HYBRIDAN

YOUR PARTNER FOR GROWTH

June 2023

HYBRIDAN
YOUR PARTNER FOR GROWTH

We are **small cap brokers and advisers,** dedicated to fund raising, promoting investor awareness and providing market-driven corporate finance advice.

We raise capital for companies in the **most efficient manner possible and pride ourselves as being one of the few consistently profitable broking firms in the City**. This has been achieved through a highly disciplined approach when seeking to create both corporate and institutional relationships. Many other brokers need to constantly fundraise for clients to cover their overheads.

This leads to a "**float and forget**" mentality with brokers jumping from one IPO/placing to the next, completely ignoring aftermarket support for clients.

Hybridan solves this problem – we spend time with our corporates on "non-deal activity". The quality of our institutional relationships is of paramount importance to us.

We communicate the investment cases of our clients to the market through **equity research and frequent non-deal investor road shows**. We provide **market-driven corporate finance** advice to our clients to help deliver shareholder value.

We can **consistently put you in front of new investors** who can buy shares in the market and not just in placings.

Our core investor base includes but not limited to:

Institutional fund managers
VCT and EIS fund managers
High Net Worth Investors
Wealth Managers

Our Offering

- Corporate Finance
- Corporate Broking
- Equity Research
- Equity Sales/ Structured Financing
- Investor Access
- EIS/VCT Fundraising

The Three R's

Research

- We believe that research by a broker who has spent years nurturing the trust of institutions carries significant credibility.
- The digestion of an in depth research note is often an investor's first step in the due diligence process, followed up by regular updates so that news is viewed in a relevant context.

Roadshows

- To gain a new shareholder, companies may need multiple meetings, over a period of months or if not years.
- We have shown that over time smaller quoted companies can build up significant institutional holdings.

Results

- The companies' financial results are the element most closely within the remit of the company itself. This applies to financials, or milestones in the execution of the business plan as well as non-financial KPIs.
- We stress the importance of delivering relevant and material news flow between the bi-annual statutory reporting dates that prevail.

Our Work

A level of professionalism in handling investors and research normally found in a large institution, but our expertise is in the small cap arena.

No NOMAD, no wealth management and no market-making = no conflicts and no hidden profit centres with different agendas.

Corporate Broking is what we do best: our only interest is in looking after our Corporate customers, which also means looking after our investors.

Well connected, often presenting at events, interviews and podcasts. Our CEO is Deputy Chairman on the QCA Board, on the AQSE Advisory Board and until recently Chairman of the Small Cap Awards.

We are constantly monitoring for developments both in our market and clients' markets too, publishing our daily *Small Cap Feast* update which is sent to over a thousand investors and other market participants.

There is no hidden agenda behind our corporate finance advice to growth companies. It is 100% driven by our expert knowledge on current investor sentiment when it comes to valuation and deal structure. Test-marketing for every new corporate is essential in our take on procedures to ensure there is investor appetite ready and waiting.

We are one team of people and are very accessible beyond normal working hours.

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 CFO as CEO, an independent non exec board, and exec management having alignment with investors in terms of stakes in the business).

Current Market Sentiment & Outlook:

- **Markets: fell in May**: May ended in **downbeat fashion** for risk assets with several major equity indices at a **two-month low**. Despite further indications of **inflationary pressures easing** in the update from Germany, another weak set of **Chinese survey data** extended growth concerns. The **UK indices** closed out the month of May with the **FTSE 100** -5.4%, the **Mid 250** -4.4% and the **SmallCap** -2.0%. The **Euro Stoxx** lost -3.5% on the month, with **Germany's DAX** -1.6% more resilient than the **French CAC 40** -5.2%. **Technology** +7.6% was the clear standout among the major sectors.

- **Markets: better start to June:** A better start to June: heavyweight resources stocks that were responsible for much of the UK market's underperformance in May moved to the top of the table on 1 June, reflecting a rally in the underlying commodity prices. Mining added +2.1% and oil & gas +1.4, with banks +0.9% also helping the FTSE 100. Housebuilders +1.7% also managed to end a run of eight straight declines, +1.7% despite the downbeat data updates. Both the S&P and the NASDAQ rallied to nine-month closing highs as the probability of no Fed hike in June climbed above 70% on 1 June.

- **2023 slow base from 2022 for the LSE:** Not surprisingly, the London Stock Exchange reported reduced levels of funds raised from new joiners on the LSE throughout 2022, with 45 new issuers raising £1.6bn, compared to 126 new issuers raising £14.6bn the year prior. It was always going to be tough for markets to maintain the momentum and volumes that flourished across 2021.

- **IPOs AIM:** AIM saw just £39.2m of new money raised through IPOs in Jan to April 2023. There were 7 new joiners to AIM in Jan to April 2023, 5 IPOs and 2 reverses, so only 5 new listings. The average market cap £14.6m, average raise £5.6m compared to £42m average raise of 2021. As at end May average performance of these IPOs was +18%. As at end May average performance of the 2022 IPOs was a decrease of 22%.

- **Delisting's AIM:** 18 companies have left AIM in Jan to April 2023. 6 were acquired, 6 chose to delist, 2 subject of a reverse takeover and 3 were forced to delist and 3 went under. Weak share prices do however create M&A opportunities and there are currently 19 AIM companies that have been acquired or in a bid process so far in 2023. The median bid premium to the prior day closing price is +49% (2022 +46%). 15 are trade buyers, 4 private equity. This week saw 1 company delist a day leading up to 1 June. We are averaging one delisting across all London markets per week on a rolling 12 month view.

- **AIM all fundraisings:** AIM saw just £556m of new money IPOS and secondaries raised in Jan to April 2023, down 46% on 2022 and down 78% on 2021.

- **AIM secondaries:** AIM saw just £517m of new money raised in Jan to April 2023, down 44% on 2022 across 93 secondaries. 38 of these raised £1m or less and only one raised more than £100m.

- **AIM liquidity:** In terms of value, total trading on AIM amounted to £4.6bn in April 2023, down from £6.0bn traded in April 2022 and £8.2bn in April 2021.

- **AIM stats:** AIM ended April 2023 with 805 participants, following 816 at the end of December 2022. The average AIM market cap is steady at £114m. 213 companies have a market cap of £100m+ and 14 greater than £1bn.

- **2022 has been a great leveler** – historically, macro-economic uncertainty has rarely impacted the entire ecosystem to the same extent – from large to small cap public equity, to the realms of venture capital. Investor confidence is down across the board and growth rounds are made at a high cost of capital, whilst investor focus is on profitability. A lot of institutional investors investing in SMEs are still carrying inflated NAVs from the bumper years of 2020/2021. Many of those underlying companies in investor portfolios are yet to do a down round level of funding which will further pull-down investors' NAVs.

- **Investors want "jam today":** growth and profits or growth and dividend, no jam for tomorrow stories. There is an increase in the number of secondary fundraisings in April and May and these are gathering pace. Advisers seem to be dusting off IPOs for 2024. For now, the dish of the day seems to be straight forward secondaries and CLNs, as opposed to IPOs and complex reverses.

- **The difference between "value trap" and "value stock":** Ie, which companies are "cheap for a reason" and those that have resilient business models, maintained dividends in 2022/3 but have just been caught in the carnage. Investors trying to decipher which sub 10xPE stocks are cheap for a reason and those that are largely doing well but not very well marketed by brokers and which are essentially "empty lobster pots."

- **Growth Capital in 2023 will come at a cost**: either heavily dilutive down rounds given share price falls or very expensive debt given interest rates (UK 4.5% base rate, 5.25% US, 3.5% EU). A better story is a profitable one or on with a clear path to profitability: we mean net profit generating cash and not a play on EBITDA numbers. Average discounts so far in 2023 on the LSE are 11%, and the smaller the market cap the bigger the discount, for instance under £70m market caps discount is 14%. Small cap sentiment is largely trickled down from big caps; recent media reports of WE Soda, the world's largest producer of natural soda ash, considering an LSE IPO worth £6.5bn will certainly help.

- **UK monetary policy:** After 10 consecutive interest rate increases in the US, and 12 in the UK, investors are now anticipating a peak for interest rates in the coming months. The ECB's main deposit rate has increased to 3.25% after seven straight hikes. However, the ECB might be closer to their peak in rates than the UK, possibly a peak of 3.5%; wholesale prices in Germany declined at a 0.5% annual rate in April. This could be a sign that the ECB is winning the fight against inflation. The BoE was the first of the major central banks to hike interest rates back in December 2021 and we expect another 0.25% rise. The Fed will be the first to cut rates, as the UK first needs to see an upgrade to growth (now expects GDP to rise by 0.2% in the second quarter), and second we have higher levels of inflation compared with the Eurozone and the US. UK monetary policy (interest rates and money supply) could diverge from the US /EU, and interest rates in the UK are expected to remain relatively high for the coming months. EU and US talking about interest rate cuts end 2023 / 2024.

HYBRIDAN

YOUR PARTNER FOR GROWTH

E: enquiries@hybridan.com
W: www.hybridan.com

Follow us on Twitter
@hybridanllp

Follow us on Linkedin