

# insight

Daniel Stewart & Company plc Summer 2009

Continued speculation about the shape and nature of the economic recovery illustrates the uncertainty faced by our clients. Our emphasis on sector expertise continues to attract interest as clients value insight, information and market intelligence to guide corporate-decision making.

## Online CFD Trading

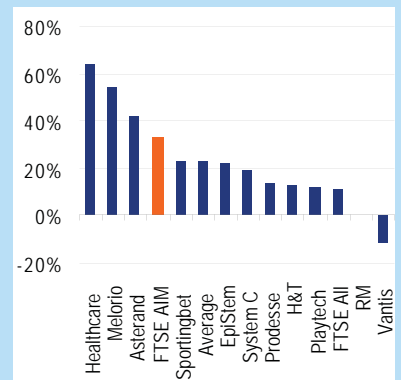


Daniel Stewart has launched its new online CFD trading platform. Investors have enthusiastically welcomed this fast and reliable browser-based platform which enables users to trade a wide range of financial instruments. A full range of expert analytical tools and access to your portfolio via your mobile device makes this the most convenient and professional way to trade CFDs.

A fully interactive demonstration and account opening instructions are available on our website [www.danielstewartonline.co.uk](http://www.danielstewartonline.co.uk)

## Top Picks

Since we published our last Top Picks on 19 March the FTSE AIM Index has rallied +33.2%. Out performing the AIM Index were our picks, Healthcare Locums (+64%), Melorio (+54%) and Asterand (+42%). Overall our Top Picks closely tracked the market with an average gain of 22.7%. The new edition of Top Picks was published on 15th July.



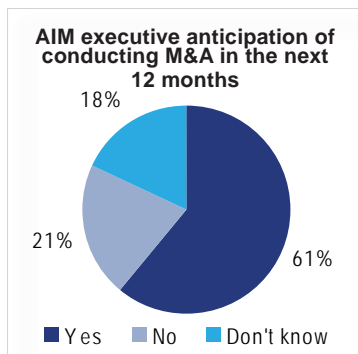
## AIM M&A Survey



In May we presented the first M&A survey of AIM companies. The survey was well received and drew interest from a number of high profile members of the AIM community. We found that despite market turbulence and an uncertain outlook, business confidence amongst AIM companies is buoyant. 61.9% of respondents anticipate conducting M&A in the next 12 months.

Some confidence is clearly returning to equity markets with a number of deals being mooted. Opportunities undoubtedly exist but confidence is measured. The report highlighted that AIM directors feel due diligence, 'non-financial' due diligence and post merger integration to be critical to improving the odds of M&A success.

A copy of the report is available on our website at [www.danielstewart.co.uk/Home/News\\_developments/default.aspx](http://www.danielstewart.co.uk/Home/News_developments/default.aspx)



## Spotlight on Gambling

Daniel Stewart has 11 gambling stocks under coverage which have risen by an average of 33% since the last sector note was published in January 2009. The strongest performers were bWin (+64%), Sportingbet (+77%) and Unibet (+50%). Overall our picks outperformed the Travel & Leisure sector by 64%.





TRANSACTIONS

## Recent Transactions

There has been considerable speculation about the "green shoots of recovery". We have completed a number of transactions for our clients and remain cautiously optimistic about improving market conditions.



Stem Cell Sciences plc  
Disposal of Trading Subsidiaries to Stem Cells, Inc. for US\$4.8m



Nominated Adviser & Broker




First Artist Corporation Plc  
£1.4m secondary placing



Nominated Adviser & Broker



Rurelec plc  
£6.5m secondary placing



Nominated Adviser & Joint Broker



Vyke Communications plc  
£3.1m secondary placing



Nominated Adviser & Broker



ReNeuron plc  
£3m secondary placing



Broker



ImJack  
Capital re-organisation & £2.5m secondary placing



Broker



WFCM plc  
£0.9m secondary placing



Nominated Adviser & Broker



Tristel plc  
£1m secondary placing



Nominated Adviser & Broker









Dori Media Group plc  
£2m secondary placing & open offer



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.

	Fundy Minerals	Corporate Adviser & Broker	Mining: acquisition, exploration and development of mineral properties.
	Medicsight	Nomad & Broker	Healthcare: development of computer-aided detection (CAD) and image analysis software in the early detection and diagnosis of disease.
	imJack	Broker	Software: web-based applications for the provision of secure and private communications over the Internet for education.
	Planet Payment	Joint Broker	Financial Services: multi-currency payment processor
	Private & Commercial	Joint Broker	Financial Services: consumer finance for motor vehicles and business finance for vehicles, plant and equipment.
	Thor Mining	Nomad & Broker	Mining: specialty minerals exploration and development company focused on advancing tungsten, molybdenum and uranium projects.

## Recent changes to the AIM Rules

### New rules for investing companies

On 1 June 2009 the LSE published AIM Notice 33 setting out new rules for investing companies (including cash shells). Existing investing companies should in particular be aware that:

- they may need to amend their “investing strategy” to comply with amended and renamed “investing policy” rules; and
- they should review their arrangements with and make additional disclosure in relation to investment managers; for example, if the investment manager is not considered independent then an announcement may be required.

A number of other changes have also been made, including clarification of the application of the “Class tests” and the “fundamental change of business” rules for investing companies. Also, the requirement to raise £3 million of equity upon initial flotation is now expected to be satisfied by an independent fundraising and not funds raised from related parties, (unless the related party is a substantial shareholder only and an FSA authorised person).

The revised Rules and Note are available on the London Stock Exchange website. For further information, please contact your usual Daniel Stewart Corporate Finance contact.



## The Gateway to the U.S. Markets



What do Invensys, Roche Pharmaceutical, Imperial Tobacco, Marks & Spencer, Peugeot and Norsk Hydro all have in common, besides being highly-respected large-cap UK and European companies? They are all listed on the International OTCQX ([www.otcqx.com](http://www.otcqx.com)), the new premier market tier of the U.S. over-the-counter (OTC) market. The OTCQX has been established to give companies a visible cross-listing in the U.S., without the duplicative regulatory costs required for listing on a traditional U.S. exchange.

Daniel Stewart has partnered with SMH Capital ([www.smhcapital.com](http://www.smhcapital.com)), with which it has a long-standing strategic alliance, to identify UK-listed companies (both AIM and Official List) that are suitable candidates for this exciting new market. Despite being early days, we have already signed several companies to cross-list and the overall response has been overwhelmingly positive.

Reserved for international companies listed on a qualified stock exchange in their home country, International OTCQX provides easy access for U.S. investors, a means for increased market transparency and liquidity, and importantly, it separates out credible companies from the large number of economically distressed and questionable companies that trade OTC. OTCQX is the only highly visible electronic trading venue in the U.S. that does not require SEC registration. By virtue of their listing on the AIM or Official Listing on the LSE, companies automatically qualify for a 12g3-2(b) exemption, which provides a safe harbor from notoriously laborious SOX compliance and its associated cost. It is one of the many reasons that the OTCQX has been so highly acclaimed, despite being only recently established.

International companies must submit an application and meet minimum criteria to list on International OTCQX. Among them, is the appointment of and sponsorship by a Principal American Liaison (PAL) to advise on disclosure requirements. SMH Capital is an approved PAL and is well-qualified to guide prospective companies through the OTCQX listing process and ensure its ongoing success, post-listing. Daniel Stewart has a representative assigned full-time to SMH’s headquarters in New York to effectively oversee the relationship. We are the only UK broker with such a committed relationship with a PAL.

In addition to the PAL appointment, a Sponsored Level 1 American Depositary Receipts (ADR) program must be established. SMH and Daniel Stewart have very strong relationships with all of the ADR banks, further ensuring proper execution. U.S. investors have demonstrated tremendous appetite for ADRs, holding almost \$1 trillion of non-U.S. equities in the form of depository receipts in 2008. Furthermore, a 2008 Oxford Metrica study showed that a Level 1 ADR program resulted in 23% improvement in liquidity and 10% increase in shareholder value, within the first year. While a Level 1 ADR does not allow for direct capital raises, it does expand capital raising opportunities. Qualified U.S. investors can participate in a local raise and after a short seasoning period (40 days), convert their holdings into ADRs. Given that an ADR is considered a U.S. security, even if the underlying issuer is a foreign company, there are no restrictions for U.S. institutional funds that may have caps on international holdings or non-dollar denominated securities.

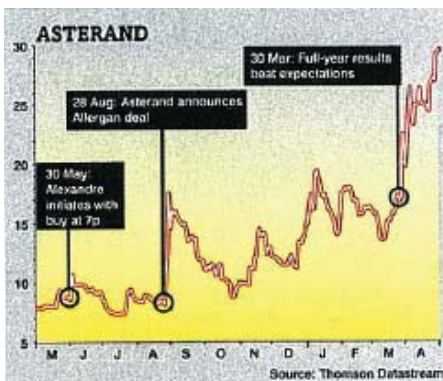
All told, the OTCQX represents an innovative new way to promote visibility and access the deep pools of liquidity perennially associated with the U.S. markets, without the prohibitive cost and regulatory requirements traditionally associated with a U.S. listing. If you are interested in hearing more, please call either **Simon Leathers** in our London office at 020 7776 6566, or **Kevin DeLeon** in New York at 001 646 840 4968.

## Shares Analyst Awards 2009

### Pharmaceuticals and Biotechnology Analyst



Daniel Stewart's **Vadim Alexandre** made his top call on **Asterand (ATD)** which has soared almost 300% since his initial 'buy' recommendation in May of last year. Asterand supplies human tissue samples to the labs of big pharmaceutical companies and exemplifies what the analyst says he looks for in companies: plenty of upside whilst being de-risked against comparable life science companies. Asterand made an early move in to profitability at the earnings before interest depreciation and amortisation (EBITDA) level at the beginning of this year, and on the basis of recurring revenues rather than relying on lumpy and uncertain milestone payments. Unlike other biotech firms Asterand does not face the risks of regulatory approval for projects under development and enjoys a lead position in a growing market. Most of its competition is from university research departments which are not as fleet of foot. Alexandre's other key call has been **Epistem (EHP:AIM)** which has developed a stem cell platform for diagnosing cancer, but offsets some of the costs of this through its profitable contract pharmaceutical services. Epistem is up 45% since Alexandre initiated his 'buy' recommendation. He remains bullish on both stocks for the long-term.



This article first appeared in Shares Magazine 28 May 2009

## Betting on further gains



A handful of private online gambling operators have risked prosecution by continuing to take online bets from US customers over the past few years. These include

Poker Stars and Full Tilt which have mopped up the US market and used the proceeds to expand. 'They have substantial cash flows which have been ploughed back into marketing to European customers,' says Daniel Stewart analyst **James Hollins**. 'The questionable legality of their operations in the US means takeover offers for any of the UK-quoted companies would not succeed, adds Hollins. 'I don't think any of the UK companies would sell to them' he says.

Many of the UK constituents would like to see the back of Poker Stars and Full Tilt as their growing presence in Europe is at the cost of others' market share. Gaming VC chief executive Kenneth Alexander blamed these two companies for making the poker market 'a difficult environment'. He echoed Hollins' comments by saying: 'We face the same problem as other operators who don't take US business. We're competing against Poker Stars and Full Tilt who take US bets, so they have bigger tournaments so more people want to play on these sites. They are generating huge profits which are reinvested into European marketing.' PartyGaming said the same last month that it too was facing 'competitive pressures' from US-facing poker sites.

One way to take on the competition is to combine forces with other operators. A merger or acquisition could add new skills, increase liquidity of players using games like poker and casino and provide scope to cut costs. PartyGaming has already said it is looking for acquisition opportunities with Everest Poker-owner GigaMedia rumoured to be a prime target.

Gaming VC has been on the receiving end of a bid, although talks have since

ended. Sportingbet is tipped by analysts as a key takeover target because its core skill of online sports betting is seen to be the biggest growth area in the gambling sector. 'Companies don't need to consolidate but I believe there are huge synergies to be achieved,' says Hollins at Daniel Stewart. 'These include hosting costs of the technology and risk management costs in sports trading.'

This article first appeared in Shares Magazine 21 May 2009

### M&A on the rise, says Daniel Stewart

Daniel Stewart, a corporate adviser and brokerage firm that works closely with several AIM-listed firms, a majority of management teams at companies on the growth market reckon the next year will be ripe for mergers and acquisitions.

Of the 98 board-level respondents to the survey, nearly 62 per cent said they "anticipate conducting M&A in the next 12 months".

**Stewart Dick**, right, an associate at the group, concedes that the 98 is hardly a big sample, given that some 1,400 companies are listed on AIM, but says the findings are in line with other surveys.



The mood in most boardrooms is clearly not as gloomy as some might think. The only major stumbling block to transactions, says Mr Dick, is financing, with a majority of groups still finding it difficult to raise either equity or debt funding.

The survey is encouraging, and suggests that confidence in the market is growing. However, companies should not rush headlong into new acquisition deals, warns Mr Dick, who argues that bad mergers are not "quick-fix" solutions for chief executives under pressure to deliver growth.

This article first appeared in The Independent 18 May 2009