

## Trying to put right everything that's wrong with stockmarkets

### AQUIS EXCHANGE (AQX)

**Business description:** Aquis Exchange is what is known in the impenetrable jargon of financial compliance as a "multi-lateral trading facility" or MTF. To you and me, that's a pan-European equities trading platform. It allows institutional traders to trade 1,700 of the biggest equities on 14 European stock exchanges.

The company has three divisions:

- **Aquis Exchange** is the original exchange business, founded in 2014. It actually comprises two MTFs, one based in London, the other in Paris. It now has 31 institutional clients, including 14 of the world's biggest investment banks. Aquis currently has a 4.51% market share (H1 2019: 3.56%) of the equities in which it trades.
- **Aquis Stock Exchange (AQSE):** This is a confusingly similar name to the division above but actually refers to what used to be known as the NEX Exchange (and prior to that, Ofex, then PLUS Markets, then ISDX), which mainly trades the shares of companies too young and small to join the London Stock Exchange. Aquis acquired NEX from CME in March this year.
- **Aquis Technologies:** After it established the price-matching engine behind Aquis Exchange, it realised that this technology was so good that would be attractive to organisations around the world – and not only for matching stock transactions but for other asset classes as well. So in 2015, it set up this division to develop and licence this technology to third parties globally.

#### Bull points:

- Because its European operation is based on two MTFs, one in London, the other in Paris, it means that, regardless of whether the UK leaves the EU with or without a deal, Aquis will be able to service any client in any jurisdiction around the world that wishes to trade European equities.
- In its last set of results (H1 2020) it reported its first ever post-tax profit.
- Aquis Exchange is the only exchange in the world based on a subscription model. Instead of paying a small percentage of the value of each trade (as the London Stock Exchange and other exchanges around the world do), Aquis allows its customers to pay a fixed monthly fee, ranging from £2,000 a month for up to 1,000 transactions per day, all the way up to £80,000 a month for "all you can eat" connectivity, trading and data. This is a similar subscription model to some of the most successful businesses in the world such as internet service providers, mobile phone networks, video and music streaming services, etc.
- Another feature that differentiates Aquis from other exchanges is that it introduced a controversial rule that proprietary traders (those who trade on their own behalf rather than executing the instructions of their clients) are free to place orders, but they cannot cancel orders. This protects institutions who trade on Aquis from the shenanigans of high-frequency traders, who

will often prevent others from getting the best price.

- Aquis has ambitious plans to develop the Aquis Stock Exchange (AQSE). It has already migrated AQSE onto the company's price matching engine. It now intends to increase liquidity and shrink spreads so that, not only will this encourage more private investors to trade; it will also attract institutional investors to trade,

#### Risk factors:

- The onboarding of new clients is progressing more slowly than the company had hoped. This is partly because Aquis needs to re-educate institutional clients as to the benefits of Aquis's subscription model; and partly because, with so many in the industry now working from home because of Covid-19, it's not easy to get decisions.
- Many have tried to make the old OFEX exchange work. Many have failed.

**Summary:** Although Aquis is at an early stage in its development, its talented CEO Alasdair Haynes has immediately endeared itself to me for four reasons.

First because of its unique restriction on the activity of high-frequency traders. I have long believed that this is a prime example of the financial sector conning the public. These traders distort the market 100% in their own favour, and against the interests of the rest of us, even including institutional investors. So I applaud what Aquis is trying to do.

Year:	2015	2016	2017	2018	2019	2020**	2021**
Revenue (£m)	0.529	1.22	2.01	3.98	6.89	10.9	15.6
Pre-tax profit (£m)	-3.70	-3.63	-3.04	-3.42	-0.862		
Normalised eps (p)*	-13.6	-13.4	-11.2	-18.5	-3.75	-0.252	9.82
Norm. eps growth rate (%)							
Prospective price/earnings (p/e) ratio:							43.1
Prospective p/e:earnings growth (PEG) ratio:							
Forecast dividend yield (%):							

\*Normalised earnings per share takes into account any unusual or one-off items \*\*Forecast

Second, Aquis recognises that many small cap shares are simply untradable due to lack of liquidity, and therefore ridiculous spreads of 15% or 20%. This cramps our style with TAM 2 over and over again. Aquis is actively planning to rectify this using its price-matching technology.

Thirdly, Mr Haynes believes that small cap companies in the early stages of growth should be nurtured and protected, like tender green plants. To this end, he intends to ban short-selling of such stocks unless the short-sellers are designated market makers in that stock. There are companies all over Europe who have been brought to their knees an ultimately collapsed because of short-selling.

Fourth, Mr Haynes believes that private investors should have access to IPOs, as they used to do years ago, instead of the professionals monopolising the process, thereby grabbing all the spoils for themselves.

I've been railing again these four thing in *TrendWatch* for years, because I regard them as abuses of power by the financial services industry. But even allowing for my strong bias in support of what Alasdair Haynes is trying achieve, the progress he has made so far gives me confidence that his company will continue on its growth trajectory. **BUY** (406p; yield: nil; market capitalisation: £110.3m; initial stop-loss: 324p; EPIC: AQX; sector: Investment banking & investment services; classification: AIM; website: [www.aquis.eu](http://www.aquis.eu)). □