STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

SEARCHING
FOR SMALL CAP VALUE

WHY FUND MANAGERS ARE CASHING OUT OF STAR PERFORMERS LIKE FEVERTREE TO REINVEST IN BETTER OPPORTUNITIES

OUR GREAT IDEAS ARE BEATING THE MARKET
14%
AVERAGE GAIN OVER 12 MONTHS

ALL CHANGE AT THE TOP FOR EASYJET AND ITV

CARILLION BOUNCES BACK FROM SHARE PRICE COLLAPSE

FIVE WAYS *TO BOOST YOUR* ***RETIREMENT INCOME***

Do the rewards compensate for the risks taken?

We look at performance for investors risking their money in the mining sector

Shareholders in miner **Rio Tinto (RIO)** have enjoyed a 12.3% total return so far this year. While more than twice the total return from the FTSE 100 index (5.6%), is such a reward adequate to compensate for the risks involved with investing in such a volatile sector?

Investors should always think about the 'equity risk premium' when establishing the desired return from putting money in a certain sector. That is the extra return you hope to generate on top of the 'risk-free' rate, which in the UK is benchmarked against the UK 10-year government bond (aka gilt).

At the time of writing, the 10-year gilt yield is 1.31%. The equity risk premium is the excess return required by shareholders to justify investing in stocks rather than risk-free government bonds.

The FTSE All-Share index has achieved 6.35% total return so far this year. Deducting the 1.31% risk-free rate means the equity risk premium, or the reward for investing in equities, is approximately 5%.

That figure represents a basket of sectors. The expected returns vary considerably at an individual sector level.

For example, you might expect a fairly low return with utilities as they have fairly stable and regulated earnings. You might want 8% to 9% from retail, for example, as that sector is at the mercy of consumer spending habits and economic health.

When it comes to mining and biotechnology, you may want to have significant returns – such as 15% to 20% a year (at a minimum) – to compensate with the risks of those industries. Mining is exposed to unpredictable commodity prices; biotechnology can often be a binary outcome – a new drug either works or it doesn't.

LOOKING AT RIO TINTO

With Rio, if it has made circa 12% for shareholders for half of the year; sustaining that trend for the rest of 2017 would imply a 24% return on an annualised basis. Therefore you *are* being adequately compensated in this situation for the risk of investing in mining, in my opinion.

Just remember that past performance doesn't always equate to future performance – you aren't guaranteed to make that extra 12% in the second half of the year.

WHY INVEST IN RIO?

It is one of the lowest cost mining producers on the market and has one of the strongest balance sheets in the sector.

BlackRock fund manager Tom Holl predicts a market re-rating of miners with strong cash flow. He says Rio, in particular, has a double-digit free cash flow yield if you run the calculations using spot iron ore prices. Iron ore accounts for a large amount of its earnings.

Investment bank Jefferies says it expects a significant increase in capital returns to shareholders from many miners this earnings season as 'balance sheets are strong and cash is abundant'.

It believes Rio's surplus cash in its 2018 financial year will represent c8.5% of its market cap. That money is the cash available to return to investors or investing in projects without increasing net debt/EBITDA (earnings before interest, tax, depreciation and amortisation) to more than a one times ratio.

Jefferies doesn't believe all the cash will be used for dividends or share buybacks. 'However, we do consider surplus cash to be a direct measure of financial strength'.

Rio looks as rock solid as you can get in the mining sector, assuming there isn't a major downwards correction in the price of commodities. (DC)

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BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

EasyJet reveals post-Brexit plans as CEO departs

Low-cost airline establishes base in Vienna

Low-cost airline **EasyJet's (EZJ)** preparations for dealing with any potential fallout from the Brexit negotiations coincide with news that chief executive officer (CEO) Carolyn McCall is leaving the company.

On 14 July EasyJet announced plans to establish a new holding company, EasyJet Europe, in Vienna. The company indicated it will shortly be issued an air operator certificate from Austro Control and an airline operating licence from the Austrian Ministry of Transport.

With this licence, EasyJet can operate flights across Europe and domestically within European countries once the UK has left the European Union. This should help protect the firm from the outcome of future UK-EU aviation talks.

Stockbroker Goodbody is positive about the move. 'While this will add some complexity and additional cost to the business, it does represent a significant step in overcoming the risk of the UK's exit from the EU says analyst Mark Simpson.

HARD ACT TO FOLLOW

On Monday (17 Jul), it was announced McCall is leaving EasyJet after seven years at the helm to become the new chief executive at broadcaster **ITV (ITV)** in January 2018.

According to Panmure Gordon analyst Mark Irvine-Fortescue, McCall has performed well, measured on the operational, financial and shareholder performance.

While he says the 'timing is not ideal' he believes EasyJet will be able to attract a strong successor.

Whoever follows McCall will have to address issues relating to weak free cash flow conversion and operational concerns, says Irvine-Fortescue.

In May, EasyJet suffered a £212m half-year pre-tax loss as higher fuel costs, the weaker pound and a delayed Easter break took effect. (LMJ)

What will McCall do at ITV?

People skills and links to Government seen as key strengths

After much speculation **EasyJet (EZJ)** chief executive Carolyn McCall is to leave the airline and take the top job at free-to-air broadcaster **ITV (ITV)** in January 2018.

The news was received positively by the market, reflecting her success in turning around the low-cost airline during her tenure. She faces a challenge in boosting sentiment towards ITV which is down 15% year-to-date.

Liberum analyst Ian Whittaker lists her strengths: 'She is seen as being very good with people, at building a strong management team around her and at the ability to "work the room".

'She also has very good links on the Government side, which should be very helpful in areas such as retransmission revenues for ITV.'

Whittaker does not expect a big shift from the current strategy of focusing on content and digital revenue. (TS)

Carillion bailed out by HS2

Troubled support services business joined by Balfour Beatty and Costain in list of contractors

The award of a contract on the HS2 high speed rail project may have raised eyebrows but it is also having a restorative effect on construction services firm **Carillion's (CLLN)** share price.

After a major profit warning on 10 July, which saw the departure of chief executive Richard Howson, questions were asked about the decision to award £1.3bn of work to the joint venture in which Carillion is partnered by Eiffage and **Kier (KIE)**. A HS2 spokesman said it had 'sought reassurance' and carried out 'additional due diligence'.

Carillion has also announced the appointment of consultant EY to support a strategic review process.

Carillion JV wins £1.3bn HS2 contract

And while the shares are still down heavily on the 192.1p at which they traded before the profit warning, they are up nearly 30% since the HS2 and EY news to 72.9p.

The market seems to believe these developments will make it easier for Carillion to raise the funds it needs to repair a stretched balance sheet.

Fellow construction play **Balfour Beatty (BBY)** won two HS2 contracts with a total value of £2.5bn in partnership with French outfit VINCI. Its shares ticked up 1.8% to 270.8p on the news (17 Jul).

Meanwhile, small cap peer **Costain (COST)** gained nearly 5% to 461.5p on the same day as it revealed HS2 is 'minded to award' the company two civil construction packages. (TS)

Sage to sidestep HMRC's digital delay

But underlying growth remains key to premium rating

Accountancy software supplier **Sage (SGE)** looks likely to sidestep any major fallout from the HMRC's delayed *making tax digital* scheme. The original plan from the Government's tax authority would have forced the smallest businesses and sole traders to start online quarterly reporting from April 2018.

That plan has now been pushed back to April 2019 at the earliest amid outcry from MPs and businesses. The very smallest UK businesses, those operating below the £85,000 per year VAT threshold, will now be made exempt from enforced digital tax reporting beyond basic VAT declarations.

Sage concentrates on providing a suite of accounting and tax tools for small and medium-sized businesses above the VAT level. It had planned to offer a so-called 'freemium' entry level module of basic tools for smaller operators. Freemium models provide a low level of tools for free, with more features available on a sliding fee scale. Sage may well now ditch its

freemium strategy, effectively stripping out a marketing cost.

Sage's bigger challenge is to accelerate its underlying growth beyond the mid-single digit levels of the past. *Shares* has previously pointed out that firm progress on plans to accelerate growth is key to holding on to a price to earnings (PE) rating above 20. (SF)

Keep toasting cash-generative Conviviality

Drinks wholesaler's buying power and market reach to serve investors well

While the consumer environment looks increasingly tough, *Shares* believes drinks wholesaler-to-franchised off-licence operator **Conviviality (CVR:AIM)** will remain resilient.

Full year results (17 Jul) revealed a better-than-expected adjusted pre-tax profit, up more than 100% to £45.8m, upgrades to synergy guidance and news of strong momentum across the business in the nine weeks to 2 July.

Guided by CEO Diana Hunter, the £574.7m cap has been transformed over the last two years via the acquisitions of Matthew Clark, the UK's largest drinks distributor to the on-trade, and wines and spirits wholesaler Bibendum. Sales in the year to April rose 85% to £1.56bn, reflecting a full year from Matthew Clark, a boost from Bibendum and healthy organic growth of 5.8%.

Consumers' disposable income is being squeezed with inflation running ahead of wage growth but Conviviality's sheer scale and reach across the UK drinks market mitigates this issue.

Supplying retailers, pubs, hotels, bars and restaurants with booze, food and tobacco, Conviviality's competitive pricing, notably via the Bargain Booze chain, gives the group the ability to serve cash-strapped consumers with affordable alcohol.

Free cash flow rose 349% to £51.2m last year while net debt of £95.7m was a beat versus previous guidance of £99m. Prized for its compelling cash generation, Conviviality raised the total dividend 33% to 12.6p. Investec Securities has upgraded its price target from 350p to 375p and forecasts a further dividend rise to 14p this year.

SHARES SAYS: ↗

We're positive on Conviviality at 339.7p for its earnings resilience, strong cash flows and 4.1% prospective dividend yield. (JC)

BROKER SAYS 5 0 0

Weir seeing North American shale recovery

SCOTTISH ENGINEER **WEIR (WEIR)**, which provides pumps used by shale gas operators in the US, says a rebound in activity will support better-than-expected full year profit from its oil and gas division (17 Jul).

This will be partially offset by a one-off charge of £13m relating to its Gabbioneta flow control business. The group will release its half year results on 27 July. (TS)

Yu Group to beat forecasts

BUSINESS ENERGY SUPPLIER **Yu Group (YU.:AIM)** is on track to beat expectations for both revenue and operating profit this year to 31 December 2017.

The company continues to disrupt the big six suppliers and will report 'at least £35m' of revenue this year, ahead of the £34m previously anticipated. The company already has more than £20m revenue committed for 2018. (SF)

Pressure on Blancco Technology

CASH CONVERSION REMAINS one of the biggest stumbling blocks to share price recovery at data erasure business **Blancco Technology (BLTG:AIM)**.

Analysis by FinnCap estimates just 43% of earnings before interest, tax, depreciation and amortisation (EBITDA) in the past year turned into cash, and that's excluding exceptional items.

Blancco shares have collapsed from 306p in March to 102.5p. (SF)

Brexit puts squeeze on consumers and businesses

Stocks remain near record levels but for how long?

The UK economy has held up surprisingly well since June 2016's vote to leave the European Union, but the gloves might be now coming off. Economic growth is slowing in Britain as the brakes of uncertainty drag.

The latest data from consultant PwC anticipate UK GDP growth of 1.5% this year, slowing again in 2018 to 1.4%. That's versus 1.8% progress in 2016, according to PwC's latest UK economic outlook report.

Consumers are right at the heart of the matter with reduced spending in the face of rising inflation and limited wage growth.

Higher borrowing has allowed high street and online spending to remain reasonably robust to date, but as PwC points out, 'there are limits to how much further this can go as household savings ratios have already fallen to very low levels.'

Business investment is also showing some signs of strain. Much of this is down to limited visibility, which makes budgeting for business far harder.

The weak pound and exports may offset some of this pressure, especially for the UK's very biggest companies in the FTSE 100 index. Many earn a lot of income from overseas markets, so declines in sterling make British goods sold overseas more competitively priced.

That goes a long way to explain why the FTSE 100 continues to trade at close to record levels, at about 7,400. That's less than 2% below the all-time highs, hit first in May and again in June. (SF)

4.6%

Housing market remains resilient

THE NUMBER OF property sales agreed in June 2017 increased by 4.6% year-on-year according to the latest survey by property website **Rightmove (RMV)**.

Cumulative sales agreed in the first six months of 2017 were only down 0.4% from the same period of 2016 despite a rush of transactions early last year ahead of new stamp duty guidelines (which made for tough comparative figures to beat this year).

Rightmove director and housing market analyst Miles Shipside says: 'A year on from the shock referendum result and subsequent dent in activity levels the fundamentals remain strong.'

1.4bn to 2bn

Premier zooms higher on Zama find

AN OIL DISCOVERY offshore Mexico could contain between 1.4bn and 2bn barrels of oil, according to Talos Energy which is partnered with **Premier Oil (PMO)** and Sierra Oil & Gas on the Zama-1 well.

Premier, which has a 25% stake in Zama-1, calls the discovery 'world class'. It provides welcome respite for the business which recently faced a difficult financial restructuring process.

Shares in Premier were up by a quarter in the immediate aftermath of the news and have now settled at 62p.

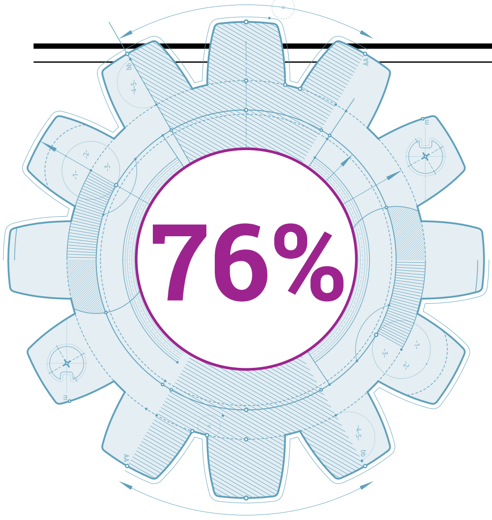
The well is the first to be drilled by a private sector company offshore Mexico. According to industry consultant Wood Mackenzie, Zama is one of the 15 largest global shallow-water discoveries in the last two decades. Drilling will now continue to test a deeper target.

WIDECELLS AIMS TO TAKE ADVANTAGE OF LUCRATIVE CORD BLOOD MARKET

STEM CELL SERVICES provider **WideCells (WDC)** hopes to take advantage of 3m cord blood samples held in storage in 500 facilities globally. Cord blood remains in the placenta and contains stem cells, which can be used to treat genetic disorders.

WideCells currently has agreements with global facilities that store approximately 1,000 blood cord samples worldwide.

The company uses these deals to offer stem cell insurance when people want their blood cord stem cells stored. The company expects to expand its deals to cover another 5,000 to 6,000 samples in the next three years.



CARILLION GOES INTO FREEFALL

CONSTRUCTION SERVICES FIRM **Carillion (CLLN)** saw 76% of its value wiped off in five days starting on Monday 10 July.

The sell-off was sparked by a profit warning which resulted in the departure of CEO Richard Howson. The company had been the most shorted for 18 months.

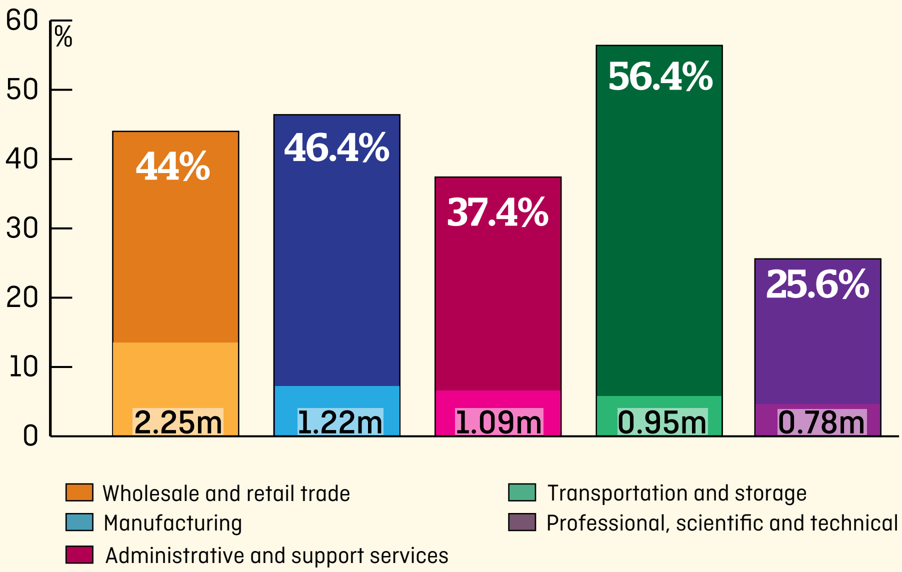
The main issue concerns Carillion having to set aside an £845m provision relating to troubled contracts in the Middle East and Canada.

ROBOT WORKFORCE ON THE MARCH

THERE HAS BEEN lots of talk about robots taking British jobs and leaving people underemployed. More than 4.5m retail, manufacturing and admin roles are at risk of automation replacement, according to data from business consultancy PwC.

That's anywhere from 37% to 46% of those industry workforces. Regular *Shares* readers will also be aware of things like robotic process automation (RPA), which can free staff to do more interesting and value-adding tasks, leaving computers to do dull stuff like crunching spreadsheet numbers, an area where AIM-quoted **Blue Prism (PRSM:AIM)** is carving a fast growing niche.

Top 5 industry jobs at risk (Total number jobs / % of each UK industry)



Accrol is flush with potential

Profitable and cash-generative toilet paper maker is on a roll

Boring can be beautiful. Often businesses operating in seemingly unglamorous industries are often able to generate strong shareholder returns, among them toilet roll specialist **Accrol (ACRL:AIM)**.

Liberum Capital has initiated coverage (10 Jul) with a 'buy' rating and 200p price target implying 32.5% upside, arguing Accrol is well placed to capture growth from the consumer shift towards value formats.

ON A ROLL

Lancashire-based Accrol manufactures toilet rolls, kitchen towels, facial tissues and AFH (Away From Home) products including hand towels and industrial wipes. The company supplies UK discounters, major supermarkets, independents and AFH customers with private label and Accrol-branded products such as *Triple Softy* toilet tissue.

Customers include **Booker (BOK)**, **B&M European Value Retail (BME)**, Wilkinson and Aldi and increasingly the major grocers such as **Tesco (TSCO)**, ASDA and **WM Morrison Supermarkets (MRW)**.

Accrol is geared into the structural spending shift towards the discounters and cheaper own-label products. As retailers push up prices to mitigate cost inflation, these trends will only accelerate. An agile Accrol, which has invested in a new manufacturing facility at Leyland to create extra capacity, is well placed to benefit.

ACCROL ↗ BUY
(ACRL:AIM) 151p
Stop loss: 120.8p

Market value: £140.4m

WIPING AWAY THE COMPETITION

We like Accrol's relatively capital light, flexible model. The company buys in 100% of its parent reels (paper) and doesn't have any capital tied into paper mills, giving it the flexibility to take advantage of an over-supplied industry.

Improving efficiencies and investment in new technology is enabling Accrol to win profitable new contracts. One of last year's highlights was a deal to launch Lidl's Floralys range in November 2016.

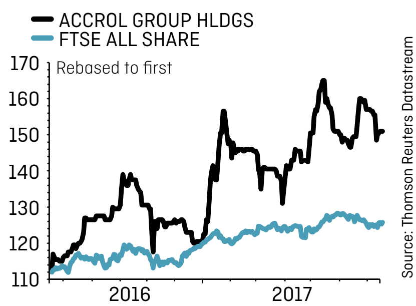
Significantly, the discount segment, where Accrol's market share has grown to over 50%, is the fastest growing part of a UK tissue market estimated to be worth £2.2bn and growing at around 1% a year by value, helped by the UK's mushrooming population.

Maiden results for the year to April (10 Jul) revealed a 58% surge in adjusted pre-tax profit to £13m on sales up 14.2% to £135.1m. Net debt reduced by £41.7m to £19m, reducing Accrol's net debt-to-adjusted EBITDA ratio from 4.0 times to 1.2 times.

For this year, Liberum forecasts pre-tax profit of £14.6m for earnings of 12.5p (2017: 11.8p) and a hike in the dividend from 6p to 7.5p.

Despite a 51% rise from June 2016's IPO (initial public offering) price, the shares should have further to go given a modest prospective price-to-earnings (PE) multiple of 12.1 times. With free cash flow rising, Accrol also offers a prospective yield approaching 5%. (JC)

BROKER SAYS: 2 0 0



Accesso looks like a prime takeover target

Best in class technology specialist remains a unique UK investment

Accesso Technology **(ACSO:AIM)** is a unique growth story on the UK market. We believe it will eventually get taken over at a big premium to the market price.

Accesso has developed best-in-class, cloud-based queue-beating solutions and ticketing technology.

It helps theme park visitors to avoid standing in endlessly long lines. That leaves then with more time to enjoy the attractions with an improved experience, and importantly for site operators, spend more money across other parts of the theme parks.

IN DEMAND TECHNOLOGY

Owners of some of the world's biggest attractions are sold on the idea, such as Six Flags Entertainment, the $5bn owner of theme and water parks across the US, plus several zoos.

The UK's **Merlin Entertainments (MERL)**, which owns Alton Towers, Chessington, and operates several Legoland parks in the UK and Europe under licence, is also a client.

ACCESSO TECHNOLOGY BUY
(ACSO:AIM) £16.50
Stop loss: £13.20

Market value: £370m

These type of relationships have helped Accesso develop an excellent growth track record. The company is profitable and cash generative.

Big growth opportunities are cropping up in emerging markets across Latin America, the Middle and Far East, including China. Dubai, for example, plans to take on Florida as the world's number one holiday destination.

EXPANDING OPPORTUNITIES

Accesso has greater ambitions still, launching itself into the global event ticketing market, currently dominated by Ticketmaster. This encompasses major sporting events and pop concerts, for example.

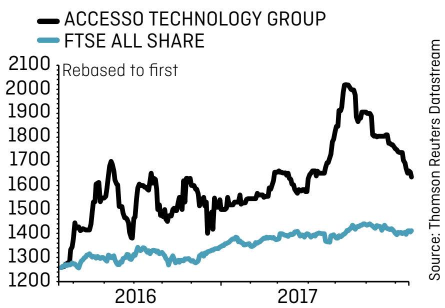
Accesso believes it can leverage its state-of-the-art, cloud-based technology to undercut commissions earned by rivals, making it a more attractive partner to event organisers and performers.

The $80m (£62.3m) acquisition of TE2 on 12 July is the latest in a long list of deals that should help it meet its objectives. TE2 provides customer engagement software to the leisure, hospitality, entertainment and retail sectors.

Customers include Merlin, Cedar Fair Entertainment and SeaWorld Parks & Resorts, blending a mixture of new with opportunities for build deeper relationships with several existing Accesso clients.

Analysts anticipate compound annual growth of about 18% through to 31 December 2019, which would double last year's $15.3m pre-tax profit to $32.3m. That would almost halve the prospective price to earnings multiple, from roughly 40 to 21.7 by the end of 2018. (SF)

BROKER SAYS: 2 2 0



Our Great Ideas are beating the market

More than a third of our key selections post double-digit gains

Our *Great Ideas* section includes our two best investment ideas every week and we are currently beating the market handsomely.

We run our list of stocks on a 12-month rolling basis and track the performance of the portfolio against the FTSE All-Share. The latest figures show us up 14% on average against a 4.4% advance for our measure of the FTSE All-Share, all excluding dividends (see 'How it works').

Our best performer among trades still running is cyber security play **Sophos (SOPH)** which has seen its share price double on growing interest in its market niche and robust operational performance.

More than 30 of our selections have delivered double-digit returns.

In this article, we give our view on the constituents in the portfolio which have issued news in the past few weeks and show some of our best performing ideas over the past 12 months and how they've performed.

HOW IT WORKS

After each edition of *Shares*, published every Thursday, we add the two featured *Great Ideas* stocks to the list and remove the two oldest picks (unless we've already taken profit on them or the trades have hit their stop loss).

In each article we record the share price of the stock featuring in *Great Ideas* and separately we record the index value of the FTSE All-Share on the day the story is published. This way we can compare the performance of the All Share over the same time frame.

The result is a rolling 12-month list of stocks. Readers should always conduct their own research off the back of article ideas in *Shares* and/or seek financial advice before buying any security. Past results are no guide to future performance.

A SELECTION OF SHARES' BEST PERFORMING GREAT IDEAS OVER THE PAST 12 MONTHS

Company	EPIC	Date	Entry price (p)	Stop loss (p)	Price now (p)*	Return	Status
Purplebricks	PURP	22/09/2016	134.31	107.4	386	187.4%	Took profit 22 June
Sophos	SOPH	28/07/2016	220	176	456.2	107.4%	Still running
Distil	DIS:AIM	23/02/2017	1.46	None	2.95	102.1%	Took profit 20 April
Treatt	TET	16/02/2017	258.93	207.14	466.75	80.3%	Still running
GoCompare	GOCO	24/11/2016	62	49.6	110	77.4%	Took profit 13 July
Joules	JOUL:AIM	01/12/2016	185	148	296.5	60.3%	Still running
Luceco	LUCE	20/10/2016	150	105	239.75	59.8%	Still running
Velocys	VLS	29/09/2016	30	24	46.25	54.2%	Still running
Ryanair	RYA	25/08/2016	12.09	9.67	18.62	54.0%	Still running
Jimmy Choo	CHOO	08/12/2016	133	106.4	202.75	52.4%	Still running
SSP	SSPG	13/10/2016	323	258	492.1	52.4%	Still running
Yu Group	YU:AIM	13/04/2017	287.5	230	437.5	52.2%	Took profit 25 May
Ideagen	IDEA	11/08/2016	56	45	83	48.2%	Still running
Kainos	KNOS	19/01/2017	198	158	290	46.5%	Still running
Fyffes	FFY	22/09/2016	128.8	103.04	186	44.4%	Took profit 15 Dec
Quixant	QXT	20/10/2016	285	228	410	43.9%	Still running
Proactis	PHD	18/08/2016	130.5	104	187.5	43.7%	Took profit 4 May
UDG Healthcare	UDG	28/07/2016	575	460	823	43.1%	Still running
Spirax-Sarco Engineering	SPX	04/08/2016	39.81	n/a	55.25	38.8%	Still running
Ibstock	IBST	26/01/2017	180.5	none	245.4	36.0%	Still running
GB Group	GBG	27/10/2016	253	202	338	33.6%	Still running
IMImobile	IMO:AIM	08/12/2016	158.5	127	210	32.5%	Still running
Clipper Logistics	CLG	01/09/2016	307	245.6	405.5	32.1%	Still running

Company	EPIC	Date	Entry price (p)	Stop loss (p)	Price now (p)	Return	Status
Elementis	ELM	10/11/2016	234.5	n/a	306.2	30.6%	Still running
Zytronic	ZYT:AIM	03/02/2017	405	324	520	28.4%	Still running
Marlowe	MRL:AIM	23/03/2017	310	217	397.5	28.2%	Still running
Cranswick	CWK	17/11/2016	2216	1773	2840	28.2%	Still running
Burford Capital	BUR:AIM	03/09/2017	734	587.2	918	25.1%	Still running
Savannah Resources	SAV:AIM	03/11/2016	4	2.8	5	25.0%	Still running
Eckoh	ECK	15/09/2016	39	31	47	20.5%	Still running
SDX Energy	SDX:AIM	02/02/2017	38.23	25	45	17.7%	Still running
AG Barr	BAG	06/10/2016	508.5	406.8	598	17.6%	Still running
Countryside Properties	CSP	25/05/2017	301.2	210	350.8	16.5%	Still running
Howden Joinery	HWDN	26/01/2017	368.9	n/a	423.1	14.7%	Still running
Fishing Republic	FISH:AIM	18/05/2017	39	23	44.5	14.1%	Still running
Allied Minds	ALM	08/09/2016	328	n/a	372.1	13.4%	Took profit 23 Mar
Sopheon	SPE:AIM	22/06/2017	330	231	361	9.4%	Still running
Cineworld	CINE	16/03/2017	632	443	685.5	8.5%	Still running
PZ Cussons	PZC	16/03/2017	326.9	261.52	352.8	7.9%	Still running
Tharisa	THS	29/09/2016	77.5	54.25	82.75	6.8%	Still running
Card Factory	CARD	03/09/2017	273.1	218.48	291.6	6.8%	Still running
Glaxosmithkline	GSK	01/12/2016	1530	n/a	1631.5	6.6%	Still running
Diageo	DGE	01/12/2017	2173	1738	2309	6.3%	Still running
Ramsdens	RFX:AIM	15/06/2017	142	100	150.5	6.0%	Still running
UP Global Sourcing	UPGS	05/04/2017	178	142.4	187	5.1%	Still running
Tesco	TSCO	25/08/2016	164.45	131.58	172.7	5.0%	Still running
MySale	MYSL:AIM	06/08/2017	110	88	115	4.5%	Still running

Source: *Shares*, Google Finance, *Latest price is market price on 13 July 2017 or the price at which we took profit or the trade stopped out

FOOD PROVIDER ON THE MOVE

We've enjoyed just over a 50% gain since saying to buy transport hub food operator **SSP (SSPG)** last October. The latest trading update (12 Jul) revealed 14.6% revenue growth for the three months to 30 June 2017 at constant currencies. The start of operations at Chicago Midway airport and success in India were notable highlights.

Although the shares are now highly rated on 25 times forecast earnings for the year to September 2018, we're sticking with them for the time being.

We said in our original article on **Avesoro Resources (ASO:AIM)** in June that the gold miner's second quarter results wouldn't be that great; and that's now been confirmed (11 Jul).

> WE IDENTIFIED THE OPPORTUNITY AT 142P AND IT IS CURRENTLY UP 6% ON THAT LEVEL AT 150.5P

Don't be put off by production figures coming in slightly below analyst forecast. This is a turnaround story which was always expected to start showing improvements on the production and cash flow side later in the year.

More robust half year results (11 Jul) from **Amino Technologies (AMO:AIM)** should be a source of satisfaction for shareholders.

Very strong on cash generation, Amino was bolstered by higher margin kit and services, lifting profit margins.

There are modest doubts about the timing of some large contracts in the second half. The shares remain below our 213.5p pitch level, but we remain firm supporters.

SHOCK CASH CALL

News (5 Jul) of what ended up a £200m share placing by **CityFibre Infrastructure (CITY:AIM)** came as a shock.

The company had previously been scared off by diluting existing investors at what it sees as unattractive levels, yet the latest cash call was well supported.

Regulatory pressures and consumer demand mean now is the ideal time to really chase growth, the company believes, and we tend to agree. Buying internet service provider Entanet will give CityFibre more say in end-user take up.

Spending on IT across the NHS has been very limited for the past 18 months or so, even in the face of the *WannaCry* hacking attack. Therefore **Kainos (KNOS)** sealing a healthcare digitisation contract in Ireland is encouraging news (6 Jul).

The shares have been a successful trade to date, up from 198p in our feature at the start of January to 290p, equal to a 46.5% paper profit. We remain happy to let this trade run.

Pawnbroker, foreign exchange and precious metal dealer **Ramsdens (RFX:AIM)** took the AIM market by storm when it floated in February.

We identified the opportunity at 142p and it is currently up 6% on that level at 150.5p. The company's full year results (7 Jun) show the strength of its FX offering and the company also beat forecasts that had already been upgraded.

It may be impacted by gold price fluctuations in its pawnbroking and metals business but still looks like it has plenty of scope for growth despite a recent cyber attack (11 Jul).

> REGULATORY PRESSURES AND CONSUMER DEMAND MEAN NOW IS THE IDEAL TIME TO REALLY CHASE GROWTH, THE COMPANY BELIEVES, AND WE TEND TO AGREE

STILL TO CONVINCE ON EMERGING MARKETS

We felt emerging markets specialist asset manager **Ashmore (ASHM)** could profit from US president Donald Trump's failure to get some of his key policies through Congress, which would see capital move from the US into developing economies.

We saw an opportunity at 360.7p but the stock is now down by 4.7% to 343.6p. Investors need to be patient.

FRIDAY 21 JULY

INTERIMS	
ACACIA MINING	ACA
CAPITAL & COUNTIES	CAPC
TRADING STATEMENTS	
CLOSE BROTHERS	CBG
EUROMONEY	ERM
VODAFONE	VOD

MONDAY 24 JULY

FINALS	
TUNGSTEN	TUNG
INTERIMS	
ASCENTIAL	ASCL
DIALIGHT	DIA
RECKITT BENCKISER	RB.
TRADING STATEMENTS	
CRANSWICK	CWK

TUESDAY 25 JULY

FINALS	
GAMES WORKSHOP	GAW
PZ CUSSONS	PZC
INTERIMS	
CRODA	CRDA
DOMINO'S PIZZA	DOM
INFORMA	INF
PROVIDENT FINANCIAL	PFG
PROTEOME SCIENCES	PRM
RATHBONE BROTHERS	RAT
SEGRO	SGRO
SPECTRIS	SXS
TYMAN	TYMN

WEDNESDAY 26 JULY

FINALS	
JOULES	JOUL
INTERIMS	
BERENDSEN	BRSN
GKN	GKN
GLAXOSMITHKLINE	GSK
HAMMERSON	HMSO
HUNTSWORTH	HNT
INTERNATIONAL PERSONAL FINANCE	IPF
ITV	ITV
JUPITER FUND MANAGEMENT	JUP
STAFFLINE	STAF
TULLOW OIL	TLW
UNITE GROUP	UTG
TRADING STATEMENTS	
ANTOFAGASTA	ANTO
BREWIN DOPHIN	BRW
COMPASS	CPG
3I GROUP	III
MARSTON'S	MARS
PARAGON GROUP OF COS	PAG
SAGE	SGE

Mobile giant **Vodafone (VOD)** is a very popular stock with retail investors and they will be glued to the group's trading update on 21 July.

Particularly interesting will be any news on the performance of key markets, such as India, and to assess turnaround potential in its laggard UK backyard. There's also been media speculation about possible job cuts in Germany. (SF)

FTSE 100 stock **Provident Financial (PFG)** will be hoping to reassure its investors when it releases interim results on Tuesday.

The company released a profit warning last month as its plans to transition its home collection business faltered badly.

The 135 year-old company has other divisions which are performing well so it might surprise on the upside. We'll be watching closely.

Investors should check whether sales of **GlaxoSmithKline's (GSK)** asthma treatments have further declined when it reports half year results on 26 July. In April, sales of its Advair/Seretide products in the US fell due to lower volumes and prices.

Generic competition against Advair has been restrained after the US Food and Drug Administration prevented US rival Mylan from launching its Wixela Inhub product in its current form.

THURSDAY 27 JULY

FINALS		
ANGLE	AGL	
DIAGEO	DGE	
RENISHAW	RSW	
TOROTRAK	TRK	
INTERIMS		
ANGLO AMERICAN	AAL	
ASTRAZENECA	AZN	
BRITISH AMERICAN TOBACCO	BATS	
BODYCOTE	BOY	
COUNTRYWIDE	CWD	
INCHCAPE	INCH	
INDIVIOR	INDV	
INTU PROPERTIES	INTU	
JUST EAT	JE.	
JARDINE LLOYD THOMPSON	JLT	
LLOYDS	LLOY	
NATIONAL EXPRESS	NEX	
PRIMARY HEALTH PROPERTIES	PHP	
ROYAL DUTCH SHELL	RDSA	
RELX	REL	
RENTOKIL	RTO	
SCHRODERS	SDR	
SMITH & NEPHEW	SN.	
ST JAMES'S PLACE	STJ	
VESUVIUS	VSVS	
WEIR	WEIR	
TRADING STATEMENTS		
CMC MARKETS	CMCX	
DAILY MAIL AND GENERAL TRUST	DMGT	
KAZ MINERALS	KAZ	
LADBROKES CORAL	LCL	
SOPHOS	SOPH	
TATE & LYLE	TATE	
THOMAS COOK	TCG	
EX-DIVIDEND		
FENNER	FENR	1.4P
INVESTEC	INVP	13P
PROVAIR	PRV	1.5P
SOMERO ENTERPRISES	SOM	$0.13
SSE	SSE	63.9P

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SEARCHING FOR SMALL CAP VALUE

By Daniel Coatsworth and David Stevenson*

WHY FUND MANAGERS ARE CASHING OUT OF STAR PERFORMERS LIKE FEVERTREE TO REINVEST IN BETTER OPPORTUNITIES

There have been some very successful small cap stocks in recent years, rewarding shareholders with returns equal to three or more times their original investment. The ability to make significant gains is a key factor behind investors risking their money in smaller companies.

We believe there could soon be a shift in investor appetite as a result of sky-high valuations. Many small cap fund managers are already taking profit on successful stocks including **Fevertree (FEVR:AIM)**, **Gear4Music (GFM:AIM)** and **Blue Prism (PRSM:AIM)** as they see better value elsewhere in the market. Should you do the same?

In this article we explain why some fund managers are reducing exposure to these types of stocks and where they are reinvesting their profit. We talk to other managers about why they aren't tempted by super-high growth stories and we reveal the secrets of their stock picking success.

Finally, we profile five stocks tipped by some of the leading small cap fund managers as among their brightest hopes for making money in the future.

WHY ARE FUND MANAGERS TAKING PROFIT ON SUCCESSFUL STOCKS?

The problem lies with valuation rather than anything wrong with the actual companies. Many fund managers are sitting on significant paper profits and they feel it is prudent to crystallise some of those gains while the equity valuations are high.

Other fund managers have point blank ignored the rapid growth small caps – which includes the likes of **BooHoo.com (BOO:AIM)** and **Purplebricks (PURP:AIM)** – saying their valuations were too expensive even before share prices surged.

'I can't get my head round it,' says Downing small cap fund manager Judith MacKenzie. 'They are good companies but the valuation doesn't make sense. Small cap ratings in general are too high. They are the most expensive I've seen in fifteen-plus years.'

Richard Powers, head of quoted smaller companies at asset manager Octopus, goes as far as calling some small cap valuations 'scary'.

A SELECTION OF SMALL CAP SUPERSTARS

COMPANY	1-YEAR TOTAL RETURN
Blue Prism	570%
Gear4Music	531%
Taptica	345%
WANdisco	316%
Boohoo.com	273%
Purplebricks	267%
Keyword Studios	193%
Bango	155%
Eagle Eye	149%
Crossrider	137%

Source: SharePad. Data to 13 July 2017

*No relation to the Amati fund manager with the same name mentioned in this article

SOME EXAMPLES OF SMALL CAP VALUATIONS

To give you an idea of current valuations, Gear4Music and BooHoo are both trading on 76 times forecast earnings for the current financial year; and Fevertree is on 62 times forward earnings.

In general, most investors prefer to buy decent companies on sub-20 times earnings. Some people, however, would be prepared to buy stocks on a higher rating if they demonstrate rapid growth – such as has been the case over the past few years with some of the companies mentioned in this article.

Purplebricks isn't forecast to be profitable until 2019 so you cannot calculate a PE ratio on the current year's metrics. However, you can work out that it trades on 12.8 times forecast sales for the year to April 2018.

As a comparison, traditional estate agent **Foxtons (FOXT)** trades on 2.1 times forecast sales for its current financial year which is more than six times cheaper than Purplebricks.

Powers at Octopus says he has recently taken some profit in Gear4Music and Blue Prism, although he insists both companies remain attractive. Old Mutual has selling down stakes in Gear4Music and Fevertree; Kames has also taken profit on the latter stock. BlackRock has been selling **Keywords Studios (KWS:AIM)**.

NOT EVERYTHING IS EXPENSIVE

It is important to stress that elevated valuations do not apply to the entire small cap sector; far from it. Fund managers are still finding plenty of opportunities, as we will discuss in this article.

Richard Bullas, who co-manages **Franklin UK Smaller Companies Fund (GB00B45G7D25)**, says the FTSE Small Cap index trades on 12.7 times forward earnings, compared to the FTSE All-Share on 14.3 times. He believes the former rating is more in line with the longer term average.

'Small caps were trading at a 25% discount to the market last summer. That discount has narrowed to about 10%. I wouldn't say small caps are overvalued, neither would I say they are cheap. It is all about being selective when picking stocks in this area.'

We spoke to numerous small cap fund managers for this article and many said they were now looking at companies valued at less than £400m, some even preferring the sub-£100m bracket. Interestingly, the majority of people we interviewed expressed a preference for companies that generate cash and make a profit.

CHASING THE DISRUPTORS

Many investors have become excited about companies trying to disrupt markets with new technologies or innovative business models, such as robotics firm Blue Prism whose share price has increased 11-fold in 16 months.

Bullas says he isn't tempted by such firms as many are loss making and are likely to continue to require additional funding. 'I prefer companies that have reached a tipping point with profitability. Some of the high growth stocks can give you amazing returns but they are very difficult to value.'

The fund manager says he doesn't want to pay something like 80-times earnings as that would be pricing in considerable success, which isn't guaranteed. 'I'd rather wait for demonstration of profit, even if it means giving up some of the share price upside.'

Downing's MacKenzie says she always looks at the potential downside to an investment case, hence why she prefers backing companies with positive free cash flow and profit, as something to fall back on.

You might think these more conservative approaches will result in only backing slow growth businesses, but that isn't necessarily the case. Many of the small cap fund managers we interviewed say they are still able to find firms with the potential to be much bigger in the future at a decent price.

For example, David Stevenson, who co-runs **TB Amati UK Smaller Companies Fund (GB00B2NG4R39)**, says he has a strict selection process which favours companies which can convert a high proportion of their profit into cash, and which are appropriately financed for the 'nature, maturity and future growth of their business'.

Such criteria might not favour the super-fast growth companies which constantly need more cash, yet this process did previously identify some of the current star performers on the market, hence why he has stakes in Fevertree and Gear4Music.

The Amati fund's latest monthly investment report says some profit has been taken in various 'high flying stocks'. Stevenson confirms this group includes Fevertree, Keyword Studios, **DotDigital (DOTD:AIM)**, **GB Group (GBG:AIM)** and among the large caps, **Just Eat (JE.)**.

'We've taken some profit on these stocks but still retain material holdings in each as we still feel valuations are justified given the growth outlook for these companies,' he comments.

'This was a pre-emptive measure, as there has been a noticeable shift in UK market dynamics recently, with growth stocks losing leadership as investors lock in some gains.

'We feel this is linked to the step-up in bond yields, as capital markets anticipate an approaching inflection point in central bank stimulus, and leadership passes to financials which are likely to benefit from increasing market rates.'

'I'D RATHER WAIT FOR DEMONSTRATION OF PROFIT, EVEN IF IT MEANS GIVING UP SOME OF THE SHARE PRICE UPSIDE.' – RICHARD BULLAS, FRANKLIN TEMPLETON

GETTING IN EARLY

You have to consider that many fund managers may have originally bought the star performers at much cheaper valuations than at present, so owning them now doesn't necessarily mean they overpaid for the stocks.

The key challenge is when to sell – is the current rate of growth sustainable or could it accelerate? Is there a risk that the pace of growth could slow? The answer would have a bearing on justifying the current valuation and whether to hold or sell.

Stevenson explains his approach: 'Our investment research effort targets high quality, robust businesses which have the potential to grow over the longer term at rates faster than the stock market average.

'One current example would be **Quixant (QXT:AIM)**, the designer/manufacturer of hardware and software solutions for the global gaming and slot machine industry. This is a highly regulated activity, and Quixant is a key service provider to a diverse range of mid-tier customers, but the largest targets are yet to outsource.'

At 410p, Quixant presently trades on 24 times forecast earnings for 2018. That's a fairly punchy rating, although nowhere near as high as the likes of Fevertree and BooHoo.

Richard Power at Octopus is another fund manager excited by the stock. He says Quixant has the potential to be a much bigger company. 'Getting a few more tier 1 customers will be transformational for the business. There are also regulatory developments in Brazil and Japan that will open up new markets for them,' he says.

There is a similar valuation debate for radiology specialist **Medica (MGP:AIM)**, a stock flagged to us by Jeff Harris, fund manager at **Strategic Equity Capital (SEC)**, who says it ticks a lot of the right boxes for what he desires in a small cap business.

At 230p, it trades on 26.7 times forecast earnings for 2018. Investec has a 253p price target (based on a discounted cash flow model), which doesn't imply much upside from the current level. Therefore investors buying today have to put a lot of faith in the business to deliver decent growth for years to come.

Harris bought at the float price of 135p in March 2017 and has already enjoyed 70% valuation uplift on his investment. Nonetheless, his enthusiasm implies this is a stock that has much further to run.

'It is the UK market leader and enables hospital radiology departments to send CT scans and X-rays to a Medica (NHS qualified) radiologist to remotely interpret the scan,' says the fund manager.

'It has grown strongly due to the growth in scanning activity driven by demographics and healthcare guidelines alongside the shortage of radiologists in A&E departments.

'We performed significant primary diligence, speaking to healthcare professionals in the UK and the US where the market is more mature and believe the prospects are good.

He adds: 'It is higher growth than (one of our) typical investments but we believe the business is very high quality with many long term structural growth drivers and has the possibility to move into other therapeutic areas.'

WHAT ARE FUND MANAGERS LOOKING FOR TODAY?

Jonathan Brown, who manages the **Invesco Perpetual Smaller Companies (GB0033030528)** fund, says he looks for growing businesses which can be twice as large over a five year period. 'We like companies that have good profit margins and returns on capital which indicate they have something special about their business.'

The Invesco portfolio currently includes IT consultant **FDM (FDM)** and textile rental provider **Johnson Service (JSG:AIM)**.

Harris at Strategic Equity Capital says he doesn't seek 'supernormal' growth when trying to spot new small cap investments. Instead, he prefers 'longer term sustainable growth driven by high IP (intellectual property) and durable business models'.

The fund's current holdings include industrial automation software provider **Servelec (SERV:AIM)**, education technology firm **Tribal (TRB:AIM)** and financial adviser **IFG (IFP)**.

Harris says he focuses on the 'four drivers of equity returns'. First is growth in operating cash flow. Second is re-rating potential.

'The public market derivative of earnings per share is the PE (price to earnings) ratio. We consider this, but do detailed cash flow analysis and use a cash flow based valuation metric,' he explains. 'This is operating cash flow less maintenance capex over enterprise value, which takes into account the capital structure.'

The third driver is corporate activity, both as a buyer and as a target. 'There is empirical evidence that transaction values are a better gauge of fair value over the long term. We assess precedent transactions and use our network to understand "real world multiples".

'We look to avoid companies with impediment to take-out such as a large pension scheme or blocking shareholder.'

The fourth driver is de-gearing and a detailed analysis of cash flow to assess the potential transfer of value from debt to equity holders.

Harris believes public markets don't place enough value or emphasis on cash flow, focusing a lot on dividends, which are often paid out of debt.

'We look at dividends but also the ability to pay down debt from free cash flow. We believe that by focusing on all four drivers rather than growth or value in isolation, it gives the best chance of achieving our desired returns.'

> WE BELIEVE THAT BY FOCUSING ON ALL FOUR DRIVERS RATHER THAN GROWTH OR VALUE IN ISOLATION, IT GIVES THE BEST CHANCE OF ACHIEVING OUR DESIRED RETURNS

FUTURE TAKE-OVER TARGETS

Takeover potential is something that's also integral to Livingbridge's investment process. You may have heard the advice 'never buy a stock purely as a bid candidate'; however, an important part of small cap investing is being able to identify a future exit.

Small cap stocks can be very illiquid, so fund managers need to be confident they won't be stuck holding a large chunk of a business that they can't sell in the future. One exit route is a takeover.

'Our style is seeking growth at a reasonable price. Livingbridge has a private equity arm, so we are well plugged into the corporate finance community,' says Ken Wotton who manages **CF Livingbridge UK Micro Cap Fund (GB00B55S9X98)**, formerly called Wood Street Microcap Investment Fund.

'That side of the business buys and sells companies regularly, so we've learnt the importance when considering an investment, of finding out who the potential corporate buyers might be and what they are looking for in acquisitions.'

Livingbridge is clearly very good at spotting future takeover candidates. Wotton says 23% of the holdings in the micro-cap fund since inception have been taken over, either when it held an investment or later on after it had sold out.

Examples include **Kalibrate Technologies (KLBT:AIM)** which is in a bid situation now; and System C Healthcare which was on AIM until being bought by US pharmaceutical distribution giant McKesson.

'We originally invested in System C as one of our colleagues in the private equity side of Livingbridge had done research into the sub-sector which identified the business as a strategic asset in that industry,' he reveals.

The fund's largest holdings, as of 30 June, include deep fat fryer cleaner **Filta (FLTA:AIM)** which floated on AIM in November 2016; corporate foreign exchange specialist **Alpha FX (AFX:AIM)** which joined AIM in April 2017; and energy procurement services group **Inspired Energy (INSE:AIM)**.

REPLENISHING PORTFOLIOS

The downside of takeovers is that a fund manager needs to redeploy the cash proceeds and rebuild their portfolio by adding something new or increasing a stake in an existing holding.

Investing in small caps often requires patience, so a fund doing well one year thanks to a number of takeovers may not necessarily do as well the following year as a result of new holdings taking time to come to fruition.

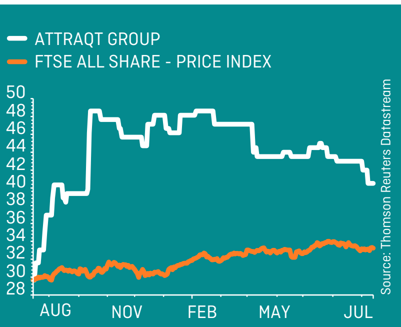
'While we typically like to run our winners, we may sell a stock if a company reaches an unjustifiably and unsustainably high valuation,' says Charles Montanaro, fund manager of **Montanaro UK Smaller Companies Fund (MTU)**. 'It is also worth pointing out that companies do leave the portfolio due to takeovers.

'In 2006 we lost no less than twenty of our holdings for this reason. While this is often exciting – particularly if the premium is high – it can be frustrating to lose a company that we had hoped to hold for decades.

'We would far rather enjoy steady, conservative returns over the long-term through holding a company and management team we know well and trust.'

FIVE STOCKS MAKING FUND MANAGERS EXCITED

1



ATTRAQT (ATQT:AIM) 40.5p
Selected by Matt Tonge of **Liontrust UK Micro Cap (GB00BDFYHP14)**

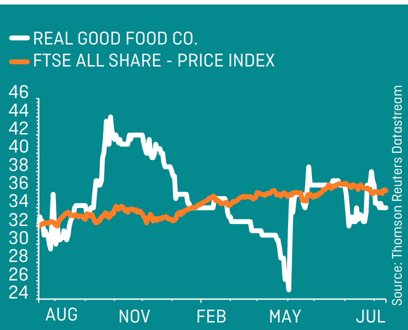
Attraqt sells website search, visual merchandising and personalised product recommendation software to online retailers.

'For example, if **ASOS (ASC:AIM)** sends an email to a customer with an offer and that customer clicks on a link, the Attraqt software will personalise what appears on the landing page, offering those products the customer is most likely to buy,' says Tonge.

'The company has intellectual property in the software code. It enjoys embedded distribution network strength as customers come to rely increasingly on the product to drive improved conversion of "clicks" to sales. It also sells its products on a monthly recurring software-as-a-service subscription basis, meaning around 90% of revenues are recurring.

'Attraqt has a fantastic referenceable customer base in a structurally growing market. Furthermore the valuation versus similar listed companies leaves room for upside.'

2



REAL GOOD FOOD (RGD:AIM) 34p
Selected by Judith MacKenzie of **Downing Strategic Micro-Cap Investment Trust (DSM)**

Funds managed by Downing struck a deal in June to invest £11.5m in loan notes and equity in Real Good Food, best known for cake decoration. Fund manager MacKenzie is also taking a seat on the board of directors.

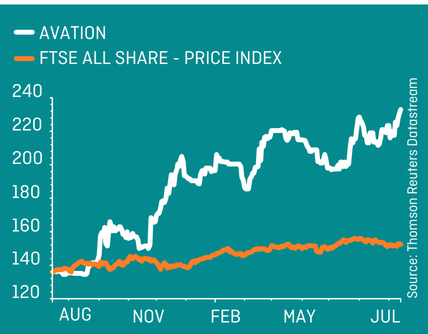
Unlike many small caps which tap the market for funding just to keep going, Real Good Food has raised new money because of growing demand for its products and services.

'The expansion capital is coming off the back of contracts and demand. Confidence in the top line is strong; it's now all about execution,' says the fund manager.

The company has a double digit margin sugar paste operation and runs in-store bakeries for the likes of Waitrose and **Marks & Spencer (MKS)**, says MacKenzie.

She believes Downing's equity investment (it has taken a 10% stake in the business) could increase by at least three or four times in value over time.

3



AVATION (AVAP:AIM) 230p
Selected by Ken Wotton of **CF Livingbridge UK Micro Cap Fund**

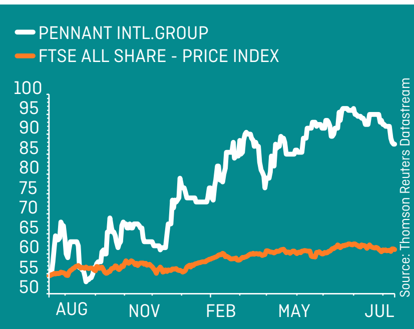
The commercial passenger aircraft leasing company has some well-known customers include Virgin Australia, Air France and **Thomas Cook (TCG)**.

Ken Wotton at Livingbridge says Avation 'is in a nice position with really good visibility of earnings'. He adds: 'It buys aircraft and leases them on long-term contracts. It focuses on a few types of planes used by mid-range airlines. It also has options to purchase planes quite far into the future.

'These are very popular planes and it is quite competitive to get them new. Avation could trade its options if it so wished.'

The fund manager says Avation has exciting potential with good earnings and a route to expand its fleet. 'It trades on a cheap multiple and pays dividends.'

4



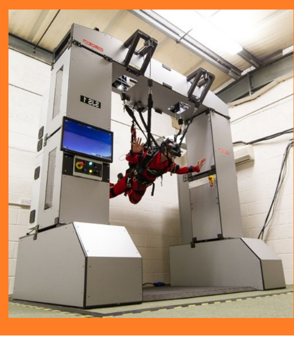
PENNANT INTERNATIONAL (PEN:AIM) 87.5p
Selected by Matt Tonge of **Liontrust UK Micro Cap**

The Liontrust fund manager likes Pennant, a Gloucestershire-headquartered firm which provides equipment to the defence industry.

'Its main products are highly realistic simulators of pieces of capital equipment (such as tanks) which military colleges and departments of defence use in training programs,' says Tonge.

'Pennant possesses skills in hardware and software engineering. It has requisite security clearance to be allowed to see the blueprints of the systems it emulates; and once installed these systems can generate service revenues for many years.

'For example, it's been providing training on the AgustaWestland helicopter for over thirty years. It's rich in intellectual property, has very strong customer relationships and operates in an industry with high barriers to entry.'



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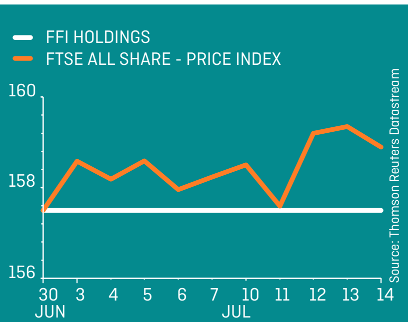


FFI (FFI:AIM) 157.5p
Selected by David Stevenson of **TB Amati UK Smaller Companies Fund**

FFI is the world leader in providing completion contracts to financiers of the global film and TV industry, according to Stevenson. It recently joined the stock market (30 June 2017) at 150p and has subsequently risen in price to 157.5p.

'Its contracts give insurance against cost and time budget overruns,' says Stevenson. 'FFI has a history going back to the 1950s and a dominant market share.

'Although the bulk of the risk is sold down to conventional insurance companies, FFI's specialist knowledge still generates significant margins.'

HENDERSON OPPORTUNITIES TRUST:

AIMing for something different

CONTRARY TO POPULAR belief, investing in the alternative investment market (AIM) can expose you to international as well as domestic end-markets, and a wide variety of niche sector specialisms.

Amid election and Brexit uncertainty some investors have been put-off small-caps*, instead opting for the perceived safety of larger internationally exposed companies in the FTSE100. Caution is fair. The necessary Brexit shock absorber of a weakened pound has served to import inflation and threaten domestic spending in the short-term; and clearly business uncertainty surrounds negotiations with the EU and what this will mean for the UK economy.

Aware of the uncertainties, fund managers James Henderson and Colin Hughes of Henderson Opportunities Trust – a multi-cap portfolio that aims for out-and-out capital growth – have been seeking opportunities across the wide range of diverse business areas found in the small-cap space.

Around 50% of the portfolio is in AIM, otherwise known as London's junior market. Here firms are small - tending to be no bigger than around £2bn.

Many of the UK's youngest and brightest star companies start here due to its less onerous rules on listing. It comes with risks of course: lighter touch regulation; greater share price volatility; poor liquidity (the ease in which you can buy and sell shares in larger amounts); concentrated revenues on fewer product lines; concentrated end-markets for sale.

But if you're comfortable with taking a bit more risk, capital returns on AIM can be significantly greater than that of the larger FTSE100 listed stocks.

Henderson and Hughes have many years' experience picking AIM stocks and point to the fact that, if firms put their noses to the grindstone, it's much easier for a small-cap to transform revenues of £10m into £100m, then it is for a larger firm to turn £1bn into £10bn. It is this potentially strong growth of earnings that translates into stellar share price returns.

THE SHEER DIVERSITY OF IT!

Hughes points to AIM's wide variety of sector specialisms. It drives profitability through their strong dominance of niche markets, often creating growth that is structural – where revenues come in regardless of the health of the wider economy. It contrasts the FTSE100 where businesses operate in more commoditised product or customer-sets such as in banking or oil & gas, and are grouped in fewer sectors.

He adds that the multi-cap approach is a key advantage of the Trust because volatility can be dampened by larger-cap positions and diversity added to with small-caps, extending the revenue reach of the portfolio into a multitude of weird and wonderful marketplaces.

The global exposure of AIM companies is also perhaps surprising to some, who traditionally view the smaller company sector as domestically focused. Indeed Henderson and Hughes have constructed a blended portfolio where the underlying companies' revenues are broadly split 50/50 between international and domestic markets.

PORTFOLIO POSITIONS

RWS – LOST IN TRANSLATIONS

RWS specialises in translation services for patenting and life sciences, two very niche areas. The former is its bread and butter as the longest running segment and biggest slice of its revenues, operating in 130 countries across the world. Life Sciences became material more recently in 2015 following the acquisition of Corporate Translation. It is a very separate but equally skilled area.

The traditional business model is under pressure as creeping technology disruption creates an increasingly commoditised market for straightforward translations. RWS sidesteps these risks due to the fact its work requires much more specialist technical knowledge alongside the linguistics. Even the most advanced algorithms are unable to deal with the complexities, allowing RWS to command higher prices and strong margins.

BLUE PRISM – ROBOTS, OF A KIND

Commentators laud the creeping disruption created by a world of increasingly intelligent robots. The Terminator it may not be, but jobs aplenty are up for automation. Analysts put half of all US jobs at risk.

Blue Prism operates in this space, in an area called Robotic Process Automation (RPA). This involves software robots whose job it is to take over some repetitive back-office task performed by humans and recreate it more accurately, cheaply and quickly.

The company differentiates itself through the crossovers their RPA software has with artificial intelligence (AI). AI is a broad term but largely based on 'machine learning' concepts – the idea robots can use the vast quantities of data that we or other processes create, recognise patterns they're not programmed to find and then learn from them and adapt software processes for the future. Blue Prism's robotics are intelligent but only 'learn' in a supervised fashion – you may not want processes changed outside of their programmed confines, particularly where regulatory or technical specifications are quintessential to the task at hand.

The other important point here is that RPA processes can be retrofitted to incumbent systems without the need for complex integration – ideal for legacy systems or where large scale M&A has taken place.

Its solutions have been generating high returns for projects, creating 'sticky' customers who return to commission further projects as they deliver strong results to their Boards. Their clients are spread across a multitude of industries and locations, including Fidelity, Bank of Ireland, IBM, Accenture and Deloitte.

SAFESTYLE – FRAMING THE FUTURE

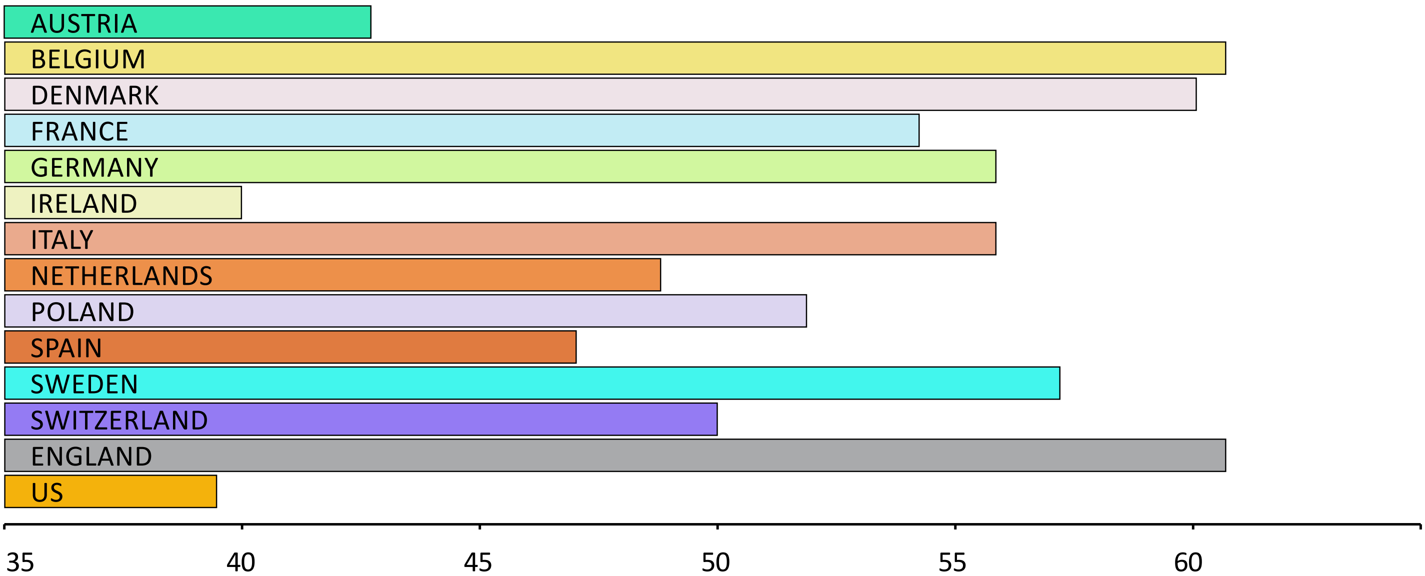
Safestyle operates in a domestically focused niche sector, and is a market leader. It's a pure investment play in an area called RMI (repair, maintenance and improvement) in the residential housing sector. Here they replace old style windows with new plastic PVCu ones. It's a strong market as the UK has some of the oldest houses in the western world and over the past decade little has been invested in maintenance.

It's a cash generative business helped by its low-cost asset base. Safetstyle has risen to become market leader amid high margins from economies of scale and strong pricing power. But its dominance is focused in the North; its strategy to ramp-up its operations in the south to gain further market share forms the backbone of the investment case. The niche dominance it holds is very attractive in an RMI cycle that is swinging to the positive.

SMALL IS MIGHTY

The business interests of small-caps are wide and varied, particularly those listed on AIM. Risks come with investing in smaller companies but the experienced fund managers of Henderson Opportunities Trust's construct the portfolio to best manage these risks and diversify the revenue's geographic and sector exposure. They believe this blend should enable the fund to deliver the portfolio's aim of strong capital returns over the long-term.

AVERAGE AGE OF HOUSES (YEARS)



Source: Safestyle as at 2016

* Small-caps – Small capitalisation refers to the total market value of a company's public shares; or in other words, the size of the business. In the UK this means those of around £200m to £2bn in size.

Looking for opportunities among large companies

Professional stock pickers in the investment trust space are still finding blue-chip bargains

London's high-flying FTSE 100 hit a record high in May, closing above 7,500 for the first time and currently trades above 7,400.

Many large, liquid, internationally-diverse companies are in demand at a time of economic uncertainty, particularly as beneficiaries of lower sterling. Their overseas earnings are worth more when translated back into pounds.

This is manifesting itself in stretched blue chip valuations but the finest fund managers at the helm of investment trusts are still unearthing value from the market's upper echelons.

MERCHANTS' MAGIC FORMULA

One fund with proven pedigree in finding value and providing plump payouts is **The Merchants Trust (MRCH)**. Managed by Allianz Global Investors' Simon Gergel, the trust provides an above average level of income and income growth, together with long term growth of capital, through investments mainly in higher yielding UK large caps.

Classed by the Association of Investment Companies (AIC) as a 'dividend hero', having grown the shareholder reward for 35 successive years, Merchants trades at a 4.5% discount to net asset value (NAV), offers a 5.1% dividend yield and has the lowest management fee in the UK Equity Income sector at 0.35%.

> WE WON'T BUY A BUSINESS WE THINK HAS STRUCTURAL PROBLEMS JUST BECAUSE IT HAS GOT A GOOD DIVIDEND YIELD

'Merchants has one of the highest dividend yields in the sector and we make no apologies for that,' says Gergel. 'We are genuine income investors – we try and buy companies with a good yield as part of our investment process. We yield significantly more than the market (the FTSE All-Share), but we also yield more than other income trusts.'

Gergel stresses that a high yield strategy has delivered strong long-term performance. 'But we don't buy companies just for the yield. We're always looking at the total return we can get and we won't buy a business we think has structural problems just because it has got a good dividend yield.'

An active investor prepared to take strong views, Gergel says the portfolio isn't high turnover, but he doesn't have a buy and hold approach. 'We will move the portfolio around to where we see value. We've sold out of many companies where we just find the valuations are too high. And therefore, our portfolio looks very different to many equity income funds.'

ONE EXAMPLE OF AN EXIT

Merchants recently sold its remaining position in **British American Tobacco (BATS)**. As Gergel argued in his recent factsheet: 'BAT has been a very strong performer and is now highly valued on almost any measure. The industry faces unprecedented change, with healthier e-cigarettes and next generation tobacco products disrupting the traditional cigarette business. Whilst these innovations are not necessarily negative for the companies, the outlook is more unpredictable than in recent years, and both the large UK tobacco companies carry considerable debt on their balance sheets,' he says, also referring to **Imperial Brands (IMB)**.

He is however enthused by the likes of FTSE 100 insurer **Prudential (PRU)** – 'a high growth stock and a very high-quality company' bought following a Brexit-related de-rating.'

One recent purchase is the FTSE 100 media giant **WPP (WPP)**, a formidable dividend growth stock whose strengths include leading positions in the digital and new media sectors and in emerging markets. WPP was bought following some disappointing trading updates which lowered the valuation to levels which don't reflect the growth potential, in his opinion.

An alternative trust with a similar remit is **City of London (CTY)**. A fellow 'dividend hero', the Job Curtis-managed fund has increased its shareholder reward for half a century. The trust's leading holdings range from **Royal Dutch Shell (RDSB)** and **Vodafone (VOD)** to **AstraZeneca (AZN)**.

CANNY CONTRARIANS

Prowling the market for value opportunities, sometimes at the mega-cap end of the market, is Investec Asset Management's Alastair Mundy. Quick-witted and quirky, Mundy manages **Temple Bar (TMPL)** with a contrarian style, seeking undervalued, out-of-favour companies with strong balance sheets. Typically, he wants at least 50% potential upside from his against-the-grain investments. Mundy uses enterprise value (EV) rather than market capitalisation to ensure his analysis allows for debt, pension deficits and other liabilities.

While the majority of Temple Bar's portfolio is invested in the FTSE 100, Mundy is happy to delve into FTSE 250 and small cap stocks and runs the rule over international stocks too. Top 10 holdings include mega cap bank **HSBC (HSBA)**, recovering grocer **WM Morrison Supermarkets (MRW)** and **Lloyds Banking (LLOY)**.

Fellow contrarian fund manager Alex Wright is also alive to value opportunities across the market cap ranks. **Fidelity Special Values (FSV)** is a special situations fund that thrives on volatility and uncertainty and offers an exposure to large cap names. The likes of Royal Dutch Shell, Citi and **Ladbrokes Coral (LCL)** all nestle in the portfolio.

Elsewhere, **The Scottish Investment Trust (SCIN)** also pursues a firmly contrarian strategy under lead fund manager Alasdair McKinnon. Trading at an 8.8% discount to NAV, holdings include **Tesco (TSCO)** and **Marks & Spencer (MKS)**, as well as Japanese gaming giant Nintendo.

GREAT COMPANIES, GREAT VALUE

Any discussion of large cap value would be remiss without mentioning revered buy-and-hold investor Nick Train. His **Finsbury Growth & Income Trust (FGT)** includes great companies offering attractive long-term value, stemming from their ability to compound earnings and dividends over time.

The portfolio is spearheaded by veritable dividend machine **Unilever (ULVR)**. Kraft-Heinz's attempted takeover highlighted the underappreciated value in the consumer goods colossus, which Train argues is only in the foothills of its opportunity to distribute its brands across emerging markets.

Kraft-Heinz's tilt offers a positive valuation read-across for other Train holdings with great brands and emerging markets exposure. These include alcoholic drinks giant **Diageo (DGE)**, luxury leader **Burberry (BRBY)**, lager leviathan Heineken and biscuits, chocolates and beverages behemoth Mondelez. (JC)

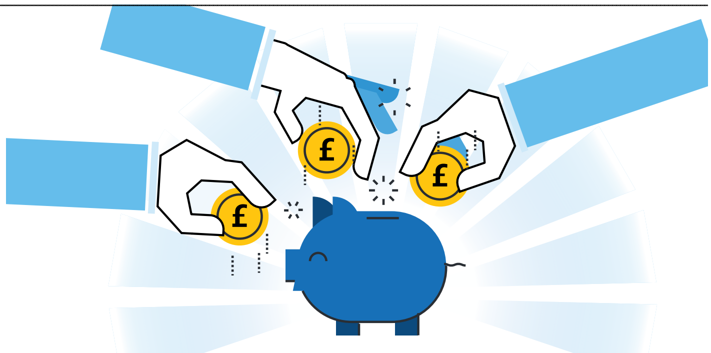
Five ways to boost your retirement income

Top tips to ensure your income meets your needs in later life

For many investors the thought of funding a lengthy retirement is a stressful one.

Experts suggest aiming for retirement income of 70% of your current earnings, so someone earning £40,000 would target a pension of £28,000 a year. This translates to a pension pot of around £600,000.

It's a lot of money, but fortunately there are some simple steps you can take to ensure your retirement income matches your desired lifestyle.



1

INCREASE YOUR CONTRIBUTIONS

The most obvious way to boost your income in retirement is to save more money. If you invest £300 a month for 20 years and achieve an annual investment return of 5%, you'll amass savings of £123,310. If you increase your monthly contribution to £500 a month, it produces a savings pot of £205,517.

These figures don't take into account the 20% tax relief you'll get from the Government if the money is invested into a pension.

Tom Selby, senior analyst at AJ Bell, says investors should aim to save the equivalent of half their age at the point at which they start contributing into a pension. A 26 year-old would target a total contribution of 13%, while a 40 year-old would aim to put away 20% of their salary.

You can also add lump sums to your pension pot, for example if you get a bonus or inheritance.

2

RETIRE LATER

If you work for a few years longer and keep saving into a pension it can dramatically improve your retirement income.

Kate Smith, head of pensions at Aegon, claims someone with an average retirement pot making the average level of contributions could see their pension income increase by two thirds if they defer retirement for five years.

'This is a result of the triple boost of continued investment growth on the pension fund, further contributions being added and, ultimately, fewer years to spread the fund over once no longer working,' she explains.

This option isn't open to everyone as it will depend on your line of work and health.

'It is far better to save and then choose to keep working that to have it forced upon you in order to maintain your lifestyle,' says Fiona Tait, technical director at Intelligent Pensions. 'Having more savings will also provide you with a cushion if you suffer from ill-health in later life which might impact on your ability to extend or obtain employment.'

3

INVEST APPROPRIATELY

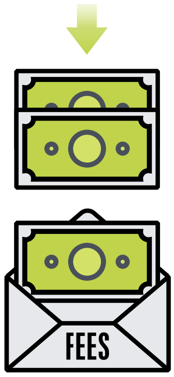
You can increase your pension pot by investing in assets that deliver higher returns, for example shares. According to the Barclays Capital Equity Gilt Study, shares have delivered a real return (after inflation) of 5.6% a year over the last 50 years. Cash has returned just 1.4%.

Higher growth assets tend to be more volatile – the prices can swing a lot over short periods. This means they're more suited to people with an investment time horizon of at least 10 years.

'If you are younger, you can usually take a longer term view and accept some volatility,' says Ben Gold, head of pension investment at Xafinity. 'If you are closer to retirement you need to very carefully consider the balance between returns and stability.'

People who aren't used to investing could consider a managed fund, where the investment decisions are made for you in line with specific investment objectives and risk parameters.

4



DON'T OVERPAY WITH FEES

Paying higher fees – platform fees, pension provider fees and fund fees – will reduce your income in retirement.

A 25 year-old saving £50 a month and earning returns of 4.5% per annum net of fees will accumulate £64,200 by age 65. But if they only achieve returns of 4% per annum, because fees are 0.5% higher, their pot at age 65 will shrink to £57,000.

AJ Bell's Tom Selby warns that seemingly small differences in charges can balloon over time, potentially reducing your final pot by tens of thousands of pounds.

'Make sure you shop around to get the best deal on both your platform provider and the funds you invest in. If your priority is keeping costs down, you might want to consider investing in low-cost passive funds which track an underlying index or benchmark,' he says.

Modern personal pension plans tend to have lower charges so it's worth checking whether you have any plans that are more than 10 years old. You could transfer the funds to a newer product, although it's important to check whether there any guarantees or specific policy conditions which would be lost on transfer.

'Another point is to check that you are only paying for the services which you are using,' says Intelligent Pensions' Fiona Tait. 'If for example you are in a self-invested personal pension (SIPP) and are not using the wider investment range available you are effectively paying for something you don't need.'

To avoid losing track of your workplace pensions you could consolidate them with one provider. This will give you a clearer idea of how much your pension is worth, but again you'll need to watch out for charges.

5

MANAGE YOUR INCOME TAX

Managing your current and future income tax liability can save you thousands of pounds. Adrian Mee, wealth management consultant at Mattioli Woods, says if you can make pension contributions as a higher rate tax payer you'll benefit from tax relief of 40%.

When you retire, if you control your withdrawals from your pension fund you could be classed as a basic rate taxpayer, which means you'll pay tax on withdrawals of 20% instead of 40%.

This effectively boosts your net income in retirement by 20%. (EP)

The importance of shopping around for your pension

We look at the key issues to consider for managing your retirement money

Whether you're signing up to a broadband provider, choosing an electricity supplier or buying travel insurance for a holiday, it pays to shop around for the best deal.

And it's no different when you're looking to turn your pension savings into retirement income. In fact in some circumstances scouring the market could leave you thousands of pounds better off.

The Financial Conduct Authority (FCA), the UK regulator, has raised concerns not enough people are shopping around for their pension. So what do you need to think about as you prepare to take this huge financial decision?

CHOOSING YOUR PREFERRED ROUTE

Before shopping around the market you need to decide how you want to take an income from your retirement pot. There are a number of different routes you can go down depending on your retirement income needs:

ANNUITY: a product sold by insurers that guarantees to pay a set level of income for life.

DRAWDOWN: entering drawdown means your funds remain invested. You can choose to take whatever level of income you like from your pot.

HYBRID: a few providers offer products that combine drawdown and annuities. These are mainly sold through independent financial advisers.

Given the first two options – annuities and drawdown – are by far the most popular, that's where we'll focus.

SHOPPING AROUND FOR AN ANNUITY

If you've decided you don't want to take any investment risk and would prefer a secure, guaranteed income for life, it's vital you get the best deal possible – because there is no going back.

This means making sure you get the best rate on offer and ensuring you get the right type of annuity.

If you have a health condition or are a smoker, for example, you could get a better 'enhanced' income from certain providers.

The Money Advice Service has a great calculator to get you started: www.moneyadviceservice.org.uk

SHOPPING AROUND FOR DRAWDOWN

Going into drawdown is different to buying an annuity in that you can switch provider or change your income level at any time.

So rather than shopping around at the point you enter drawdown, you should be regularly reviewing your provider choice, withdrawals and investment strategy – at least once a year.

It's worth doing this even if your priority is getting your 25% tax-free cash.

Remember the bulk of your pot will remain invested and it's important you're comfortable with both the risks you're taking and charges you're paying.

Tom Selby,
Senior Analyst, AJ Bell

Are investors focusing on the wrong catalyst for Ryanair's future growth?

Investors shouldn't only look at ticket sales to judge the health of the airline

Fearnings growth at low-cost airline **Ryanair (RYA)** could be driven by higher ancillary sales, instead of aggressively slashing ticket prices to drive sales volumes, according to Deutsche Bank.

Traditionally, the market focuses on ticket prices and load factor, which is the percentage of available seats on scheduled flights occupied by passengers.

In the year to 31 March 2017, average fares fell 13% to €41 while load factor was up 2% to 96% in the year to June 2017.

Deutsche Bank analyst Anand Date believes that investors are fixating on the wrong factor at Ryanair, flagging that over 75% of group profitability is ancillary derived.

'Ryanair is, in our view, still in the preliminary stages of generating a significant uplift in its ancillary profitability', comments Date.

Sales in this division are generated from non-tickets sources, including baggage fees, on-board food, car hire and hotel bookings.

If Ryanair focuses on ancillary sales growth to help offset its low ticket prices, this could theoretically help to boost overall profitability.

However, news (19 Jul) that companies will no longer be able to add surcharges for UK card payments from January 2018 is negative for Ryanair's ancillary revenue. Airlines are among the worst offenders with 2% to 3% typical fees for customers who pay for tickets with credit cards. The card fee clampdown is part of an EU rule change.

Deutsche Bank says ancillary sales could be supported by an increase in the number of passengers flying, a greater breadth of ancillary services and higher spend per customer.

Group net profit is expected to rise by 8% to a range of €1.4bn to €1.45bn in the financial year to 31 March 2018.

ANCILLARY REVENUE NOW ACCOUNTS FOR 27% OF RYANAIR'S REVENUE

Ancillary revenue is becoming a bigger part of Ryanair's business. The airline says it is currently on track to reach 30% of total sales from this source of income by March 2020.

Revenue generation from ancillary products has been strong in the past, reflected by a 13% sales jump to €1.8bn for this part of the business in the year to 31 March 2017. That represented 27% of group revenue.

Deutsche Bank is not the only one flagging ancillary services as a potential growth driver. Davy analyst Barry Dixon says ancillary revenue growth, improved economics from Boeing Max aircraft and cash flow generation over the next five years could help push Ryanair's share price to €25 over the next year. It presently trades at €18.47.

SHARES SAYS: ↗
Buy at €18.47. (LMJ)

BROKER SAYS: 15 3 2

Gateley offers the full service

We debate the merits of investing in a law firm

Investing in the only law firm listed in London, **Gateley (GTLY:AIM)**, may not initially appear a sound decision. These companies are 'people' businesses, their tangible assets are their lawyers who make money through client instructions.

Others in the legal market have seen their companies decimated by high profile (high billing) partners leaving for pastures new and in some cases taking their clients with them.

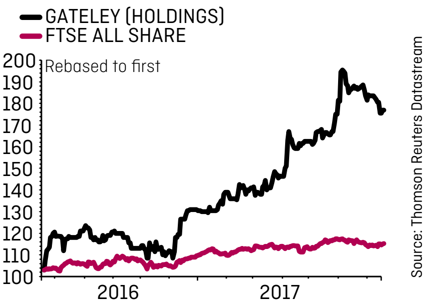
Gateley though has had a great time on the stock market since floating in June 2015. Its share price has shot up 85% on its 95p IPO price and it has attracted quality lawyers from global law firms such as Hogan Lovells and King & Wood Mallesons. This is a company clearly on the up, underpinned by a solid dividend.

Its financial results for the year ending 30 April 2017 make for impressive reading. Revenue was up by 15.7% to £77.6m, pre-tax profit up 18.8% to £13.1m and basic earnings per share increased 15.3% to 9.43p.

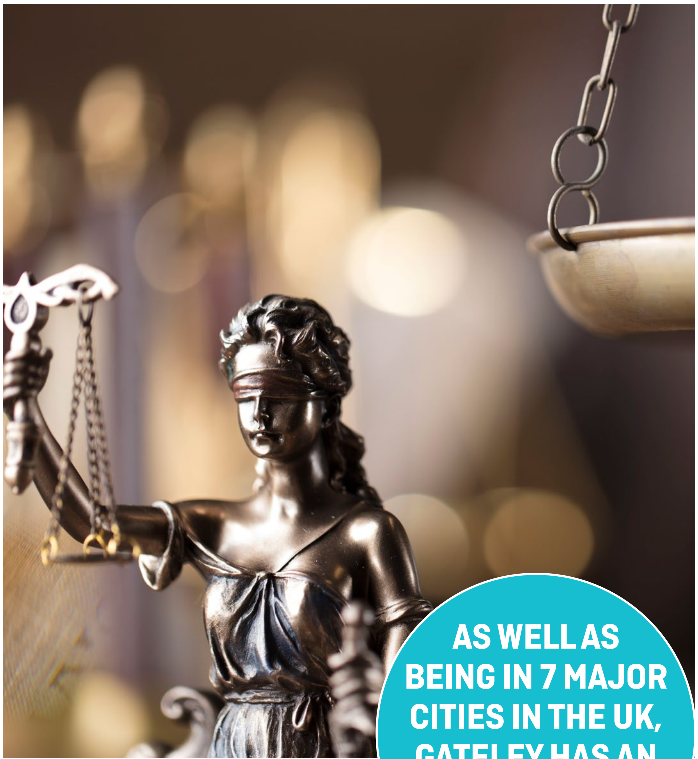
FULL SERVICE

Gateley covers a wide variety of legal practices, unlike Aussie-listed Slater & Gordon which focuses on personal injury claims. The firm offers corporate, family, private client and family advice as well as having a fairly sizeable dispute resolution or litigation team.

This diversity can work well for law firms. When there's a market downturn, not so many deals are being done so the corporate practice gets hit. At the same time, litigation disputes tend to come to the fore in uncertain times as parties are keen to recover damages if the market is having a wobble.



Gateley also has an impressive client list, having acted for consultancy EY and bank Macquarie Equipment Finance over matters of corporate crime.



AS WELL AS BEING IN 7 MAJOR CITIES IN THE UK, GATELEY HAS AN OFFICE IN DUBAI

As well as being in seven major cities in the UK including London and its base in Birmingham, Gateley has an office in Dubai. With its full service model and chief executive Michael Ward looking at acquisition targets, the firm has growth potential.

THE FUTURE

Going forward, Ward says he intends to distribute up to 70% of profit after tax to shareholders, adding that depending on where the share price is, the yield should be around 4%.

SHARES SAYS: ↗
Buy this full service law firm. It has good growth prospects and pays a healthy dividend. (DS)

BROKER SAYS: 2 0 0

Sound Energy switches focus to Morocco

Failure in Italy creates an opportunity to buy shares at a cheaper price

One of AIM's 2016 success stories, **Sound Energy (SOU:AIM)** is in recovery mode after a big sell-off in response to a disappointing result from the Badile well in Italy. We think the shares are attractive at the current 53p level.

Badile was a highly anticipated gas exploration well onshore Italy which had been in the works for several years, so it is unsurprising the market reacted badly to the news it had failed to land a commercial discovery.

Now at roughly half its 12-month high, the future direction of the share price depends on the company's progress in Morocco.

Directors have been backing the company with their own money. Greenberry, connected to non-executive director Marco Fumagalli, acquired 200,000 shares at a price of 49.58p. Chief executive James Parsons bought 53,158 shares at just over 47p.

After a mixed result from drilling on its Sidi Moktar licence in central Morocco, the company plans to take the rig back to its Tendrara block in the east of the country and resume operations at that location.

An independent audit of reserves at Tendrara and a final investment decision on a development plan for the asset are expected by the end of 2017. Both could provide catalysts for the stock.

SHARES SAYS: ↗
While the recent news was disappointing, the reaction to the Badile well looks overdone and we see scope for upside. (TS)

BROKER SAYS: 1 2 0

Arena gets its skates on

ARENA EVENTS is hoping to raise £60m as it seeks an initial public offering (IPO) on AIM on 25 July. The business provides temporary venues, seating and interior fixtures for things like seasonal ice rinks.

It works on big sporting tournaments such as Wimbledon and the Ryder Cup golf competition. It claims 70% recurring revenues and operates across the globe. (SF)

Monthly sales at Venture Life hit five-year high

MARKETING EFFORTS AT **Venture Life (VLG:AIM)** appear to be paying off as its UltraDEX products, including toothpaste and mouthwash, in June enjoyed their highest month of sales over the last five years.

The company promoted the product range in the UK through TV advertising and promotions through independent coffee shops. (LMJ)

Thalassa abandons subsidiary sale

OIL SERVICES MINNOW **Thalassa (THAL:AIM)** is shelving plans to sell its marine seismic subsidiary WGP Group after it determined third party proposals did not provide shareholders with sufficient value.

Noting a gap between its market value and what it sees as the intrinsic value of its assets, the business is upping its share buyback programme from £2m to £4m. (TS)

The rapid growth story flying under the radar

Velocity Composites serves a multi-billion pound industry

Burnley-based **Velocity Composites (VEL:AIM)** makes aerospace composite material kits. It joined the stock market in May but remains under the radar of most investors. We think it is worth a closer look.

A composite is an umbrella term to describe a number of materials, usually made up of two different components that together have very different properties than the individual elements.

Bridges gives the example of 'pre-impregnated materials, such as woven fabrics pre-impregnated with resin'.

'We don't manufacture any materials; there are already large multinational material suppliers who are on pricing agreements with the likes of Airbus and Boeing,' explains chief executive Jon Bridges.

'Neither do we manufacture any parts as there's already a large parts manufacturing supply chain feeding into the aircraft assembly line.'

SO WHAT DOES THE COMPANY DO?

Velocity sits between the material and manufacturing companies and consolidates the diverse supply chain. Its kits remove waste and shorten the length of production process.

If an airline materials manufacturer tried to do this in-house, they would have to buy all the composite rolls in advance and store them in freezers as the materials are fragile.

Then they'd have to cut the material into two dimensional shapes after defrosting them. This would lead to wastage of materials; essentially in-house production is inefficient.

Bridges says: 'By us doing all that work upfront for them, it makes it more efficient, less wasteful and more repeatable so they focus on their core business.'

PRODUCTION CHALLENGES

The entire composites industry is facing a challenge to scale up its production as components transition from being niche towards volume manufactured goods.

The composites supply chain and logistics will need investment and change in order to facilitate this growth. This is where Velocity Composites' efficiencies make it a unique offering.

David Buxton, an analyst at the company's broker FinnCap, says Velocity's growth 'is driven by a number of factors including volume growth on existing aircraft programmes, recently won customer contracts ramping up over the next two years and the start of production on new aircraft platforms'.

WHY NOT CUT OUT THE MIDDLE MAN?

While it would be inefficient for an aerospace parts company to make what it needs in-house, surely that business could just take Velocity's entire process and make it a division of their company?

Bridges dismisses this notion as his firm has spent 10 years developing bespoke software to make its business as efficient as possible, thus hard to replicate.

By cutting raw materials to size before the manufacture of the structural composite components, it can provide these kits in a timely and competitively priced way.

And by focusing on such a niche part of the market, it has refined its processes to such an extent that companies are happy to outsource what can be an expensive albeit essential part of aeroplane manufacturing.

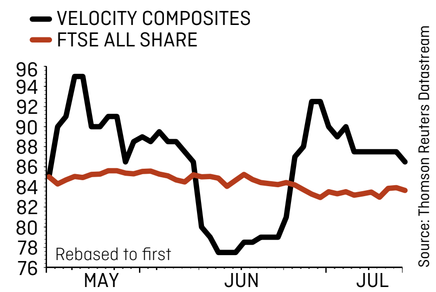
EVOLUTION AND KEY CLIENTELE

The use of composites in aircrafts has been growing steadily. Over the last 15 years their use has grown from marginal to over 50% of the structural body of modern wide body jets.

This trend is forecast to continue as there are commercial pressures to reduce the weight of planes to save on fuel costs.

These commercial considerations are coupled with regulatory pressures for aircrafts to improve their fuel efficiency and emissions. Composites are also stronger and more durable than aluminium.

This growth in use of composites is an obvious boon for Velocity as the likes of aerospace giants like Boeing and Airbus have huge order backlogs to fulfil.



BREXIT MAY IN FUTURE RESULT IN SOME SHIFT IN PURCHASING PATTERNS, ALTHOUGH AT THIS STAGE, THIS IS A MATTER OF LONGER-TERM CONJECTURE

According to FinnCap's Buxton, the company is forecasting sales growth from existing customer programmes who have ramped up their production of planes such as the B787 Dreamliner, A350 and A330neo.

SHARES HAVE YET TO TAKE OFF

At 86.5p, Velocity Composites is trading only marginally above its 85p IPO (initial public offering) price.

Buxton says this represents an opportunity not a disappointment. He claims that nothing has changed in the group's strategy, market conditions or production visibility. 'We believe the current valuation is compelling, standing at a significant discount to aerospace sector, while the growth story provides significant attractions.'

The analyst believes the share price could hit 144p in the next year, representing 66% potential upside.

Financial results for the six months to 30 April 2017 indicate a growing company. Revenue was up 31% to £9.3m and gross profit increased by 19% to £1.9m.

Don't be fooled by a pre-tax loss of £35,000 as it doesn't accurately represent the underlying health of the business.

That negative figure was a result of costs associated with its stock market flotation and investing in a new facility in Fareham.

The company is forecast to report a full year pre-tax profit of £0.5m in the year to October 2017, rising to £3.8m in 2018 and £6m in 2019. Those are very attractive levels of growth.

RISKS TO CONSIDER

The civil aerospace industry is subject to cyclical up and down swings. As for Brexit-related risks, we note aircrafts and their parts are tariff-exempt under WTO (World Trade Organization) rules.

'Many of the company's current and potential customers are involved in the Airbus supply chain. These customers have a complex, integrated, multinational supply chain. The location of Airbus's suppliers, and the jobs attached remain a politically sensitive issue,' says Buxton, discussing the Brexit issue.

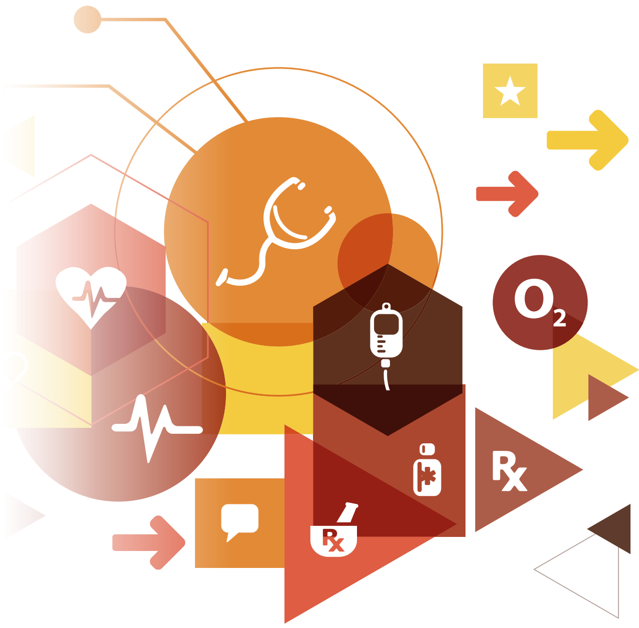
'Brexit may in future result in some shift in purchasing patterns, although at this stage, this is a matter of longer-term conjecture. Velocity's strategy to expand geographically would provide a defence to this issue.'

SHARES SAYS: ↗

Velocity Composites is a vital component of multi-billion pound industry. A speculative buy at 86.5p. (DS)

3 STOCKS TO PLAY THE DIGITAL HEALTHCARE REVOLUTION

EMIS, SERVELEC AND KAINOS AMONG THE COMPANIES USING TECHNOLOGY TO IMPROVE PEOPLE'S LIVES



In a world where people could live until 100, it is no surprise health services are struggling to treat an ageing population requiring increasing levels of care.

One solution to this issue is technology, which could relieve pressure on the NHS by allowing people to have video consultations or help monitor their health electronically. It could also drive electronic medical records, helping people to easily change GPs and share information with other care providers.

For investors interested in tapping into digital healthcare trends, UK-listed **EMIS (EMIS:AIM)**, **Servelec (SERV)** and **Kainos (KNOS)** work in this area. No companies on the UK stock market provide video consultation services, although this may change in the future.

The chief executive of life sciences resource hub Sarah Haywood believes GP apps have the 'potential' to take the strain off the NHS, but says companies need to show the positive effect of the technology and people have to adopt it.

'Digital tech can put tools into hands of patients. Whether it makes them change is down to behavioural science and how effectively the tech is speaking to the patient,' says Haywood.

Berenberg analyst Asad Farid thinks an age of digital solutions is nearer than many think, speculating the digital healthcare market will be worth $140bn by 2026.

DIGITISING MEDICAL RECORDS

EMIS manages the Patient.info website, which provides healthcare information, while its Patient Access tool lets patients book appointments, order prescriptions and view their medical records.

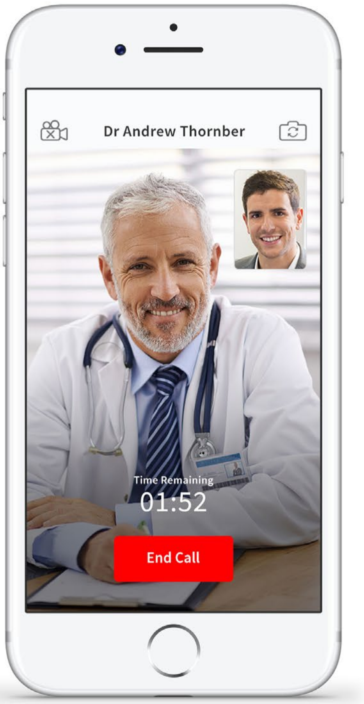
The healthcare software firm wants to monetise its direct-to-consumer platform Patient by boosting user numbers, improving advertising and media sales, and developing an online market platform to procure clinical services.

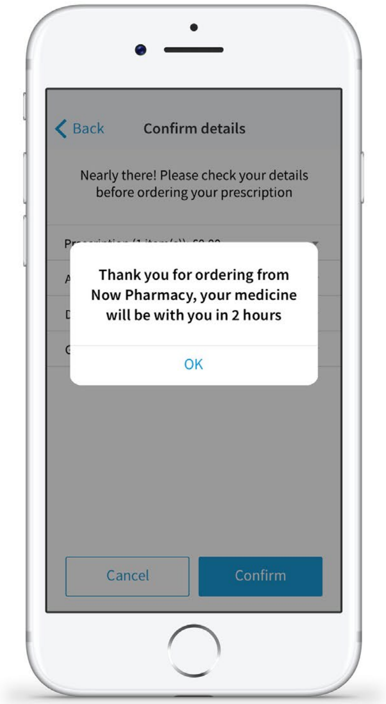
N+1 Singer analyst Chris Glasper says this could be 'transformative' by adding more than £10m worth of extra profit over the next five years.

Healthcare IT supplier Servelec develops electronic patient records, administration and flow systems used by organisations such as the NHS.

It has been a volatile year for Servelec as it recovered from a challenging UK market for its remote telemetry units, although Glasper thinks these problems are behind the company.

Servelec chief executive officer Alan Stubbs is





confident the company can take advantage of integrated systems which enable care providers to work together.

Stubbs is also excited about healthcare becoming 'mobile' as it will allow people to become involved in their own care programme.

Kainos offers the Evolve EMR platform that streamlines services and ensures NHS staff have access to accurate information about their patients.

The company wants to help the NHS become paperless by 2020, which would cut costs and ensure medical records are safe through integrated data. However, integrated data needs to be properly developed to ensure it is safe, an issue exposed by the recent cyber attack on the NHS.

REMOTE CONSULTATIONS AND INTELLIGENT TECH

Outside the stock market, private companies are developing game-changing products. One of these is Dr Now, a mobile platform that connects patients with GPs through a remote video consultation for £42.50 per session. Other companies working in the same area include Push Doctor and Babylon.

Dr Now chief executive Lee Dentith believes his platform is relieving pressure on out-of-hours services by dealing with appointments that don't necessarily require a consultation such as chronic conditions.

Dr Now plans to allow select clinical commission groups, which plan and commission healthcare services for their local area to use the app for free.

Internal projections suggest this could help cut costs of approximately £75m annually by relieving pressure from A&E and out-of-hours services, and reducing wasted medicines between September 2017 and September 2018.

HOW BIG DATA CAN DRIVE INNOVATION

Edison analyst Katherine Thompson believes big data is a huge opportunity for the healthcare sector as it could determine if people are at risk of certain diseases through the analysis of anonymous data.

She highlights EMIS Health's collaboration with the University of Nottingham, which can more accurately predict if a person is at risk of bowel cancer using a web calculator. (LMJ)

2 MILLION

Is the approx. amount of people in the UK that Dr Now's mobile platform covers.

5 HOURS

Is the amount that life expectancy has been rising by every day according to the NHS.

KEY

- Main Market
- AIM
- Fund
- Investment Trust
- IPO Coming Soon