AIM INSIGHTS

REVIEW OF AIM FOR THE SIX MONTHS TO JUNE 2016

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The shadow of Brexit was cast over the UK economy and its capital markets for most of the first half of 2016. This and a stuttering world economy, weighed down by slow growth in China and other emerging market economies, formed the backdrop for capital markets activity in the six months to June 2016.

Many AIM investors and advisers were cautious at the start of the year, as 2015 had been a difficult year for IPOs, rules governing eligibility for EIS and VCT status had been materially tightened and the global economic slowdown weighed on business confidence. Although these factors clearly made for a challenging environment for the capital markets, there were a few bright spots in the first half of 2016 for the AIM market, particularly in relation to IPOs.

In the sixth edition of AIM Insights, its six monthly survey of the AIM market, the BDO capital markets team considers the performance of AIM and AIM listed companies for the six months ended 30 June 2016.

How has AIM performed relative to the FTSE All Share? What have been the trends in the number and size of AIM listed companies and how successful have they been in raising equity funds? Which sectors have been most in demand and which advisers have been most active?

KEY FINDINGS

- The decline in AIM company numbers continued for the third successive half year period. There was an overall reduction of 31 companies from 1,044 at 31 December 2015 to 1,013 at 30 June 2016, reflecting 72 leavers and 41 new joiners.
- There were 41 new admissions to AIM in the first half of 2016, higher than either the first half (32) or second half (29) of 2015.
- There were 26 IPOs in the first half of 2016, representing a significant rebound in activity compared to H2 2015 (11).
- Total proceeds from both new admissions and further issues in H1 2016 amounted to £1.93 billion, approximately 30% down on the amounts raised in H2 2015 (£2.69 billion) and H1 2015 (£2.77 billion).
- IPO proceeds in the first half of 2016 of £548m are already higher than the whole of 2015 (£470m).
- In contrast to IPO proceeds, further issue proceeds of £1.21 billion were lower than in H2 2015 (£1.88 billion) and H1 2015 (£2.34 billion). H1 2016 proceeds were 19% lower than the six monthly average proceeds over the last five years (£1.49 billion).
- In H1 2016, consumer services and other financial were the most active sectors for fundraising with 18% and 13% of total funds raised respectively.
- BDO was the No. 1 reporting accountant on IPOs in the six months ended 30 June 2016 with five IPOs. In H1 2016, it acted as reporting accountant on a total of 11 admissions, five more than any other firm. The most active nomads over this period were Zeus Capital, Liberum Capital and Cantor Fitzgerald with three IPOs each. The most IPO money was raised by Zeus Capital (£140m).

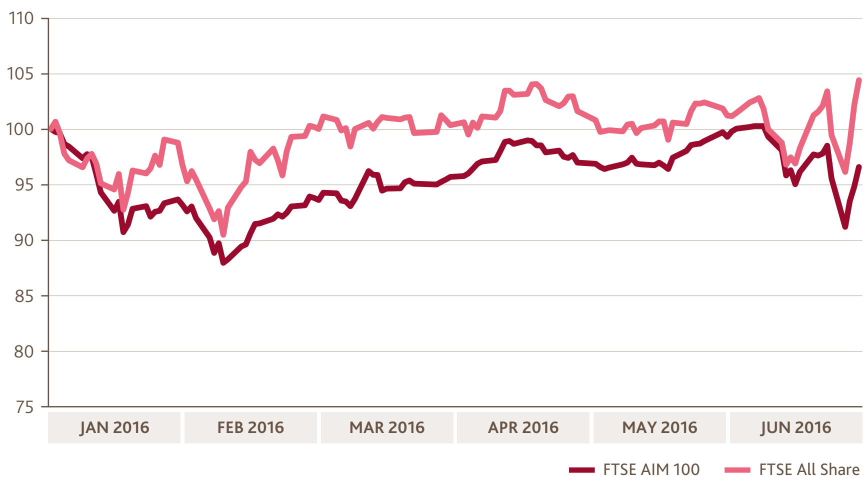
H1 2016: AT A GLANCE

	2015[2] H1	2015 H2	2016 H1
No. of companies	1,069	1,044	1,013
Total market capitalisation	£74.0bn	£73.1bn	£71.7bn
Average market capitalisation	£69m	£70m	£71m
New admissions	32	29	41
IPOs[1]	22	11	26
Total fundraising	£2.77bn	£2.69bn	£1.93bn
IPO proceeds	£352m	£118m	£722m
Average IPO proceeds	£16.0m	£10.7m	£21.1m
Further issue proceeds	£2.34bn	£1.88bn	£1.21bn
Average further issue proceeds	£10.6m	£8.4m	£5.7m

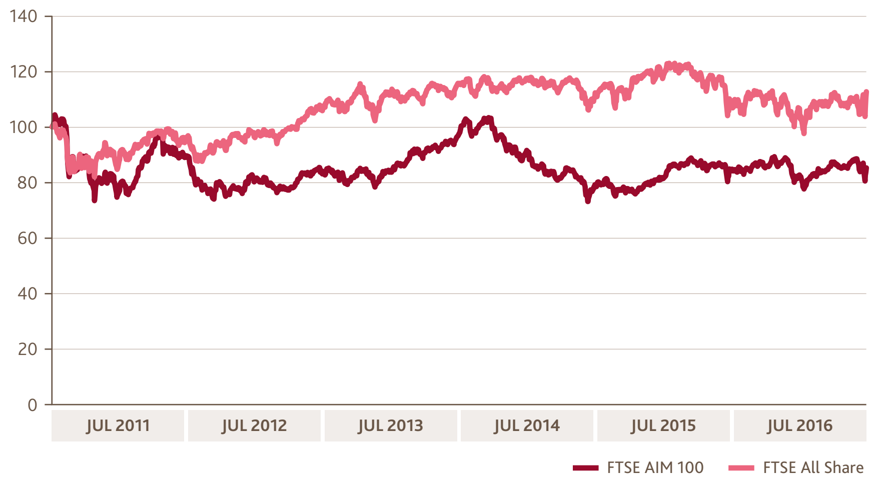
[1] IPOs in this document are defined as excluding introductions and reverse takeovers (unless otherwise stated)
[2] Reflects updated LSE data compared to previous edition

MARKET PERFORMANCE: INVESTOR CONCERNS WEIGH ON AIM

STOCK MARKET INDICES: H1 2016 (REBASED)



STOCK MARKET INDICES: 5 YEAR (REBASED)

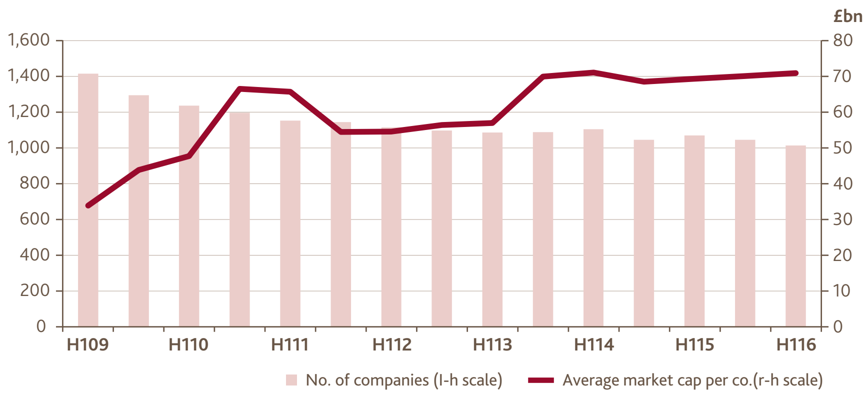


- The first half of 2016 saw the AIM 100 index underperform the wider FTSE All Share index. Whereas the FTSE All Share was up by 4.4% compared to January, the AIM 100 saw a decline of 3.4%. This reverses the position observed in the second half of 2015 when the AIM 100 outperformed the wider market.
- Over a twelve month period, the performances of the two indices were broadly similar, with the AIM 100 index down just 0.1% and the FTSE All Share down 1.5%.
- The decline in the AIM 100 followed two consecutive half year increases in the index in H1 2015 and H2 2015. The AIM 100 index is still higher at 30 June 2016 than it was at the beginning of 2015.
- It is interesting to note the differences in the two indices post the Brexit vote at the end of June. Whereas the FTSE All Share recovered strongly in the final days of June to finish at a 2016 high, reflecting the influence of the more international FTSE 100, the AIM 100 index which has a greater proportion of British companies, failed to recover all of the ground lost in the immediate aftermath of the result.
- The AIM market has always been a relatively more volatile market than the wider FTSE indices, as shown by the five year graph. In H1 2016, the general concerns over the health of the global economy, and China in particular, that weighed heavily on sentiment in the first two months of the year had a greater impact on AIM stocks. In times of uncertainty, investors are more risk averse and will favour the relative safety of the larger FTSE stocks over the smaller caps on AIM.

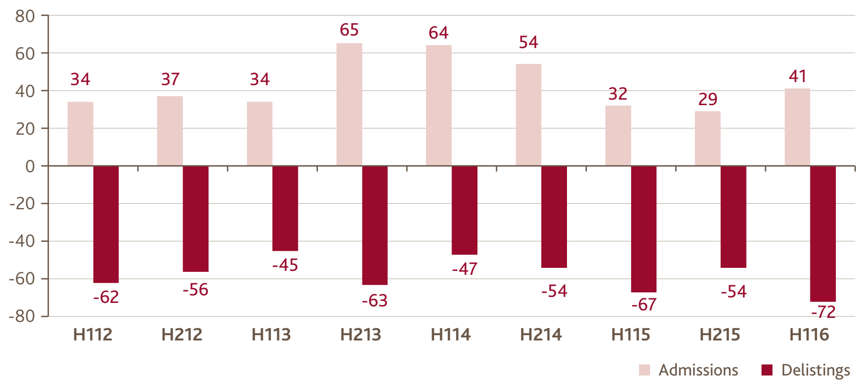
AIM NUMBERS – INCREASE IN BOTH LEAVERS AND JOINERS

- There was a net reduction of 31 in the number of AIM companies in the first half of 2016 from 1,044 at December 2015 to 1,013 at June 2016. This is broadly similar to the net reductions seen in H2 2015 (25) and H1 2015 (35).
- However, the net reduction over a 12 month period accelerated from 35 for the year to June 2015 to 56 in the year to June 2016. If current trends continue, it is only a matter of time before the number of companies dips below the 1,000 mark.
- The number of new admissions rebounded after a difficult year in 2015. There were 41 new admissions to AIM in the first half of 2016, higher than either the first half (32) or second half (29) of 2015.
- There were 26 IPOs in the first half of 2016, substantially higher than the number in the second half of 2015 (11) but broadly similar to the number seen in the first half of 2015 (22).
- Other admissions (such as introductions and re-admissions) amounted to 15 in H1 2016, broadly in line with H2 2015 (18) but higher than the same period last year (H1 2015: 10).
- The shake out in the market accelerated with an increase in the number of leavers from 54 in H2 2015 to 72 in H1 2016. This is the highest level of churn since the first half of 2011 (83). It would appear that most of the leavers are the very smallest companies in the market (see opposite), so this should result in an improvement in the overall quality of the AIM market.
- The total market cap of all AIM companies was £71.7 billion at 30 June 2016, a small reduction on the total at H2 2015 of £73.1 billion.
- Despite the overall reduction, the average market cap per company at 30 June 2016 was £71m, representing a further increase on H2 2015 (£70m) and H1 2015 (£69m). The top graph opposite shows this reflecting the continuation of a general increase in average market cap per company since 2012, a further indication that the shakeout in the market is improving the overall quality of the AIM market.

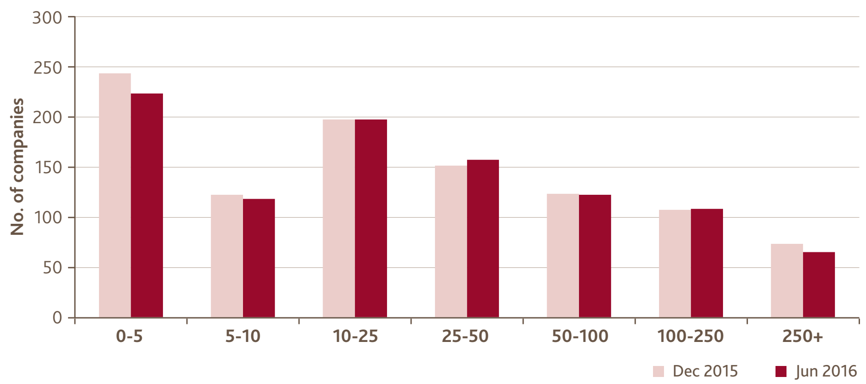
AIM NUMBERS AND AVERAGE MARKET CAP



AIM JOINERS AND LEAVERS



AIM COMPANIES BY MARKET VALUE



- The average market cap for new admissions at H1 2016 was £70m. Although this is somewhat lower than in H2 2015 (£114m), the prior period had an unusually high proportion of non-IPO new entrants which drove up the average market cap. The H1 2016 average was in line with the average at the same time last year (H1 2015: £71m).
- The distribution of companies by market value between June 2015 and December 2015 shows a noticeable reduction in the number of very small companies (ie. less than £5m) from 243 to 223. This partly reverses the increase in small companies in H2 2015 from 209 to 243. Most other categories were broadly stable compared to the prior half year period, although the number of very large companies (>£250m) decreased from 73 to 65, broadly returning to the number seen at H1 2015.

FUNDING – BOUNCE BACK FOR IPOS

- Total proceeds from both new admissions and further issues in H1 2016 amounted to £1.93 billion, approximately 30% down on the amounts raised in H2 2015 (£2.69 billion) and H1 2015 (£2.77 billion), due to substantially lower further issue proceeds.
- New admission proceeds in the first half of 2015 amounted to £722m, lower than the amount raised in H2 2015 of £808m but substantially higher than the amount raised in the same period last year (H1 2015: £432m)[1].
- The majority of the new admission proceeds in H1 2016 related to IPOs (£548m). This represents a substantial rebound from the low levels seen last year and is higher than the total amount raised for IPOs for the whole of 2015 (£470m).
- Average IPO fundraising per company in the first half of 2016 was £21.1m. This is almost double the average of the previous six months (H2 2015: £10.7m) and also higher than the same period last year (H1 2015: £16.0m)[1].
- The largest reverse takeover fundraising was made by CityFibre Infrastructure (£80m), the third largest new admission raise in the first half of 2016. The second largest reverse takeover fundraising was Castle Street Investments with £30m.
- Total proceeds from further issues in H2 2016 amounted to £1.21 billion. This is a 36% reduction on the amount raised in the preceding half year (H2 2015: £1.88 billion) and 48% lower than the same period last year (H1 2015: £2.34 billion)[1]. H1 2016 proceeds were 19% lower than the six monthly average proceeds over the last five years (£1.49 billion).
- Further issue proceeds over the 12 month period to June 2016 was £3.09 billion. Although this was 11% lower than the equivalent prior year period (£3.49 billion), the latter included a particularly large raise for Optimal Payments of £452m.
- 211 companies raised money through secondary issues in H1 2016, lower than the number in both H2 2015 (225) and in the same period last year (H1 2015: 220).
- The average further issue fundraising per company in H1 2016 was £5.7m. This was somewhat lower than the average in the previous six month period (H2 2015: £8.4m) and the same time last year (H1 2015: £8.6m, adjusted for the very large fundraising for Optimal Payments in that period).
- Although the headline numbers for further issue proceeds suggest a difficult six month period, the success of AIM as a platform for equity fundraising is still evident from the substantial raises of both NewRiver Retail, which raised £150m in both H2 2015 and H1 2016, and Imperial Innovations Group, which raised £100m.

[1] Based on updated LSE data

TEN LARGEST IPO FUNDRAISINGS: H1 2016

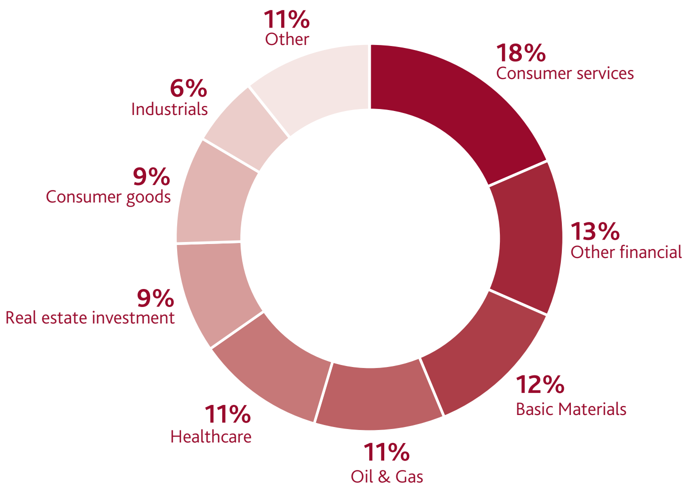
	SECTOR	£m
Time Out Group	Media	90
Watkin Jones	Household goods	85
Draper Esprit	Financial	74
Joules Group	Retail	66
Accrol Group Holdings	Household goods	43
Shield Therapeutics	Pharmaceuticals & biotech	33
Midwich Group	Support services	26
Directa Plus	Chemicals	13
Hotel Chocolat Group	Food	12
Mereo Biopharma Group	Pharmaceuticals & biotech	11

TEN LARGEST FURTHER ISSUES: H1 2016

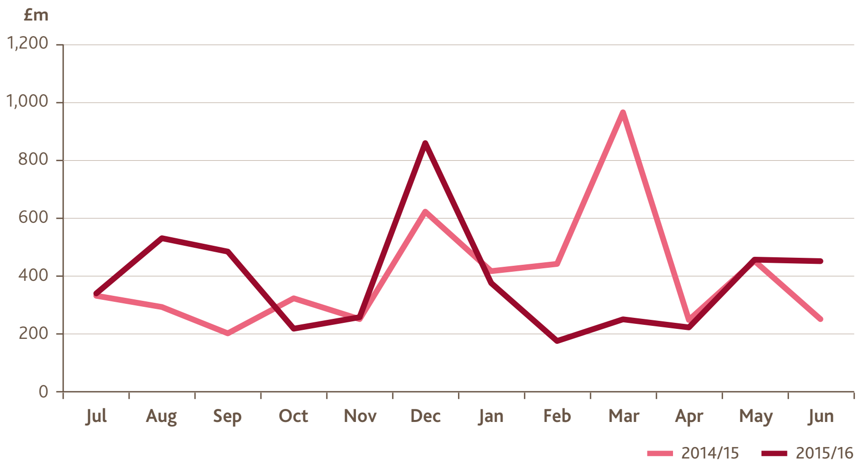
	SECTOR	£m
NewRiver Retail	Real estate	150
Imperial Innovations Group	Financial	100
Hurricane Energy	Oil & gas	52
Hummingbird Resources	Mining	50
Vernalis	Pharmaceuticals & biotech	40
Vertu Motors	Retail	35
Conviviality plc	Food	32
Constellation Healthcare Techno	Healthcare	30
Johnson Service Group	Support services	30
Koovs plc	Retail	30

FUNDING – BROAD SPREAD OF INVESTMENT

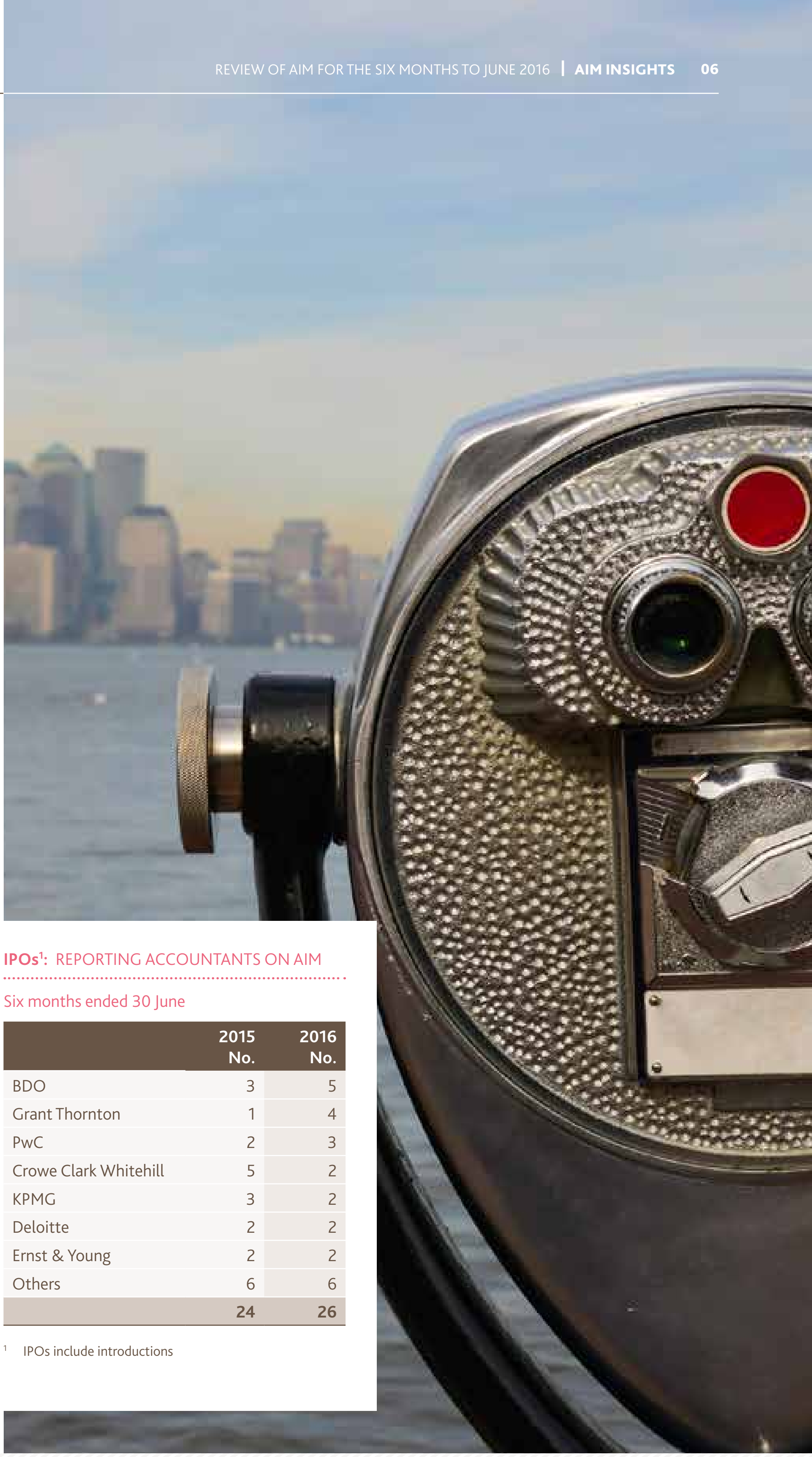
TOTAL NEW AND FURTHER ISSUES BY SECTOR: H1 2016



NEW AND FURTHER ISSUES



- In H1 2016, consumer services and other financial were the most active sectors for fundraising with 18% and 13% of total funds raised respectively.
- In H2 2015, the most active sectors were healthcare with 22% of funds raised (H1 2016: 11%) and other financial with 19% (H1 2016: 13%). In the corresponding period in 2015, the most active sectors were industrials (23%) and healthcare (17%).
- The consumer services sector includes the IPO proceeds of Time Out Group (£90m) and Joules Group (£66m).
- Other financial includes the IPO proceeds of Draper Esprit (£74m) and the further issue proceeds of Imperial Innovations Group (£100m).
- H1 2016 saw a much broader spread of investment across a number of sectors with, unusually, no one sector accounting for more than 20% of investment; even the seventh largest sector accounted for almost 10% of total investment.
- Q1 2016 was a quiet period for fundraising, in stark contrast to both the preceding quarter and the same quarter last year when fundraising was substantially higher. This period coincided with market jitters around the strength of the global economy, in particular concerns around a possible ‘hard landing’ for the Chinese economy.
- As capital markets regained their poise during Q2 of 2016, funding proceeds increased, with c£450m being raised in both May and June. However, market expectations in the run up to the Brexit vote were for a ‘Remain’ result; there are therefore likely to be challenges to maintaining this recent momentum through the remainder of 2016.



MOST ACTIVE ADVISERS

NOMADS

- The most active Nomad on AIM IPOs in the six months ended 30 June 2016 were Zeus Capital, Liberum Capital and Cantor Fitzgerald with three IPOs each.
- The most successful Nomad on AIM in terms of IPO proceeds over this period was Zeus Capital who raised £140m. Zeus Capital's IPOs were Watkins Jones (£85m), Accrol Group (£43m) and Oncimunne Holdings (£11m).

REPORTING ACCOUNTANTS

- In the six months ended 30 June 2016, BDO was the leading reporting accountant for IPOs on AIM with five. These companies operate across a range of sectors, being mining, chemicals, food, support services and technology.
- If reverse takeovers and other non-IPO admissions are taken into account, BDO acted as reporting accountant on a total of 11 admissions in H1 2016, five more than any other firm.

IPOs[1]: MOST ACTIVE NOMADS

Six months ended 30 June 2016

	IPOs No.	Money Raised £m
Zeus Capital	3	140
Liberum Capital	3	135
Cantor Fitzgerald	3	31
Numis Securities	2	74
Peel Hunt	2	66
Investec Bank	2	36
Shore Capital	2	18
Panmure Gordon	2	14
Allenby Capital	2	3
S P Angel	2	4
Other	3	27
	26	**548**

[1] IPOs include introductions

IPOs[1]: REPORTING ACCOUNTANTS ON AIM

Six months ended 30 June

	2015 No.	2016 No.
BDO	3	5
Grant Thornton	1	4
PwC	2	3
Crowe Clark Whitehill	5	2
KPMG	3	2
Deloitte	2	2
Ernst & Young	2	2
Others	6	6
	24	**26**

[1] IPOs include introductions

29 AIM IPOs IN LAST 2 YEARS[1]

£489m FUNDS RAISED IN LAST 2 YEARS[2]

£2.4bn MARKET CAPITALISATION IN LAST 2 YEARS[3]

No. 1 REPORTING ACCOUNT[4]

No. 1 FOR EXCEPTIONAL CLIENT SERVICES[5]

1. Total IPOs up to December 2015
2. Total for 29 AIM IPOs on which BDO was reporting accountant up to December 2015
3. Total for 29 AIM IPOs on which BDO was reporting accountant up to December 2015
4. On AIM IPOs for the fifth consecutive year
5. Independent research (Mid Market Monitor 2012, 2013, 2014 and 2015) undertaken by Meridian West shows BDO has the highest client satisfaction rating among its peers

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