



TALKING POINTS

Prospects for AIM

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Prospects for AIM

- The London-based Alternative Investment Market (AIM) is part of the London Stock Exchange and is the world's leading public market for small and medium enterprises (SME), accounting for more international company listings than its 40-plus global competitors combined
- AIM's reach extends beyond the United Kingdom, serving as the listing venue for over 590 companies with primary business in over 70 countries around the world
- AIM's recognition of multiple accounting standards (notably US Generally Accepted Accounting Principles) can be a major inducement for companies headquartered in the United States and other countries that are not fully compliant with International Accounting Standards (IAS)
- AIM listings are often less costly and time-consuming than comparable listings on NASDAQ, GEM, and other public markets, streamlining the Initial Public Offering (IPO) process for growth-oriented companies
- AIM employs a flexible principles-based regulatory system with more accommodating regulatory requirements, freeing up the time and resources of enterprise managers to focus on growth initiatives
- AIM also offers greater secondary fundraising opportunities than many of its competitors, boosting its appeal to high-growth entrepreneurial companies around the world
- The international success of AIM has prompted rival public markets to emulate the AIM model, signaling mounting competition for SME listings in coming years
- AIM has been a resilient market during previous economic downturns which indicates its ability to weather the current turmoil in global financial markets

Prospects for AIM

Pedigree

AIM has changed significantly since its launch in 1995, when ten companies listed with a total value of £80 million. Now, with approximately 1700 companies valued at £98 billion, it is widely recognised as the most successful of all the public markets for growth companies in the world, having raised £56 billion during its lifetime.

AIM companies (UK and overseas incorporated) and market capitalisation 2000 - 2007



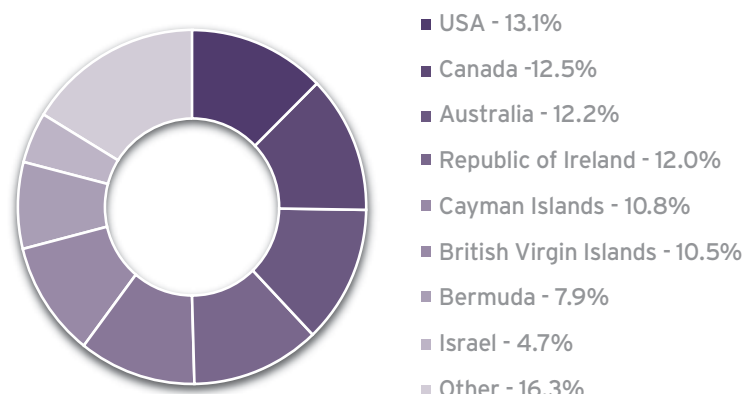
Unlike many of its competitors, AIM has a wide international reach, with over 590 companies operating in over 70 countries primarily within Asia Pacific, the Americas and Europe.

Having established its international prominence, how can AIM sustain its record of success in a turbulent and highly competitive global capital market?

AIM's International Flavour

London's standing as a global financial centre is unquestioned, rivalling (and in many respects surpassing) its competitors in the United States, the Far East and Europe. Historically, the City of London's focus on the Commonwealth and United States and its prominence in major global industries (notably mining and extraction) have created a wide array of non-UK companies for institutional investors to support. Coupled with an entrepreneurial culture and a number of home-grown successes, this has widened the global ambitions of London-based financial institutions.

Country distribution of international AIM companies by number - March 2008



While continuing to support these traditional markets, London is expanding its footprint in new geographies and industries. The BRIC countries (Brazil, Russia, India and China) are becoming increasingly well represented in the London market. London financial institutions are also extending coverage to new sectors such as property and closed-end investment vehicles, renewable energy and other "green" industries.

Complementing London's international flavour is AIM's acceptance of multiple reporting standards. AIM recognises the Generally Accepted Accounting Principles (GAAP) of the United States, relieving American companies of the need to undertake time-consuming and costly compliance with International Accounting Standards (IAS). While global convergence toward IAS proceeds apace, AIM's recognition of US, Canadian, Australian and Japanese reporting standards enhances London's attractiveness to non-UK companies pursuing foreign listings.

Why AIM?

The London Alternative Investment Market has succeeded in listing more international companies than its competitors combined. When examining its pre-eminent position, a number of factors make AIM highly attractive to growth companies seeking expansion capital.

Key Attractions

- Established in 1995, AIM is well-respected and has a successful history providing equity finance for growing entrepreneurial companies
- A real international flavour – home to more international companies than any other global exchange
- A wide institutional investor base (from the UK and overseas) that creates greater stability than more retail-based exchanges
- Significant opportunity for secondary fundraising with £9.6 billion raised in 2007
- A principles-based regulatory system designed for entrepreneurial growth companies and their management teams; focus on quality and appropriate corporate governance
- London's prominence as a global financial centre and companies' access to a significant concentration of internationally focussed and experienced advisers
- A wide sector focus and interest from traditional to contemporary industries combined with a mix of companies, both in terms of size and stage of development
- Generally good liquidity and low rates of failure

The listing process

AIM has been developed with the needs of the entrepreneurial growth company in mind. While the listing process is certainly not easy, it is often far less time consuming and cheaper than with competitor markets. A recent report estimates that for a \$50 million company the typical costs of listing on AIM are between \$1-1.5 million lower than a comparable listing on NASDAQ and the ongoing costs of an AIM listing are one-third those of a NASDAQ listing. The timeframe for listing on the GEM market in Hong Kong can often be as long as 12 months compared with the typical 3-4 months on AIM.

Nomads

A significant contributor to this efficiency is the unique 'principles-based' regulatory system whereby all AIM listed companies require a Nominated Adviser (or Nomad), both during the IPO process but also on an ongoing basis post IPO. The Nomad acts as an authorised adviser, appointed by the London Stock Exchange (LSE), and is responsible for assessing the suitability of the company to be listed and its ongoing compliance with the AIM Rules for Companies.

The Nomad's responsibility is both to the LSE and its client company and requires strict adherence with the AIM Rules for Nomads, breaches of which can lead to action by the LSE. These rules stipulate procedures to be undertaken during the life of the company, for example in the due diligence process prior to IPO and in the approach to subsequent transactions.

The Nomad focuses on Corporate Governance (in which the UK is recognised as a global leader) and internal controls as part of its due diligence processes, working closely with the reporting accountants to ensure that these areas are addressed pre and post flotation.

The 70-plus Nomads are therefore ultimately responsible for the quality of the companies on AIM. This has created a self-regulating market, where the future success of a Nomad is inherently linked to the success of the companies they have listed and look after. By devolving responsibility in this way the LSE has removed a critical bottleneck, short-circuiting the document review process that slows down listings in most other markets. Following the success of London's regulatory approach, Japan and Singapore are developing capital markets based on the AIM model.

Reporting

AIM companies are generally not required to produce a full prospectus to European Union directive standards or to show a track-record (although if one is available, three years are required to be reported). AIM requires shareholder approval for only the largest of deals and in contrast to the quarterly reporting standard of competitor markets, AIM allows half-yearly reporting and thus enables enterprise managers to concentrate on building their businesses. Together with the absence of Sarbanes Oxley-type internal control standards, AIM's forgiving regulatory requirements boost the London market's appeal to growth-oriented companies.

That is not to suggest that there are no rules to follow on AIM. Rather, AIM's rules are less prescriptive and more principles-based, affording a degree of flexibility that suits typical growth companies.

Fundraising

Of particular interest to growth companies listing on AIM is the opportunity to raise further capital for continued development. The secondary fundraising market in AIM is unsurpassed. Of £16.2 billion raised on AIM in 2007, £9.6 billion was raised in secondary placings. The institutional nature of investors and the increasing global reach (£5.6 billion raised in 2007 was from non-UK investors) means that companies with demonstrated success are often able to return to investors and seek follow-on capital investment for further growth. While not unique to AIM, many of its competitors do not provide such access to secondary investment and are therefore less interesting to fast growth entrepreneurial companies.

In addition, the English-speaking nature of the UK and AIM companies' low failure rate (an average rate of just three percent over the last four years) make the London market highly attractive to businesses around the globe.

Repercussions of the Global Downturn

Despite its past success and attractions, AIM is not immune to recent adverse shifts in global market conditions that have damaged already listed companies and significantly reduced the number of new listings.

AIM has weathered volatile market conditions in the past. The boom and bust of the dotcom bubble in the late 1990's sent shockwaves through a number of capital markets around the world. Arguably AIM emerged from that downturn in better shape than other growth markets, with a solid platform upon which to grow rapidly in the early and mid-2000's.

All is not doom and gloom for AIM; Tim Metcalfe, a Director with Nominated Adviser Hanson Westhouse believes that:

“...whilst the number of companies coming to the market has declined, the key message is that AIM remains open for business for the right types of companies. It is difficult to generalise on what is the 'right sort of company', but really it has to offer a unique investment proposition exhibiting strong growth, or be in a strong growth sector such as oil and gas”.

“Companies contemplating an IPO will need to recognise that valuations have fallen on AIM,” Metcalfe adds, “but this is no different from any other market; they may have to accept some dilution and a relatively low valuation to ensure a successful IPO and share price growth in the aftermarket.”

Furthermore, much of the current volatility has resulted in the price of debt increasing, further enhancing the attraction of equity investment as a financing mechanism for growth companies.

The recent economic slowdown combined with the increasing maturity of the global capital market has meant that investors are increasingly focusing on slightly larger, more liquid companies as the range of investment opportunities has grown. The average funds raised at IPO are now higher than they were historically (£33.5 million in 2006 compared with £4.6 million in 2001) and companies are having to offer something new to stand out from their competitors, both during the listing process and once listed. Significantly, more companies are also seeking pre-IPO funding to bridge the gap as companies wait until they are further developed before listing.

In short, the investor community remains very committed to AIM amid the global economic downturn. But the recent financial turmoil has heightened investors' sensitivity to risk, underscoring the importance of quality and preparation for companies approaching new AIM listings.

Directors must work with their financial and legal advisers and seek their guidance on such listings, especially in advance of discussions with potential Nomads and brokers. Increasingly, companies will get just one chance to impress these institutions that hold the key to the success of IPOs on AIM.

The Future of AIM

It is likely that the entry of new growth markets will erode AIM's competitive position in coming years. In addition to Hong Kong's GEM and Singapore's Catalist, NYSE Euronext, PLUS in the UK and the new Deutsche Bourse Entry Standard offer alternatives to AIM.

AIM will continue to offer important opportunities to entrepreneurial businesses seeking growth capital. It is a market that delivers equity from informed institutional investors both within and outside the UK, who have a proven record of follow-on funding and supporting their investments over a number of years.

AIM's regulatory environment, international focus, and impressive track record will continue to attract quality companies from all around the world in a variety of industries. Well-prepared companies seeking growth capital can find a potential home on AIM.

“AIM remains open for business”

Tim Metcalfe
Director, HansonWesthouse

The author is Dominic Searle, Head of Capital Market Transaction Support at RSM Bentley Jennison, the UK member firm of RSM International.

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Biography

Dominic Searle



Dominic has almost 13 years experience as an accountant, having worked extensively with entrepreneurial growth companies in a variety of assurance, corporate finance advisory and transaction support roles.

He has acted as Reporting Accountant on a variety of capital market transactions including Initial Public Offerings, reverse acquisitions and secondary placings in support of follow on acquisitions, worth in excess of £500 million.

Dominic is a partner in the London office of RSM Bentley Jennison and heads up the Capital Market Transaction Support team. He joined the firm in 2008 having previously worked at Grant Thornton, RSM Robson Rhodes and Ernst & Young in London.

His clients have included UK and international businesses with operations in Europe, the Americas and the Far East. During these transactions he has worked closely with a variety of member firms within the RSM International network.

Dominic's role includes:

- Business advisory and preparation for flotation
- Leading reporting accountant engagements for capital market transactions
- Working with corporate clients and institutions on financial due diligence exercises
- Coordinating transaction support projects, working with colleagues across the firm and international network on UK and cross-border transactions

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