

The Numis Smaller Companies index and the performance of IPOs

Elroy Dimson – joint work with Paul Marsh
London Business School

Ernst & Young / Numis IPO Retreat,
Oakley Court, Windsor SL4 5UR

Tuesday 26 June 2012



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Overview

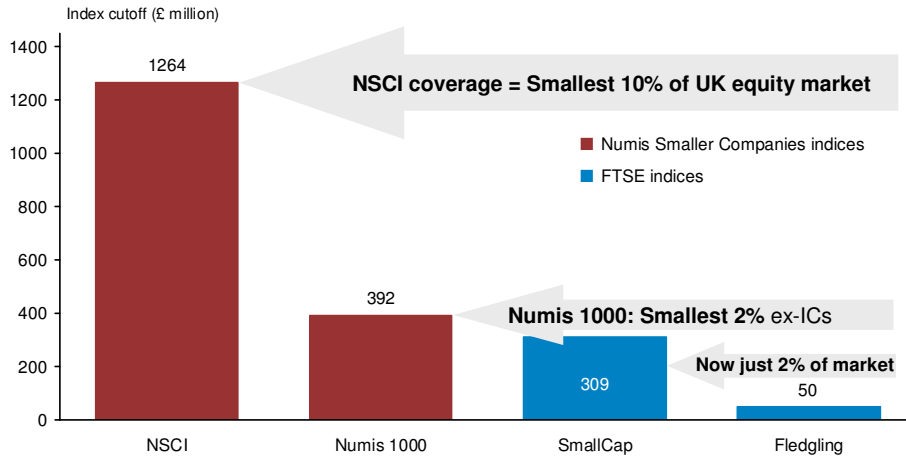
- **What are the Numis Smaller Companies indices?**
- Typical constituents
- Business orientation
- The role of IPOs
- The performance record
- Ratings and multiples



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What are the Numis Smaller Companies indices?

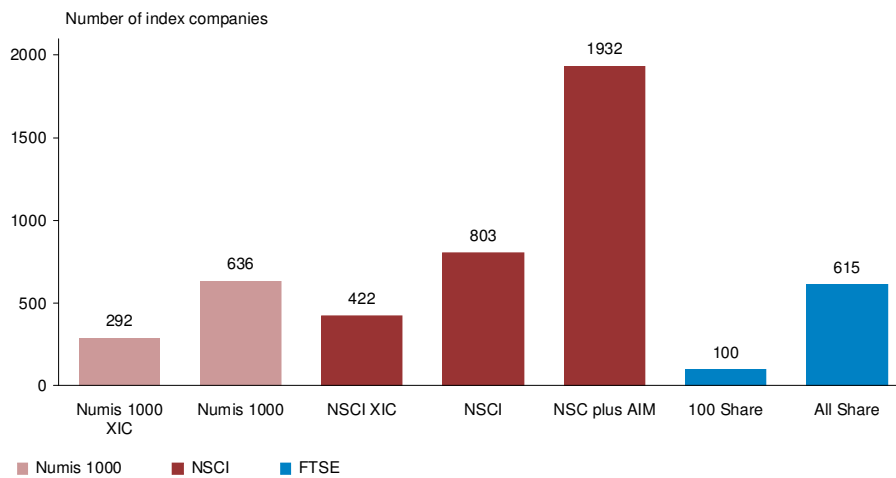


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What's in the Numis Smaller Companies indices?

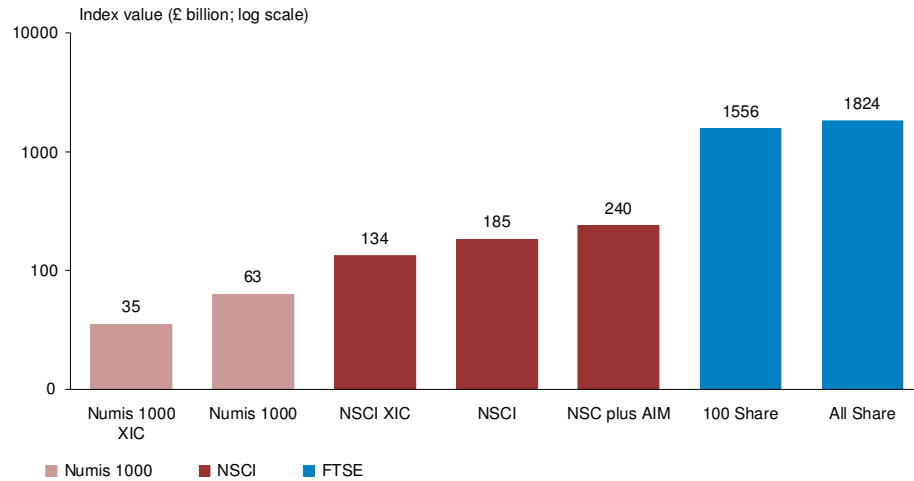


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How big are the Numis Smaller Companies indices?

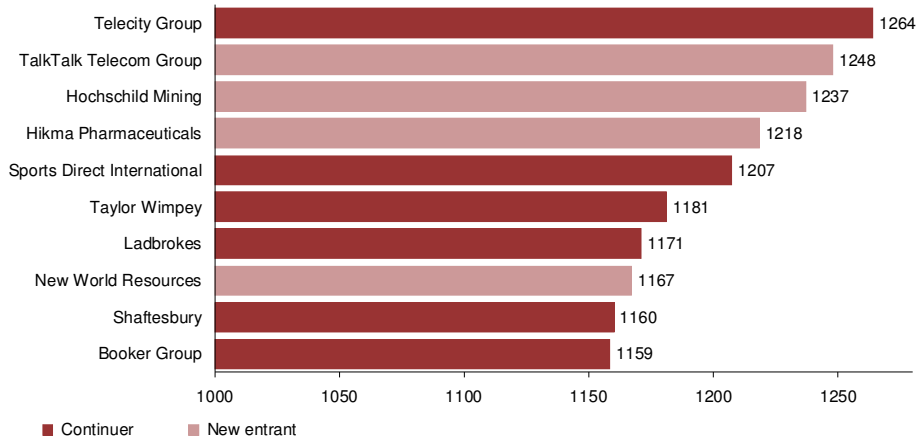


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Largest constituents

Market capitalisation in £ millions ar start-2012 rebalancing date



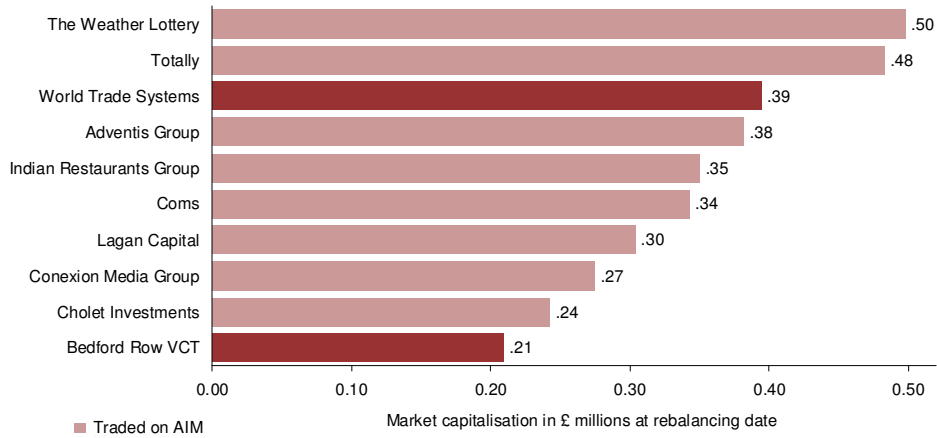
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Smallest constituents

Market capitalisation in £ millions ar start-2012 rebalancing date

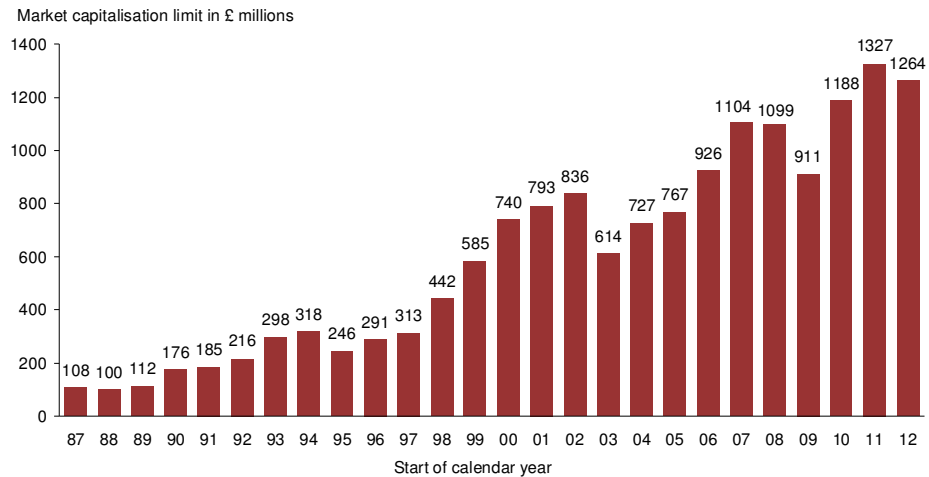


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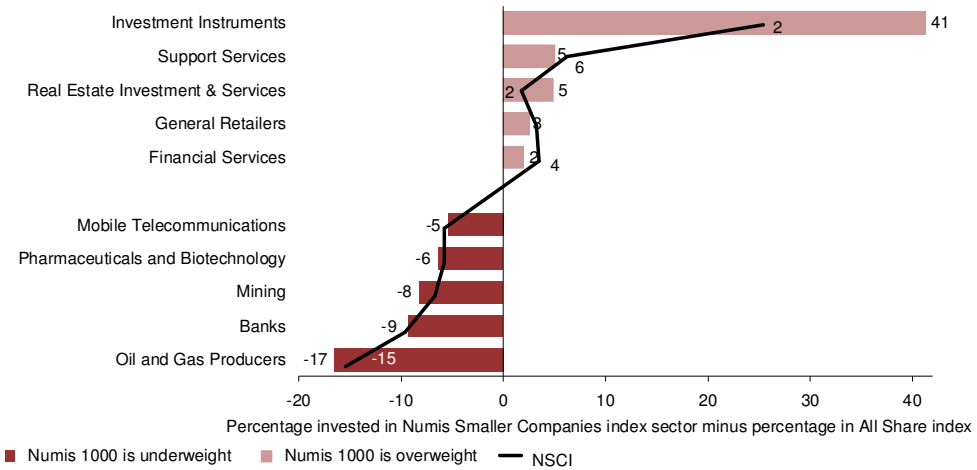
Market capitalisation limits for the NSCI at each rebalancing date



Overview

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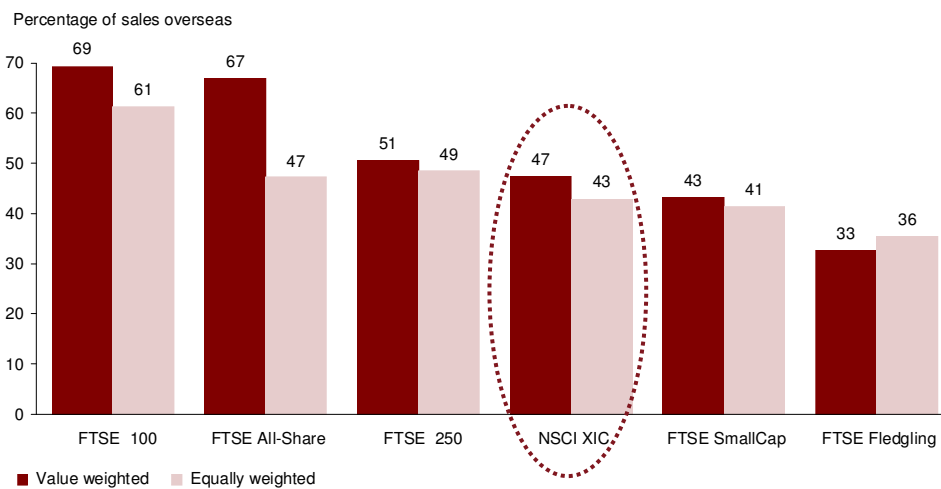
Major differences in sector weightings



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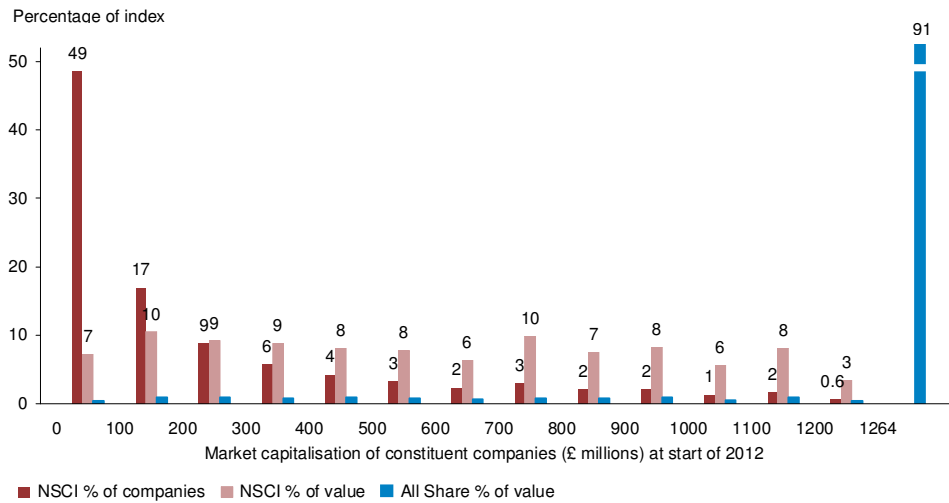
Domestic versus international orientation



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Major differences in size distribution



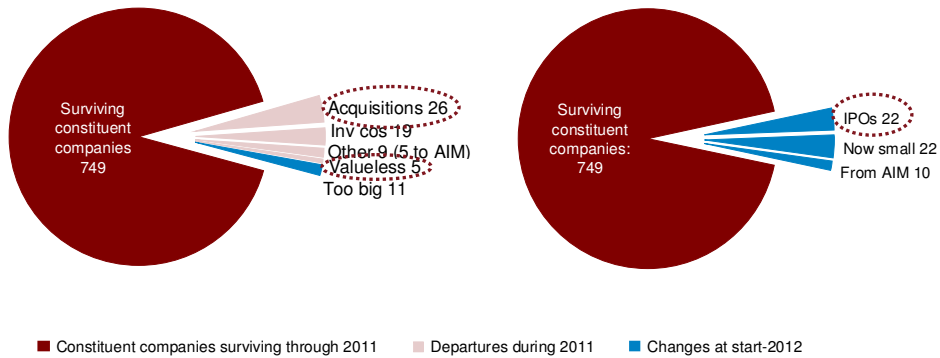
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Start-2012 rebalancing of the NSCI

2011: 819 constituents

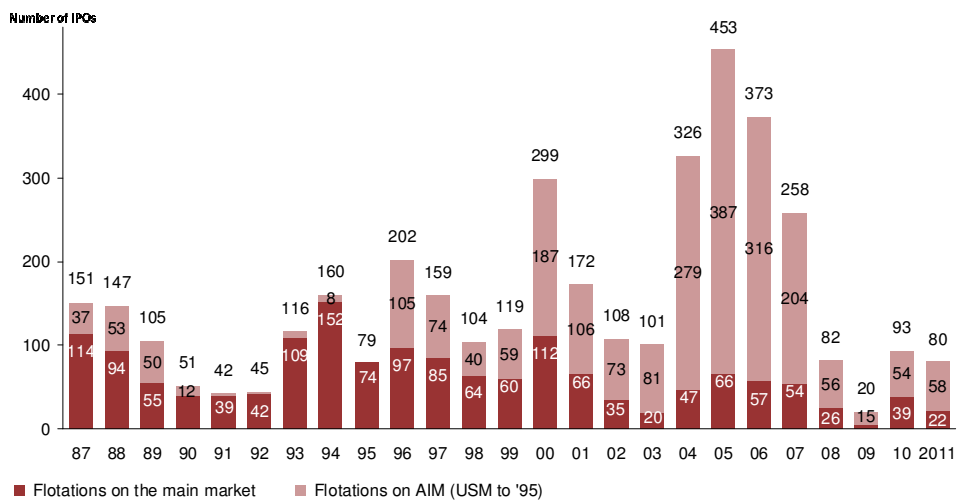
2012: 803 constituents



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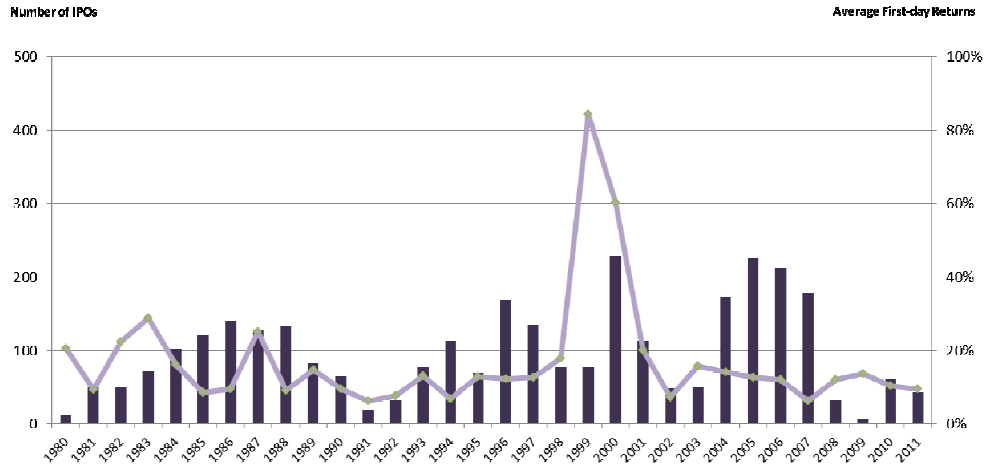
IPO volume on the UK main market and AIM since launch of NSCI



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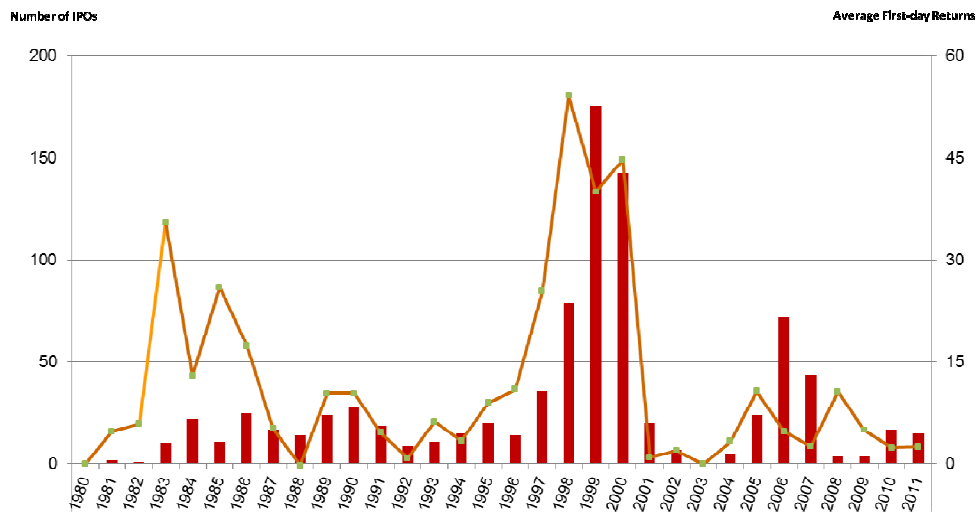
Number of UK IPOs and Average First-day Returns, 1980-2011



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Number of German IPOs and Average First-day Returns, 1980-2011

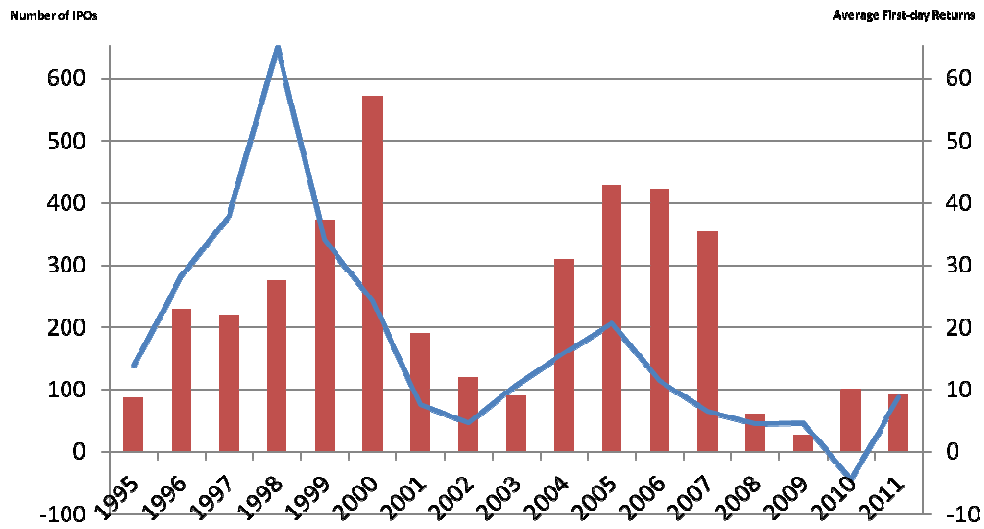


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Number of European IPOs and average first-day returns, 1995-2011



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Pricing of UK IPOs, 2000–2011

All UK IPOs	Equally-weighted mean	Value-weighted mean	Number of IPOs
HGSC IPOs	10.5%	8.3%	170
AIM IPOs	22.2%	9.6%	1479
Other IPOs	14.7%	5.9%	33
All IPOs	20.9%	7.5%	1682

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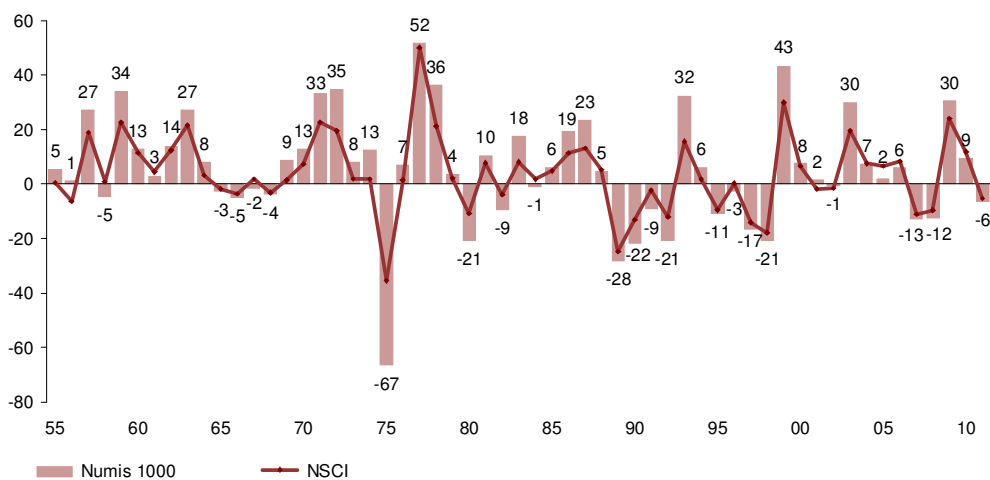
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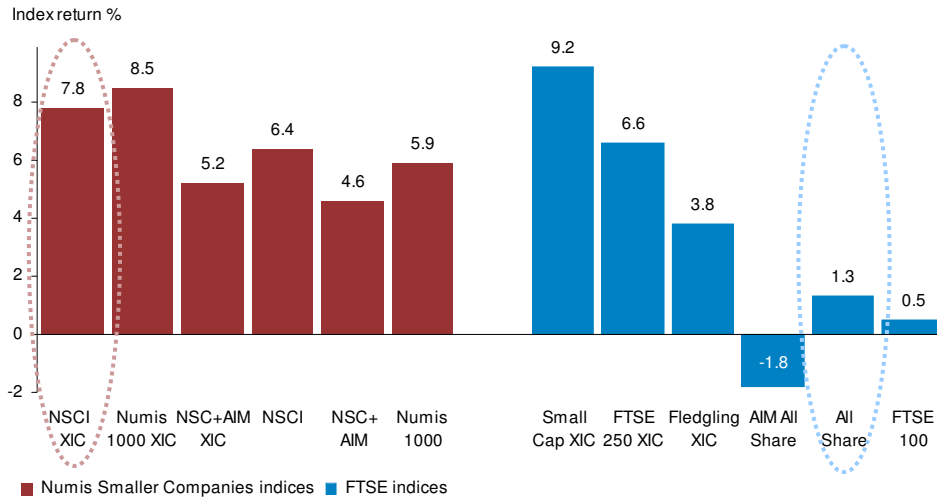
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Excellent long run record, but considerable year-to-year variation

Numis Smaller Companies index return minus FTSE All Share return (%)



Performance since 1 January 2012 (to start-June)



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More big NSCI winners than losers in 2012 (to start-June)

Best 20 Performers	%	Worst 20 Performers**	%
West African Minerals Corp*	467.9	Game Group plc	-100.0
Stratmin Global Resources*	272.7	Blacks Leisure Grp plc	-100.0
Matra Petroleum plc*	246.9	Clinton Cards plc	-100.0
Magnolia Petroleum plc*	238.7	Environ Group (Investments)*	-100.0
Nova Resources Ltd*	221.1	Abbeycrest plc	-100.0
Creon Resources plc*	209.7	Colliers International UK*	-100.0
Westminster Group plc*	208.3	WorldSpreads Group plc*	-100.0
Forum Energy plc*	197.2	Managed Support Services plc*	-94.1
Providence Resources plc*	165.3	Pires Investments plc*	-90.4
Transense Technologies*	156.7	AssetCo plc*	-89.0
World Careers Network plc*	145.2	TyraTech Inc 'RegS**	-85.8
Medgenics Inc 'Unres**	139.7	China Gateway International*	-82.9
Bango plc*	138.8	Asia Digital Holdings plc*	-82.4
Metal-Tech Ltd*	136.7	Avia Health Informatics Inc*	-80.8
Enterprise Inns plc	133.0	Brainspark plc*	-79.2
Oxus Gold plc*	131.8	Public Service Props Invest*	-78.4
WFCA plc*	128.6	TyraTech Inc 'Unres**	-77.6
CIC Mining Resources Ltd*	128.6	Xtract Energy plc*	-76.5
Cove Energy plc*	123.7	Yell Group plc	-76.2
STM Group plc*	117.1	Pursuit Dynamics plc*	-75.7

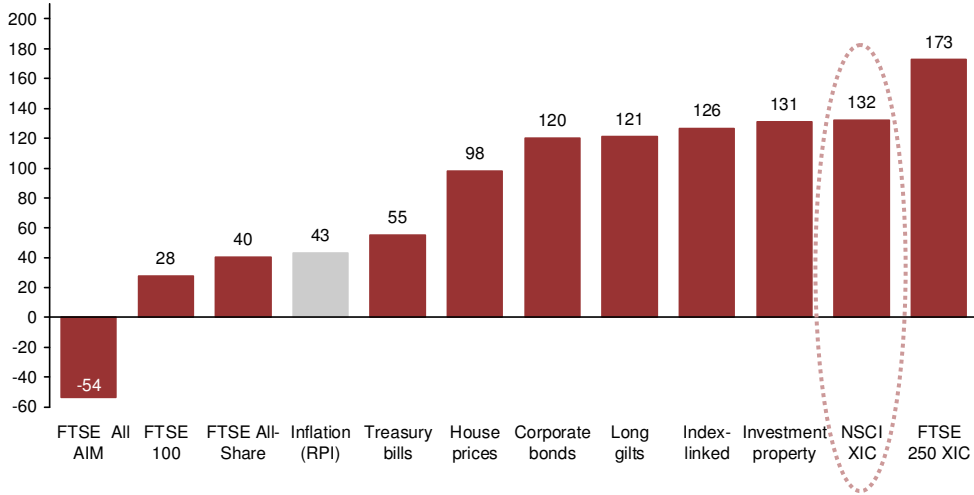
* indicates member of AIM at start-2012

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UK asset returns 2000–2012 (end-Q1)

Total return (%) over the period 2000–2012

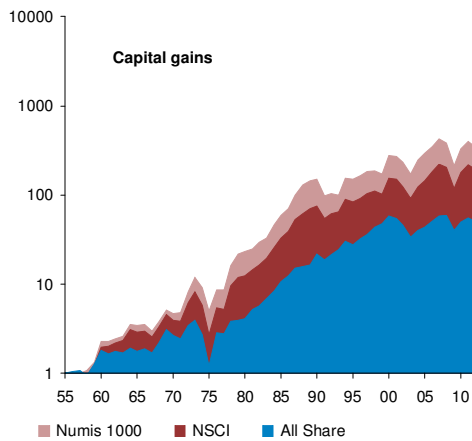


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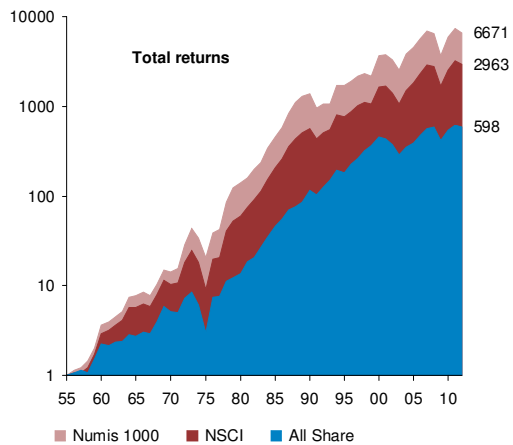
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Long run NSCI performance has been excellent

Cumulative value (log scale)



Cumulative value (log scale)



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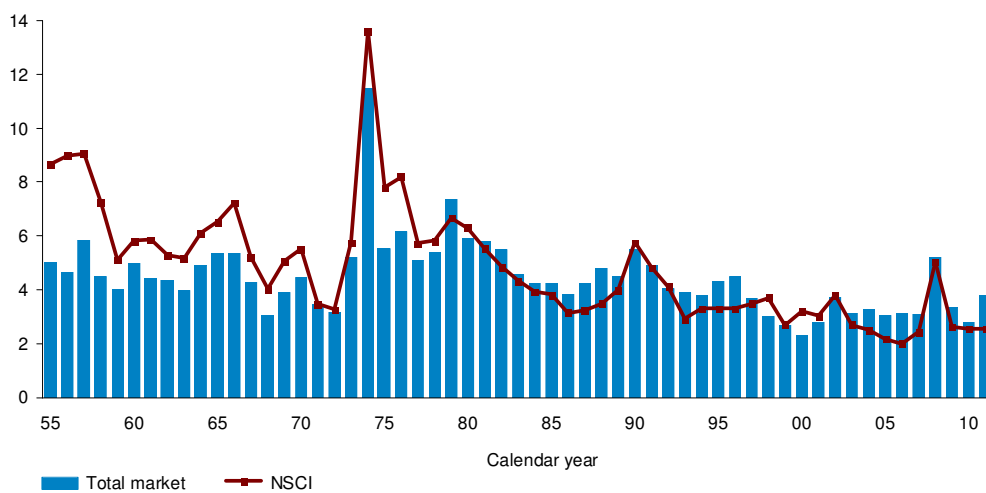
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The long run record of dividend income

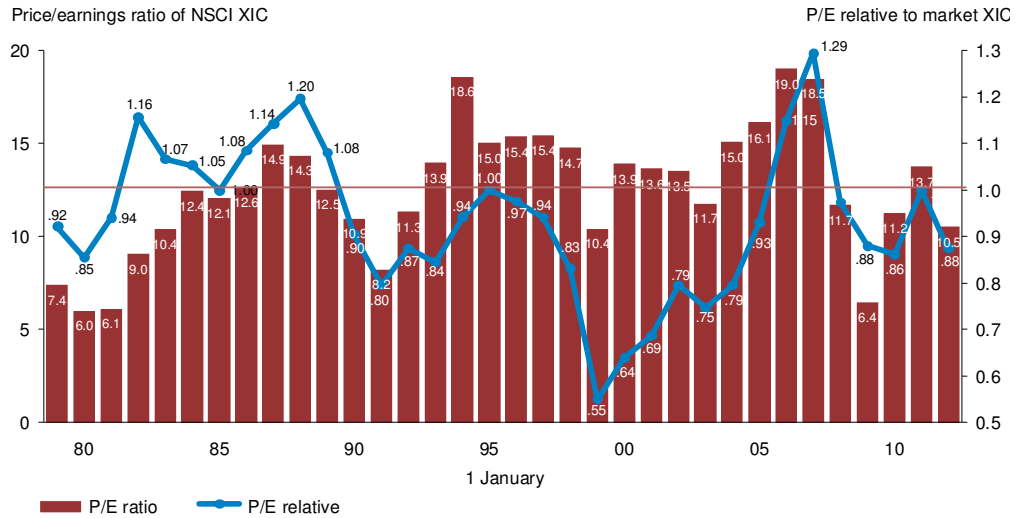
Historical dividend income %



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The long run record of ratings

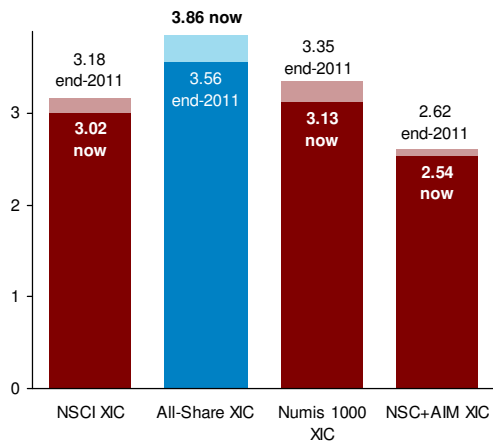


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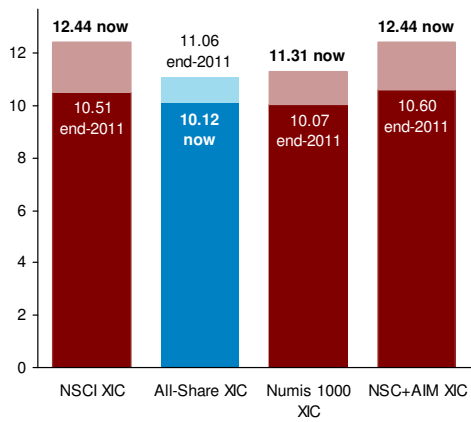
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Ratings and multiples: start-June 2012 vs end-2011

Dividend yield (%)



P/E ratio (ex loss makers)



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Summary

- Most new lists become NSCI constituents
 - The natural benchmark for recent IPOs is the NSCI XIC
- There are more companies in the NSCI (800*) than in the “All” Share (615)
 - At start-2012, market-caps ranged from near-zero to £1264 million
 - They differ in sector and of course size, but are surprisingly international
- IPOs are an important source of new entrants to the NSCI
 - IPO volume has been low in UK; this is a global pattern
 - Offer price has recently been fairly close to subsequent market price
- Performance of smaller companies has been volatile
 - Recent and long-term NSCI returns have been superior to large-caps
- This year, relative dividend yields have fallen and relative PEs have risen
 - Relative to fundamentals, NSCI stocks sell for more than at the start of 2012

* 1932 companies for the NSC+AIM Index

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The Numis Smaller Companies Index

Contact person for questions about the NSCI:

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Email **a.picton@numis.com**

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The company has seen a draft of the note and has made minor factual comments that have been incorporated

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In making a recommendation the analyst should compare his target price with the actual share price and then make a recommendation derived from the percentage thus calculated.

As from 14 February 2005, the formula is:

Buy	> +20%
Add	+10% to +19.99%
Hold	0% to +9.99%
Reduce	-10% to -19.99%
Sell	> -20%

Upon the initial establishment of a recommendation and target price for a company, an additional 10 % deviation in the price from the default bands set out above is permitted before the recommendation has to be changed in subsequently published research documents.

	US Requirement 01/10/09 - 30/09/10		UK Requirement 01/07/10 - 30/09/10	
	All Securities	Corporate Clients	All Securities	Corporate Clients
Buy	46.8%	57.1%	51.9%	3.4%
Add	23.2%	14.3%	20.8%	1.6%
Hold	26.0%	28.6%	21.5%	3.3%
Reduce	5.2%	8.0%	4.8%	0.0%
Sell	0.8%	8.0%	1.2%	0.0%
	100%	100%		

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