HYBRIDAN

YOUR PARTNER FOR GROWTH

March 2024

We have always been small cap focused; never pretending to be interested in smaller companies when large cap deal flow is scarce, only to abandon them when larger primary deals pickup. Our strongest corporate relationships range from 7-14+ years highlighting commitment.

- 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

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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. We avoid "jam for tomorrow" valuations based on multiples which do not reflect the current market sentiment.
- 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:

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Market Sentiment

- **Markets:** AIM, and smaller companies in general, sharply outperformed the Main Market in November 2023. AIM rose 5.2% whilst the FTSE 100 only increased by 1.7%. FTSE AIM UK 50 increased by 6.7% during the prior month and FTSE Small Cap rising by 5%. A stronger resurgence of small cap companies aided by the reduction of inflation is helping boost investor optimism and therefore outperforming the larger Main Market listed companies.

- **EIS/VCT:** The sunset clause for Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme (EIS) has been extended by the Chancellor of the Exchequer from April 2025 to April 2035 further promoting UK growth companies. Thankfully in August 2023, HMRC provided updated guidance on the financial health test rule whereby earlier in the year, companies who had accumulated losses greater than 50% of their share capital were deemed no longer qualifying.

- **Whilst the headline statement from Jeremy Hunt's Mansion House speech looked promising**: with the belief that investment firepower of pension funds can unlock £50bn worth of investment by 2030, it remains to be seen how much of that money will find its way down to the UK small cap quoted community. With up to 5% of pension funds directed towards unlisted equities by 2030, the competition for capital will be rife between private equity funds and UK small cap equity fund managers.

- **IPOs / De-listings AIM/AQSE:** AIM saw just £46.47m of new money raised through IPOs from Jan to Oct 2023. There were 6 new joiners to AIM in H1 2023, and only 3 new joiners to AIM in H2 2023. A total of 23 IPOs across markets, 3 reverses, and 53 cancellations to market. **2023 IPO activity** on AQSE was lower versus 2022 with a total of 16 new Issues versus 22 in 2022. A total of £11.5m was raised in 2023 from IPOs compared to £30.96m in 2022 IPOs. **AQSE 2023:** saw 8 new IPO's, 5 Dual Lists, 1 Transfer from AIM to the Access segment of AQSE and 2 Re-Admissions in 2023.

- **Pessimism from companies on being listed:** Out of 101 Companies to take the YouGov QCA survey, two-thirds felt that low valuations were a major issue. Lack of investor interest (62%) and lack of liquidity (59%) were also major issues. The other big issue about being quoted is excessive compliance and burdening governance, which was a factor for 62% of companies. When asked about the advantages of being quoted 23% of companies said that there were none. **151 companies have left the London markets in 2023 compared with 38 which have joined so a net loss of 113. MAIN – 23 new companies joined with 73 leavers thus a net loss of 50. Main Market ended 2023 with 1,057 companies. AIM – 15 new companies joined with 78 leavers, thus a net loss of 63. AIM ended 2023 with 753 Companies. AQSE - 16 new companies joined with 12 leavers thus a net gain of 4 companies. AQSE ended 2023 with 107 participants. At the end of 2023 there were 1,917 on all London markets.**

- **AIM all fundraisings:** AIM saw £870.5m of new money raised throughout the first half of 2023 through fundraising, at an average discount of 21.2%; H2 2023, AIM saw £672.16m of new money raised at an average discount of £14.5%. AQSE: saw a total of £53.90m raised throughout the first half of 2023; and the second half raising £33.0m. The total fundraising in FY2023 in AQSE totaled £81.40m. This is over 150% more than the amount raised from total further issues in FY2022.

- **AIM liquidity:** In terms of value, £41.04m was traded on average on AIM daily YTD, down from £71.9m traded daily in 2022. Between 2018 – 2022 £270m was traded on AIM daily. **AQSE liquidity:** In terms of value, a total of £14.28m was traded in December 2023, compared to £11.3m traded in December 2022.

- **AIM/AQSE stats:** AQSE ended 2023 with 107 participants with a total market cap of £1.80bn and an average market cap was £16.86m. AIM had 753 companies with a combined market value of £78.9bn at the end of 2023.

- **AIM Sectors:** 44% of the total market cap is dominated by companies in the Consumer and Industrials sector.

Outlook

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- **Discounted long-term opportunity**: YTD in 2023, AIM has seen average fundraise discount of 18.7%. Companies under £35m market cap are forced to accept a discount of 20%+ to raise the capital asked for. Current discount levels are an attractive opportunity for long-term investors who may benefit from under-valued company improvements and a narrowing of the discount when sentiment improves. AQSE has seen average fundraise discount of 21% and in H2 the average discount for placings on AQSE was 118%.

- **Substantial placings risky, yet a proven catalyst:** CAB payments lacklustre performance since its IPO in July 23 has not only affected its shareholders but forced other investors to think a lot more conservatively about a UK listing.

- **Two big barriers to UK equity market traction** – Interest rates and "cheap stocks". Investors wanting a safe haven for their money have high interest rates and convertible loan note deals paying up to 12% making the volatile equity markets a tough sell in this environment. In addition, there are a wealth of established, profitable companies on very low PEs – making it incredibly hard to justify to investors to pay up for an expensive IPO or placing.

- **The truth behind the NAV:** many investors are questioning the accuracy of the NAV of investment funds who backed portfolio companies during the lofty valuation period of 2020/21. In the recent Molten Ventures/Forward Partners deal, Molten priced itself at a discount to their share price which was already at a 60%+ discount to NAV.

- **Lower fundraising activity promoting M&A**: c.£1.2bn raised on AIM up to September 2023. Almost down 50% compared to 2022 (£2.4bn raised) and down 87% compared to 2021 (£9.8bn raised). Average market capitalisation on Admission - £16.6m (2022: £80.1m), and as a result average performance since listing is down 3.6%. However, there are >32 AIM companies that have been acquired during 2023 with a median bid premium to the prior day close of +47%. Majority bought by private equity.

- **Pent-up demand for IPO's:** Hybridan and Aquis are seeing increasing interest from companies looking to IPO in 2024. Aquis outperformed AIM in 2023 with 16 IPO's compared to only 9 on AIM. Lower costs and new technologies at Aquis makes it attractive versus AIM or the Main Market.

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