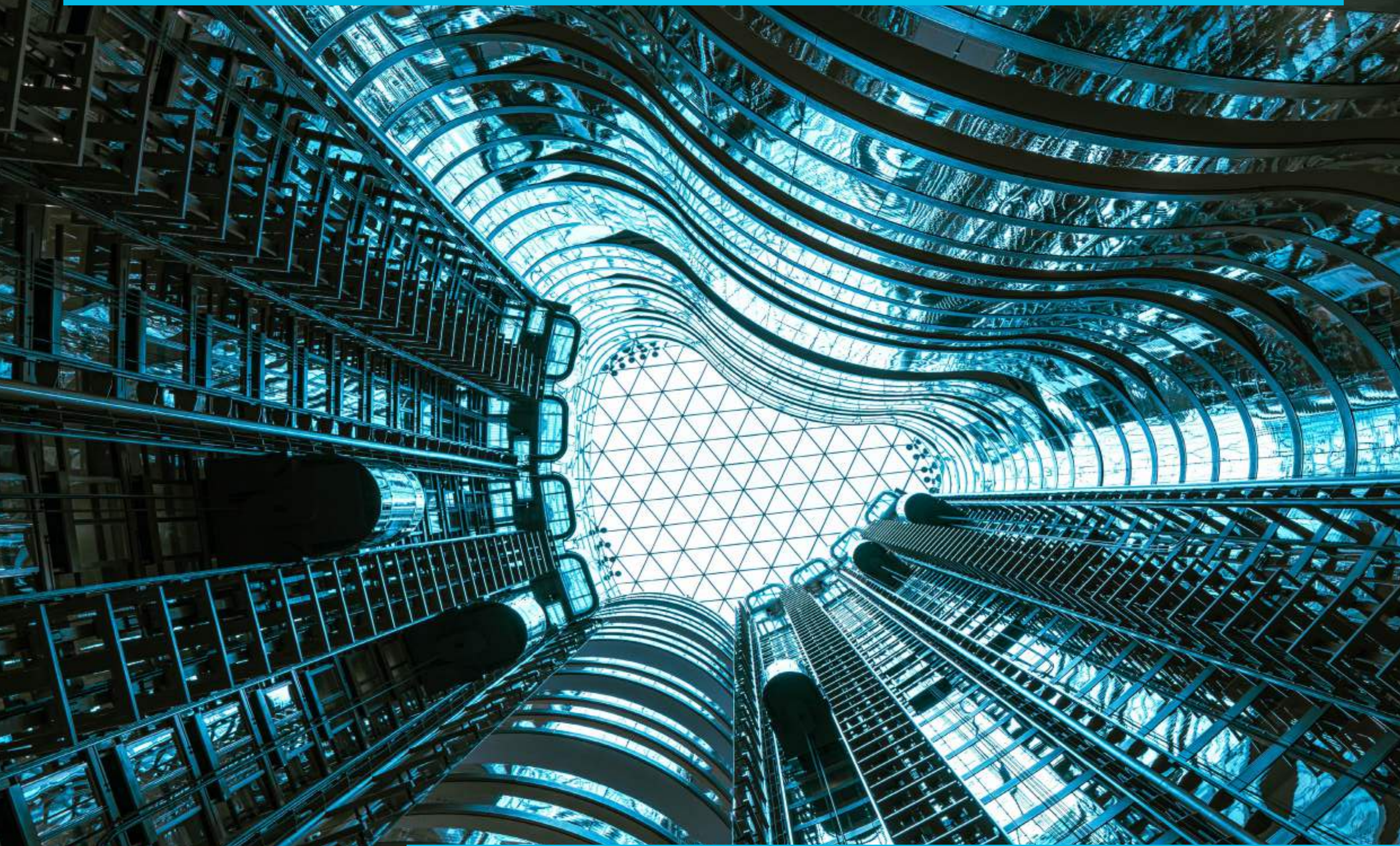
Spotlight

Deals in focus

In this issue:



Page—06

AIM - Hitting the sweet spot for European Green Transition plc

Aiden Lavelle, CEO and Jack Kelly, CFO explain the reasons for their bold decision and why AIM hits the sweet spot for them.

Welcome to our new **transaction services** publication...

focussing on trends in the public and private M&A market. The publication will include articles by PKF, interviews with our clients and other articles in relation to key topics in the sector, with the aim of shining a spotlight on current market trends.

The PKF Transaction Services team are experts in this area. We pride ourselves in supporting businesses and investors on their transaction journey – whether initial transactions, bolt-ons, exits or other transformational events. Our team provides a full suite of transaction support including but not limited to due diligence, SPA advisory, tax advice and structuring and reporting accounting work on capital market transactions. The team works across a range of sectors and geographies with seamless support from the broader PKF Global network.

This first publication tackles the current and future position of the UK's listed markets, both Main Market and AIM, as well as an interview with one of our transaction services clients: European Green Transition plc.

Get in touch today to see how we can help...

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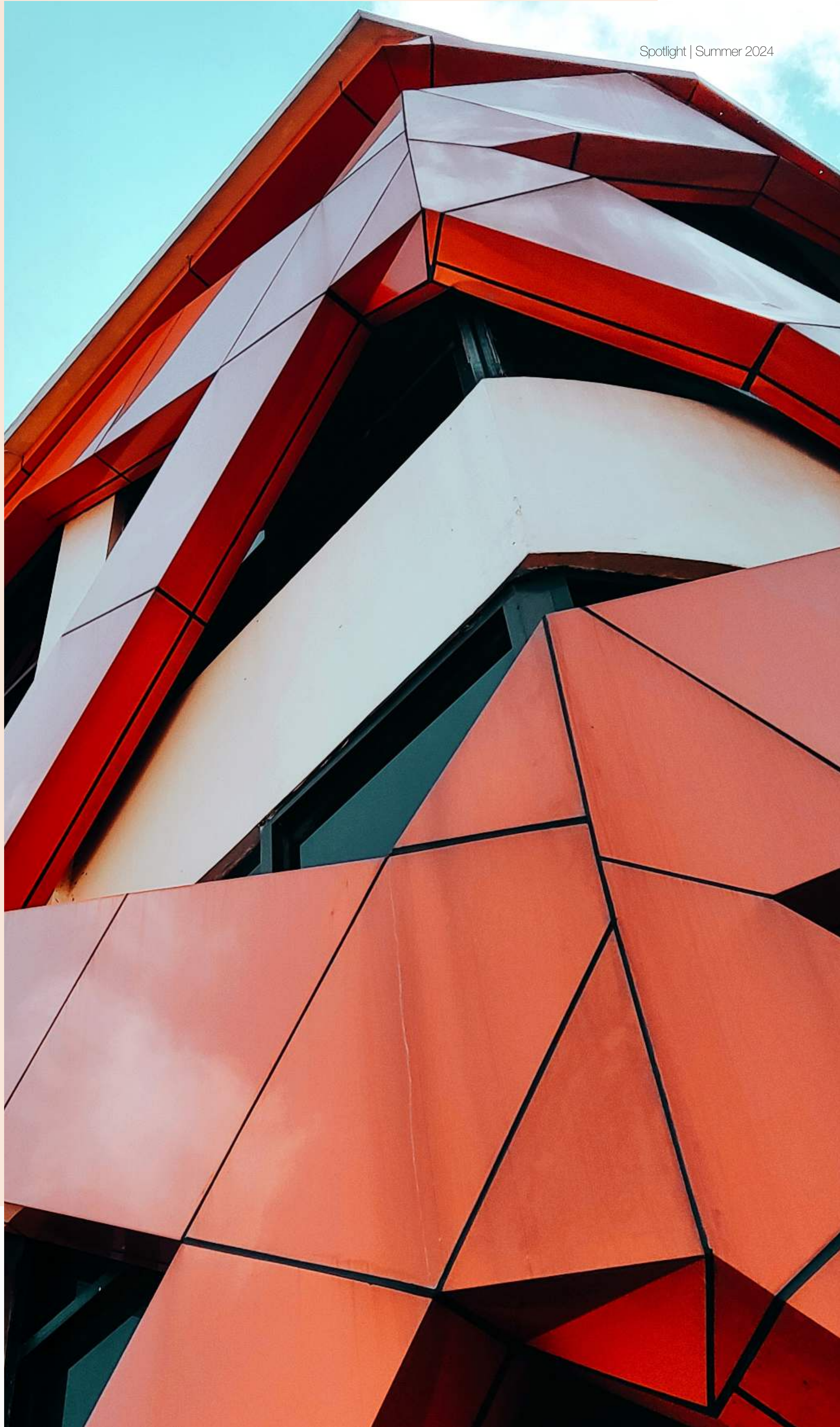
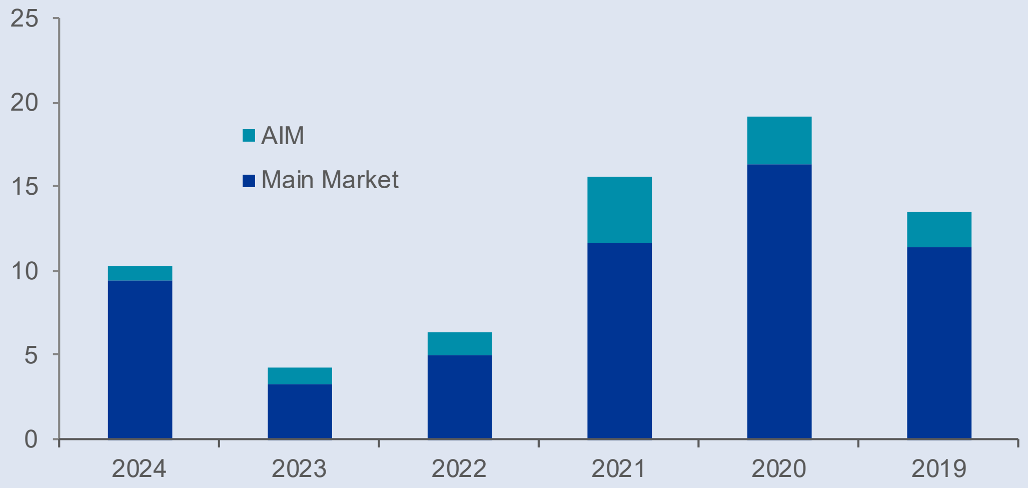


Viewpoint

There is tempered optimism that the ice is beginning to thaw on UK Capital Markets and a hope, more than an expectation, of a return to the halcyon days of 2021 and 2020. The first half of 2024 saw a combined total of £10.31bn raised across the Main Market and AIM, representing an increase of 143% and 63% on the same period in 2023 and 2022 respectively. This total is skewed by a single secondary raise from the National Grid Plc of £7bn in May 2024. Excluding this secondary raise, total funds of £3.31bn were raised, relative to £4.24bn and £6.32bn in 2023 and 2022 respectively.

Total raised in H1 by year (£bn)

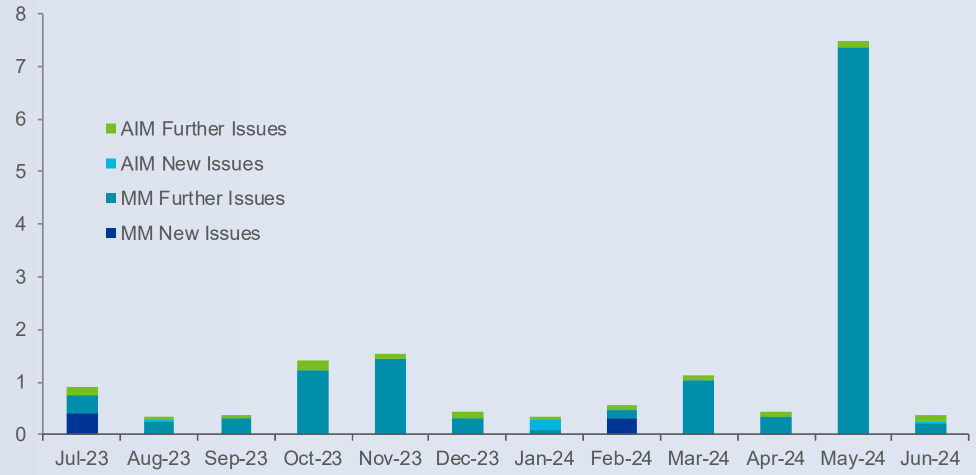


The market for secondary raises was the most active with £9.73bn raised, equating to 94% of total funds raised. There was a total of 18 new issues to AIM (10) and the Main Market (8) in H1 2024, of which PKF acted as reporting accountant on one third (6) of these transactions. We were especially proud to have been involved in half (5) of the new issues on AIM in the period, including the likes of Helix Exploration Plc and European Green Transition plc.

Helix Exploration Plc debuted on AIM in an oversubscribed IPO, raising £7.5m to explore and develop a helium resource in Montana, USA. The area shows promising signs of a rich, non-hydrocarbon, helium gas deposit. The share price has climbed approximately 134% since IPO.

European Green Transition plc also admitted to AIM in H1 2024, raising a total of £6.45m. Their vision is to build a portfolio of high quality green economy assets – including, solar and wind farms, rehabilitation and processing projects, and more – through an M&A focused-model. They have already acquired a high quality portfolio of assets, notably its principle Olserum Rare Earth Element (REE) project in Sweden. For more information on EGT, please read the interview starting from page 4.

Total monthly funds raised on AIM and the Main Market (£bn)



Much akin to the British summer, the UK IPO market has shown momentary flashes of the sunny days of 2021 and 2020. There are several reasons to believe (hope) the market conditions will improve. Inflation has been wrestled down to 2% from its peak of 11% in October 2022 and we should see the central bank loosen its monetary belt as we enter autumn. Interest rates are soon expected to be cut for the first time since March 2020 and they could reach 3.5% by the end of 2025, weakening the squeeze on the real economy and creating better conditions for IPO activity. Political uncertainty has eased since Rishi Sunak announced the General Election in May. There is hope this new Labour government, if Keir Starmer's rhetoric is to be believed, will usher in economic growth and investment. We would settle for stability. This is all set against the backdrop of a backlogged IPO pipeline and the FCA's new listing rules enacted on 29 July 2024, the largest overhaul of listing rules in three decades. The aim is to make the LSE more attractive, enabling it to better compete against other international exchanges. These factors make us tentatively sanguine for the second half of the year. We will be packing a raincoat and the SPF.

The M&A and private space has proved equally difficult. 2023 closed with aspirations of a resurgence in the deal market but we have observed much of the same patterns. There was a small increase in the total value of UK M&A activity but a decrease in total deal volumes due to the macroeconomic landscape, particularly interest rates and inflation. However, at the lower end of the market deals are still progressing and the grass is looking greener for the rest of 2024 and the conditions for dealmaking are improving.

We have also seen the theme of take-private deals in the UK, which became increasingly popular in 2023, continuing into the first half of 2024. The increasing regulatory burden on small listed companies and limited liquidity have made public markets less attractive, prompting many firms to consider private investors. Additionally, suppressed valuations and the availability of private credit financing have created favourable conditions for private equity firms to pursue these deals. The flexibility to implement long-term strategies without the pressure of quarterly earnings reports is another appealing aspect for management teams. As a result, take-private transactions are playing a prominent role in the UK M&A landscape in 2023 and 2024.

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"AIM is the leading market for minerals and green economy businesses in Europe and that's where our main focus is – really leveraging the relationships we have with advisers and brokers, NOMADs, and research teams around AIM, to try to find some of these really attractive acquisition opportunities that are in an undervalued situation and that we can acquire for a fraction of the capital that's been invested and then try to deliver those returns to our shareholders."

Aiden Lavelle
CEO, European Green Transition plc

Jack Kelly
CFO, European Green Transition plc

AIM - Hitting the sweet spot for EGT

European Green Transition plc (listed on AIM under the ticker "EGT") is a business operating in the green economy transition space in Europe. It is also one of the few companies to bite the bullet and float on AIM earlier this year, despite all of the negative press that the London markets have received over a prolonged period in the doldrums. Aiden Lavelle, CEO and Jack Kelly, CFO explain the reasons for their bold decision and why AIM hits the sweet spot for them.

EGT's strategy is to capitalise on opportunities created by Europe's transition away from fossil fuels to a green, renewables-focused economy by targeting distressed and undervalued green economy projects such as tailings, critical material, wind, solar, carbon and recycling projects. The company floated to build up a 'war chest' to help it seize the substantial M&A opportunities that it can turnaround to deliver value in the short to medium term.

Its current portfolio includes:

- Olserum Rare Earths project in Southern Sweden which has the potential to be Europe's first commercial stage REE (rare-earth element) mine
- Limni, a copper tailings recycling project in Western Cyprus
- Altan Carbon Credit project, an exclusive 12-month option to investigate the potential to develop a peatland carbon sink programme and generate carbon credits in Donegal, Ireland
- Pajala, a high-grade graphite project with copper potential, targeting the supply to EV battery companies, located in Northern Sweden
- A critical metals project in Saxony, Germany.

"We're looking at all sorts of opportunities across wind, solar, carbon credits," says Aiden. "We did start out in metals, but we're moving slightly away from metals towards other near-term revenue generating opportunities," he explains. "There's a lot of new opportunities in the market to meet the net zero deadline and ambitions. We're able to move fast and assess opportunities really quickly. We have the expertise to quickly review opportunities behind the company that can do all the due diligence work quite quickly and we're looking at several opportunities to get the company to a cashflow positive position."

Jack sets out what makes EGT stand out from competitors in the market: "A lot of companies in this space, particularly the resources space are very focused on a number of assets and moving them along over a long time horizon, whereas our focus has really shifted to opportunities that are near revenue stage or can be cashflow generative. We're looking to find distressed or undervalued projects, casting the net wide across the entire green economy and we're not wedded to a specific opportunity," he explains. "We're being very capital-light in that we're not looking to raise significant money to ultimately develop projects, we're looking to get in on projects where a lot of money has been spent already and we can bring our expertise of turning around companies."

The team have a very good track record of building these small public companies and scaling them quite rapidly.

Aiden Lavelle is an economic geologist with 16 years' industry experience. He served as Exploration Manager and later COO at Zinnwald Lithium Plc (formerly Erris Resources Plc) which he took through IPO and Reverse Takeover. He has expertise in gold and base metals, and notably contributed to the discovery of Djibouti's Pandora prospect and a new epithermal gold district. Prior to becoming EGT's CEO, he played a pivotal role as lead geological consultant resulting in a much-improved understanding of the rare earth element mineralisation at Olserum.

Jack Kelly is an experienced financial professional with a depth of experience completing M&A transactions across a range of sectors. Prior to joining EGT, he worked across Raglan Capital's portfolio of companies supporting M&A, transaction, licensing and investor relations activities. He also worked in PwC Ireland's Corporate Finance team.

In the first six months of this year, European IPO markets in Amsterdam, Paris and Madrid surged with returns from IPOs rising from €2.5 billion to €11.4 billion compared to only £500 million raised in London, according to reports in The Times amongst others. Despite this resurgence, EGT chose AIM. Jack says the decision was rooted in the track record of the team.

"This is our largest shareholder, Cathal Friel's fifth IPO on AIM," illustrates Jack. "He's been involved with companies across pharma-services/pharmaceuticals, oil and gas and he is taking a very hands-on role in EGT." As a result, the team has a broad network across AIM. "There's an exceptional group of advisers and a sophisticated retail investor network in and around AIM who are very supportive of our projects, and who are very knowledgeable about the types of projects to support. There's also quite a number of very supportive institutional investors in the small cap space which made AIM pretty interesting," he explains.

According to Jack, AIM has a great track record in the resources, green and energy space for small companies: "In short, it's a market that we know well and it's a market that we like and we've proved that you can actually grow and scale these businesses and generate returns for shareholders" he says.

Aiden stresses the point: "It's one of the centres for global mining finance – that risk capital is there more on AIM than on other exchanges and it's close to home!" he exclaims.

Jack concurs: "We're a European focused company and AIM is without doubt the leading market for small cap in Europe. Our investors are all across Europe, the assets we're looking to bring in or develop are across Europe, so AIM is the sweet spot for us."

A combination of 36 consecutive months of outflows from UK equity funds, low valuations, high interest rates and a poor economic outlook have made private equity a more attractive option for raising money for many, but not EGT.

"Our goal is to bring in a number of assets," says Jack. "Being a public company offers significant benefits in that when we're looking to bring these companies in we can use equity, we can use paper, whereas we couldn't do that as a private company." He explains that the executive team's track record and founders group's following, have enabled them to raise money on the back of a pipeline of assets that they're looking to acquire, as opposed to specific deals: "It enables us to move very quickly when the deals that we're looking to execute actually materialise," he claims.

Timing is everything in business, as the saying goes. However, floating when the London market was struggling was a bold decision.

"It was always the plan when we set up the business a couple of years ago," says Jack. "We just wanted to bring in the right assets and raise a bit of pre-IPO funding from investors which helped us set up the business, but also to bring some of the assets further down the track so that they were marketable at an IPO," he explains.

"The listing process itself was... well, it probably felt worse than it was, but I think that we were lucky in the time that we picked. We were ready to go for about nine or ten months, and then it got to a stage around March/April of this year, where we thought that it was starting to open up so we started accelerating everything from there."

Aiden supports that view: "There was some optimism then and you have windows before the Easter holidays and again after Easter, and before the summer holidays, so you have to go with those windows when you can get to meet all the investors and present to all of them. There was also an expectation that interest rates would start to come down and that there would be money moving back towards equity," he points out.

"Redemptions in some of the funds started to turn around," adds Jack. "The FTSE hit a near record high. Copper and gold were on the rise, so we thought the overall sentiment, not necessarily for IPOs but in the wider market, was becoming more positive so we thought it was a good time to go."

"We were quite pleased with the result," interjects Aiden. "I mean, we raised £6.5m in a weak market - that was a very good outcome!" Since then, the share price has continued to rise. "It's up around 40 per cent at the moment," adds Jack. "We've had lots of news flow since then, it's been a strong start. We've signed option agreements on two further acquisitions; Aiden and the team are doing great work on the Olserum rare asset that we have in Sweden – we're planning to drill that in H2 at some stage," he reports.

According to Jack, companies need to have news flows builtup for the first six to 12 months once you start to list. "That's something we found," he says. "Once you get the business listed that's only the start of the journey, you need to then start progressing it forward and having sufficient news flow to generate investor interest in it over the first six to 12 months.

"The plan is to keep driving the share price forward in the near term, engaging with shareholders – we do a lot of investor webinars and engagement, to build our retail following. We're also trying to engage extensively with a number of institutional investors to bring them on board and ultimately, to do that, we need to constantly be bringing news flow to pique their interest," he outlines.

Equity is going to be a key focus for acquiring or bringing in new and exciting green economy assets, explains Jack: "AIM is the leading market for minerals and green economy businesses in Europe and that's where our main focus is – really leveraging the relationships we have with advisers and brokers, NOMADs, and research teams around AIM, to try to find some of these really attractive acquisition opportunities that are in an undervalued situation and that we can acquire for a fraction of the capital that's been invested and then try to deliver those returns to our shareholders."

AIM is not just for capital raising. According to Aiden, there's a broad network of people that play a valuable role in enabling growth: "We're looking at a mix of private assets and assets that may be stranded on the balance sheets of other public companies that are struggling," he explains. "We have deep networks across all sectors. I come from the resource industry, as a chartered geologist working in small cap AIM companies for sixteen or seventeen years now. Cathal and Jack are across a range of sectors, so there's all sorts of industries and contacts that we can delve into and look for these assets and there's also all of the advisers in London through the AIM network."

Jack agrees: "The brokers in London have a huge knowledge of what's going on: what companies are in really good shape and what companies aren't, and it's worth leveraging that knowledge from them. That's another attraction of AIM to us; the knowledge of these brokers and NOMADs and advisers who are very pro-dealmaking. That's another area that we try to use as much as possible," he adds.

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> "Some companies are loaded with debt or find themselves in tricky positions whereby we can come in and help to turn that around and that's something that our team have done very successfully in AIM before with a number of pharmaceutical assets and pharma-services businesses, so it's something that we think we should be able to replicate in the green economy space."

"You need to be knocking on these people's doors as much as you can, rather than just sitting there waiting for the perfect opportunity to land in your lap – I don't think that's going to happen!" he jokes. "We try to engage with as many of them as often as possible as well as trying to engage with the other companies on AIM and other markets who are in similar fields to ourselves, even to just introduce ourselves, or see what they're doing and see what we can learn and ultimately, you never know how these conversations can develop," Jack advises.

EGT has an unusual acquisitions strategy. "Trying to generate near-term revenue with a capital-light model is probably unusual," says Aiden. "A lot of companies, especially in the green sector, go down the route of having one asset which can become quite capital intensive to develop. That's not the way we want to go. We're looking at various opportunities that are capital-light but that can give shareholders a return in the near-term," he adds.

"Essentially, we want to be opportunistic and engage at a later stage so it requires less investment to turn a project around," explains Jack. "We raised £6.5 million but we won't be spending a large chunk of that on any individual project. It's about identifying three, four or five projects that we can spend a small amount of money on. Some of them, for example, the peatland carbon credits in Donegal, is relatively low capex early stage, but we hope we can deliver revenue in the medium term on that. Whereas the tailings project in Cyprus has received significant capital expenditure as part of the old copper mine there, but our plan is now, based on the work that's been done there previously, to recycle some of the tailings and see if we can put together a business model where we can actually generate copper from the tailings in the next 12 to 18-months.

That's really the goal. We don't want to be spending money on a project and then continuously go back to the capital markets to raise further money to invest in a single project. That's the capital-light idea" sets-out Jack.

He continues: "A significant amount of money has come into the green economy over the last number of years, not always spent on the right types of assets, and also some of it not necessarily spent very well, so that's where we see the opportunity, particularly as interest rates have risen over the last couple of years," says Jack. "Some companies are loaded with debt or find themselves in tricky positions whereby we can come in and help to turn that around and that's something that our team have done very successfully in AIM before with a number of pharmaceutical assets and pharma-services businesses, so it's something that we think we should be able to replicate in the green economy space," he explains.

The new UK Government, if it speeds up the move to net zero, should have positive benefits for green economy focused businesses. "We have a carbon credit project in Ireland and the price of carbon in the UK spiked once the General Election was called," Jack gives the example. However, EGT's portfolio is diversified across the EU with projects in Sweden, Cyprus, and early stage assets in Germany. The EU's Critical Raw Materials Act which was brought in in April, supports some of those resource projects in terms of defining set targets for exploitation within Europe for critical metals and minerals. "They've set a target of ten per cent for extraction in the EU, 25 per cent for recycling, and other targets for not relying on single third countries for not more than 65 per cent for supply of raw materials, so there's a lot of support," says Aiden.

Jack agrees: "I think the Critical Raw Material Act is huge from a European asset perspective. It's a response to China's dominance over a number of these key resources. So, albeit a late move from the EU, it's welcome from our part and should bring increased focus, and it's a key element which we're looking to leverage for projects like our tailings project in Cyprus."

The team is very excited about the near and medium term future. "We've got a good selection of assets we're working on," says Jack. "We see potentially huge markets for the two assets we have under option: the Cyprus copper and peatland carbon credit. We have a 12-month period now to develop the business model, do some due diligence and bring them forward, and then the rare earths asset in Sweden is, we think, a really, really exciting asset. It has the potential to be a very significant rare earth mine in Europe. We've done some sampling with some good results and plan to start the drill programme in H2 and on the back of that we're going to look to bring a partner in to help us move it on to the next stage and hopefully, that will be a monetisation event for us," he adds.

"We're delighted to be listed. Delighted that we don't have to do it again!" Jack exclaims. "We've got a good war chest of cash for potential acquisitions in green spaces, there are lots of exciting projects that are just underfinanced at the moment, so we think we're in a great place. Our share price is up approximately 40 per cent in the first four months so that is a very good start!" he finishes.

"Keep the share price moving upwards - that's the name of the game!" concludes Aiden.

For more information, please visit the **EGT website**.

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