19 December 2008, page 18, circulation 451,676

FINANCIAL TIMES

Economic winter bites on Aim's hopeful minnows

David Blackwell
SMALL TALK

The yearning for better times expressed in the 1960s pop classic "California Dreamin'" must strike a chord with many Aim boards as the junior market languishes in its own economic winter.

The bleak October figures revealed that for the first time in 10 years a calendar month had passed on Aim with no new money being raised. The London Stock Exchange statistics for November show a slight improvement – new money raised was £12.4m. But secondary fundraising was down to £65.2m from £81.6m in October.

Compared with November 2007, last month's figures look worse. In that month £192.2m of new money was raised and £243.1m of secondary funding.

But US optimism is hard to quench, as a look at a Santa Monica-based Aim minnow shows. DDD Group specialises in the development and licensing of software to create three-dimensional images on television, laptop and mobile phone screens.

It was founded in 1993, and arrived on Aim in 2002, raising £6m at 65p a share.

Its technology has been developed from software originally designed to create three-dimensional images of industrial plants for scientists and engineers. Clients include Samsung, Sharp and Hyundai.

Product has been shipped to South Korea, Japan and the US. But, as Chris Yewdall, chief executive, says, nothing has happened in the UK, leaving the company in obscurity.

The shareholder list is just as impressive. Nigel Wray, the entrepreneur and investor, has 7 per cent; Hans Snook, the former head of Orange, has 3 per cent and is a non-executive director; and Arisawa Manufacturing, the Japanese group that makes flat-screen TV parts, has 29 per cent.

The company has also been able to keep raising money. The last placing was in November 2006, when it raised £1.6m at 10p a share. Then in April this year it issued £510,000 of convertible loan notes to existing shareholders, with a conversion price of 10p a share up to April 2010.

The first-half results, announced in September, showed turnover up from £91,000 to £354,000 – above the total for each of the past two years. The company has never made a profit, but the interim pre-tax loss was down from £743,000 to £609,000.

But in spite of the clear support of the shareholders and the better results the share price has continued to slide, closing unchanged at 2¼p yesterday, which gives it a market capitalisation of just £1.86m.

Mr Yewdall is quick to describe the company's experience of Aim as "positive", having provided access to capital and the ability to continue development.

Flight to quality

DDD caught my attention because Mark McGowan, its former chief financial officer for several years, sent me an e-mail about his new venture, also based in Santa Monica and entitled Aim Advisers. Mr McGowan, who left DDD 18 months ago, is using his experience to look for suitable American companies to bring to Aim.

Assuming there are compelling reasons for a company to go public, if the company is not expected to command a market capitalisation of at least $500m, it should favour Aim over the US markets, he argues. Companies below this threshold are too small for the US markets. They would get little attention from institutional investors, research analysts and the public. The result is often a languishing share price, illiquidity and an inability to raise additional capital.

Sounds familiar, doesn't it? Well over 500 companies, or about a third of the dwindling total on Aim, have a market capitalisation of less than £5m, including DDD, and suffer the same problems.

DDD would not be able to join Aim now – it is too small. So Mr McGowan wants to find US companies with an international aspect that would have a market capitalisation of about £100m and raise £20m to £25m.

He believes that when the international market revives on Aim, there will be a flight to quality that can be serviced from the myriad ranks of US small companies. He hopes the first candidate will surface towards the end of next year. It will be great if he is not just California Dreamin'.

Peculiar valuations

It is no exaggeration to describe some of the present valuations of Aim stocks as peculiar. KSK Power Ventur, my favourite, builds power plants in India, particularly for industrial clients that need large amounts of electricity. After floating just over two years ago, the shares shot up to more than 600p before tumbling to 164p, giving a market capitalisation of £203m. But its stake in its 55 per cent-owned subsidiary KSK Energy Ventures, the power generation division floated on the National Stock Exchange of India in July, is worth £412m.

Small Talk returns on January 2.
david.blackwell@ft.com