London Stock Exchange

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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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