

Minnows' exodus exacerbates recovery prospects

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The pressure on quoted small cap companies shows no sign of relenting.

The London Stock Exchange statistics show that 25 companies delisted from Aim in July, up from 16 in June and only 11 in May. The exodus has taken the total number of UK companies quoted on the junior market below 1,000 for the first time since 2004.

While the running total of delistings at 117 so far this year is well below the 178 at the same stage last year, the 25 companies that left last month is only three below the figure for July 2009.

The consolation is the number of admissions, which were at a monthly high for the year of 12, compared with just one in July last year. Also cheering was the successful flotation of DP Poland, a rare arrival in the leisure sector. The Polish master franchise for Domino's Pizza raised a better than expected £6.5m at 50p a share and the price had risen to 61p on Wednesday.

It was also noticeable that two of the Aim newcomers arrived from Plus Markets, which is suffering from a dearth of flotations as well as losing companies. In addition to the two that switched to Aim, Plus lost a further five companies last month, taking the total quoted on its primary market below 170.

Among them is Winning Pitch, a consultancy and coaching service for small businesses, which is being taken private. Its reasons are the costs of maintaining its quote and the fact that "the shares have only been traded eight times since the company joined the market in December 2007 and have not traded since September 2009".

Such a lack of liquidity is common among the microcars. More worrying for Plus is the departure of Scancell, a biopharmaceutical company that has moved to Aim at the request of an institutional shareholder.

Scancell, a spin-out from Nottingham University in 1996, is developing a cancer vaccine to fight melanoma. It joined Plus in September 2008, raising £1.6m at 60p a share from venture capital trusts and wealthy individuals. The money was used to take the vaccine to the stage where clinical trials could begin.

The plans were completed on time and on budget and the company returned to the market earlier this year for a further £2.5m to fund the trials. The price had drifted in low liquidity and the secondary issue was completed at 45p a share.

Nevertheless, the company had attracted the attention of David Newton, of the Helium Special Situations Fund. The fund specialises in neglected growth and technology stocks that are under-researched and ignored by the broking community because of their tiny market capitalisations.

Mr Newton was prepared to take a 6.5 per cent stake in Scancell on the condition that the company moved to Aim to improve its liquidity and raise its profile.

Clinical trials are now under way, and the Scancell vaccine will be treating 22 patients over the next three years. Richard Goodfellow, chief operating officer, says the plan is to sell the business to a big pharmaceutical company in the next three years.

Joining Plus created a level playing field for the company's original backers, enabling it to avoid the onerous terms and conditions that would have been imposed by a venture capital firm. The success of the transfer is reflected in Wednesday's closing price of 95p.

Investors might like to note that Helium has taken a 15 per cent stake in only one other Plus company – dotDigital, a marketing services company. It must only be a matter of time before that also moves to Aim.

There are other Plus companies showing a good performance. One of the most notable is Quercus, publisher of Stieg Larsson's Millennium Trilogy, which kicked off with *The Girl With The Dragon Tattoo*.

A trading statement earlier this month predicted that interim results in September would be well ahead of market expectations. St Helens Capital Partners, the company's broker, upgraded its full-year forecast for profits before exceptionals to £6.4m on sales of £30m, up from £900,000 on sales of £19.1m in 2009.

The phenomenal success of the trilogy is cash generative and should preclude the company returning to the market for more funds. That might be enough to stop it moving to Aim in the near future.

The performance of the Helium fund, which has almost doubled in value since its foundation four years ago, while the Aim 100 Index has fallen 39 per cent, shows that it is possible to find winners among the quoted minnows.

However, their declining numbers must be a worry for the government if it is hoping for the private sector to spearhead economic recovery.

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