

Getting to the heart of the matter

by Eric Chalker

This is the objective of UKSA's AIM companies reporting team as it critically examines how well or poorly these companies report to investors. The team led by Mark Gahagan, comprising Hubert Beaumont and Sandy Forbes, is working its way through the annual reports issued by the top 100 companies on the Alternative Investment Market. Six have now been completed, Asos, GW Pharmaceuticals and Abcam (numbers 1, 2 and 3), plus Ithaca Energy, Tissue Regenix and Hargreaves Services (last year's bottom three). All six critiques can be found on the AIM_100 tab on the UKSA website.

Investors Chronicle publishes its list of the AIM 100 each April, so we're now working to a new list. The top three are unchanged and although they will of course have fresh annual reports, we'll not be looking at those, at least for the time being. PureCircle and PaySafe have been taken off the list of targets because they have moved to the main list, so our next target at the top end is Plus500, which was 6th last year, albeit only 10th now. At the bottom, we've done too much work on Sprue Aegis, which was number 95, to abandon it now, even though it has dropped off the list. After that, we'll be examining Matchtech.

The procedure is that a member of the team obtains a printed copy of the report if he can, or, if not, looks at it on screen which he may do anyway because this can give a different perspective. He then studies the report and prepares a draft critique of it. This may take some time because – and I do find this interesting – close examination of company reports sometimes reveals unexpected issues which need detailed consideration in order to form a judgement. The completed draft is then passed to other members of the team and ultimately to me, during which process it may be amended many times. The recently completed Abcam examination and report went through many revisions and is estimated to have taken at least 24 working hours. The more successful companies tend to have more to say and this gives us more to examine, but it doesn't mean that the others get less than equivalent consideration.

A standard form of presentation has been emerging from the exercise, as can be seen from the reports we have produced, but this is not set in stone. The length of reports has varied between one and two pages and two should be enough. As reports are completed they are placed on the AIM_100 tab and a news item is written to announce this, which also draws attention to any key discoveries in the reports. This means that careful search of a company's name may lead the searcher to our website and that of course is good for UKSA.

We know that two of the six companies so far examined are monitoring internet appearances of their names, because they have contacted us. This is a good

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thing for us too, because if one third of the companies whose annual reports we examine are reading what we say, there is a reasonable chance we will have been instrumental in bringing about the kind of change we are seeking. We will be more active about this in due course.

In the case of Asos, our emailed request for a copy of its printed report produced an unsatisfactory response. This was picked up from our report by its Company Secretariat Department who emailed an apology, followed by the annual report we had requested.

Our comments on Abcam's last annual report have produced an even more interesting response. First, I received a telephone call from its new company secretary, Suzanne Smith, who was full of thanks for what we had written, which she described as "wonderful", readily accepting a number of specific points. In her subsequent email, she wrote this.

We found the UKSA's report on Abcam's 2015 Annual Report to be very helpful and practical. We are embarking on the drafting of this year's Annual Report, and we will try to incorporate as many of your suggestions as possible. We very much appreciate constructive and objective feedback on how we can improve the way in which we communicate to shareholders and other stakeholders in our Annual Report, and I wanted to thank you for the effort that clearly went into analysing our report. Many thanks.

The team is learning as it goes. Each report examined seems to offer something new. We strive collectively to reveal information from the accounts that might not be apparent to the normal reader. In the GW Pharmaceuticals' remuneration report, we found and highlighted that the (unaudited) graphs purporting to show total shareholder return (and, by implication, some justification for board pay totalling £4.9m) are difficult to interpret and have a starting point which is 80 per cent below the flotation price. Close examination of Hargreaves Services annual report revealed a colossal £4.5m waste of shareholders' money in a share buy-back, in what the directors acknowledge is a declining business (coal), but without even a word of acknowledgement by the chairman, let alone any attempt at justification.

There is room for another member or two on the team to speed up progress, so if this is of interest to you please contact Mark Gahagan at mark.a.gahagan@gmail.com.

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