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HYBRIDAN

YOUR PARTNER FOR GROWTH

March 2024

Strategic corporate finance professionals for private and listed companies

Hybridan: Your Partner for Growth

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.

- 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.

- 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.

- 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.
London Stock Exchange

Member of the CISI.
CISI
CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

Member of the QCA.
QUOTED COMPANIES ALLIANCE
MEMBER

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

Incorporated in January 2007. Held in high regard by corporates and institutions.

Corporate Finance Offering

EIS and VCT strategies	Experienced team
Fundraising	Investor Access
Pre IPO planning	IPO preparation

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

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Strategic Adviser for Unlisted Companies

- We only act on a retained basis for strategic advisory services to unlisted companies.
- We bring the discipline of the listed environment to the unlisted world of fast growth companies.
- 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.
- Development and focus on the investment case, including advice on strategic direction (e.g. new markets and products, M&A, customer acquisition, margin improvement).
- Increase awareness among prospective investors.
- Fundraising services, with focus on EIS/VCT eligible companies, and secondary transfer work/ vendor sell down.
- Evolution of valuation metrics and comparable companies.
- 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
- Preparation for a liquidity event, including IPO, PE/VC funding, strategic investment or trade sale.
- 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

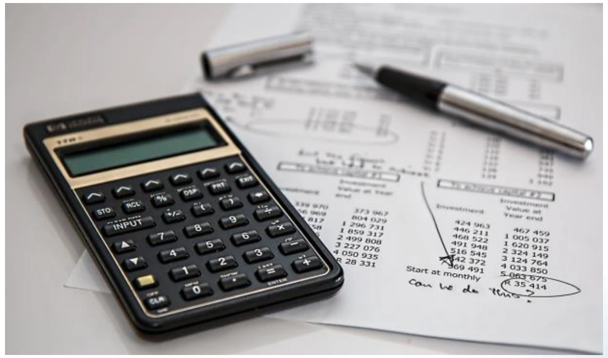
Unlisted Companies: Our Investors' Criteria

- 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

- **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.

- **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

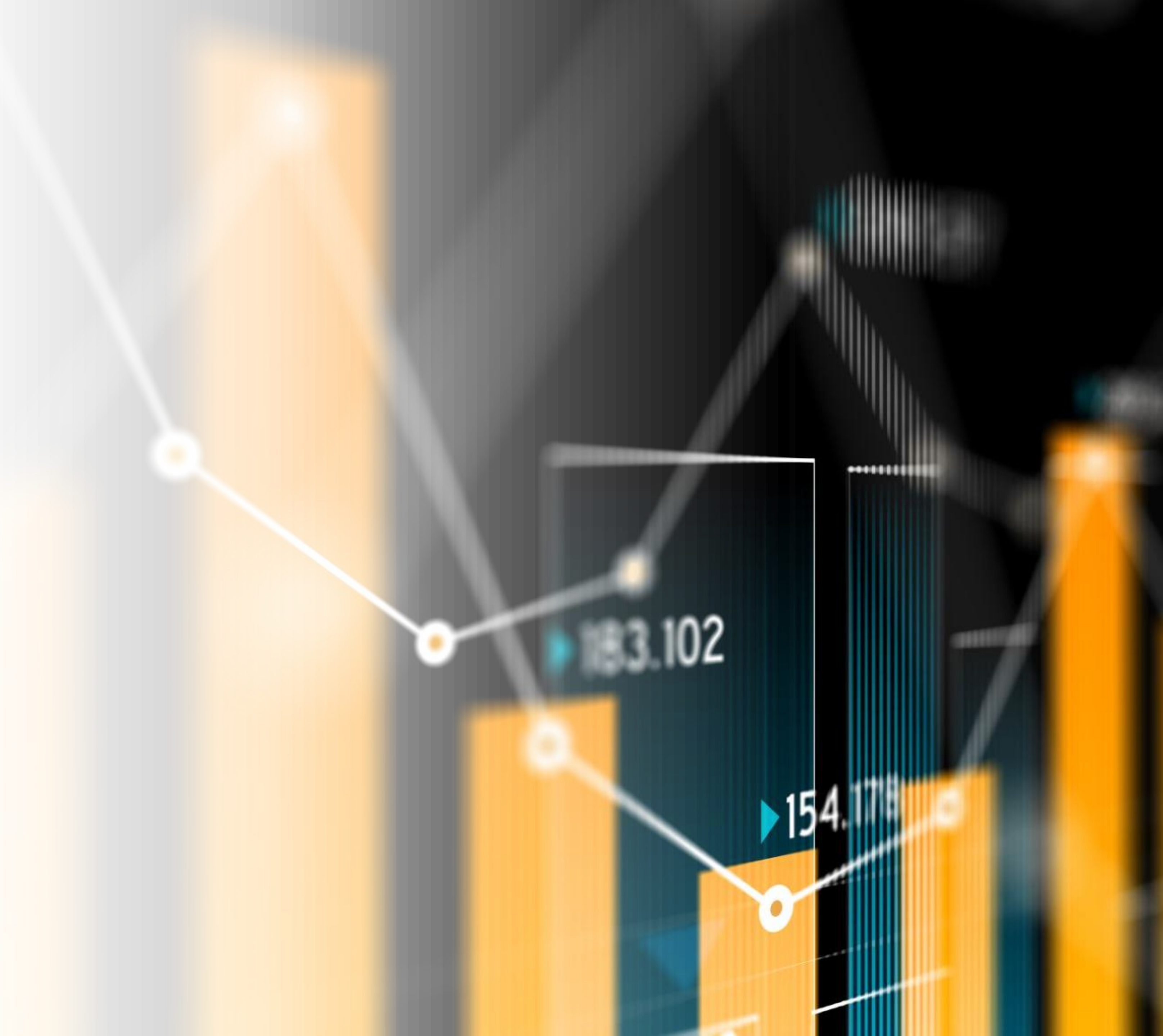
What we feel we don't understand and therefore investors may not understand.

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 & Outlook:



Market Sentiment

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- **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 11.8%.

- **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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