AIM High

2017 AIM PREDICTIONS REPORT

finnCap

An AIM flotation allows you to source growth capital while retaining control over your business.

Foreword

In 2016 finnCap launched its AIM High campaign to start a conversation about the growth potential of AIM. Aim High is about celebrating those ambitious entrepreneurs who are scaling world-beating businesses and providing clear, unbiased advice to those looking to reap the rewards of a successful flotation.

This State of the Market report keeps that discussion going. Alongside insights from our own team of analysts and experts we have brought together viewpoints from across the funding and business landscape to share perspectives into how Aim operates and the opportunities and challenges it presents for entrepreneurs.

This report aims to make sense of the turbulence of 2016 and collates the collective view of finnCap about the sectors and market trends that will attract the highest levels of investment in 2017.

After the success of high profile IPOs in 2016 from the likes of Joules and Hotel Chocolat, it is clear that growth capital remains for Britain's scaleup success stories even against a backdrop of socio-political turmoil.

Looking ahead, the investment landscape in 2017 presents significant opportunities for fast-growth firms operating in a diverse range of verticals and specialisms.

In particular we are excited by IPO prospects in the resources sector and the technology sector.

We think the overall number of IPO's will continue to improve throughout 2017 and investor appetite will remain for quality well priced deals. There are clearly a number of uncertainties and risks that will remain for most of next year but businesses have learnt to adapt very quickly to the changing landscape and won't sit still. After all, the critical mass of talent, business experience and investors are all still here; and the very best entrepreneurs are defined by their ability to turn adversity into opportunity, profitability and scale.

This was the view most commonly shared during the interviews we conducted with CEOs, advisors and investors to inform this report. Growing a business has never been easy – but AIM continues to be the home of ambitious entrepreneurs in the UK.

An AIM flotation allows you to source growth capital while retaining control over your business. What's more, a powerful, yet often overlooked, consequence is the credibility that being quoted on AIM gives a business. The ease with which businesses can do deals can improve considerably once you are part of a public market.

Our mission is to realise this opportunity for businesses. We want to include you in this conversation and for your views to be heard; your views on AIM, the wider market, and on what we're doing. Don't hesitate to contact one of our team if you would like to discuss the content of this report or how we can help your business.

Sam Smith
CEO, finnCap

The reason to take your company public on AIM is simple; the market provides unrivalled access to finance.

Marcus Stuttard
Head of AIM, London Stock Exchange

Welcome

Companies sometimes question the benefits of becoming public. The reason to float on AIM is simple; the market continues to provide companies unrivalled access to a deep pool of international growth capital.

The average performance of new AIM companies over the last three-years is up 16%, compared to an average growth of 4% for the FTSE100, looking at figures up to mid December 2016. And we've also seen the nature of new companies evolve in this time. Compared to 10 years ago, the average new AIM company is four times bigger and raising six times more capital.

Throughout its history, AIM, which is now in its 21st year, has continued to grow and provide opportunities for the businesses who have chosen to make it their home. Every year since 2009 we have seen over £3bn raised on the market and in most years this has been closer to £6bn, highlighting the enduring investor support for growth companies. Not only does AIM provide access to capital but it also raises the profile of the company, strengthening relationships with key stakeholders including customers and suppliers. A listing allows companies to incentivise employees and retain the best talent. Access to stock options and the opportunity to gain a stake in the business is attractive to employees.

Management teams are seeing the benefits of floating on AIM, giving them control of the future of their business. 2016 was no exception, with companies including Hotel Chocolat, Joules Group and Warpaint all floating. Their founders have been open about the fact that being on AIM gives them day-to-day control over running the business compared, for example to private equity funding.

There is no denying that 2016 was a challenging year for markets. Geo-political events and the consequential economic uncertainty had an impact on markets on a global scale. However, throughout this time AIM has continued to support high growth businesses and 2016 saw over £4.5bn raised on the market. There have been some fantastic IPOs from a wide range of sectors, from high end innovation and technology with the flotation of Blue Prism through to energy supply with Yü Group.

Following the UK's decision to leave Europe in June there have been over 20 new IPOs on AIM, showing that founders and CEOs are continuing to see the long-term benefits that floating on AIM offers.

AIM also has an important part to play within the growth of the UK economy. Strong underlying economic drivers make it even more important that we have a robust, mature and well-regarded growth market in the UK. The contribution of AIM has been well documented. In a 2015 report by Grant Thornton it found that 80% of the companies on AIM are British and they contribute £14.7bn to the UK GDP, over 430,000 jobs are supported and £2.3bn is paid by AIM companies in UK tax annually.

Whilst 2016 was not without its challenges, AIM companies continued to grow and money was raised for both new entrants and those who have been admitted to the market for a number of years. 2017 looks set to see that success continue with AIM having started the year passing a significant milestone of raising a total of £100bn.

For the coming year there is not one particular date in the political calendar that people are focusing on which means we should see a much greater continuation of business as usual. A steady flow of new IPOs and fund raising transactions are likely to take place throughout the year.

Contents

Welcome 04
2017 predictions 06
21 years of AIM 10
Year-on-year analysis 12
2016 in review 14
Expert views 30
The last word 42

2017 predictions

2017 Predictions

Here we have detailed some of the trends that we expect to impact the market in 2017.

Infrastructure

The Construction Products Association expects infrastructure spending to increase 6.3% in 2017

2017 looks to be a good year for infrastructure companies looking to IPO, in the wake of Brexit the government reset fiscal policy creating exposure to critical infrastructure opportunities.

The Construction Products Association expects infrastructure spending to increase 6.3% in 2017 rising to 10.2% in 2018. In particular, we have identified over £150bn of expenditure on road and rail new build projects and upgrades in the National Infrastructure Plan going through to 2020.

Infrastructure looks to be an area of concentrated growth over the next three years and it will offer significant opportunities to contractors and equipment makers. An IPO would be an excellent source of capital for ambitious companies seeking to expand with investors attracted to the defensive growth characteristics supported by regulation and safety issues.

Financials

We expect 2017 to be a strong year for specialist lenders.

In 2017 we expect the small and specialist asset managers to obtain increasing scale as larger firms finally admit they are not specialists and we expect that these companies will achieve high valuations.

Meanwhile in the lending space none of the P2P lenders have yet to IPO but many are contemplating it. Funding Circle raised money in January at a £1bn valuation whilst Ratesetter and Zopa are anticipated to pursue funding later this year.

The Challenger banks were found to have heavy Buy to Let exposure in 2016 following government crackdowns on buy to Let landlords causing a weakened share price performance. As has happened in the wealth distribution space we expect 2017 to be a strong year for specialist lenders but those without a specialism will find themselves in an increasingly tough competitive space.

Consumer

If we are to see any IPOs within this area they are likely to be in niche areas.

With the anticipated rise in the cost of importing goods 2017 will see an increase in import prices which will result in suppliers passing on the increases to consumers. As hedges start to unwind and rental prices increase, 2017 looks to be a tough year for main stream consumer goods suppliers.

If we are to see any IPOs within this area they are likely to be in niche areas with high end goods seeing a rise in popularity and lower end goods providers also seeing increases.

Resources

We expect 2017 will see some of the profits rotated into the more attractive growth investment opportunities.

Following a strong price recovery by the mid to large cap miners in 2016, we expect 2017 will see some of the profits rotated into the more attractive growth investment opportunities coming through, this including some genuine mineral explorers.

This will drive a return to the IPO market for the sector this year, but realistic pricing and high quality prospects will be critical to success as there are still many inexpensive investment opportunities amongst the existing mineral producers.

We expect a much improved IPO market for quality oil and gas projects which offer proven resource upside and development potential. We also expect appetite from investors for pure exploration could return as costs in the sector are at cyclical lows, and companies offering a portfolio of well opportunities particularly with industry partner validation will be well received, of which there are a number currently private.

Technology

We are looking towards regulation as the main driver of growth.

Whilst global markets might be struggling to shake off the last dregs of uncertainty from 2016, we can expect to see a return to growth in the tech sector. Fast-growth digital firms have been holding back from high profile IPOs but the appetite for quality tech investments has not abated.

Specifically, the dual sectors of automation and regulation will continue to drive growth and we can expect to see several high-quality IPOs from companies operating within these verticals. After the success of consumer plays in previous years, we are seeing a return to investor interest in more enterprise focused sectors including SaaS, machine learning and data analytics.

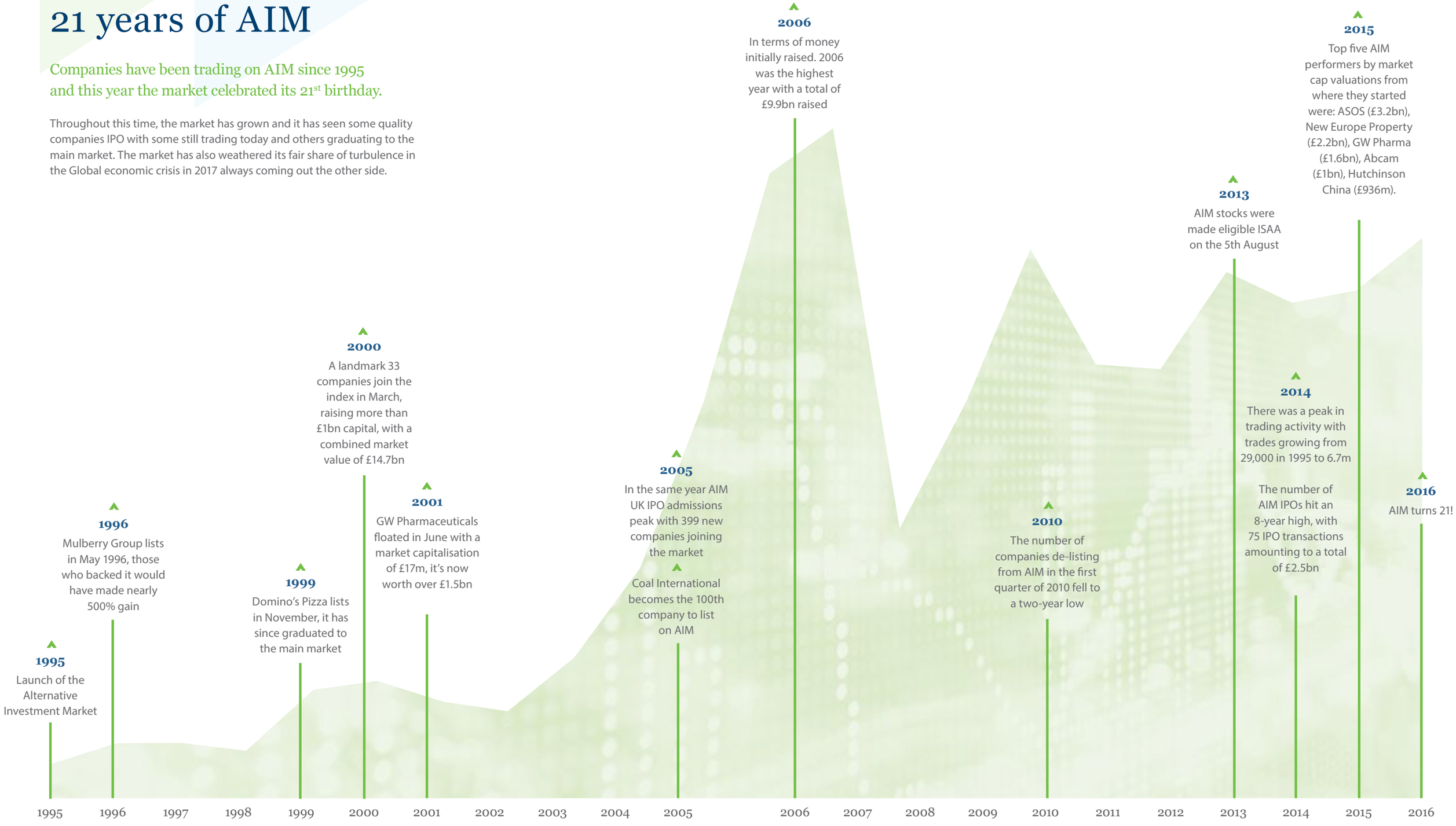
In the coming year, we are looking towards regulation as the main driver of growth, with a significant increase in the number of companies developing technology to help others deal with increasingly complex regulatory demands.

21 years of AIM

21 years of AIM

Companies have been trading on AIM since 1995 and this year the market celebrated its 21st birthday.

Throughout this time, the market has grown and it has seen some quality companies IPO with some still trading today and others graduating to the main market. The market has also weathered its fair share of turbulence in the Global economic crisis in 2017 always coming out the other side.



Year-on-year analysis

Since its inception in 1995, AIM has supported 3,695 high growth companies looking to scale and raise funds. AIM's story can be divided into three phases that illustrate how the market has grown and matured into what it is today.

Phase One is characterised by relatively fast growth in the immediate years after the market's inception. Phase Two is known as the boom years and follows the markets as they grew exponentially over a period of four years. Finally, Phase three covers the period of depression and recovery bringing us to the current day.

From its beginning in 1995, AIM has seen its popularity as a market for small caps continue to grow. In the first nine years the market was still young but it grew in stature with 583 companies joining the market between 1995 and 2003. This amazing growth can be attributed to the relative ease to float on the market, the light touch regulatory environment and the ease of raising funds.

During its infancy the market was largely domestic in nature with 60 international companies listed by 2003 compared to 694 UK based companies. One of the most notable flotations during that time was ASOS. The company, which floated in 2001 at 126.5p, has been a continual success for the market, and today is worth 5,157p, almost a 4000% return. It would be fair to say during the first phase of AIM the market was growing in success and building credibility as the home for growth capital.

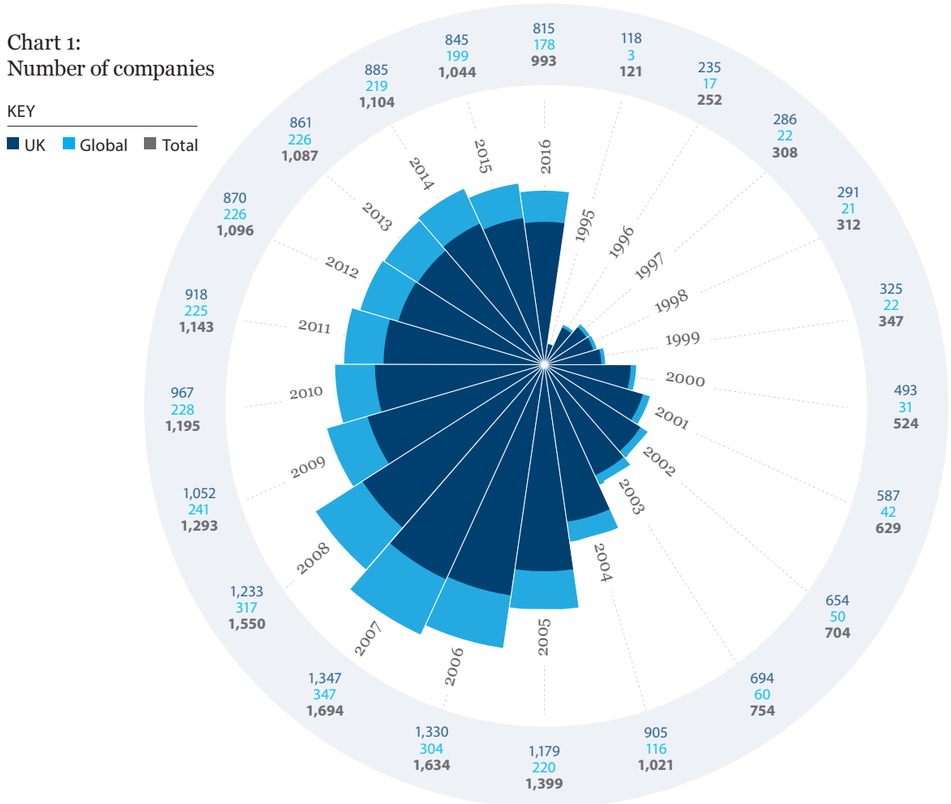
The second phase, known as the boom years, saw the market grow rapidly and become internationally recognised as one of the best global markets for growth capital. During the four years between 2004 and 2008 the number of international companies joining the market increased by over 50%. This was coupled with a boost to commodity prices, which saw a surge in the number of early stage resources companies floating. In 2005 there were 104 new Oil and Gas companies who chose to float on AIM. This period on AIM is illustrated by a swell in numbers and a dramatic rise in funds raised, in 2006 new funds raised reached its peak.

In 2008 the global markets crashed and many economies went into depression, this had an impact on the success of the companies operating on the market and it can defined as the third phase of AIM. Phase three went into reverse and this time was typified as a period of consolidation; commodity prices dropped and many early stage companies who had enjoyed success between 2004-2008 failed and left the market. Between 2009 and 2016 the total number of companies listed on Aim dropped by 300. During phase two almost two thirds of the companies on the market were resource companies which dropped to 10-20% during phase three.

From 2009-2016 there was an increase in the number of consumer, technology and industrial brands who took the decision to float on AIM. Notable joiners included Fever Tree, Boohoo, Dot Digital, Learning technologies, Purple Bricks and Joules Group.

Throughout its 21 years AIM has continued to prove that despite changing market conditions it remains one of the best global markets for small caps. The market will continue to serve those high quality high growth companies who are looking to raise capital and understand the long term prospects that an IPO on AIM can offer them.

Chart 1:
Number of companies



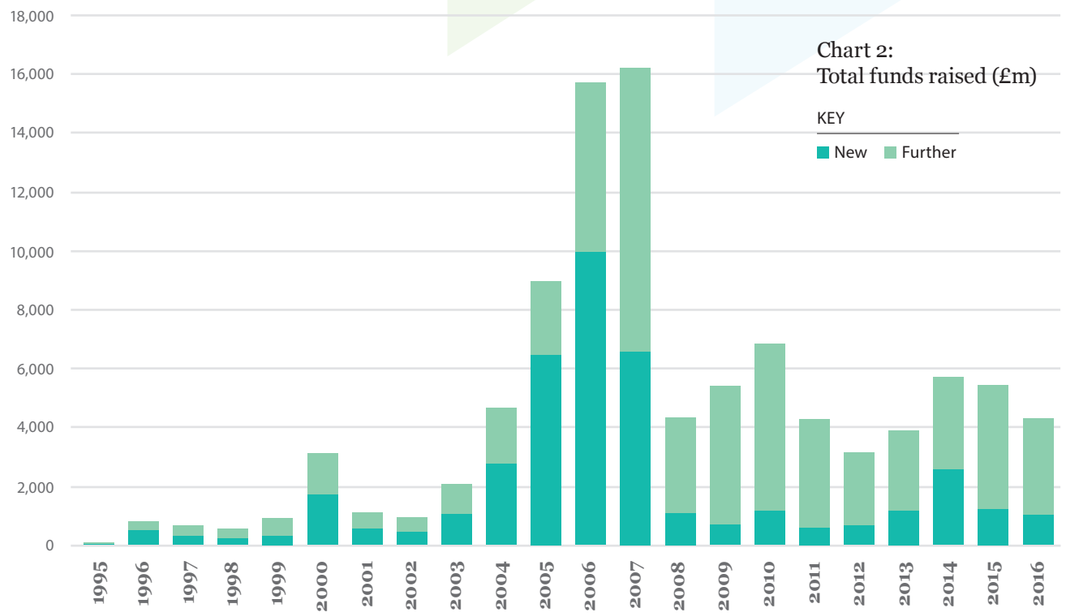
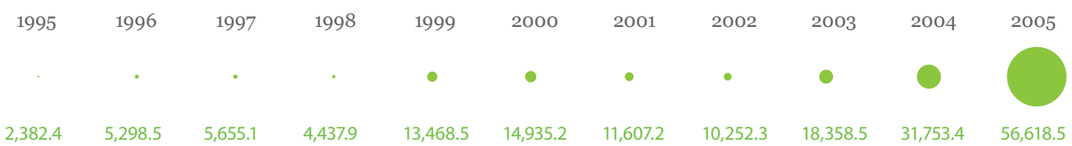
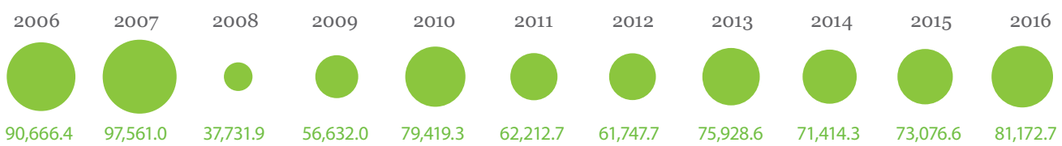


Chart 2:
Total funds raised (£m)

KEY
New
Further

Chart 3: Total market value (£m)





2016 in review

995
Total number of companies on AIM

£1.04bn
New money raised in 2016

£3.6bn
Further money raised in 2016

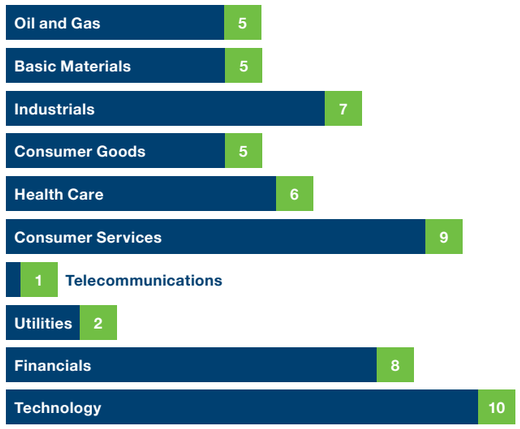
£27bn
Market turnover

AIM: The year in numbers

New entrants by month

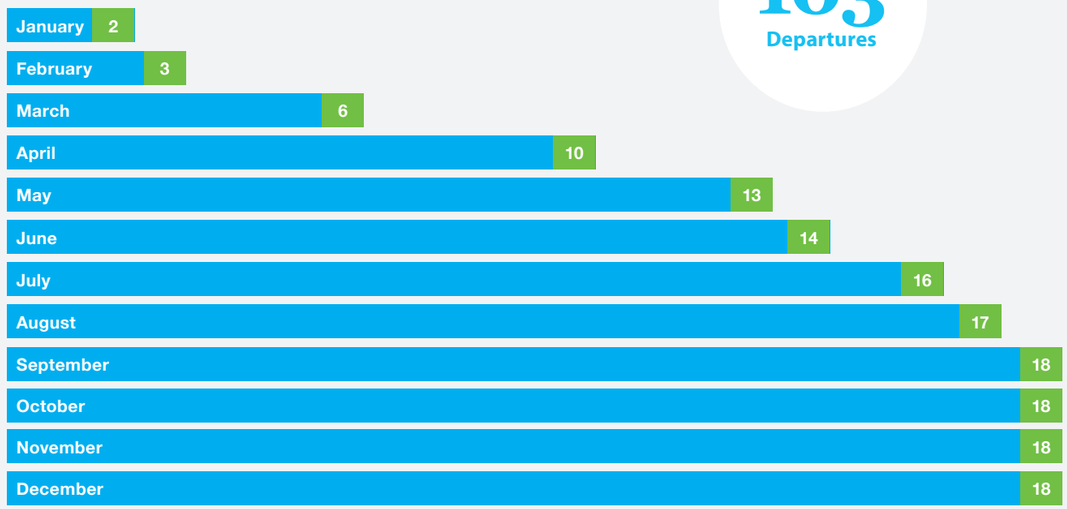
58
new entrants and re-admissions

New entrants by sector



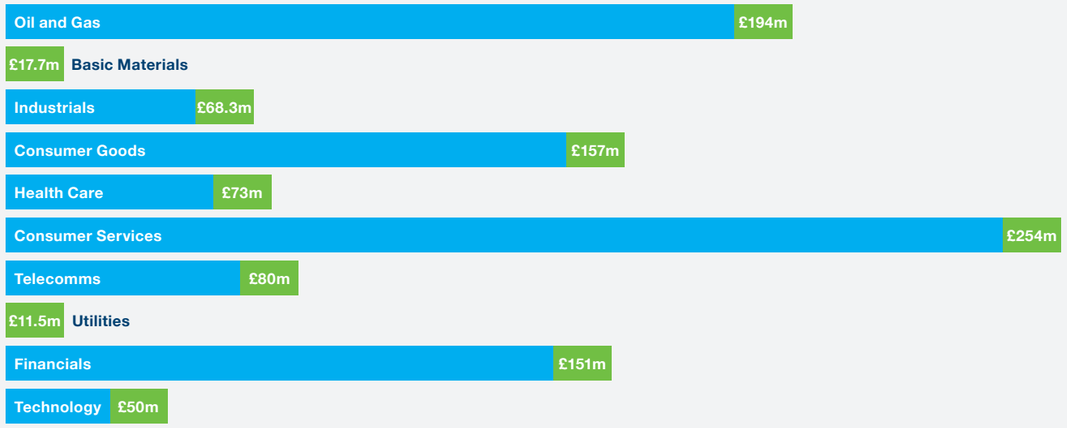
Re-admissions

103
Departures

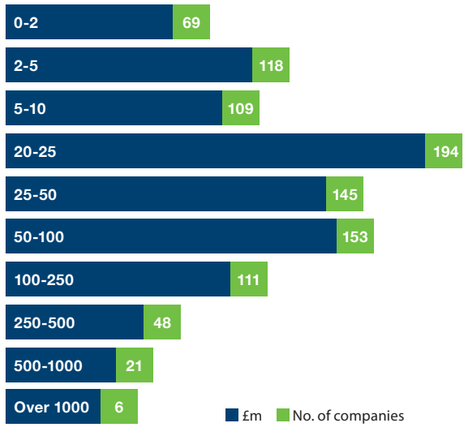


*Of which total re-admissions from the Main Market

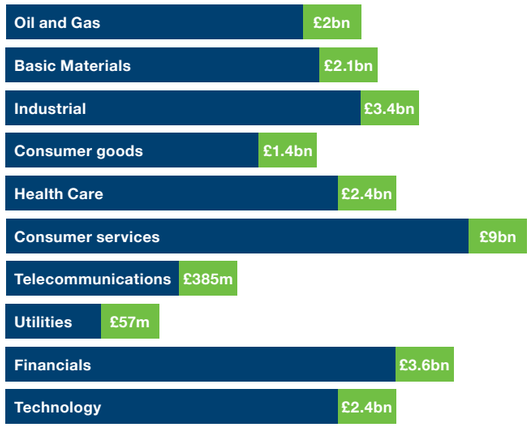
New money raised on AIM by sector



Distribution of equity market value



Market turnover by sector



2016 IPO Summary

Starting with just ten companies in 1995 AIM has grown and is now home to over 900 high growth small and midsized companies. The market has been a platform for many fledgling companies who have since graduated onto the main market such as Dominos Pizza and Mears Group.

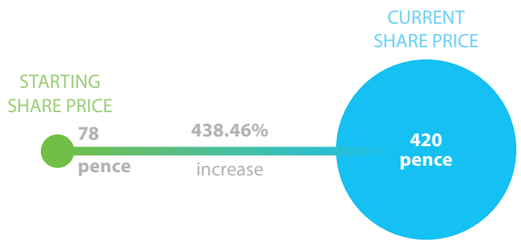
2016 was a difficult year for markets globally with outside pressures impacting businesses across all industries. Below are details of the top five performing IPOs from the year. These companies have all provided sizeable returns for investors and their prospects for 2017 look promising.

Throughout 2016 there have been 58 IPOs with the average share price performance of those who have floated being +16%. Below is a selection of the top five performing IPOs.

blueprism

1. Blue Prism

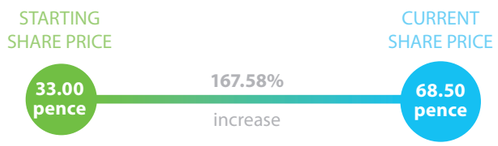
Blue Prism joined the market in March 2016 with a market cap of £68m. Due to their business model and the clear future returns investors have reacted well to the floatation. The company looks set to continue providing good returns for investors in 2017 with growth across the board as the application of its AI technology becomes more feasible.



FRANCHISE BRANDS

2. Franchise Brands

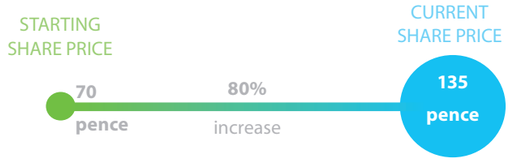
Franchise Brands plc is a group of international multi-brand franchisors with a combined network of over 400 franchisees in 12 countries, but predominantly in the UK. Their current brands are ChipsAway, Ovenclean, Barking Mad and MyHome, all of which deliver services to individual customers through the Group's franchisees.



MaxCyte

3. MaxCyte

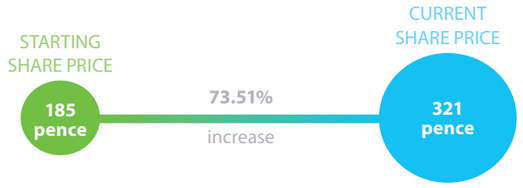
MaxCyte is a leader in cell transfection, bringing to market its patented flow electroporation technology. MaxCyte is focused in applying its significant capabilities in the discovery, development, and manufacturing of virtually all classes of innovative therapeutics targeting a broad range of chronic and acute diseases.



yü ENERGY

4. Yu Group

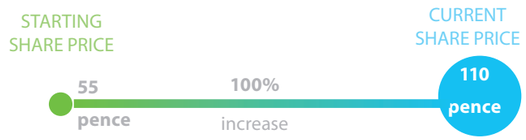
Yu Energy launched onto AIM in March with a valuation of £26m. Just one month after the announcement they were going to float the IPO was significantly over subscribed. Since launching onto the market they have gone from strength to strength and their share price has nearly doubled.



HOTEL Chocolat.

5. Hotel Chocolat

The company founded in 1993 entered AIM with a market capitalisation of £167m and has done well since launching in May. Share price has risen by over 40% since entering the market largely due to name recognition and good reported revenue increases and future expansion plans.



Top performers: all share prices accurate on 19th December 2016

Technology

After a number of years of strong growth for the technology industry the impact of the referendum decision in the UK was felt strongly.

Despite outside market pressures and a slow-down in growth the technology sector continues to do well. Throughout the year there have been ten new technology companies who completed an IPO on AIM. Notable additions to the market include LoopUp, who were the first technology company to float following the decision by the UK to leave the EU. The second notable floatation was from Blue Prism, despite being pre-profit it has gone down well with investors and advisors due to their business model enabling stakeholders to see a clear path to profit in the future.

New money raised within the sector amounted to over £50m an increase of £36m compared to new money raised within the technology sector in 2015. Growth was concentrated in the software and computer services area with all ten new IPOs coming from within that sub-sector.

For those technology companies who were looking to raise further money it was also a successful year with over £195million raised, although this is down from 2015 when the amount raised for further issues was £240million. This is most likely to be due to the fact that the number of further issues in 2016 fell as companies became wary about future growth prospects given market uncertainty.

Overall the technology sector saw good growth with some exciting new companies floating on the market and a near 75% increase in new funds raised. There was some stagnation due to macro-economic factors, but in 2017 the sector looks like it will continue to grow steadily reflecting trends and economic growth areas.

> Despite outside market pressures and a slow-down in growth, the technology sector demonstrated remarkable resilience.

	New issues	New money raised (£m)	Further issues	Further money raised (£m)
Software and computer services	10	£50.2	201	£171.9
Technology hardware and equipment	–	–	35	£23.6
Total technology	**10**	**£50.2**	**236**	**£195.4**

Top technology IPOs of 2016

LoopUp

Conference call software firm LoopUp were famously the first technology company to float after the referendum result that saw the UK choose to leave the EU.

LoopUp co-founder Steve Flavell said that the company did consider this before they decided to float but decided ultimately it wouldn't have a long term impact on their ability to grow.

> LoopUp listed in August and has made a pretax profit of £72,000 up from a £619,000 loss the year before.

Since listing on AIM total revenue for the company has increased to £6.4m from £4.8m.

Since joining AIM LoopUp has said it continues to gain customers and has made progress with small business development, sales and account managers. When LoopUp released their first set of interim results in September 2016, shares rose 2.4% to 126 pence.

Blue Prism

Blue Prism, which floated on AIM in March 2016, is a software company that designs robots which can be trained to take on routine back-office clerical tasks for businesses.

Since listing on AIM earlier this year the company has continued to grow at an incredible pace, attracting new investors and customers through an increased profile. At the last company announcement where they indicated that their upcoming full year results would outperform expectations, it announced that it had 153 customers on its books in October, up from 57 at the same point in 2015.

The company is looking to expand internationally in the coming year, Alastair Bathgate, CEO, said:

> "The performance reflects the success of our strategy to accelerate investment to secure future growth."

On the 16th December 2016 at the time of writing stocks were valued at 420 pence, up from 110 pence in March 2016.

Life Sciences

Throughout 2016 progress and growth within the Life Sciences industry was slower than originally hoped.

This trend was set by the high profile clinical trial design error experienced by one midlands based bio-technology firm. Following this their market cap fell from £750m to £250m and crucially reminded the market how dependent life sciences companies can be on regulation and product quality.

Within the health care sector there were six new IPOs in 2016 with four of those within the pharmaceuticals and biotechnology industry. New money raised amounted to £73m, this was down on 2015 where the industry enjoyed notable success with nine new IPOs raising over £390m.

Despite 2016 being a slightly more difficult year for new IPOs, companies who were already on the market have had more success raising further funds. There have been 216 further issues raising over £534m.

> This growth is driven by the growing call for innovative solutions for complex medical problems

The highest growth sub-sector has been Pharmaceuticals and Biotechnology with 50% more new issues and over 100% more further issues than health care and equipment services. This growth was driven by the growing call for innovative solutions for complex medical problems. With an ageing population there is a need for resolutions that will enable people to live healthier lives for longer.

Overall the Life Sciences sector saw a much slower year than the last, uncertainty around product safety and a slowdown in general investment has meant growth slowed. However, towards the end of 2016 there were a number of new IPOs worth noting that may indicate prospects are looking more positive and 2017 will start to see the growth the industry expected in 2016.

	New issues	New money raised (£m)	Further issues	Further money raised (£m)
Health care equipment and services	2	£8.2	61	£60.7
Pharmaceuticals and Biotechnology	4	£64.9	155	£474.1
Total Health Care	**6**	**£73**	**216**	**£534.8**

Top Life Sciences IPOs in 2016

Creo Medical

Creo Medical is medical device company focused on the emerging field of surgical endoscopy. The company raised a £20m on admission to AIM, with a market capitalisation of approximately £61m.

> Creo Medical floated on 9th December 2016 and when it floated it became the latest bio-medical company to join 40 more with a combined market capitalisation of nearly £9bn.

When the Creo Medical listed the share price opened at 80.4 pence and commentators are watching closely to see what the company achieves in the coming year.

Graig Gulliford, CEO for Creo Medical said; "the AIM market has allowed us to attract they type of long-term institutional investors whose outlook fits nicely with our vision for growth of the company and execution of our business model."

Oxford Biodynamics

Oxford BioDynamics is focused on epigenetics and its technology analyses biomarkers in the blood to help pharma companies work out which patients are likely to benefit most from a particular drug. When first listed the company's market capitalisation closed out at £136m. The company opened on the stock market with shares of 163 pence and it had a valuation of £20m.

Chief executive Christian Hoyer Millar said: "We are delighted to be joining AIM at such a pivotal time in the company's development. By further strengthening our balance sheet, we are now ideally positioned to accelerate our growth"

The biotech firm says it will use the cash to fund expansion and enhance its IP portfolio, and it hopes the injection will provide enough working capital for the next two to three years.

Some of the money will also go towards helping Oxford establish a presence across the pond, with the US seen as the go-to market for companies of this ilk.

It recorded a loss of £1m last year, but unlike some of its peers it is revenue-generating, getting its income through contracts with pharmaceutical groups.

Financials

2016 was defined by traditional players coming to terms with increasingly strict regulation.

Only five new issues within general finance, one fewer than 2015 and 31 fewer than in 2007 was the result of regulators seeking to hold high margin suppliers to account and ensure the security of the industry following the global economic collapse in 2008.

Despite some slowed growth, the financial sector continued to prove it is one of the UK's main industries with eight new issues, third only to the Consumer Goods sector (9) and Technology sector (10).

Whilst traditional finance may have suffered, alternative finance lenders are looking to move forward and 2016 has seen a growth of private equity investment into businesses like Lendinvest and RateSetter.

However, despite fintech companies like Free Agent enjoying a rise and increased support from consumers and regulators there are very few

other quoted plays in the arena, so 2017 looks set to be the year of IPOs for alternative finance suppliers.

> The financial industry continues to prove it is one of the UK's main industries

	New issues	New money raised (£m)	Further issues	Further money raised (£m)
Nonlife Insurance	–	–	13	£5.9
Real Estate Investment & Services	1	–	26	£27.9
Real Estate Investment Trusts	–	–	6	£290
General Finance	5	£131.5	158	£184.1
Equity Investment Instruments	1	£10.2	31	–
Non-equity Investment Instruments	1	£9.7	1	1
Total Financials	**8**	**£151.4**	**235**	**£666.1**

Top Financial IPOs in 2016

APQ Global

APQ Global is an emerging markets growth company based in Guernsey. The company floated on AIM in August 2016 with a joint listing on The Channel Islands Securities Exchange and AIM. APQ raised £78.1m by issuing 78.1m shares at 100 pence per share.

> The firm is using the money it raised through floatation to develop lending activities to sovereign, corporate and banking entities in emerging markets.

Charles Turtleboom, Chairman of APQ Global has commented on the importance that the joint listing has had for the growth plans for the company. "We believe that our business strategy is well-placed to pay six per cent dividend and deliver substantial growth in the book value of the company."

Premier Asset Management Co

AIM listed Premier Asset Management floated in October 2016 with an opening share price of 135p. In the three months to December 2016 it recieved net inflows of GPB 778.0m, the company also announced their first dividend for investors.

Premier said it intends to announce the amount of the dividend in early 2017. CEO mike O'Shea has said that despite some uncertainty in the coming year he feels the company is well placed for the lomg term.

> "2016 was a strong year for Premier. Very importantly we have continued to deliver good investment outcomes for our clients, in terms of income, growth and risk adjusted performance" said CEO, Mike O'Shea

Industrials

As with the UK's other key industries the start of 2016 was strong for industrial suppliers.

However it tailed off slightly as the vote to leave the EU got closer and it suffered for a short period of time after the Referendum result.

Despite disruption following the referendum, industrial players, particularly the support services, actually benefited from the subsequent weakening of the pound. For companies that had overseas subsidiaries or export materials this change was positive. Those who suffered in the wake of the decision are those who import raw materials as sterling fell, leading to decreased margins and profit increases being passed along to customers.

The biggest growth in the sector was in the support services industry with six out of the seven new IPOs in 2016. Notable flotations include companies like Van Elle which successfully floated in October with a valuation of £4m.

Overall in 2016 the industry was disrupted by macro-economic events but has pulled through and there has been growth within the industry. With seven new issues raising over £68m pounds. This was down from 2015, but the industry maintained good levels of growth that are expected to continue in 2017.

> As with the UK's other key industries the start of the year was strong for industrial suppliers

	New issues	New money raised (£m)	Further issues	Further money raised (£m)
Construction and Materials	1	£10	20	£3.4
General Industrials	–	–	3	£2.9
Electronic and Electrical equipment	–	–	22	£9.1
Industrial Engineering	–	–	17	£6
Industrial Transportation	–	–	2	£34
Support Services	6	£58.3	106	£99.6
Total Industrial	7	**£68.3**	**170**	**£154.8**

Top Industrial IPOs in 2016

Van Elle Holdings

Van Elle is a geotechnical contractor, based in Nottingham that offers a range of services to UK construction companies covering the new-build housing, infrastructure, commercial, industrial and public sectors. The company first floated in October raising £40m in its float and upon entry the market cap was £80m.

When it first launched onto AIM the company sold 30m existing shares and added in 10million new shares at 100pence.

> At the time of writing shares had risen nearly 30% and were valued at 130 pence.

When questioned about AIM, Chairman of Van Elle, Michael Ellis commented that; "There is significant opportunity ahead and admission to trading on AIM will help us accelerate the growth of the business."

Autins Group

Automotive part manufacturer, Autins Group floated on AIM in August after raising £26.6m in gross proceeds from its float. The company, who make acoustic thermal insulation products, opened on the market with shares valued at 168 pence.

From the money raised the company has used £14m to invest back into the company developing new products and enhancing current lines.

> Since floating the share price has done incredibly well rising nearly 37 pence to 239 pence.

The firm's market capitalisation was £37.1m Jim Griffin, CEO said; "we believe the IPO is the right strategy to support the continued development of the business as it continues to grow into new and existing markets."

Consumer

The Consumer industry saw a mixed year, the first half of which was characterised by benign economic factors including high employment and low interest rates.

This created the perfect environment for growth and led to a successful first half. During this time, there were a number of notable new companies who floated on AIM including Hotel Chocolat and Joules Group.

Overall throughout the year there were five new issues on the market with £157m new money raised. The slow-down in growth is evident when you look at money raised in the first six months compared to the year-end total, with less than £17m in new money raised after June.

Following discussions about access to the European single market post Brexit, many consumer goods companies have warned of a decrease in profit margins due to rising import costs. Many fully hedged their stocks in 2016, meaning the inevitable price rises will not become apparent until the first few months in 2017.

Whilst the second half of the year was tough, the industry enjoyed a good year overall with new funds raised in 2016 nearly tripling the amount raised in 2015. (£35.7m in 2015 versus £157.3m in 2016).

> Benign economic factors including high employment and low interest rates created the perfect environment for growth

	New issues	New money raised (£m)	Further issues	Further money raised (£m)
Automobile and Parts	1	£14	4	£5.5
Beverages	–	–	2	£0.6
Food Producers	1	£12	16	£61.3
Household Goods	2	£128.8	16	£23.2
Leisure Goods	–	–	7	£14
Personal Goods	1	£2.5	8	£15
Total Consumer Goods	**5**	**£157.3**	**53**	**£119.7**

Top Consumer IPOs in 2016

Joules Group

Joules Group is a clothing and accessories retailer on the UK high street who floated on AIM in May this year with an opening share price of 194 pence. Following listing the company reported a rise in revenue in the 26 weeks to November, growing from £70.1m to £81.4m.

> Retail revenue grew from both physical sales in stores and online with a 16% year-on-year growth.

Wholesale revenue also grew 17% buoyed by a strong autumn/ winter 2016 order book.

Since joining AIM the company has seen positive growth in sales and revenue and the money raised through the float is being ploughed back into the business with a clear growth strategy in place for 2017.

Hotel Chocolat

Hotel Chocolat started trading on AIM in May 2016 after raising £55.5m with their initial public offering, their market capitalisation was valued at £167million. The chocolate produce company saw an immediate lift in share price up by 26% from the starting price.

Since listing on AIM the company has opened seven new stores and closed three that reached the end of their lease, it now operates 83 stores in total with further plans for growth in 2017.

> Growth has not only been physical, pretax profit also grew to £5.6m from £2.9m the year before and overall revenue increased to £91.1 from £81.1m.

CEO, Angus Thirwell, commented recently that he was looking forward to further progress in the year ahead.

Expert views

Expert views

Charles Rolls

CEO and Co-founder,
Fever Tree

Charles is the Co-Founder of Fever Tree, a producer of premium drinks mixers. Founded in 2005 by Charles Rolls and Tim Warrilow, the company was floated on AIM in 2014 with a valuation of £154 million.

When it first opened on the market shares were worth 165.00p, after two years this has now risen to 2,073p and the market cap currently sits at £1,237m.

We chose AIM was because we were passionate about maintaining as much control as possible over the business.

Listing on AIM is no simple task and requires rigour and discipline. The best way to achieve a successful oat is by seeking out talented and attentive advisors. It is important to work with independent stakeholders who can provide insight into financial markets and are from outside of your business. A high-quality advisor can help you navigate the market terrain and forecast potential pitfalls, ensuring your IPO is successful.

When I sat down with my co-founder, Tim Warrillow, to decide how best to scale Fever Tree, a key reason we chose AIM was because we were passionate about maintaining as much control as possible over the business. Investment from PE funds and VCs forces you to concede in influence to a single stakeholder – something we weren't willing to do.

The feeling of trying to make the business as good as it can be, rather than feeling like we're being financially stress-tested by one dominant shareholder group, is incredibly liberating

It's hard to say what 2017 holds for public markets.

The election of Donald Trump and the decision to leave the European Union may generate difficulties in exporting to both sides of the Atlantic. However, I don't think markets ever completely close. It may be difficult next year but with a good management team, and good business – you'll find a home on AIM.

Our experiences of AIM have been extremely positive and we are very happy that we took the step two years ago. If you're a high-growth, aspirational business, don't let market uncertainty put you off.

Nick Parker

CFO,
Yü Energy

Firms will still need to show considerable resilience to maintain its progress.

Nick is the Chief Financial Officer at Yü Energy, a challenger energy brand supplying gas and electricity to small and medium sized businesses across the UK.

The company floated in 2016 with a valuation of £26m, only one month after announcing their intention to go public, the IPO was already over-subscribed. Since floating in March 2016 the share price has nearly doubled and currently sits at 323p with a high 372.5p.

Listing on AIM in 2016 has been a notable success for Yü Group PLC, we were oversubscribed at listing and the share price has shown strong growth ever since. My belief about AIM as a market has always been guided by whether a company can answer two of the following six questions positively:

1. **Does it have sales?**
2. **Does it have growth?**
3. **Does it have a sensible margin?**
4. **Does it have a predictable revenue stream?**
5. **Can it generate cash?**
6. **Does it have an interesting rationale?**

The recent positive results on AIM for us and others like us has been driven by well-prepared companies that can answer 'yes' to all of the questions above. This is critical for the on-going performance of the market, it is less affected by the significant macro-economic events of 2016, but firms will still need to show considerable resilience to maintain its progress.

At Yü Group PLC we are looking forward to 2017, we'll be able to show our first full year's results and to continue to do what we said at listing. We expect a similar number and quality of firms to be listing next year and we'll be following progress with great interest.

Expert views

It was incredible to see the business go from strength to strength, and become a global leader in its field.

Mark Mills

Chairman,
Velocity Composites

Mark is founder of Cardpoint PLC, a company he helped float on AIM in 2002. After a £170m takeover in 2006, Mark left the business and has since sat on a number of boards in a non-executive advisory role.

He is currently Chairman at Velocity Composites, and with the guidance of Mark the company are looking to float on AIM in 2017.

I am a bit of an AIM veteran, and a firm believer in the incredible opportunities it offers high-growth businesses.

My first encounter with AIM was during my time with Cardpoint plc, where I launched one of the first UK independent cash machine deployers. From 1999 to 2006, I floated the business on AIM and grew it both organically and through acquisition to become one of the largest cash machine deployers in the world with revenues of £98 million and pro t for the year ending September 2006 of £19.8 million.

This experience opened my eyes to the prospects and challenges that AIM presents. Preparation is key, and I spent a lot of time getting the business in order as we prepared to float. The due diligence certainly paid off, and it was incredible to see the business go from strength to strength, and become a global leader in its field.

Looking ahead to 2017, I'm keen to bring another business into the public sphere. Despite the likelihood of this year's economic and political uncertainty lingering into the new year, I'm not afraid of taking the plunge. AIM is a resilient market, and Velocity Composites is a strong, high-growth business.

We export to Denmark, Canada, France, Belgium and the USA, and achieved turnover of £14.5 million to 31st October 2015. Next year I want to open further factories in UK, Europe and US to replicate our business model.

I can only achieve this goal by maintaining independence of the business, whilst building up a stock of external capital. AIM is the only platform that gives me the opportunity to do this, and I'm excited for all that the year ahead holds.

Chris Searle

Corporate Finance Partner,
BDO

Chris Searle is the Corporate Finance Partner in Transaction Services at BDO in London. Chris specialises in working on IPOs for clients.

Having undertaken this work for over 25 years, he has led over 100 IPOs. He has worked across a range of sectors, including mining, oil and gas, technology, healthcare, leisure and hospitality, retail and real estate. He co-wrote the chapter on reporting accountant work for the 2015 edition of 'A Guide to AIM' published by the London Stock Exchange.

In the UK, Brexit has loomed large over the markets, with the fallout from the decision to exit the European Union generating economic and political turmoil and stymieing investment activity. That said, and despite wider macro-economic turbulence, AIM has proved resilient in the face of strong political headwinds and is well positioned as we approach 2017.

The effect of political developments, like those we have seen throughout 2016, are always notoriously difficult to gauge. Some analysts predicted dire economic forecasts following the referendum results in June, but we're yet to see them materialise.

The UK economy has bounced back following a few months of uncertainty and they remain robust, currently growing at the fastest rate of any of the G7 advanced economies.

AIM has proved resilient in the face of strong political headwinds and is well positioned as we approach 2017.

Whilst wider political developments are likely to significantly impact the broader economic vitality, their influence on individual firms is far more difficult to determine. For AIM's constituent companies, the provision of a comprehensive growth plan and a skilled management team are going to have a far greater impact on overall success, with wider macro-economic conditions playing a peripheral role.

Jamie Brooke

Fund Manager, **Henderson Global**

Jamie Brooke, MA, CA, serves as Fund Manager at Henderson Global Investors Limited.

Before joining Henderson, Jamie served as a Fund Manager at Gartmore Investment Management Ltd, where he was a part of the small cap team. He was employed at 3i where he worked in the London buyout team on a number of successful leveraged transactions including MORI, Coutts Consulting, and Safetynet.

The current environment is very well suited for a return to small-cap investments. In the US we have seen the Russell 2000 shoot up beyond the large-cap markets as a result of corporate tax reduction, and we are seeing those reductions here in the UK as well. Small-caps have the potential to do very well in this landscape, especially domestic players for whom the vagaries of foreign currency are less extreme.

There have been a number of exciting high growth areas on AIM, in particular cyber security has seen a big spike in activity. The theme of consolidation across software and IT services has also continued well throughout the year, and will continue further.

> If you're willing to invest in a good company and hold for the medium to long term, then you should do well.

Recently it's been a difficult time for challenger banks because a lot of them do mortgages which is an area that has struggled of late. However, there are still plenty of opportunities for investors looking to make a return on alternative finance solutions. Although 2016 led to some volatility in share prices, AIM is still undeniably a fantastic market that provides great opportunities for investors and business owners alike.

Overnight success has never been a defining characteristic of AIM, but if you're willing to invest in a good company and hold for the medium to long term, then you should do well.

Stuart Andrews

Head of Corporate Finance, **finnCap**

Stuart Andrews is Head of Corporate Finance at finnCap, he has been at finnCap for the past five years and before that he held roles at both Price Waterhouse Coopers and Evolution Securities.

finnCap's Corporate Finance department offers a consistently high level of service to both private and public companies on all aspects of their activities.

In 2016, the AIM market turned 21 – stepping into maturity at a time of financial turbulence but also opportunity. It celebrated with the success of Fevertree, which expertly demonstrated the power of the partnership between an international brand and AIM.

The toughest part of the year was undoubtedly the lull in markets and activity levels after the UK voted to leave the European Union. Investors and corporates alike chose to sit on their hands over those long Summer months. That said, finnCap is a firm that thrives on adversity and, while markets were quiet, we continued to bring on exciting and ambitious companies.

CEOs can often underestimate the time and effort that an IPO will take, particularly in what has been a very difficult year. That's why clear advice can alleviate the pressure, enabling executives to focus on the business as much as possible during what is often a demanding, yet very rewarding process.

Despite a tough year, AIM has continued to prove its strength, companies, like finnCap, who support businesses looking to float on AIM are testament to this. AIM continues to attract the most dynamic and fast-growth companies and I have no doubt that 2017 will continue to bring successes for the market and its member markets.

> AIM continues to attract the most dynamic and fast-growth companies.

Expert views

Chris Boxall

Co-Founder,
Fundamental Asset Management

Chris Boxall is a Co-founder of Fundamental Asset Management and qualified as a Chartered Accountant in 1989.

He was formerly with Deloitte & Touche, senior adviser with a specialist business consultancy and more recently at Washington Financial Group where he was a key member of the investment management team of the Washington US Fund Ltd, a successful long/short equity fund.

2017 promises to present a wealth of opportunities.

Over the years the quality of AIM has improved immeasurably as many of the serial underperformers have left for new performers to take centre stage. The market and the quality of the companies being attracted are more mature, and this has never been more evident than in 2016.

2017 promises to present a wealth of opportunities. If you're a small institution like Fundamental Asset Management, or a private investor, AIM is a marvelous market to invest in, especially if you're prepared to do a bit of more of your own research. AIM is attracting businesses that are attaining meaningful growth and high earnings, achieved not simply via clever financial engineering – a problem increasingly being seen on the main market.

We are seeing a number of trends emerging for 2017, there are a lot of leavers, but these are companies who have reached the end. They didn't use the market as they should have, and many of them are based overseas and focused around commodities. These businesses are highly speculative, unprofitable and now have nowhere to go. It is good to see the unloved calling it a day.

Meanwhile, many more UK-headquartered businesses are joining, which will be an ongoing trend. The London Stock Exchange made a big push to attract overseas businesses and many of these were found wanting for this. It has become more of a home-grown market, albeit companies that have an international outlook, but are headquartered in the UK.

We are also seeing the increase of partial exits from AIM IPOs. Larger, more mature

businesses are seeking to exit but not entirely. Often these have founder-owners who want to partially exit and take some money off the table, but want to stay involved, and so are choosing AIM as a suitable market in which to do this.

Overall 2017 will no doubt prove to be another successful year for AIM and its investors, the market will continue to mature and the quality of businesses looking to float will remain high. For both investors and businesses looking for a stable market with good prospects it will take a lot to find something better than AIM.

Sebastian Orton

Partner,
Eversheds

If you're a high-growth business looking to expand, we firmly believe that AIM is the place to go.

Sebastian is a partner in the corporate group and has extensive experience advising both private and public companies and financial institutions.

His work covers a range of corporate issues with particular expertise in IPOs, secondary fund-raisings, M&A, including public company takeovers, and advising listed companies in relation to matters of corporate governance and their continuing obligations.

Despite the ups and downs of 2016, there have been more AIM IPOs this year than last. Whilst there will always be political calamity and market volatility, if you're a high- growth business looking to expand, we firmly believe that AIM is the place to go.

The businesses who have done well on AIM this year have been relatively mature, and UK-focused. We're working with a client looking to IPO shortly, and they believe that now is the time to float.

Pretty much every AIM IPO is oversubscribed with Venture Capital Trusts and Enterprise Investment Schemes offerings. The funding is there for the taking. Meanwhile, the vote to leave the EU has had a limited impact on certain, UK-focused businesses. Political mishap does not affect as many businesses as some have made out.

Our advice, therefore, remains much the same. It's all about the power of the 'p word' – preparation. If you're a sound business, you'll have your data, disclosure and governance in order. 2016 has demonstrated that if businesses have these assets in place, along with an ambitious outlook, it is not difficult to get an IPO away — as long as the market conditions are right.

Expert views

Judith Mackenzie

Partner and Head of Public Equity, **Downing**

You can find real quality that you might not otherwise see on the main market.

Judith joined Downing in October 2009. Previously she was a partner at Acuity Capital, a buy-out from Electra Private Equity, where Judith managed small company assets with an activist strategy.

Prior to Acuity, Judith spent seven years with Aberdeen Asset Management Growth Capital as co-Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas.

AIM is known as the stock pickers market, about 60% of the market is made up of small caps under £50million and not a lot of people hunt there. That can be a real benefit for the right investors, if you have researched your stocks and done the due diligence on the companies you're investing in you can find real quality that you might not otherwise see on the main market.

2016 has been a volatile year for all global markets, but there has still been a growth of investors on AIM. This has been for a number of reasons including the inheritance tax incentives available and the growing number of well-established small and micro-cap funds. The growing credibility of the index has meant that despite the background noise, the companies who have floated have done remarkably well.

In 2017, I'm expecting to see more of what we did in 2016. Inheritance tax relief will fuel demand and increase valuations at the top end of the market and whilst predominant players like ASOS still have a big swing there are some great quality companies coming to market who will provide great returns for the right investors.

In the long term, small cap investments will continue to remain attractive, when you look at the value differentiators in the market cap scales it's simple. The further up the scale you go you're paying more, often for lesser returns and dividend cover. Going down the scale into AIM, the quality of dividend cover is second to none and for people looking for good returns the small cap market provides much better prospects.

Steve Flavell

CEO and Co-founder, **LoopUp**

Steve is the co-founder of LoopUp, a Shoreditch based technology company that provides software for conference calls.

The company, which floated with a valuation of £40 million, was the first tech company to IPO following the UK's decision to leave the EU. The business has been doing well since floating, opening on the market at 112.50, it is currently trading at 120.00 and it saw a year high of 122.00 earlier in December.

We started the IPO process two and a half years ago. At that time, we needed growth equity to continue to expand, and as the European referendum approached, we found that nothing had changed for us as a company. Since then, we have often been asked how Brexit influenced our IPO. The answer is simple: despite the decision to leave the European Union, it was business as usual.

The major sources of uncertainty that seem to shake the established markets, like AIM, don't have the same effect on fast-growing companies. If you plan well, are operating in a strong market with a good story, and are well positioned to take advantage of the market conditions then the wider macroeconomic climate is always of secondary importance.

Whilst we can't be sure about the impact of Article 50 on overall market stability, there is no doubt that AIM is in a strong position, with secure regulatory structure that will support companies through periods of uncertainty.

Heading into 2017, Brexit, Donald Trump and wider uncertainty are all unlikely to make a difference. For existing fast-growth companies, next year is set to be one of growth. Much like any other year, 2017 will be a successful one for those companies who plan well, have developed a strong story and understand their market.

2017 will be a successful one for those companies who plan well, have developed a strong story and understand their market.

The last word

from Sam Smith
CEO, finnCap

Uncertainty is the new normal

2016 was a year in which companies had to adapt quickly to many changes in circumstances, something we know from past experience that entrepreneurs and ambitious growth companies excel at.

These high growth businesses are the life blood of AIM and whilst the market felt some pressure with difficult periods for share prices and times when raising capital was difficult it has come through it in positive territory with the market up 14% for the year with some exciting companies coming to market.

Whilst 2017 is still looking uncertain, the companies we are speaking to are undeterred and they are not standing still. They have plans in place to scale and are looking for the right way to raise capital. Throughout the tough times only the best quality companies have succeeded and tough times also lead to many opportunities arising for strong management teams who can react quickly. This should only improve the quality of companies coming to Aim and good share price performance from strong IPO's should lead to good returns for investors.

The time is right for growth

As I've said there will be volatility in 2017, the markets are still coming to terms with the implications of new geo-political regimes and there are a number of high profile elections taking place. Markets are likely to have short periods of difficulty and this may impact IPO valuations in the very short term, but this can be managed by planning ahead.

Market volatility should not be a reason to be put off following an IPO as a strategy for growth. The long term gains far outweigh the short-term implications of tricky markets. Raising capital by taking your company public is a reliable and long term strategy for achieving growth and scale.

AIM represents an opportunity in adversity, this is a time for the quality prospects within the small cap sector to pursue long term growth ambitions by raising capital on the public markets.

The ambition economy

The hard work over the last ten years has convinced domestic and international investors that British startups can achieve global success in markets that were previously considered relatively obscure. From engineering to software, big data to biotech, Britain has established a global competitive advantage in the verticals most closely associated with innovation.

Of course there will be weeks where markets become unpredictable and volatile, but 2017 will be no different to any year that has gone before it – companies with strong business models capable of scale will grow and attract investment.

For these businesses, AIM holds enormous potential for 2017, with ambitious investors looking to support ambitious entrepreneurs.

60 New Broad Street
London EC2M 1JJ
United Kingdom

T: 020 7220 0500
F: 020 7220 0597

www.finncap.com