BLACKFINCH ADAPT AIM GROWTH PORTFOLIO

Investee Company Recommended Takeover

ALLIANCE

The Alternative Investment Market (AIM) has long served as a strong hub for high-growth, entrepreneurial companies seeking flexible access to capital. Although share prices have been depressed relative to global markets in recent years, fundraising activities continue to create opportunities. According to Allenby Capital's 2024 AIM market update, the year ended strong with December being the busiest month, with £1.9bn raised by the end of the year, equivalent to £157m per month on average, proving that AIM continues to fund smaller companies. Allenby also noted merger and acquisition (M&A) activity continued to gain momentum from already higher levels, with average bid value and premium to prior day closing prices at £280m, and 66%, respectively. AIM is clearly an attractive shop window for both trade and private equity (PE) buyers.

This recent activity was on show with our long-term holding, international consumer healthcare company Alliance Pharma (APH). APH has grown, both organically and through acquisition, to a diversified portfolio of around 80 consumer healthcare and pharmaceutical brands (including the leading scar treatment brand Kelo-Cote). Since our first point of investment, we have seen the management team navigate the business through the pandemic, with the business well-positioned with multiple high market share brands across more than 100 countries. Therefore, it was no surprise that a cash offer for APH – an event that underscores the inherent value of the business – was made. The offer came from DBAY Advisors, an investment firm based in the Isle of Man, which already held a 27.9% stake in the company. Under the final terms of the acquisition, shareholders are entitled to 64.75 pence per share, representing a 46% premium to the previous close price.

From our perspective, the acquisition delivers an immediate realisation of value. While we believe APH still had room for organic and acquisition growth, a cash exit at a premium share price validates our original investment thesis. The offer was also close to what we considered to be the company's intrinsic value. This immediate return on investment gives us liquidity to redeploy into new opportunities. This is particularly appealing given many AIM stocks remain undervalued relative to their long-term potential. Reinvesting this capital gives us the opportunity to broaden our exposure and diversify into areas poised for growth.

The outlook for the wider AIM market remains positive, despite the recent bout of underperformance against peers. While short-term uncertainties persist, AIM's history of outperforming during periods of market recovery, coupled with its flexible structure and diverse opportunities, leaves it well positioned for renewed growth as macro conditions stabilise. Maintaining a long-term outlook may offer significant value, with unappreciated names like APH potentially reaping considerable rewards should the broader economy regain momentum. For strategic acquirers and PE firms, discounts remain an appealing entry point for M&A activity, and we believe this will be an ongoing factor in 2025 that can offer further returns. More broadly, the UK's focus on innovation and entrepreneurship can help support fundraising and expansion for our other investee companies, especially as borrowing costs reduce, with interest rates expected to head towards the neutral rate. Once sentiment improves and valuations begin to catch up to underlying business performance, UK companies could look increasingly attractive to both domestic and foreign investors.

BLACKFINCH INVESTMENTS

Learn more about the Blackfinch Adapt AIM Portfolios at www.blackfinch.investments/aim/