

# insight

Daniel Stewart & Company plc

Spring 2009

Daniel Stewart is an investment bank offering corporate advisory and institutional stockbroking services with a focus on small and mid-size companies. Our philosophy is that we will succeed only if our clients' requirements are clearly understood and met in a professional and timely fashion.

The full range of services we offer includes corporate finance, corporate broking, research, sales and trading, debt advisory and investor relations. Daniel Stewart is a nominated adviser to AIM companies and a regulated broker for Full List and AIM companies.

## New Website:

Reaching higher with innovation, execution and experience

We launched our new website and research publishing system in January of this year. We believe it sets out our services clearly but welcome your feedback. [www.danielstewart.co.uk](http://www.danielstewart.co.uk)

## New Products:

We recognise the importance of insightful and innovative research.

We recently launched an upgraded and new-look version of "Equity Perspectives".



## Coming Soon:

We are launching our own online CFD business in March, which will broaden the range of services we are able to offer to our clients, both institutional and retail.

## Top Picks

Daniel Stewart published "Top Picks" in October 2008 which made defensive recommendations for the current bear market. Overall the stock picks have outperformed the AIM All Share Index. The star performers were:

- Healthcare Locums plc (HCO.L) +45.9%
- Sportingbet (SBT.L) +41.5%
- H&T Group (HAT.L) +22.6%



## Recent Fund Raising

In the last few months and in response to interest from a number of institutional and other investors, we have completed two small equity issues for ourselves to raise a total of £1.1m for the firm.

We are pleased to welcome our new shareholders and thank them for their support - we believe that their investment in Daniel Stewart will be very rewarding for them.



## TRANSACTIONS

# Recent Transactions

Despite very poor market conditions we completed a number of transactions for our clients in the final quarter of 2008, including two IPOs, a reverse, a public offer and a refinancing.



Mountfield Group Plc  
Introduction to AIM  
  
Nominated Adviser & Broker



First Artist Corporation Plc  
Reverse Takeover & Re-admission to AIM  
  
Nominated Adviser & Broker



San Leon Plc  
Introduction to AIM  
  
Nominated Adviser & Broker



Spark VCT 3 Plc  
Offer by Spark VCT 2 Plc  
  
Rule 3 Adviser to Offeree



Care Capital Plc  
Re-financing & Rule 9 Whitewash  
  
Nominated Adviser & Broker

# New Clients

We have been appointed in the past few months as adviser and/or broker to a number of new clients, listed on AIM or PLUS.

	Avacta Plc	Nomad & Joint Broker	Support Services: research, development and production of rapid response detection devices
	Blue Oar Plc	Nomad & Joint Broker	General Financial: investment banking, private client stockbroking and asset management
	Cryo-Save Plc	Nomad & Broker	Healthcare: collection, processing and storage of human stem cells
	Gemstones of Africa Group Plc	Nomad & Broker	Investment Company: focus on natural resource sector in Africa
	Mountfield Group Plc	Nomad & Broker	Construction: internal construction and fit-out of data centres for the IT industry
	Rivington Street Holdings Plc	Corporate Adviser & Broker	Financial Services
	Seven Arts Pictures Plc	Corporate Adviser & Broker	Entertainment: production and distribution of feature films
	San Leon Plc	Nomad & Broker	Oil and gas exploration
	Vero Software Plc	Nomad & Broker	Software & Computer Services: development, marketing & distribution of CAD/CAM software

# Market Appetite



Martin Lampshire joined Daniel Stewart as Head of Broking in December 2008. Martin has spent twenty years in small and mid-cap broking, with Charles Stanley, Teathers and most recently Religare Hichens Harrison. We asked Martin for his views on the market's appetite for share issues in these very difficult times.

"The UK economy is in a jam with unemployment creeping past two million and still rising at an alarming rate. So it's difficult to get too excited about the prospect of an early economic recovery, it just isn't going to happen!

The good news is that the market has already factored in much of the downside and there are some exciting trading opportunities if you dig around and do your homework. A lack of liquidity on AIM has left many investors seeking safety in larger capitalized stocks so they can take profits (or cut losses) more easily. Some hedge funds have made a fortune in the last six months but for every winner there is a loser. History has shown that small caps lag behind the large caps in the recovery phase but when sentiment eventually improves small cap share prices can bounce dramatically on very little volume. Currently, the drip effect of sellers is likely to continue as some institutions bail out of underperforming micro caps and private clients are forced to cash in to cover short term needs probably exacerbated by the credit crunch.

Many small listed companies are now in need of cash as the credit squeeze tightens further. The government has thrown an almost limitless supply of money at the banks through stimulus packages to help loosen the purse strings with little effect. Daily we see evidence that banks are still reluctant to lend new money as companies seek fresh capital from the market to rebuild broken balance sheets and provide working capital. We have recently seen a number of sizeable rights issues including Hammerson (£584m) and British Land (£740m) and many others will follow. Unusually the announcement of these rights issues seem to be having a positive effect on the companies' share prices. Perhaps this is a sign of relief that company boards are taking their destiny into their own hands and paying down debt to reduce gearing and their dependence on the less reliable banking sector.

Institutions are now left with a simple choice - to back their investments with further cash, or not to do so, assuming they have kept back sufficient cash to plug the gaps. The lack of IPOs appears generally welcome as new funds are recycled into existing listed entities. For companies to float now they need to be very competitively priced and of the highest quality.

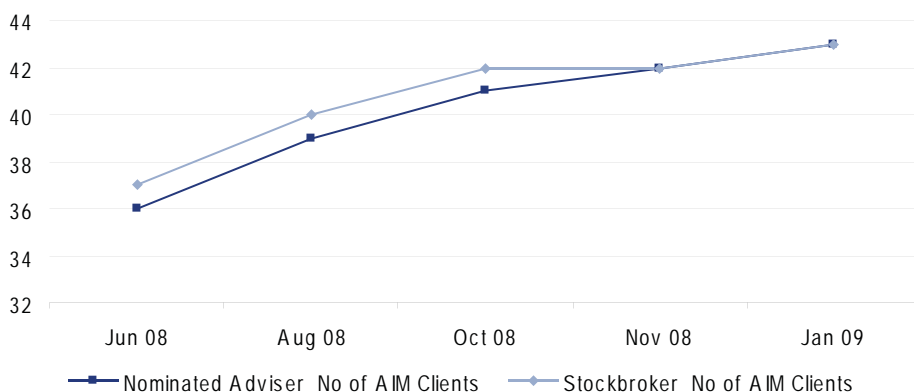
On a positive note the markets have stabilized for now and we are not seeing a repetition of the wild gyrations in prices in the last quarter of 2008. Furthermore investors are facing derisory returns on cash and gilts and are becoming receptive to new ideas. Cash is king and raising funds is challenging but the equity market is available, typically to good quality businesses with a strong management team, positive cash flow and net profits. VCTs can be far more selective than in the past as more companies chase fewer investors. However, are we at the bottom? Therein lies the problem for all investors big or small, it's all about confidence and until that returns the markets will remain subdued. When confidence returns, the bounce in small caps will be dramatic."

## Continuing to gain clients

### "Daniel Stewart makes most gains overall"

There is a lot of speculation about the future prospects of small and mid cap brokers. We continue to be appointed by new companies seeking both advisory and broking services and now act for a total of 54 clients. Our progress has not gone unnoticed by Hemscott who compile the authoritative rankings publication.

#### Daniel Stewart AIM listed Clients



*"The best performance came from... Daniel Stewart"*

*"The star this time is Daniel Stewart"*

*"Daniel Stewart maintains momentum"*

Our emphasis on sector expertise appears to be paying off as we have achieved top five rankings across the Consumer Clients, Healthcare and Technology sectors.

## Taking Aim at 2009

Few members of the financial community were sorry to see the back of 2008. As always with a new year expectation for an early improvement has wafted through the markets but it is clear this recession is going to be prolonged. Companies and their advisers will need to be innovative to ensure survival. The government's attempts to encourage credit extension to small caps has been unsuccessful to date and this may lead to some disintermediation of the banks should other entities with available capital decide to enter the fray. Debt and debt-related instruments could see increased popularity as it becomes harder and harder for investors to find yield. Perhaps there is a case for a junior bond market to be developed alongside Aim to offer alternative financing options other than the plain vanilla 'Let's sell some more equity'.

Aim was the worst stock market performer in 2008. The index fell by some 62% during the year from 1,049 on 1 January to 394 on 31 December. The market has been adversely affected by reduced liquidity and lack of research coverage and had for some time suffered from the gradual continuous withdrawal of an ever-increasing number of institutional investors who had been declining investment in the smallest of companies for some time.

The reduction in underlying value has also led to some institutional investors seeing fund redemptions to the point where they are unable to make further investments to support companies with which they have already invested or to make new investments.

### Falling activity

This fall off in activity has led to a reduction in Nomads, down from 85 in 2006 to 69 at the end of 2008 and the likelihood that this number will fall further, some from insurmountable financial difficulty and other limited activity, causing them to be unable to meet ongoing exchange and capital requirements. The collapse of business volumes on Aim is clearly demonstrated when the broad

numbers are examined.

In 2007 there were 181 Initial Public Offerings (IPOs) raising £6.5 billion but in 2008 just 38 flotations raised less than £1 billion. If we compare this with the Full List 2007 saw 84 IPOs raise £19 billion and 2008 saw 32 generate £6 billion. Proportionally Aim fell six times as against the LSE's three.

The collapse in value is demonstrated in stark relief when evidenced by Aim's aggregate capitalisation, which stood at £97 billion at year end 2007 and £37 billion at year end 2008 – a fall of £60 billion. During the year the total number of companies admitted to Aim fell from 1,694 to 1,550 – there were only just over 100 new listings with over 250 de-listing. The average amount of money raised was a little over £20 million but if adjusted for the few that raised in excess of £50 million the average falls to £13 million.

### Research Gap

The market has not been helped by the limited research coverage on offer across the whole of Aim. There is a danger we will see the same effect as that which occurs in the US where hundreds of companies languish with little or no trading activity completely unsupported by any research from the broking community. It is of course difficult for house brokers who would perhaps normally produce research on their clients to bring out regular 'sell' notes without severely damaging relationships which have been carefully nurtured over many years.

Part of the problem may lie in the fact that Aim was created to provide a market access to small, fast-growing companies. During a bull market this clearly works but once the market turns downwards the true lack of liquidity quickly appears and prices are driven downwards dramatically.



**Peter Shea** is chief executive officer and one of the founding members of Daniel Stewart (DAN: AIM), which he set up in 1989.

As market economies recover we can expect institutional cash holdings, which will be gradually replenished, to start reappearing in the equity markets. In the US for instance money market mutual funds have seen an increase in cash since around 2003 of US \$1 trillion. We can expect that proportionally in the UK cash held by institutions will have grown similarly. If the junior market is to recover we should try to take some lessons from events leading up to this current crisis. History would suggest this is very unlikely and that once markets return to previous levels we will see a return to 'normal' transaction volumes, sizes

and values.

### Broking mergers

As far as the broking community is concerned the reduced activity has caused a flurry of merger talks. Few have come to fruition and cultural differences, ego and valuation have all played their part in limiting the number of transactions to be completed to date. We can reasonably expect that as this recession continues those entities with limited or no access to additional capital will be forced into deals in order to survive. The reduction in numbers will ultimately be beneficial to market participants and to those companies listed as the surviving brokerage community should be better capitalised, more diverse in product mix and less exposed to competition.

The reduced value of the pound may help a little in the internationalising of Aim, which will dramatically assist in its global appeal as the growth market of choice for all companies. During 2008 around 300 foreign companies were quoted on the exchange which was down from the highest number of 340 in 2007.

*Peter Shea - Shares Magazine - 22 January 2009*



### No 3. Vadim Alexandre, Daniel Stewart Securities Firm: Asterand (ATD) BUY

**Start Date:** 30 May  
**Starting Share Price:** 7.0p  
**Closing Share Price:** 13.8p  
**Performance:** 96.4%

Picking a small cap winner in today's markets is doubly difficult but choosing one that returns 96% in under six months is rare indeed. But that is what Alexandre achieved with his end-of-May 'buy' on £13 million cap Asterand, a house stock.

Initiating coverage at 7p, Alexandre spotted the potential of the human tissue market which, acting as a bridge between animal and human testing, is seen by many as future part of pre-clinical testing regimes. Asterand is a leader in this field with around a 3% market share. There are very few providers of this material to pharmaceutical companies and there is plenty of room for consolidation according to Alexandre, who recently upped his target price from 18p to 22p. Asterand reported first profits at the earning before interest, tax, depreciation and amortisation (EBITDA) level in August.

*Shares Magazine - 4 December 2008*

