N+1 SINGER

A leading Investment Bank dedicated to advising and funding ambitious growth companies in the UK.

PROVEN PLACING POWER.
EXCEPTIONAL EXECUTION.
UNPARALLELED RESULTS.

End of Year Report 2019

Contents.

Introduction.

Tim Cockroft
Equity Partner & Chief Executive Officer

Maybe we are at the point that veteran fund manager Jeremy Grantham once described as the ‘melt -up’ territory. The noise around gloom and doom has been consistent and loud for several years; investors have been put off from UK Equities all for the good reason of safety. Cash ISA products continue to sell, despite the fact that an investment in a cash ISA almost guarantees a long term loss, we also have a scramble to criticise unit trusts investing in the markets, because some funds have supposedly invested in too many illiquid investments.

All of the above have strong support from regulators and the advisory industry, but they could equally be the next scandals.

We could have a moment where investment demand is driven to the UK, asset allocation from global fund managers returns, and yet the market which has seen 'de-equitisation' has less companies to invest in. As new money is invested, ratings expand, demand for new companies increase, and the equity markets will be popular drawing cash. Whilst it's not popular to say this, listed markets are liquid, visible and positive for raising growth capital.

Surely that is just as positive as investing in private companies where there is zero liquidity? Or in cash which has missed all the great dividends and equity returns of the last 5 years (41.31%)? Those advisors recommending and taking fees for cash ISAs should be the ones being interviewed, not those who invested in funds!

We live in a global market place that continues to grow rather than shrink

Going back to the funds, the reality is the Woodford situation was driven by poor performance in large and mid-cap stocks which, in time, exaggerated the lack of liquidity as the fund dwindled. That sadly happens sometimes when taking risk, which brings us to 'melt-up'.

Cheap UK stock market valuations, equities being structurally under owned, a regulatory body who likes making it difficult to promote investment, and an exchange which seems to encourage red tape, all point to a restricted supply of new equity issuance. The odd part of this is that we live in a global market place that continues to grow rather than shrink, and money is practically free. Could we even see the new administration encourage equity investment rather than debt?

Maybe, just maybe, we are on the cusp of a bull market and, if we are, remember they can be short, they go beyond all rational expectations, but they are a lot of fun.

To be sure, this is not investment advice!

Equity Market Review.

Jamie Constable
Equity Partner, Equity Sales

Overview

If the 2010's could be characterised as a decade in which markets were driven, predominantly by central bank support for assets i.e. QE, what could the 2020's bring for investors?

In last year's review, we opined that trade wars would impact on economic growth, and that has been seen to be the case, particularly for industrial companies. Central banks have reacted quickly, pressing the buttons that they have at their disposable. Given that interest rates had hardy moved off their post crisis lows, except maybe in the US, do they have the ammunition to forestall any threats of a more prolonged downturn?

US

The US economy continues to be led by the consumer. The impact of trade wars on the industrial and technology sectors and the early year move up for bond yields meant, however, that the Fed rapidly reversed up the wagons and the cycle of interest rate rises came to an abrupt end. There was no repetition of the Trump tax cuts of the year before to help support corporates. 2019 has, as now, seen three interest rate cuts as the Fed FOMC commenced a new easing cycle. Trump would have preferred that they followed the lead of say the ECB and moved to negative interest rates, but we are not sure what form of reasoning he is using to come to that conclusion! As 2019 comes to an end, unemployment is at cycle lows at 3.5% with very solid wage inflation of 3.1%, keeping the consumer happy as disposable income continues to grow. This has been helped by the pull back in bond yields in H2 2019 and consumers re-mortgaging at lower rates.

The US economy continues to be led by the consumer

The industrial sectors, led by companies such as Caterpillar, are, like the rest of the world, experiencing subdued demand. China is no longer the engine for global industrial growth and it is hard to see who may take on the baton. Industrial PMI's have moved down through 2019 to, in many countries, signal contraction. Commentators are attempting to call the turn and that the worst is over. Equity markets have been following the lead and have seen some good bounces in share prices, with quite a number of US industrials trading at 5 year high share prices. A clear example of the equity market attempting to discount the future rather than looking backwards.

2020 is also a US Presidential Election year. As we come to the end of 2019, Trump has been impeached, although this is very unlikely to make it through the US Senate. He is only the third President in US history to face this. Will it make any difference to his attempt to win a second term as President? Unlikely.

The UK Election result may caution the Democrats against being too radical with their policies which could, if that occurs, lead to quite a tight race. Expect Trump to push all the growth buttons he can to try to ensure that the US economy enters the run into the Election in fine fettle. We do need to remember that we are now moving into the 12th year of recovery/growth post the financial crisis. The world needs other regions to take on the growth mantel as well. US equities have loved the re-starting of stimulus and are hitting new all-time highs on a day by day basis, with the S&P up over 2% at time of publication.

We couldn't finish this section without a final word on the trade wars. It seems like the first phase of a US-China trade deal has been signed about 50 times if you believed every "tweet" and newsfeed! The two parties do appear to have finally moved forward, and that will hopefully bode positively for global growth as we move into 2020. Trump needs a deal to help his chances of re-election. The question is, will the tariffs that have already been imposed be removed? By its very nature, the actions taken to date have already started a re-thinking and moving of manufacturing locations and trade flows. Once started, this is unlikely to stop.

US-China trade wars look to have moved in a positive direction for 2020

Asia & Europe

Economic growth in China has continued, slowly but surely, to slow through 2019, with bad debt problems rising. Industry is no doubt suffering from the significant changes in trade flows and centres of production driven predominantly by the US attack on China through the mechanism of tariffs. Those SE Asian countries that look to be benefiting from the US actions would include at the top of the list Vietnam, Indonesia and Malaysia. The Bank of China has been attempting to bail out the heavily indebted private sector, but it appears that (at present) there is only so far they are prepared to go.

If there is any sign of the Hong Kong unrest spreading to the Mainland however (i.e. if unemployment started to grow), then you feel that action would rapidly be forthcoming. The major risk to the Chinese planned model is civilian unrest, most likely due to unemployment or squeezed incomes – something that the US administration know all too well.

Japan has announced a new stimulus package to take effect as the impact from the 2020 Olympics wanes. This should also help counter the impact from the rises in consumption tax. The stimulus amounts to Yen13.2 trillion ($120bn) and is the first example of the question that was asked right at the beginning of this review, namely: *"what could the 2020's bring for investors? Could it be fiscal stimulus from governments that becomes the new driver for growth?"*

2020 Olympics will be hosted in Tokyo, Japan

We talked last year of a number of European economies delivering negative growth for Q3, and 2019 has not been much better. German industrial output for October 2019 was -5.3% yoy for example, as the economy suffers from its dependence on global trade and technological change, particularly in the automotive sector where October auto production was -14.4% yoy, with thousands of employees being laid off. France continues to suffer from widespread strike action as Macron attempts to restructure the economy. Despite this, European economies have not entered recession as measured by the traditional means of two consecutive quarters of negative growth.

Germany appear to be flirting with fiscal stimulus under the headline of 'investment in renewables', and this looks like a very sensible policy, if we do say so. There is that new theme again. We have had a changing of the guard at the European Central Bank ('ECB'), with Christine Lagarde from the IMF taking over. Her first meeting saw her being more upbeat that the worst was over in Europe. She has also instigated a strategy review of the ECB. Given her background, it would not be a surprise if she were to encourage European government to do their bit with some fiscal stimuli.

The growth outlook hasn't stopped equity markets rising though, with most European ones up 25% plus.

UK

Fund flows move markets. Last year we wrote that the removal of UK specific uncertainties had the potential to drive inflows after 2 ½ years of outflows post the Brexit vote in 2016. Unfortunately March passed without any resolution, and it appears that this did cause a step down in UK economic activity with no end date for the Brexit arguments in sight.

After 3 ½ years of dithering, politicians have finally moved to draw a line under the short term uncertainty with the calling of a General Election. The conclusive result means that the Conservative party have been given a clear mandate to govern for the next 5 years and, with an 80 seat majority, they have the scope to make meaningful changes to the direction of UK policy, if they so choose. Uncertainty number one has thus been removed.

Boris Johnson, UK Prime Minister, wins the December Election 2019

The next action point on their agenda will be to complete (whether you agree with it or not) the first stage of Brexit by the end of January 2020. Uncertainty number two removed. There does, though, remain the not small issue of negotiating a free trade agreement with the EU and other countries around the world, so it's not likely to be all plain sailing. The current EU deadline is December 2020.

With the mandate they have, the direction that policy and thus the influences that this will have on the UK economy, will take time to become clear. The NHS is at the top of Johnson's agenda, so expect funding there.

Infrastructure, and investment for renewal and in renewables, is also likely to feature high in the agenda. We are going to have to wait for more details. Let's hope that they plan and legislate wisely and invest to achieve meaningful returns for the economy. With government bond yields where they are, they potentially have a once-in-a-generation opportunity to borrow at ultra low rates to effect this change.

For corporates, the removal of uncertainty means all those projects that have been on hold will now likely see the dust brushed off the files for reassessment. One would hope quite a number will be going ahead, particularly if we are looking at 2020 being a year of accelerating growth for the global economy, especially outside the US.

The initial reaction to the conclusive General Election result, and the important removal of some uncertainty has been, as we would have expected, seen with the domestically exposed mid and small cap indices out-performing the large caps.

The UK is set to complete the first stage of Brexit by January 2020

Let's finally return to the mantra Flows move Markets. UK assets had already been in demand with M&A buoyant through 2019; with many companies departing the equity market, aided by the lowly level of sterling. Now investors, such as those from overseas, may well have had enough uncertainty removed to at the minimum start, closing their underweight positions in UK equities as we have previously supposed in last year's piece. That also goes for UK domestic investors, too. I am reminded of when the UK left ERM in 1992. The initial move was equity markets up, then pause, then up and up.

The UK has been lagging the world… is it now time for catch up?

In conclusion, 2019 was characterised by the impact of the US-China trade wars on global trade and industrial demand. In the UK, uncertainty continued for longer than expected as Brexit wranglings went on and on. Looking into 2020, China and Trump appear to be moving forward on trade agreements and this is certainly in Trump's interest with 2020 being a US Presidential Election year.

2020 will be a US Presidential Election year – will Trump win a second term as President?

In the UK, uncertainty is also being progressively removed and we look for a pick-up in economic activity as the year progresses. Returning to the question at the top of this section on "*what could the 2020's bring for corporates and investors?*" ultimately, Government spending i.e. fiscal stimulus, is likely to be a phrase you hear more and more of, particularly in connection with investment in renewables and renewing of infrastructure and economies. Let's wait to see what 2020 has in store! It's looking to be an interesting year for global equity markets.

N+1 Singer Review.

Tom Salvesen
Head of Corporate Broking

As I write this, the Conservative Party has just secured a significant majority in the 2019 General Election and have inflicted significant losses on all other major parties. Whatever your political persuasion, after nearly 4 years of wrangling and indecision, we now have an element of certainty going forward. The outcome will be good for Sterling and should also translate positively to share prices and domestic assets as foreign cash finds its way back in to the UK. There is no doubt we can look ahead with renewed optimism.

Investment Banking

As a firm, 2019 has provided a significant opportunity for us to progress our business and services offered to our clients. We are pleased to welcome 23 new corporate clients to the firm, including 4 companies seeking private capital.

Our mantra of 'excelling at the basics' has yielded positive outcomes with c.£900 million raised year to date across 26 transactions. This compares favourably to 2018, where we completed 21 transactions for the year. To put this in context, only one firm in our broking peer group has raised more money in the current year, and we were also pleased to be ranked as the No.1 Financial Adviser by Volume at the end of Q3 2019 – we are proud to have continued to cement our position as London's pre-eminent growth company Broker.

Our client, Hipgnosis, moves to the Premium Segment of the Main Market, Nov 2019

We have continued to invest across the firm to support our clients, and evolve our product and service offering in an increasingly competitive market. We are pleased to report that our Private Capital team have been active this year, including the £3.75 million raise for The Lakes Distillery with a number of other mandates at a late stage.


N+1 Singer raise £3.75 million for The Lakes Distillery ahead of a planned IPO, June 2019

M&A has also been a recurring theme as foreign buyers have taken advantage of the cheap pound in order to drive scale. To that end, our M&A team have been active with 10 buy and sell-side mandates completed, including the notable acquisition of our client WYG plc by Tetra Tech Inc, for a premium of approximately 244%. We expect this theme will continue as more companies look to M&A as a valuable strategic option for expanding their businesses.

The IPO market has been subdued this year with many investors and companies putting key decisions on hold until the Brexit picture becomes clearer. Despite this, our successful IPO of essensys in May 2019 proved that markets are always open for strong, differentiated growth companies with great forward opportunities. In an upsized deal due to demand, we raised £28 million for the company, giving a post money valuation of £72.6 million on admission – a much higher figure compared to the other strategic financing options available.

essensys plc raise £28 million and admit to trading on AIM, May 2019

In a financial market as large as London's, there are always a number of financing routes available. We expect funding and corporate activity in general to accelerate in 2020 now the General Election is behind us and Briext is (hopefully) resolved.

We remain optimistic as a firm and expect 2020 to be a busy and active year as companies look to enact their growth plans through raising capital and executing M&A. Your service teams at N+1 Singer are ready to help with any transactional advice and execution matters you may wish to discuss and we look forward to being busy on all of our clients' behalf.

Markets

N+1 Singer trading has had another year of stellar growth, despite an uncertain backdrop for most of the year. Our volumes continue to grow, while overall market volumes have receded, meaning our market share in AIM has increased now to over 7%. We have hired new talent in both Market Making & Sales Trading to position ourselves well, as the cloud of uncertainty that has hung over UK investment for a number years, finally begins to lift. We look forward to adding further liquidity & value to the UK Small Cap space in 2020.

2019 proved to be a very busy year for the research department. Our new "Sense & Sensitivities" research product was well received and our research coverage has been substantially refreshed, focusing on companies which are under-researched, misunderstood or where we identified an opportunity to add genuine value. Looking forward, we have plans to roll Sense & Sensitivities out across our entire coverage list early in the new year and we will be introducing further innovations as the year progresses.

We initiated coverage on 36 stocks during the year, amongst which there have been some stellar performers, the top ten stocks all increasing by over 30%. RenalytixAI topped the leader board (+165%) with Kape in second place (+85%). The average market cap of these companies on initiation is c.£370m* (ex Hargreaves Lansdown), which highlights our commitment to the small & mid-cap market, where research coverage generally is at risk (both in terms of quality and quantity) as a result of the introduction of MiFID II. We fully intend to maintain this momentum in the new year with a commitment to significantly broadening our coverage and focusing on the pivotal issues that are fundamental to any investment decision.

RenalytixAI win the "AIM Transaction of the Year Award" at the AIM Awards 2019

Our Best Ideas for 2019 came in two parts. We were pleased to see our 'Core Ideas' list outperforming strongly and our 'Domestic Bouncers' coming into their own in recent weeks, as we believed they would with a more stable political backdrop. On average the Core Ideas delivered a total return of 33%, outperforming the benchmark by 18%. Future was the stand out performer, rising by 175% and we were delighted to support the business during the year with its £104m fundraising in October. The Domestic Bouncers achieved a total return of 23%, outperforming the benchmark by 8%. The best performer there was Dunelm (total return 81%), one of our longstanding conviction ideas.

Corporate Partnerships, Charity and Well-being

2019 has also seen some particularly notable advances in our corporate partnership and charity programme. As a firm, we are proud of our attitude towards health, sustainability and the environment, which is something we proactively adopt into all areas of the firm (if you have been to our office, you will have noticed the lack of crisps and biscuits available!). We have always encouraged health and fitness and, for a firm of our size, we are incredibly proud that we can field a highly competitive running team. This year we had 30 runners participate in the J.P. Morgan Corporate Challenge – a 1/3 of all employees of our business, and we are encouraged by the attitude our people have towards positive mental and physical health.

This year, we have also been incredibly proud to have partnered with the educational charity, **Into**University. **Into**University is a local charity with a national reach, supporting young people from some of the most disadvantaged backgrounds in the UK to aspire and achieve their full potential. Our partnership with **Into**Unviersity has meant that N+1 Singer can provide much needed support to children from the ages of 7 right up to 18, whether that be through our upcoming internship programme, monthly mentoring of final year students and also volunteering support at the centres.

A record 30 runners from N+1 Singer took part in this year's J.P. Morgan Corporate Challenge

To end, we would like to take the time to thank all of our clients for your continued commitment to N+1 Singer over the year. We are incredibly fortunate to work for a growing and vibrant collection of UK PLCs and private entities and, as ever, markets always remain open for businesses looking for investment – whatever type of funding this might be. We look forward to supporting your needs next year and beyond, in what we anticipate to be a very busy 2020, and we wish your businesses continued success for the new year.

** Performance and market capitalisation figures as of close 17/12/2019. Benchmark is the Cboe UK All Share.*

N+1 SINGER The Growth Company Partner

N+1 Singer is a leading **Investment Bank** dedicated to **advising** and **funding** ambitious **growth companies** in the UK

£4.7bn
Helped 100+ Companies raise £4.5 bn since Jan '13

96
Corporate clients across 12 core sectors

c.100
Professionals across London, Newcastle & Leeds

>7%
Market share on AIM (sub £500m), making markets in > 800 stocks

N+1 Singer's 2019 in Numbers

860 c.£860 million raised for our clients

23 New clients across 12 sectors

3 Private Equity placements

750 £750m average mkt. cap of our top 10 clients

26 Transactions completed year-to-date

168 £168m average mkt. cap of all of our clients

20 New hires across the business

231 £231m raised for Hipgnosis, our largest raise in 2019

Awards and Recognitions

FT: Europe's Fastest Growing Companies 2017

AIM Rankings: Top 3 Adviser & Stockbroker

1,000 Companies to Inspire Britain Award, 2016

NOMAD of the Year Winner, 2018

Placing
raising £2.25 million

Nomad & Broker
January 2019

Rollover Opportunity to Exchange Carador Shares for Shares in Blackstone / GSO Loan Financing

Joint Financial Adviser & Broker
January 2019

Recommended cash offer by Ecolab

Rule 3 Adviser
February 2019

Placing of Secondary Shares raising £6 million

Joint Bookrunner
February 2019

Placing
raising £13.5 million

Financial Adviser & Broker
March 2019

Placing raising USD $50 million

Joint Financial Adviser & Broker
March 2019

Placing
raising £4.8 million

Nomad & Sole Bookrunner
April 2019

Placing
raising £141.5 million

Financial Adviser & Broker
April 2019

Placing raising £3.10 million & Acquisition of Geomap-Imagis

Financial Adviser & Broker
May 2019

Placing
raising £13million

Joint Placing Agent
May 2019

Acquisition of Earthport by Visa Inc.

Rule 3 Adviser
May 2019

IPO
raising £28 million

Financial Adviser & Broker
May 2019

Recommended Cash Offer by Tetra Tech UK Holdings Ltd.

Rule 3 Adviser
May 2019

Private financing raising £3.75 million ahead of a proposed IPO

Financial Adviser
May 2019

Placing
raising £7 million

Nomad & Broker
July 2019

Placing
raising £14 million

Joint Bookrunner
July 2019

Disposal of subsidiary for £105 million to Equistone Partners Ltd.

Nomad & Broker
July 2019

Placing
raising £20.30 million

Joint Broker & Joint Bookrunner
July 2019

Merger between Frontier and Science Group PLC

Nomad & Broker
August 2019

Placing
raising £3.5 million

Nomad & Broker
August 2019

Placing
raising £11.2 million

Nomad & Broker
August 2019

Recommended cash offer for Sanderson Group of £90.1m by Apetean Bidco

Financial Adviser & Broker
August 2019

Placing
raising £51.1 million

Financial Adviser & Broker
August 2019

Placing
raising USD $31 million

Joint Financial Adviser & Broker
September 2019

Acquisition
of Neptune Investment Management Ltd.

Financial Adviser
October 2019

Placing, Offer for Subscription and Intermediaries Offer of C Shares raising £231 million

Financial Adviser & Broker
October 2019

Placing
raising £104.4 million

Joint Underwriter & Joint Bookrunner
October 2019

Placing
raising £3.44 million

Nomad & Joint Broker
October 2019

Placing
raising £4 million

Bookrunner
October 2019

Placing
raising £10 million

Financial Adviser & Broker
November 2019

Placing
raising £14.03 million

Sole Placing Agent
November 2019

Placing
raising £30 million

Joint Broker & Joint Bookrunner
November 2019

Placing
raising £43.7 million

Joint Bookrunner
November 2019

Placing
raising USD $50 million

Joint Broker
November 2019

Recommended cash offer for Murgitroyd of £62.8 million by Sovereign Capital

Rule 3 Adviser & Broker
November 2019