

HYBRIDAN

YOUR PARTNER FOR GROWTH

July – September 2022

***Strategic corporate
finance professionals
for private and listed
companies***



Hybridan: Go To Partner for Strategy

We have a long and proud track record of helping growth companies to raise capital, promote investor awareness and adapt their capital structure to their stage of development.

H Our focus is on helping our corporate clients grow in the most efficient way possible, with none of the conflicts of interests that can arise from also providing wealth management. We are in continual contact with our clients to ensure they are speaking to the most relevant investors and that the most productive listing, capital-raising or investor outreach strategy is being followed at any given time in the market cycle.

H We pride ourselves as being one of the very few profitable corporate finance and broking firms in the City, something we have achieved through a highly disciplined approach when seeking to forge and maintain both corporate and institutional relationships. We have a strong network of growth investors and investment funds across most sectors.

H Coupled with our focus on our corporate clients, the quality of our institutional investor relationships is of paramount importance to us and is what sets us apart from our peers. These relationships have proven invaluable during the lockdown period and have enabled us and our clients to continue to execute transactions. Our core investor base includes:

- Institutional fund managers
- VCT and EIS fund managers
- Family Offices
- High Net Worth investors
- Wealth Managers

Regulated by the
FCA.

Member of the
LSE.



Expertise in
stocks quoted
and listed on the,
LSE, AIM, AQSE

Began trading in
January 2007.
Held in high
regard by
corporates and
institutions.

Member of the
CISI.



Member of the
QCA.



HYBRIDAN
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Corporate Finance Offering

EIS and
VCT
strategies

Experienced
team

Fundraising

Investor
Access

Pre IPO
planning

IPO
preparation



- H Private company fundraising strategies
- H Tax-efficient fundraising strategies – EIS, VCT
- H Input on Board composition and corporate governance issues, particularly from the point of view of what investors will be focusing on
- H Advice on capital structure
- H IPO preparation: from investment proposition to which market is most appropriate – AQSE, AIM, Main
- H Co-ordination of other advisors
- H Valuation, Single joint expert witness work in AIM shares, Rule 3, consultancy services

Strategic Adviser for Unlisted Companies

- H We only act on a retained basis for strategic advisory services to unlisted companies.
- H We bring the discipline of the listed environment to the unlisted world of fast growth companies.
- H For shareholders we can prepare a quarterly description of the business and an update since often CEOs do not understand their obligations to shareholders and optimum communication.
- H Development and focus on the investment case, including advice on strategic direction (e.g. new markets and products, M&A, customer acquisition, margin improvement).
- H Increase awareness among prospective investors.
- H Fundraising services, with focus on EIS/VCT eligible companies, and secondary transfer work/ vendor sell down.
- H Evolution of valuation metrics and comparable companies.
- H Input into investor presentation based on best practices from successful fundraisings in the past, as well as on going corporate finance advisory services post fundraise
- H Preparation for a liquidity event, including IPO, PE/VC funding, strategic investment or trade sale.
- H We believe there is a strong correlation between the quality of a company and its retaining advisers to look after investors / investment, enabling the management team to focus on growing the business.

Retained
committed
adviser

CEOs spend
too long on
shareholder
politics and
fundraising

Allows the
company to
focus on Bus
Dev, we do the
shareholder /
investor part

Restructure,
reorganise,
dispose....the Go
To Strategy
House

Private
companies ill
prepared for
fundraising

Companies need
to be well
organised to
achieve their
goals



Unlisted Companies: Our Investors' Criteria

- ⌘ We are not prescriptive and these things change, but at the moment our investors are mainly looking for the following criteria, although it is a balancing act:
 - ⌘ EIS eligibility, if not for an IPO but a pure private round
 - ⌘ Circa £1m annualised revenue, with recurring element if possible
 - ⌘ Have had outside investment, maybe a double-digit number of external investors, but not 1000's of shareholders
 - ⌘ Unlevered balance sheet
 - ⌘ Simple capital structure
 - ⌘ Management teams correctly incentivised
 - ⌘ Beyond proof of concept, real paying customers
 - ⌘ Clear scalability and route to market
 - ⌘ Lifesciences, technology, IP rich sectors are en vogue



Hybridan's Role

H **Retained advisory services:** quarterly description of the business to shareholders, presentation advice for fundraising focusing on the investment case and valuation, increase awareness among prospective investors, preparation for a liquidity event / IPO.



H **Commissions on investor introductions:** Fundraising services, focus on EIS /VCT, as well as secondary transfer work.



Project work: valuation work of listed shares on a probate or family matter as a single joint expert witness or single expert adviser to legal counsel.

We Avoid

What we feel we don't understand and therefore investors may not understand.

A sector that is an area of decline or managed decline.

Questionable numbers – or lack of delivery against targets set in fund raise use of proceeds, companies without revenue traction and those with inefficient cost bases.

Red flags in management (appropriate management team for size of company, an equally strong CEO as CFO, an independent non exec board, and exec management having alignment with investors in terms of stakes in the business).

Current Market Sentiment:



- Not surprisingly, the first half of 2022 saw materially reduced levels of funds raised for AIM listed companies. It was always going to be tough for markets to maintain the momentum and volumes that flourished across 2021.
- The markets were not completely closed, **£1.33bn was raised in the half year for both new joiners and already listed companies**, albeit this was down 70% on the £4.38bn raised in H1 2021. 92% of that was already listed companies coming back to the market for further funding.
- The IPO market remains quiet as is often the case when share prices are in decline but as we saw after the COVID impacted Q1 2020, the IPO market can bounce back quickly. **The 13 new joiners to AIM in H1 2022 compares with 35 new joiners in the first half of 2021.** The new joiners have been offset by 30 departures, leaving the total number of companies on AIM at 835 at the end of June compared to 852 at the beginning of January 2022.
- By the end of June, AIM's market value had decreased to £105bn. This was down from £150bn at the start of the year.
- **At the end of Q2, 20 companies had a market cap of £1bn or over against 30 at the beginning of the year.**
- M&A activity on AIM remains buoyant 16 AIM companies have been acquired in 2022 (or are currently in a bid process). The average bid premium when compared to the prior day's close is +46% with a range of +2% to +129%. Private Equity has made seven of the bids with the other nine being trade buyers.
- **Alternative Energy** has been the hot sector throughout 2022. It has been the largest contributor to both primary and secondary raises having raised 31% of the total new money raised and 25% of the £936m. The largest IPO in 2022 so far in the UK is Clean Power Hydrogen, listed in February, at a market cap of £120m raising £30m.
- Trading volumes in 2022 do not compare with those seen in Q1 of 2021. We are seeing a trend of a shrinking average trade size.
- In terms of liquidity, in April AIM stocks traded a median value of 2.43% of their market capitalisation which was below the 3.21% average seen throughout 2021 and below the April 2021 figure of 3.95%.

Outlook:



- With spiralling inflation and rising interest rates, investors will continue to make a move to more defensive/income-based companies which are not common in the small cap sphere.
- That being said, brave yet wise small cap investors acknowledge the segment's ability to outperform the UK stock market over the long term. **A return to a patient capital approach is required once again.**
- We believe that any rebasing of valuations in small cap growth stocks can present an opportunistic buying opportunity. This is particularly the case for **companies with disruptive solutions** that already count the likes of transport networks, public sector bodies, and blue chip corporates amongst their customer bases. **Gladly there are several companies that fit this bill across a range of sectors amongst Hybridan's corporate clients.**
- The challenging conundrum ensues between investor willingness to embrace ESG and net zero versus the market backdrop of rising energy costs forcing a surge in oil and gas prices. Climate change strategy has taken a battering with the UK on the brink of keeping coal-fired power stations open over the winter which would follow Germany and Austria amid gas shortages as a result of the ongoing Russian invasion of Ukraine.
- Pay rises can not keep pace with inflation to help with the current cost of living crisis. With talk of a recession on the cards, this is undoubtably going to trickle down to consumer spending with flight bookings and car sales plummeting.
- Bond yields are on the rise and the outlook for equities and small caps is likely to remain uncertain for some time to come. In order to identify the buying opportunities and long-term winners in this environment, rigorous stock selection of quality companies, backed by robust equity research is more important than ever. This is a core pillar of Hybridan's service provision.

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