remain open to transactions and meeting management teams in a non-deal capacity. As long as there is a compelling reason for raising capital, such as adding to revenue-generating teams or making accretive acquisitions, or a management team wishes to update investors on their equity story that has perhaps been overlooked and consequently mispriced, investors will be willing to listen.
- While sectors like healthcare and technology have been in focus, companies in all sectors have a good opportunity currently to pitch the investment community, as long as a credible story for future growth is in place.
- Our advice to small cap management teams remains constant:
 - Stay flexible when it comes to pricing new equity issuance, or if the discount needed to raise the required amount is too deep, consider other forms of financing including convertible loans.
 - Continue in the quest to introduce your story to new investors, as it is a worthwhile exercise to ensure it is on the radars of new potential investors, and some may even buy in the market. If cash is king, liquidity is queen – investors need liquidity more than ever and companies will only increase liquidity by being proactive with investors when they do not expressly require new funds.
 - Ensure all possible pools of capital are approached, both professional and retail, in the latter case potentially utilising one of several platforms that specifically exist to service this audience.
 - Make sure any available tax efficient structures such as Enterprise Investment Scheme and Venture Capital Trust eligibility is obtained, given that this is one area of the market that is certainly still investing.