THE SMALL COMPANY

SHARE WATCH

February 2025

MARKET COMMENT

The last week of January was "interesting." The headlines were made by the launch of R1 by DeepSeek. You now know that this Chinese launch has totally undermined what most believed about AI i.e. that AI success required massive investment, and that only the most advanced Nvidia chips would be good enough to train the best AI systems. None of that is true.

President Xi will be very happy with the PR potential generated by this launch from a relatively small Chinese company, which also makes all the technical detail publicly available, open source. It's "open China, working for global good" vs "closed US, only working for its own profit." A vital support for the tech bubble, which reached extraordinary new levels in the last year, has been ripped away. The precise impact on the exceptional share prices of big tech will probably take some months to unravel.

But the extraordinary possibilities of AI, for large and small businesses, for public good and private profit, will now emerge faster with greater sharing and collaboration.

The immediate interest for us in that week was how the UK emerged as the best major performer, after Brazil, and ahead of European bourses, which received more attention. The domestically focussed FTSE-250 was up 2%. Although the small cap index was only up 1%, and these numbers are not earth shattering, this relative performance in a difficult week was supportive of a growing positive narrative.

Markets at a low ebb, with the underlying economy in recession, have a tendency to stabilise and bounce *before* any economic recovery. One Bank Of England official suggests there is scope for six rate cuts. The government needs to quickly act to encourage growth of, and investment into, the UK. And small caps are cheap, and include some superb and under-valued businesses, which is a recipe for small cap outperformance in the months ahead (though there will be stiff competition from smallers globally).

But don't be complacent. The FTSE Small Cap (ex ITs) index bounced nicely off our 5,600 floor, but remains 3% below resistance of 6,000. And you must not under-estimate the possibility of Trump doing something very stupid, an unknown unknown that could bring down very fragile US markets.

VICTORIA (VCP)

Sector :	AIM, Household Goods
Latest Price :	106p
High/Low :	297p - 37p
Market Cap. :	£120.4m
Shares in issue:	113.6m
end3/2025 EPS/PER est	- -
end3/2026 EPS/PER est	14.0p 7.6
end3/2027 EPS/PER est	25.7p 4.1
Telephone (via Walbrook)	020 7933 8780
Registrars	08716 640300
CALENDAR	
Int/Fins/AGM	NOV/JUN/JUL

Victoria is the leading soft flooring manufacturer by volume in the UK, with a market share of >12%. It is also number two in Australia with >15% and has a c3% share of the European ceramic tile market (c8% of the mid-upper market).

Like all flooring companies, the group has been having a torrid time. Since the boom years of 2022 - when it seemed like everyone was upgrading their living spaces and buying carpets, rugs and tiles, which helped the shares peak at 1200p - the flooring market has been contracting. By mid-2023, the shares were already down to 400p as consumers began to cut back on non essential spending, and Victoria issued weaker-than-expected operating guidance. Victoria has also had to contend with energy price spikes and raw material shortages, which caused it to hoard inventory.

However, as Chairman Geoff Wilding - whom I met last month - explained, the mayhem that occurred in November and December was due to three large US investment funds that collectively held 33% of the equity. These US funds, having secured substantial capital gains elsewhere in their portfolios, sought to crystalise tax losses ahead of the US tax year-end on 31 December, irrespective of what price they were getting. It was easy for fear to feed on itself, and some investors began to read too much into the falling share price, resulting in growing anxiety about Victoria's ability to refinance the first of its three bonds, due in August 2026.

Heavy insider buying

Yet, as Wilding highlighted, trading conditions had actually begun to show signs of improvement in the

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• Next issue on Saturday 15 March

final quarter of the year.

When someone refers to “a canary in a coal mine,” it usually means an early warning of danger. Not surprisingly, the origin of the expression is literal - canaries were historically used to test for toxic gasses in underground mines. In Victoria’s case, however, the canaries were three company insiders who began to sing with renewed vitality. They had clearly seen the recovery in volume demand and the successful productivity improvements at the factories following various cost-cutting measures and all three started buying a heap of shares; CEO Philippe Hamers purchased 200,000, followed by divisional director Saqib Karim, who acquired a 3% stake on 11 December (increasing it to 6.1% by early January), and Gavin Petken, a non exec, bought 255,000 shares. In fact, as I write this, broker Singer has just upgraded its outlook for Victoria, suggesting that an upgrade cycle may be underway.

Acquisitions on 4.5-7.5x EBITDA

Victoria’s story begins in 2011. It was the year when a chance lunch encounter led Kiwi corporate financier Geoff Wilding to cross paths with a director of Victoria, a family-controlled carpet business founded in 1895 in Kirkcaldy and publicly listed since 1963. At the time, Victoria's market capitalisation had dwindled to £12m, despite holding assets worth nearly £38m. Operating margins had sunk to just 3% and the company had seen little change for years, with most of the directors in their 80s.

Following a boardroom struggle, Wilding assembled a consortium to oust Victoria’s board, installing a new management team with himself as executive chairman and two others as non-executive directors. In 2012, after securing control, Wilding implemented a highly unconventional performance ratchet: if he succeeded in returning £3 per share to investors (prior to a 5-for-1 share split in October 2016), he would be rewarded with a 50% stake in the company. Needless to say he delivered on his promise via a sale and leaseback of several properties and by selling a large inventory of stockpiled carpets, and he got his shares.

Wilding’s vehicle, Camden Trust, now holds 19.49% having been diluted by share issues as Wilding used Victoria to execute acquisitions within the fragmented and largely privately held flooring industry in the UK, Europe and Australia. In the early deals, Victoria paid a headline price of 5-6x EBITDA (and post-synergies this often fell to 4.5-5.5x), although for some businesses, like the larger ceramic tiles, it paid a multiple of up to 7.5x.

Steady diet of acquisitions

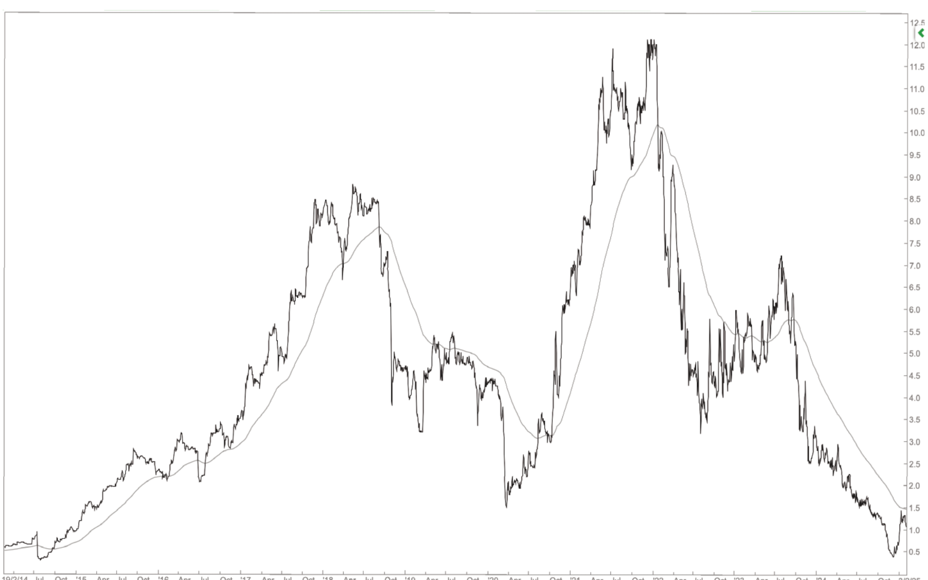
Initially, Wilding targeted the pool of around 220 small UK carpet manufacturers, many founded in the 1980s, whose founders were nearing retirement and seeking an exit. What Wilding particularly liked about the carpet space was that the main equipment is fairly cheap and can last for a very long time, limiting ongoing capital expenditure needs, whilst raw materials can be acquired on favourable terms with scale.

Key acquisitions included Westex, the preferred carpet for luxury refurbishments in Mayfair and Belgravia; Abingdon, which brought in strong mid-market brands; Whitestone Weavers, offering exposure to the hospitality, retail and new homebuilding sectors; and Interfloor (for £65m), a leading underlay supplier with well-known brands like *Tredaire, Duralay* and *Gripperods*.

This approach was later replicated in Australian and European markets. In Australia, Victoria first bought Quest, a manufacturer of carpets for the mid to top end (which pushed Victoria into the number two position) and then the smaller Dunlop, which makes underlay and hardwood flooring in Australia.

European deals included that of Avalon & GrassInc in the Netherlands, a business that produces and distributes artificial grass. But Wilding’s European strategy really started humming with the acquisition of three wall and floor tiles plants; first was Italian ceramic tile manufacturer Ceramiche Serra, but this was really a dress rehearsal for two bigger Spanish ceramic tile producers, Keraben and Ceramica Saloni.

Keraben was bought for £246.5m and financed through a placing of 23m shares at 783p, raising £180m. It is hard to emphasise just what a high grade business Keraben, which operates near Valencia, is. The complete joined-up nature of its operations, which encompass design and printing, atomising of clay, batching, mixing and grinding, spray-drying, forming, drying, glazing and firing, means that no one else has really come close to matching it in terms of low cost per sq. metre of production in recent years. Tiles are also cut into one of 11 sizes in house rather than being sent out. Nothing gets wasted - should there be breakages, tiles get crushed and recycled. Kiln gases are also recycled.



The Saloni acquisition (funded with another placing) added another well invested plant, but being smaller it couldn’t match Keraben’s margin.

Victoria has three sets of bonds

With these kinds of quality businesses in tow, as Victoria began to get larger with sales topping £1bn, it seemed pretty nailed on that one day one of the large US flooring industry acquirers, like Shaw or Mowhawk, would make a beeline for it.

But keen for the music not to stop, to get the bigger deals done quicker, Wilding began to issue bonds. As a consequence, Victoria is managing a complex debt structure with three sets of bonds. Concerns over the impending maturity of the biggest slug of these is why its market cap. has dropped to just £130m but if the bonds can be refinanced - and Wilding seems confident they can - the shares could rise very sharply indeed.

The most immediate concern is over the €489m senior secured notes, which carry a 3.6% coupon and mature in August 2026, and then there is €250m secured notes that have a 3.7% coupon and mature in 2028. In addition, Victoria has also issued preference shares totalling US$290m to its largest shareholder, Koch Equity Development (KED), which have non-cash interest that is rolling up and are due for redemption or conversion into shares by December 2026 at the then share price. KED is part of Koch Industries, a sprawling conglomerate with sales of US$115bn, which operates oil pipelines and manufactures products ranging from fertilisers to software. In the good old days of 2021, KED had also paid 350p for an 11% stake - 3x the present price.

There have been two notable deals post the KED investment, which represent the third and final stage of Wilding’s acquisition spree. One business was the rugs, carpets and non-wovens divisions of Balta, a Belgium-based flooring group, for £117m. It is the #2 in rugs globally behind an Egypt-based rugs manufacturer and had state-of-the-art manufacturing facilities in Belgium.

A second deal was Cali Bamboo for US$104m. Cali distributes flooring products in the US from two warehouses in South Carolina and California, and sales split 50:50 direct to consumer (DTC) off its website and from big box retailers/dealers. As a pure distributor, margins are low but cash conversion is high as unlike Victoria’s existing manufacturing business, there really isn’t much investment in fixed costs.

£32m of cost cuts rising to £80m

One key point to note is that there are no debt covenants on any of its bonds. This means that while trading has declined with the cycle, there has been no risk of breaching covenants. Even during the worst of the COVID-19 crisis, when plants were shuttered and some companies had to seek bank waivers and capital injections, Wilding was able to sleep at night.

However, recent substantial operating pressures, owing to weak demand volumes - which are not isolated to Victoria but affect large rivals in the US, even Shaw and Mohawk - have led Wilding to begin streamlining operations. He tells me that overall, the flooring market has seen volume declines of nearly 20-25% compared with 2019 levels. While Victoria's decline has been much better than the overall market due to its sustained pricing position and market leadership in key areas, there has nonetheless been a significant depletion in EBITDA generation.

Combined cost initiatives are expected to yield savings of £32m, says Wilding, who notes that not a single square meter of manufacturing capacity has been lost in the process. Key initiatives include optimising benefits from the recent full integration of Balta, delivering £10m in savings by moving its kit to Wales and Turkey, where employee costs are lower. Wilding says he has cut 60 relatively expensive factory positions in Belgium, where social security costs were just too high.

Cali is expected to contribute £6m in savings, entirely through procurement efficiencies. As a pure distributor that outsources design and production to third parties in the Far East, Cali has successfully negotiated better pricing agreements. Further savings include £4m from closing two of the four underlay sites in the UK, £5m from integrating UK distribution networks and £4m from group-wide centralised procurement. Additionally, a £3m investment in Spanish ceramics equipment upgrades has enhanced overall efficiency.

Integration of ceramics business

This, however, according to Wilding, is just the start and other planned initiatives could take cumulative savings to £80m, including a major program to reorganise and integrate ceramics production, which comprises six factories. Having closed one factory and sold another, production has been moved around to increase the utilisation rates of the remaining kilns, while maintaining an output of 35m square meters for the group.

One area targeted for improved productivity is the installation of a new continuous press, which will be in place by the end of the year. This machine produces a stream of clay that is stamped into tiles and runs through a 200-meter long kiln. It is more efficient as it requires less labour and can easily produce different tile sizes with quick size changes. If I understood correctly, it seems that from the same revenue, this machine could save £18m annually. There are also additional planned savings from further centralisation of procurement.

Bond refinance expected this year

So, what of the bonds? Just as a purely hypothetical example, assume that bonds with impending maturity of August 2026, which have an S&P rating of B-, were refinanced in today's market, they would likely attract a 7-8% coupon. Victoria could theoretically offer bondholders the opportunity to swap their existing 3.6% coupon bonds for new ones now, rather than waiting until August next year, and most would probably be happy to do so. Victoria could even perhaps agree a discount, eg. to swap 100% of the face value for 90% of the replacement bonds with the higher yield. Such a move could incur an additional US$22m interest annually but would easily be offset by the cost savings, and Victoria has the cash flow to support it. That would be Plan A.

Plan B is a nuclear option. Buried within the bond terms is a provision colloquially known as a "J.Crew trapdoor." This loophole could, in theory, allow Victoria a way out - or at least a way forward. It could enable the company to shift some subsidiaries out of the existing collateral structure, freeing up those assets to secure new loans. By doing this, Victoria would weaken the position of its existing bondholders, stripping away some of the value backing their bonds. As those bonds would fall in value, it could buy them back using the money raised.

Anyway that is enough of my musings. In any case, demand has improved in H2, if both Wilding and broker Singer are to be believed. A leading indicator pointed to by both is the gradual recovery of volumes as housing transactions pick up, driven by increasing mortgage approvals in the UK, interest rates in Europe coming down and consumers' discretionary spending rising.

Singer has just upgraded its outlook and is forecasting EBITDA of £120.5m for FY25 to 31 March, with a recovery to around £167.4m in 2026, followed by £198.5m in 2027. A pretax loss of £7.9m is expected to give way to £31.4m in profit and EPS of 14p in 2026, with £57.7m and 25.7p, respectively, in 2027. *Speculative, sure, but I am a buyer.*

ARGENTEX (AGFX)

Sector :	AIM, Brokerage Services	
Latest Price :	38p	
High/Low :	66.5p - 26p	
Market Cap. :	£45.8m	
Shares in issue:	120.4m	
end12/2024 EPS/PER est	-	-
end12/2025 EPS/PER est	-	-
end12/2026 EPS/PER est	1.4p	27.1
Telephone	020 3772 0300	
Registrars	0370 702 0003	
CALENDAR		
Int/Fins/AGM	SEP/MAY/JUN	

Following the wild currency gyrations of 2022 driven by the Ukraine conflict and Trussonomics, 2023 and 2024 saw relatively low volatility. But it seems we are once again entering a period of significant currency volatility. Last month the pound fell to a 14-month low against the dollar, driven primarily by shifting global interest rate expectations amid slowing economic growth and waning confidence in the UK economy following the October Budget. Adding to this instability was escalating trade tensions caused by Trump's tariffs.

This is good news for Argentex, a provider of currency risk management services for corporates and institutional customers that have annual FX turnover of £1m–£500m and only trade FX for commercial purposes rather than currency speculation. I included the shares in my New Year NAPS last month and since then, Argentex has said it is trading ahead of expectations, with sales this year reaching £50m compared to the expected £43m. But the best is yet to come. As I describe below, the launch of a new Alternative Banking Platform this summer is set to be a key driver of an exciting future.

FX still dominated by big banks

If a company is happy with its level of FX exposure, it may decide to simply exchange currency at spot rates, as and when it is needed. However, when these businesses face volatility, it makes sense for them to hedge FX, particularly if they need to purchase raw materials, pay wages, or repatriate profits from foreign sales. By using forward hedging, companies can lock in exchange rates, ensuring stability and allowing them to concentrate on their primary operations. This approach removes the risk that its profitability will otherwise be determined by the prevailing FX rate.

Many businesses tend to turn to banks for their FX hedging requirements, generally for reasons of convenience. This inertia means the Corporate FX (CFX) market is still dominated by major banks such as Barclays, HSBC and Lloyds but these banks have moved away from relationship-based banking for their smaller clients. The sector also experienced a "big bang" in 2000 when financial regulations were introduced for retail FX trading but exempted FX contracts conducted for commercial purposes. This led to the rise of independent specialists like Argentex and **Alpha Group** (ALPH; 2540p).

These FX brokers make money from the difference in exchange rates at which they buy and sell currency for their customers (known as the spread). Economies of scale (from the fact that Alpha and Argentex each traded several £billion sterling last year) means they buy currencies cheaply. They will trade between 1 and 2 basis points from the interbank FX rate (the constantly fluctuating price at which banks trade currencies with each other), charge an appropriate spread over that and provide a quote to the client.

For example, if a client puts in a trade order to buy £1m of US$, Argentex or Alpha might receive £2,500 in commission. The actual amount will vary depending on whether it is a spot or forward contract, the currency pair and the creditworthiness of the client, and each trade has to be negotiated with a dealer on a case-by-case basis by phone. The spread can be typically c20 bps on a spot transaction whereas a bank might charge between 100bps and 150bps. A similar difference holds true for forwards, although because a forward commission has a credit line attached, the spread is much higher, at say 30-35bps, than an FX spot.

Key differences between Argentex and Alpha

Some subscribers might instinctively wonder why there has been such a divergence in share price performance between Argentex and Alpha. Alpha, a proud constituent of *SCSW*'s Growth Portfolio 3, has seen its share price climb from its initial float at 196p in April 2017 to over £26 whereas in stark contrast, Argentex has seen a decline in its share price to 38p since its IPO at 106p in 2019.

During the month I met with Argentex's CEO, Jim Ormonde and finance director Guy Rudolph. Ormonde, who has been at the helm since late 2023, initially as a consultant before becoming CEO, shoots from the hip when he says Argentex was probably one of "the least sophisticated FX businesses" he had seen with virtually no technology to run its operations.

To my mind, the divergence in outcomes between Argentex and Alpha boils down to two key differences in their business models. Before Ormonde came along, Argentex had a sales-driven approach. The company had what Ormonde colourfully refers to as young "smile and dial" sales professionals (a phrase he seems to have borrowed from *Wolf of Wall Street*) who spent their days cold-calling clients to inquire when their current FX arrangements expired and whether they would consider Argentex's services.

Salesmen were historically incentivised with a 10-17.5% commission on the revenue generated by their client (the top end if they added new clients every quarter). By their second year, a salesperson could generate £200,000 in annual revenue for the company, with this figure potentially exceeding £1.5m as soon as the fourth or fifth year.

Argentex's growth came from simply adding more salesmen. A salesperson might not speak to the customer again but would still go on earning commissions. Once they had made the initial contact, the salesperson would hand them over to a senior trader to handle the trading desk. Traders are paid 10% of the revenues generated by a client. A high proportion historically traded "FX Spot" - to purchase currency for immediate delivery, with settlement ranging from 'same day' to up to three days in the future, depending on client requirements.

On the other hand, instead of having highly commissioned sales people, Alpha has a hybrid advisory service (consulting and trade execution), which focuses on hedging programs and these have tended to bias its business to "FX forward contracts." The fact that Alpha had c80% of its fees from forwards in the early years helped sustain the business during the time of low FX volatility.

£5.5m cut from cost base

Throughout 2023, conditions were the blackest they had been for Argentex; not only had the year been marked by low FX volatility, but the economic downturn led clients to experience slower transactional activity in their own businesses. The volume and value of their transactions requiring hedging naturally came down. This slowdown occurred just as Argentex had played fast and loose with its own cost base, with FY23 results showing costs had ballooned by £4m after it added 60 employees. This surge in expenses as turnover fell contributed to two consecutive profit warnings.

Ormonde's first move at Argentex has been to cut £5.5m from its bloated cost base with £3m cut from travel & entertainment, £1m via a recruitment "freeze" and £1.5m by renegotiating the commissions paid to its salesmen. At the same time, he has started to change the culture so that these days the remaining 40 salesmen and 10 dealers "focus on the quality of customer relationships alongside the value of business transacted."

Alternative Banking Product

Ormonde has also added technology across all parts of the business. In the core FX area, having started out as a voice-based business, it now lets customers digitally trade with a limited number of major currency pairs (Sterling, Euro, US Dollar).

Regular readers will know that Alpha had stolen a march on Argentex, having been set up by Morgan Tillbrook, a high school dropout who before starting Alpha had nerded out and built a gaming business, which he then sold to Sky. He brought a tech savvy approach to Alpha and built an Alternative Transaction Banking ("ATB") platform. Think of an ATB as a super-organised online banking system for businesses, giving clients the ability to collect funds and hold balances in 15 currencies from a single virtual IBAN account; unlike a traditional IBAN, a virtual IBAN does not directly represent a physical bank account and is instead linked to a primary (or centralised) bank account, allowing transactions to be routed through it. Customers get onboarded quickly and can then send and receive payments automatically with very few manual processes. The system made it easier to track where money is coming from and going to and its comprehensive payments settlement/reconciliation suite means it can handle mass payments at once and ensures every payment is correct and nothing gets lost or mixed up.

Tillbrook's terrific insight was to use this system to target equity funds, hedge funds and property investors just at a time when banks were shying away from the sector over money laundering concerns. Such customers might, for instance, set up a number of special purpose vehicles (SPVs) to structure their investments but often find that the process of opening overseas bank accounts and managing transactions is troublesome. Alpha took this headache away and in return earns a monthly account fee and makes commissions on spot transactions (for instance, every time a fund manager moves money into the SPV or pays dividends to investors).

With interest rates rising, Alpha has been making hay with millions of pounds in interest from overnight cash balances - an eyewatering £85m last year alone. The end result was that it reduced top-line exposure to FX volatility.

Now, finally, four years later, Argentex is ready to launch its own ATB - dubbed the "Argentex Global Platform" (AGP) - which will go live this summer. If this scales materially, given its strong operational gearing, I believe it could herald a strong share price recovery for Argentex. The company currently manages the FX requirements of 1,771 active clients (including 327 new clients added in H1), around one-third of whom are institutions and private equity firms, many of which are likely to become ready customers for AGP.

Argentex has front loaded investment and will have spent perhaps £5-6m on a tech team and supporting infrastructure to build AGP, which has penalised short run earnings. Development of essential core functionality is, however, complete, says Ormonde and API integration with key third-party providers (e.g. credit/risk) is underway. Just before the platform's launch, further investment will be required in dedicated client support and relationship management functions.

No proprietary positions / risk

One other point to make about an FX business is cash requirements. Approximately 60% of Argentex's turnover is spot FX with around 34% from forward trades and 6% from options. The mix can influence the amount of regulatory capital required and how much of its £23.5m cash is earmarked as collateral at any given time.

Spot contracts require no collateral. However, a currency forward represents a binding obligation in the future. Whilst Argentex does not take principal risk as it has back-to-back trade with a banking counterparty (e.g. Barclays), it does have to put up collateral for the duration of the trade. It might take £2m of collateral to trade £3bn of FX - this is a barrier to entry for any would-be-rival.

If a client's credit rating is good, Argentex itself puts up the margin. The client becomes an unsecured

creditor of Argentex, posting a variation margin as and when required. On the other hand, if the client's credit rating is shaky, the client is required to put up the collateral margin. The balance of each transaction is not due until the currency is needed and the conversion settles.

The banking counterparties mark-to-market all open forward contracts at the end of each working day. If there is a net adverse movement, Argentex is required to pay (netted) a variation margin. It will then ask clients to deposit additional cash against its own margin call.

International expansion

The UK is not the limit of Ormonde's ambitions. In the last 12 months, new offices have been added in the Netherlands (to assist expansion into EEA countries), Australia (for APAC) and Dubai (Middle East).

Despite all the investment in AGP and the overseas offices, an update this month exceeded the previous explicit guidance of "mid £40m" revenue and a "low single digit" EBITDA margin. None of the APG potential will be reflected in FY24's figures and perhaps not even significantly in this year's, although Singer expects Argentex's sales to top £57.7m, with a pretax profit of £2.2m and EPS of 1.4p next year. As the broker says, the launch of AGP "could help unlock equity value totalling multiples of the current market cap." *I agree; I am a buyer.*

UPDATES

Reach (RCH) 86.5p

Sector: AIM, Media

Reach shot ahead after it said Q4 had gone with a bang and it now expects to deliver FY24 results ahead of market expectations for adjusted operating profit of £97.8m. It also completed refinancing of its banking facilities with a four-year maturity to December 2028.

Interestingly, it seems to be working towards preparing at least one of its pension schemes for a buy out. However, as part of the due diligence to prepare a legacy scheme inherited in the 2018 acquisition of Express Newspapers (West Ferry Printers Pension Scheme), a historical error has been discovered resulting in an estimated £5m additional funding requirement. *Results are due 4 March; strong hold.*

Luceco (LUCE) 157p

Sector: Electronic & Electrical Equipment

Animal spirits returned to Luceco after it said it now expects to report operating profits of £28.5-29m, which is £2m or almost 8% ahead of previous forecasts. The improving trend in order intake experienced in Q3 accelerated through Q4 with strong demand driving organic growth of 5%. Margins "moved towards 12%" (2023:11.5%).

The strong order book from Q3, combined with increased trade and retail orders, led to impressive sales growth at the end of the year in the Residential RMI divisions. The Residential EV Charger division performed exceptionally well, up 50%, reflecting both a strengthening market and successful new product launches. Luceco has also made progress in realising the cost synergies from the two 2024 acquisitions, D-Line and CMD.

Deutsche Bank has upgraded its forecast for the year ended by 9% to eps of 12.5p, with 14.4p pencilled in this year to drop the PE to under 11x. *Buy.*

Liontrust (LIO) 445p

Sector: Brokerage Services

In line with the UK funds industry, Liontrust's Q3 continued to see elevated outflows with assets under management and advice (AuMA) down £1.4 billion to £24.6 billion. This decline was due to net outflows of £1.6 billion, which outweighed a small positive market gain of £0.2 billion.

The period had continued to see prospects for AI to lead investors to favour large-cap US tech stocks over diversified strategies and now there really is too much investment capital tied up in the seven largest US tech companies. As a result, Liontrust's core funds, especially those focused on UK mid-cap and sustainability investments, saw outflows. Most of the outflows were in October, ahead of the Budget (thanks Rachel from accounts) when rising gilt yields made bonds more attractive.

There was notably better news from European funds. The European Dynamic Fund has bounced back strongly, the Global Innovation team continues to perform in the top quartile and the Global Alpha Fund is top quartile over the last year.

Liontrust is now targeting £6m (up from £4.5m previously) of staff and non-staff expense savings to be achieved by end-September. I know from friends in the industry that sentiment has really tightened up and most are expecting the economic situation to worsen with few predicting an improvement in growth. But the FTSE-250 and smallers are starting to outperform and will bring market gains. The antidote to fund outflows can only be Reeves making legislative changes to the pension and tax regime and to eliminate stamp duty on UK shares.

The CEO and FD continue to show confidence, buying 50,000 and 25,000 shares at 400p and 396p, respectively. *Buy.*

Mpac (MPAC) 550p

Sector: Personal Care, Drug & Grocery Stores

MPAC's trading update said H2 was strong and it expects to report a pretax profit at £10.5m, implying 48% year-on-year growth. Net debt at the end of December was £37m although there are also £8m in invoiced receivables due in January.

Having bought BCA and CSi in September and December, the order book at the FY24 year-end grew significantly to £111m across healthcare and food & beverage verticals and provides coverage of >50% of this year's forecast sales of £218m. Forecast EBIT is £19.5m (+68%) with a margin of 9% (-50bps YoY, reflecting the initial product mix post-acquisition) with pretax profit of £17.8m and EPS of 44.2p (+24%). Results are scheduled for release during the week beginning 28 April when it will flesh out the potential synergies that have until now been kept under wraps. *I think forecasts will be upgraded as synergies come through. Buy for that.*

Yu Group (YU.) 1595p

Sector: AIM, Gas and Water

Yu said that despite lower energy prices, it expects revenues to be up c40% to c£650m. This has been driven by a 65% increase in meter points served (to 88,000) and a higher total volume of energy supplied (+78% YoY). Average monthly new bookings of £42.6m (2023: £55.5m) reflects the softer commodity pricing environment.

Yu also reported margins strengthening. The EBITDA margin in H1 was 6.5% but is expected to have gone over 7% in H2 assisted by robust hedging and tight control over bad debts. Consequently it expects EBITDA of £44.1m. Net cash at the year end ballooned to £80.2m.

The contracted order book provides excellent revenue visibility for current year forecasts. Strong hold.

McBride (MCB) 134p

Sector: Personal Care

The shares went into orbit, up 18%, after McBride issued a trading update that said it plans to reinstate its final dividend and signalled its confidence in the sustainability of the recovery. For H1 to 31 December, sales on a constant currency basis were +2.9% with volumes +5.9% and a 3% price/mix decline in an environment of moderating raw material prices.

Private label volume growth eased to +2.4% as some consumers are now showing willingness to trade up as FMCG brand owners increased promotions. The strongest volume growth came in contract manufacturing, +69%, as MCB benefited from two new contracts with branded clients. Strong cash generation continued, with net debt falling to £117.6m, down £14m since June. Peel Hunt has upgraded its pretax profit forecast and eps by 11% to £63m and 21.5p, respectively. *Buy.*

Good Energy (GOOD) Bid: 490p

Sector: AIM, Electricity

Good Energy shot ahead after announcing a recommended cash offer from Dubai-based energy company Esyasoft. The incredibly generous offer of 490p values Good at £99.4m. *Good was a main buy at 172p in October 2023. Gain to date: 185%. Accept the offer for a gain of 185%.*

Warpaint (W7L) 494p

Sector: AIM, Personal Goods

Since my last update, Warpaint has acquired Brand Architekts, which owns a portfolio of brands in the haircare, facial skincare and bath & body segments. There are 20, with the flagship brands being *Super Facialist* (skincare) and *Dirty Works* (beauty products), each representing c. 20% sales.

The deal values BA at £13.9m, not much more than when the business last changed hands a few years ago since when BA's sales have fallen off a ledge as it pivoted to fewer, bigger brands. Last year saw a loss of £0.4m on sales of £17m last year but in Warpaint's hands sales will rise as it begins to push these products through its distribution channels.

Forecasts are temporarily withdrawn until the deal concludes. *Tipped at 192.5p in August '17 (and a 2017 NAP before that at just 137.5p), strong hold.*

Sanderson (SDG) 51p

Sector: AIM, Household Goods

An improvement in H2 market conditions did not materialise. Full year sales are forecast to be £101m, a shortfall of c.5% to its earlier expectations but there has been a big change in mix/margin.

After positive December trading (+5%), January was weak (-13%), particularly in UK Retail with Brand product sales down 9% for the year to end January. This led to higher stock provisions weighing on the gross margin. Softness was also seen in the contract market at the end of the year, particularly in North America.

Licensing performed well with revenue in the region of £10.1m-£10.9m expected. The expected improved trading in subcontract manufacturing has not been realised as demand for higher-margin repeat orders has recently declined.

Singer has cut its pretax profit for the year ended 31 January 2025 to £4.2m for EPS of 4.4p. Net cash stands at £9.6m due to higher inventory at the financial year end. *With 5/6 interest rates to come this year, I suspect we are at trough earnings. I am a buyer.*

Frontier Developments (FDEV) 219.5p

Sector: AIM, Leisure

Having returned to profitability in H2 24, Frontier's turnaround continued into the latest H1. Sales were flat at £47.3m. However, actions from the previous financial year to reduce costs - including closing the Frontier Foundry third-party publishing activity - led to a 25% reduction in cash operating expenses to £28.5m. A strategic reset towards creative management simulation (CMS) games also contributed to an improvement, with the company delivering EBITDA of £4.4m, a £9.3m swing from the £4.9m loss in H1 24. Net cash grew £10m to £27.2m.

Frontier seems to be getting its mojo back. Its focus is one major CMS title per year and is derisked by focusing on sequels of previously successful IP. The first of the three planned CMS games was *Planet Coaster 2*, achieving the #1 chart position on Steam and contributing £10.4m to sales, despite launching only four weeks before the period end. The next CMS is *Jurassic World Evolution* 3 in June with another CMS planned for next year.

There was good performance from back-catalogue sales of Frontier's established portfolio of CMSs - *Planet Coaster, Planet Zoo, Jurassic World Evolution* - recording £24.6m sales, and from Frontier's space simulation game, *Elite Dangerous*. FDEV continues to extend the lifespan of these games by offering paid downloadable content ('PDLC') - adding new features to games eg. spaceships in Elite Dangerous - and PDLC was 31% of total sales.

Await JWE3, which will be released close to the Jurassic World Rebirth film (scheduled for 2 July). Earlier, JWE games achieved c£70m revenues within 12-months of release. Hold.

Concurrent Technologies (CNC) 180p

Sector: AIM, Defense & Aerospace

Concurrent said sales and pretax profit for FY24 will be 10% ahead of market expectations at £36m and £4.7m, respectively. The increase in profit reflects the initial delivery of operational gearing as the business begins to scale. FY24 order intake is expected to be £41m. Of particular note, in FY24 the Group achieved a remarkable milestone by securing 22 design wins, including 10 'major wins,' which are expected to contribute over £1m annually once they reach peak production, typically two to three years after the initial design win. *Tipped in June 2020 at 111p and again at 73p in September '23, it looks like CNC is now finally on a high growth trajectory. Keep holding.*

Gear4music (G4M) 150p

Sector: AIM, Leisure Goods

Investors may recall from my August write up that improvements were starting to become visible and despite the difficult consumer backdrop, it's pleasing to see a positive Q4 update. Group sales for the three months to end December were up 6% to £49m. UK revenues were up 13% to £29.7m (an acceleration over the 3% in H1) although European sales were down 4% to £19.3m (but this is an improvement over the 15% decline in H1). All this was achieved with a gross margin of 28.1%, an increase of 140bps year-on-year. On the back of this robust trading performance, the group looks well set to hit consensus expectations of £2.9m pretax profit and eps of 9.4p. *Strong hold.*

Craneware (CRW) 1850p

Sector: AIM, IT Services

Craneware's trading update saw it achieve its goal of a return to double-digit growth in H1 25, with revenues growing by c10% year-on-year to over US$100m. Craneware's adjusted EBITDA was US$30.3m (up by 10.2% year-on-year, for a 30.3% margin). Net cash stands at US$40.6m.

These sales have included continuing success of the Trisus Platform Partner offerings and also an initial customer contract secured via the Microsoft Azure Marketplace, following a recently entered into relationship. Annual Recurring Revenue (ARR) has grown 3% to cUS$177m.

Following the election, Craneware now expects a period of relative stability to provide sustained demand for its products. For the year ending 30 June, Shore Cap forecasts a pretax profit of US$41.7m/eps 99.6 cents lifting to US$46.8m/108.8 cents next year. *H1 results are due on 11 March. Keep buying.*

LBG Media (LBG) 121.5p

Sector: AIM, Media

Like **Reach** (RCH; 86.5p), LBG says digital advertising has been humming. Although its year end has shifted from December to September, LBG has usefully provided a 12 month proforma. Including Betches (the US business acquired in October 23), which has a focus on millennial and Gen Z women, sales were £86.2m, up 22% (6% organic), with pretax profit up 32% to £12.1m. Net cash was down by only £3.5m at £27.2m despite £20.7m spent on Betches.

LBG's Direct division grew sales by 39% to £43.9m. This is where LBG is commissioned by brands to produce and distribute bespoke campaigns and the growth was driven primarily by the Betches acquisition as well as organic growth in their existing customer base (they now have nine clients billing >US$1m annually).

Indirect revenue, where it generates income on social platforms and from selling ad space on its own websites (auctioned via large programmatic ad platforms eg. Pubmatic), was +6% to £40.7m driven by strong growth in audience numbers, up 19% year-on-year to 503m, of which 143m are now in the US. Revenue from social was temporarily impacted by Facebook's new model, reducing divisional sales by £3.5m - basically FB changed the type of content that is prioritised on its platform with a greater focus on short form videos (e.g. 30 seconds) vs. longer form (3 min videos) and there was a bit of a lag whilst LBG updated its content to suit the new model.

But it didn't derail LBG, which has invested £3.4m more on people and in technology to allow it to produce more content across its own sites. It temporarily lowered the EBITDA margin to 28.4% but the endeavour created more content, more ad space and also drove additional traffic to their sites. The result was pretty stunning: following platform enhancements LBG saw viewers spending longer on each session, viewing more content per session and therefore a higher yield per session, up 67% year-on-year to £10.07 per 1k views versus £6.04. This has also helped diversify revenues, with Facebook now 22% of sales.

LBG says it has a "clear line of sight to £200m revenue" driven by the US, which is 8x the size of the UK. If achieved, this would translate to a pretax profit of £52m. *Buy for that.*

Alpha Group (ALPH) 2540p

Sector: AIM, Financial Services

Alpha reported sales up 23% to c. £135m but with interest rates continuing to be elevated, it also had whopping interest of c. £85m (FY23: £76m) on overnight cash balances from client accounts, which averaged £2.3bn in Q4 (Q4 2023: £2.1bn).

Pleasingly, the growth was delivered across the business with both Corporate and Institutional divisions up by c20% year-on-year to £64m and £69m, respectively, driven by increasing contributions from all six overseas offices except Canada. Future results will be reported on this basis instead of the previous product-centric reporting focus of FX risk management and alternative banking.

The high interest windfall will create a rod for its own back once interest rates fall. Tipped at 370p in June 2017, the gain to date is 586%. Now the founder has stood down it is a good time to lock in a part profit if you have not already done so.

Quartix (QTX) 172p

Sector: IT Services

Ahead of reporting on 3 March, the telematics and fleet tracking subscription business released a positive trading update. The total subscription base increased by 13% to 300,168 across 30,000 clients and within this, subscriber growth in France (+19% to 80.6k) and other European territories (+46% to 33.2k) was especially strong. The UK reported steady subscriber growth of 7% to 156.5k and the US stabilised with 2% growth to 29.9k subscribers (having fallen 5% in FY23) boosted by additions to the US sales team.

For the first time in its history, Quartix introduced price indexation on its contracts and reported no noticeable impact on churn. Overall, this price rise together with the subscriber growth translated to £3.5m or 12% growth in annualised recurring revenue (ARR) to £32.2m at the end of FY24.

Operating cashflow was reduced by the €1.6m cost of replacement 3G units in France with a 4G upgrade (18k of 50k systems now upgraded) leaving net cash at £3.1m. This will lower future costs and improve margins.

In the light of the statement, Zeus has increased its forecast for the year just ended by 7% to £6m pretax profit/eps of 9.6p with next year's increased 6% to £6.5m/10.4p. *Buy.*

Revolution Beauty (REVB) 11p

Sector: AIM, Personal Goods

The shares were all over the shop during the month. First they came close to doubling in three days after REVB settled its longstanding dispute with Chrysalis for a negligible amount. Then they lost the gains after it, in line with others, said global beauty had undershot the long term trends in Q4 24 due to destocking by US retailers. REVB also said certain retailer launches expected in Q4 shifted to the right. The scale of opportunities remains the same, and the launches into Walmart in the US and DM in Germany are now on track for February.

As we also know, the year to end Feb was a transformational year as 6,000 non-strategic SKUs - some 75% of the original portfolio - will have been culled to simplify and improve the business. As a result, REVB sales are now forecast to be £142m with EBITDA of £8m (a cut from £12m previously). As the core SKU growth accelerates globally, including channels such as Amazon, which is performing well in both the USA and Europe, Panmure forecasts EBITDA/pretax profit/EPS of £10m/£2.2m/0.7p this year and £14.6m/£6.5m/2p next. *Speculative buy.*

Ramsdens (RFX) 232p

Sector: AIM, Financial Services

With the gold price hitting a new high the day Ramsdens reported its FY24 results, CEO Peter Kenyon was in good cheer. The number of stores rose by 7 to 169, giving rise to sales of £95.6m. Pretax profit was up 12% to £11.4m and EPS were 25.7p, a new record. Although all four divisions delivered an increase in gross profit to £51.5m, the swing factor was gold buying, which saw its gross profit climb by 29% to £11.8m. This mirrored the rise in the gold price (9ct gold), which increased 30% from £1,514 at the end of FY23 to £1,965 at the end of September. Gold has kept on going and in Q1 25 gross profit rose 40%, says Kenyon but H2 comps are much tougher.

At Pawnbroking, gross profit increased by 16% to £11.7m. Growth was driven by the loan book, which increased from £10.3m to £10.7m. This is a record high but nothing like the eyepopping 25% gain seen at H&T's loan book. At Retail Jewellery, gross profit was up 10% to £13.3m and watch sales continued to recover. Forex gross profits grew by 4% to £14.2m.

Kenyon says Reeves' ill thought National insurance increase when it kicks in this April will add £400k to costs (£800k in a full year), not as much as for H&T, mainly due to a larger number of part time workers but even so, he is reining in store openings to just five this year. In the light of results brokers upgraded EPS by 5% to 27p this year; it would have been a 9% upgrade but for the absorption of the NI rise due in April. *Strong hold.*

H&T (HAT) 339p

Sector: AIM, Financials

H&T's trading update saw its pawnbroking loan book grow at a mesmerising pace - way ahead of what Ramsdens has achieved and for that matter, every pawnbroker in the industry. The year to end December saw the pledge book balloon to £127m from £105m in June. There was a record level of new customers borrowing from it and there was also £6m from February's acquisition of Maxcroft, which has taken it deeper into lending larger amounts (typically >£5k) for business purposes (eg. a property refurbishment or to pay a corporation tax bill). H&T also talked about retail and FX, both of which performed in line although no commentary was given on the gold buying activity. Despite pledge book growth being a much better quality of income, H&T's shares seem marooned whereas Ramsdens' are within an inch of their highs. *More wil be said when it reports on 18 March. Buy.*

XP Power (XPP) 1298p

Sector: Electronic & Electrical Equipment

XPP's Q4 update matched Q3 at £60m sales. Within the mix, the Industrial Technology and Healthcare sectors grew sequentially. Order intake from the Semiconductor Manufacturing Equipment sector did not match a particularly strong Q3 when sales had doubled, although conditions are generally improving. Order intake overall for the quarter was £44.9m, versus £48.8m in Q3 so XPP's book to bill was 0.75x, down from 0.8x in Q3 when it marked the first quarter of growth since late 2022. EPS forecast for the year ended 31 December is 43.7p with 78.8p this year. *Buy.*

Renew (RNWH) 722p

Sector: AIM, Construction

It looks like the government's move to privatise the rail network may be coming home to roost with uncertainty (I can only imagine employees at Network Rail are giving up the will to live - look at Tracsis' share price - *Editor*) possibly the reason Control Period 7 has seen slower contract materialisations for renewal work compared to previous cycles. Maintenance work continues as normal. Renew's Rail business (38% of Group) is lagging although Water is outperforming but not enough to close the gap. The integration of Excalon and Full Circle is progressing well and both are trading in line. Peel Hunt has shaded its EPS forecast to 70.2p, which is still ahead of last year's 63p. *On a PE of 10.3, the shares are a buy.*

Alliance Pharma Bid: 62.5p

Sector: AIM, Medicine & Biotech

Alliance Pharma shot ahead after it agreed to a takeover by activist investor DBAY Advisors, its biggest shareholder, with a 27.9% stake. The deal at 62.5p values Alliance at £349.7m. *Originally tipped at 33p, it's been a difficult couple of years for Alliance. Accept the offer.*

Brave Bison (BBSN) 2.25p

Sector: AIM, Software & Computing

Since my last update, BBSN has announced its sixth acquisition. It has also bought Engage Digital Partners, a sports marketing agency specialising in fan engagement campaigns, which has been on the block since last summer. Engage counts the ICC and its cricket tournament properties including the current Men's T20 World Cup in the USA and West Indies as clients. It also works with the New Zealand All Blacks and Real Madrid to help monetise their vast fan bases through digital content.

BBSN is paying up to £10.6m with an initial payment of £2.1m. Engage is to be combined with Brave Bison's existing network of channels, which already benefits from partners such as PGA Tour, Ryder Cup, US Open, Australian Open, CPLT20 and Le Mans. Sales in FY24 were £6.9m with a small loss but it is expected to be EPS accretive once the business is integrated. This process has already started with the London office. Net cash post the deal is c£7.5m.

Separately, BBSN said that although net sales in FY24 were flattish at £21.3m (excluding pass through costs such as media buying), it achieved an 8% increase in pretax profit to £3.9m with eps up 5% to 0.3p. Neither bit of news has been enough to slap the shares out of their summer torpor. *Buy.*

IG Design (IGR) 61p

Sector: AIM, Personal Care

Having spoken to CEO Paul Bal twice in mid-December, just five weeks later, IGR had the ignominy of putting out a poor update. Last month, I had already noted that US craft retailer Joann (IGR's fourth-largest customer) had entered Chapter 11 protection during IGR's H1, and Bal had said the company had restricted sales to it. However, after emerging from Chapter 11, it seems Joann re-entered it this January and IGR will now need a US$15m provision against receivables.

Bal has also reported reduced ordering from some US retailers (read: mostly Walmart), and this deterioration in demand has had a disproportionately negative impact on profits. DG Americas sales for the year ending March are down 13%, effectively wiping out all the benefits of recent cost-cutting measures. Given that IGR has visibility into Walmart's EPOS data and would have been aware of the lack of order visibility in mid-December, I feel the company has not been entirely forthcoming with the City.

DG Europe sales, meanwhile, are relatively stable, down 1%. Consequently, as a result of these challenges, IGR now expects to break even, a significant downgrade from December's forecast of US$32m pretax profit. *I will watch developments as this could become a really attractive buy up ahead.*

Dr.Martens (DOCS) 70.5p

Sector: Personal Goods

The bootmaker's Q3 statement flagged progress in its efforts to turn around performance in the US. Sales for the period were up 3% at constant currency to £267m. Wholesale revenue rose by 9%, with gains in Europe, EMEA and Asia-Pacific, although the Americas saw a single-digit decline, which the company says was expected. D2C grew by 1%, with ecommerce sales rising by 2% and retail revenue slipping by 1%. By region, DTC saw positive sales growth in two of its three regions: Americas +4%; APAC +17% (fuelled by Japan, one of the company's largest markets); and EMEA -5% due to a competitive promotional marketplace.

DOCS is nearing the bottom of its earnings cycle in 2024-25 and margins look set to inflect upwards later this year. *Buy.*

Galliford Try (GFRD) 364p

Sector: Construction

Galliford has continued its mercurial rise since my main write up in February 2024 at 241p. It's remained firmly in seventh place in the Top 10 Contractors ranked by total value of work won in the rolling 12 month period (No.1 was Morgan Sindall, No. 6 Kier and No.9 Balfour Beatty).

Ahead of reporting interims on 5 March, it said trading was at the top end of expectations and the order book has increased to £3.9bn. Both operating arms are performing well. At Construction, there is strength across Education and Defence and Prisons. But the swing factor is Infrastructure, and Water is a particular area of strength, with Galliford now on 54 frameworks and supplying all 13 of the UK's major water and sewerage companies. Period-end cash was £210.0m. *Keep buying.*

UPDATES & IDEAS

• The eyewear industry is undergoing a profound transformation. Meta (the owner of Facebook, Whatsapp and Snapchat) has launched what is at the most basic level a fancy computer worn on the face that can project virtual objects into the wearer's field of view. They can show video calls, identify objects through AI, play games and take photos. It's also taken a 5% stake in eyewear giant EssilorLuxottica and penned a 10-year deal with its Ray-Ban brand, which having bought Nuance Audio can incorporate hearing aids into the frame (pending FDA clearance). These look just like any other pair of spectacles but a device inside the arm of the glasses can isolate speech sounds in front of the wearer.

In the UK, Essilor's £40m-cap rival, **Inspecs** (SPEC; 41.75p), has been busy. Its Norville lens division has been working on smart glasses designed to assist workers in Amazon warehouses and even surgeons in operating rooms. Until now CEO Richard Peck has been preaching patience but the expectation is that current consultancy agreements will convert into firm orders.

Established in 1988, Inspecs started its journey as a supplier of corrective eyewear frames to retailers, like Specsavers. For years, it sourced acetate frames from China but evolved, shifting from low-margin, own-label products to high-margin branded frames. By licensing popular brands, such as *Caterpillar, Barbour* and *O'Neill*, Inspecs found a way to add more value to its product offerings. But the real game-changer came with the acquisition of Eschenbach, a German wholesaler that gave Inspecs access to 80% of independent opticians in Germany and 40% in the US. Eschenbach added *Titanflex* (No.1 brand in Germany) as well as the new *Optaro* smartphone lens attachment/App to enlarge text by up to 15x, offering assistance for users with visual impairments.

The company has turned to vertical integration, which will push gross margin and ebitda margin up from the present 51.4% and 8.7%. In FY24, the frame factory in Vietnam was completed (nameplate of 12m frames) and it has begun to shift production in-house, initially acetate frame manufacturing from third-party suppliers in China. Not only do factory workers earn 60% less than Chinese counterparts but Vietnam also isn't impacted by Trump's tariffs, a point not lost on US buyers. With 45,000 optical stores in the US versus 5,000 in the UK and 6,500 in Germany, Peck says FY25 has started well. Peel Hunt forecasts EPS of 6p rising to 7.3p next year, dropping the PE to 5.7. *A chance to tap into high US growth at the absurdly depressed ratings that AIM provides. Buy.*

Editorial shareholdings of companies covered in this issue: LUCE, SPEC, LIO, VCP, INSE, FUTR, SDG, RCH, MPAC, IGR, DOCS, BBSN, REVB, XPP

THE GROWTH PORTFOLIO 3

PERFORMANCE TABLE		Change on One Month	Since Start
Growth Portfolio		+2.94%	+374.27%
FTSE-100	8569.67	+4.20%	+30.88%
FTSE-All Share	4649.80	+3.54%	+31.94%

As we enter earnings season, despite a slump in business activity at British firms, trading statements from GP3's constituents remain upbeat. Luceco announced it will exceed profit expectations by £2m; Reach and McBride are both trading ahead of forecasts; Alpha is outperforming, buoyed by high interest rates; and Microlise has grown its repeat revenues. On the Beach, Inspired, Future and MPAC had already reported positive trends last month. GP3 climbed 2.9% over the month.

One sector that stood out to me when I began compiling the updates was the global ad market (often an early-cycle participant in an economic recovery). The ad market is expected to be worth over US$1 trillion in 2025, with digital advertising projected to account for 73% of it. This supportive growth tailwind has led many in the sector (e.g. Reach, Brave Bison, S4, Future and LBG) to issue sprightly updates.

I said last time I would add to FUTR but couldn't immediately decide what to sell. Its £250m annual cash flow has enabled it to buy back 5% of its shares for cancellation over the past 12 months, enhancing EPS. But by the time I finally topsliced Alpha, I decided instead to double my Inspecs holding (on a PE of 5.7 for next year).

Across the pond, a sobering thought for US tech bulls came from Chinese startup DeepSeek, whose free, open-source AI model appears to outperform ChatGPT. 'Necessity is the mother of invention,' as the saying goes, and the Chinese built it in two months with low-power chips (because it's all they had) and it cost just US$5.6m. This raised questions about the sky-high valuations of US stocks. Although tech is c40% of the S&P 500, this year seven of its 11 sectors are outperforming the index, with tech recently lagging at the bottom. Industrials, communication services, healthcare and materials are performing well. Is this the rotation we've been waiting for?

		Shares Bought	Date Bought	Buying Price (p)	Total Cost (£)	Present Price (p)	Value Now (£)
500	*	Alpha Group	27/7/17	470	2395	2540	12700
1000	#*	Future	9/4/18	329.5	3340	905	9050
15000	*	Ultimate Products	31/1/19	59.9	9075	85.25	12788
25500	*	Luceco	31/1/19	90	22837	157	40035
10000		Volex	9/12/19	133	13345	280	28000
10000	•	Mpac	3/2/20	259	25990	550	55000
26069	•∞	Reach	3/2/20	98.8	26019	86.5	22550
3000		Victoria	13/11/20	450	13545	106	3180
7000		Supreme	5/3/21	189	13275	180	12600
16000	•	On the Beach	5/7/21	199	32065	252.5	40400
25000		Staffline	7/8/21	65.4	16395	19	4750
32000	•	Boohoo	24/5/22	66	21410	29	9280
1500	*	Yu	12/12/22	426	6435	1595	23925
30000		THG	1/3/23	60	18135	38.5	11550
7000		GB Group	3/7/23	228	16005	342	23940
10000		Dr. Martens	14/8/23	152	15321	70.5	7050
20000		McBride	11/12/23	77	15522	134	26800
50000	•	Inspecs	5/2/24	50.9	25540	41.75	20875
10000		Microlise	12/2/24	131	13145	130.25	13025
12000		AdvancedAdvT	8/4/24	132.5	15945	144	17280
40000	•	Inspired Energy	8/4/24	51	20490	68	27200
1400		XP Power	9/5/24	1152	16254	1298	18172
8000		Nexxen	24/7/24	248	19885	379	30320
						Cash £	3803
						Total £	474272

Transactions take full account of dealing charges and bid offer spreads. Income from dividends is ignored. Current holdings in the portfolio are valued at mid prices and include all buying costs. Starting cap £100,000 (2 Jan '15). * Part profits taken • Averaged down. ^Adj for special divs. # Adj. for rights issue ∞ Adj. for bonus share issue

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