



**The Quoted
Companies Alliance**

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A Wishlist for 2009: AIM professionals and companies have plenty of ideas to get the market moving again

There is no getting away from it. Last year's statistics make unpleasant reading for a stock market set up as a way of raising funds for early stage companies.

No new money at all was raised in September, while 2008 saw the first decline in members since AIM formed with secondary fund raising for existing companies also getting harder and harder.

Time will tell whether this situation is a temporary blip or something longer-term, but either way the shock of 2008 is likely to have a major impact on how AIM develops.

Many expect, and some hope, that the current problems will force a period of introspection and review of the market's structures and operations.

We asked a selection of AIM advisers, company executives, brokers, nomads and large investors for their assessment of the current state of AIM and more pertinently what they would do to get the market moving again in the next twelve months.

Almost everyone agreed that the banks turning on the lending taps again is the most pressing issue. The government's latest £20bn government scheme to boost the small company sector was welcomed, but there were doubts it would do enough of its own. Over the last three years, for instance, the banks were lending £16bn per quarter to the UK's small cap sector.

Opinions differed on what else could, should or might be done, but the suggestions in total amount to a decent wish list of things that might help even in the current climate and would almost certainly have an impact as the current funding crisis eases.

Thinning required

Philipp Prince, corporate finance partner at accountant BDO Stoy Hayward is still optimistic for the future, though he thinks the situation now needs a concerted plan by nomads, regulators and brokers.

"To say it is problem solely affecting AIM is rubbish. There have been excesses elsewhere. It's a good model, the problem is unless you are going back to raise money, you don't have a pricing point, you don't have a tradable share price."

Prince thinks AIM needs to backtrack and refocus on the things that made it so successful in the first place.

"The model is fundamentally right. AIM has raised £60bn since inception, which can't be sniffed at, but because it is self-regulating, it possibly went a little bit further than it should

have done in the quality of the companies. So we need a bit of reverse gear to unwind the excesses of the previous three to four years."

Prince is one of those who believe the credit crunch will do some good for AIM in the longer term.

"Without the credit crunch AIM could have gone to 1,700,1,800 members and lost its reputation and just withered away. If we get the structure right with a little over 1,000 companies in 18 months when things start going up, it could go up quicker than other indices."

He wants to see a thinning out process set in train by advisers and nomads, rather than the LSE, acting almost in a concerted fashion to advise companies that shouldn't be on AIM to delist.

While he concedes market values will not start moving in the right direction until the global economy comes out of recession, when it does, a slimmed down junior market will benefit early. As it is self-regulating, different people will try different ideas, and the idea that works will move forward more quickly on AIM than on more regulated markets.

"We may see some of the more interesting things happening on AIM rather than the full list," he says, adding you also might see some of the worst things on AIM but you'd expect that because it's a higher risk market.

Philip Lamb, a corporate partner at law firm Lewis Silkin also suggests AIM needs some wastage of companies at the bottom end of the market, with possibly as many as 400 companies delisting, though he suggests this could involve a natural process either through mergers or consolidations. He also expects some private equity activity as they will see opportunities with valuations so low.

He also wants action to lift some of the burden on companies looking to raise money. The current European Union prospectus directive has hit AIM hard, he says, as rights issues by AIM-listed companies are now almost non-existent because of the scale of documentation involved for relatively small issues.

Under current EU rules, the monetary exemption where a prospectus is not required is just €2.5m or below.

Lamb, who is on the Legal Committee for lobby group the Quoted Companies Alliance, suggests that should be raised to €10m and accompanied by a simplified prospectus regime for small companies.

The Financial Services Authority recently announced a reduction in the timetable to complete a rights issue, but Lamb says while this will help larger groups, it is almost irrelevant for AIM companies because of the amount of work required relative to the amount of money raised.

VCT changes

Steve Lovell, chief executive of AIM-listed marketing services firm Freshwater believes that one of the big handicaps for companies of his size in recent years was the reduction in the threshold for Venture Capital Trust investment.

"Changes to the VCT rules did not help. The reduction to £7m assets or 50 employees took away the primary source of funding from small AIM companies," he says.

"What we have been doing would not have been possible without VCT funding, but now we are no longer eligible for VCT funding and are also not on the radar of large larger institutions that invest in AIM companies," he says.

Lovell believes that if government wants to support SMEs there is no better way than through funding for AIM companies.

"It is a very focused measure until banks start lending again, but so few companies are eligible under current VCT thresholds," he says.

More radically, Lovell also would welcome a limit on the size of firms on AIM, as he believes the market became "promiscuous" in recent years and was allowed to be used by any company anywhere to get a listing.

"It was intended for small, fast growing companies to get a listing, not as a place for large overseas resource groups to get a London listing tag" he says.

Lovell now argues there should be a limit of £100m market cap otherwise it's just "a nonsense, and an abuse of the lighter regulations on AIM."

"That would make a lot of difference to companies like us instead of it all the available funding being sucked up by valuation -ie going to big companies just because they are large."

David Banks at broker Seymour Pierce is another who thinks raising the VCT threshold is an easy and relatively cheap way to boost investment for the small cap end of the market.

"Raising the assets threshold to £15-20m (from its current £7m) would cost virtually nothing to the government compared with the sums it is spending elsewhere," he says.

AIM rule changes

Freshwater's Lovell is against a relaxation of the regulatory rules, another idea being mooted by some, as he sees them as a stamp of approval that helps Freshwater with its banks and customers.

Regional stock exchanges should also be considered, he suggests. "There are successful examples of firms in raising money for local people through private loans, and regional investment communities. Business people have money to invest through a network of very personal relationships. The model needs to be explored as there is money in the regional economies which could be utilised."

Lovell, though is not that optimistic on the future for AIM. "I'm not sure it is a priority for the LSE," he says. "The credit crunch has highlighted structural problems that were surfacing some time ago. Take AIM indices, why highlight big companies any of which should not be on AIM."

Companies need to sort themselves out

Paul Strzelecki is managing director of \$1.3bn corporate finance fund Yorkville and thinks the onus is also on firms themselves to put their own house in order in the current tough environment.

"AIM is a very small company market now as most of the big ones have gone. There are more companies with a market cap of less than £10m. Now the question for companies is what are you doing to cope with the current situation? First thing you have to do is to cut costs by 20% and look at all areas of the business," he says.

Cash-rich companies are valued more than non-cash ones now so companies should accumulate cash. A different mentality is needed now, he adds. He recommends companies should appoint a director of cash specifically to control the money flowing both in and out.

He argues many AIM companies have never seen conditions like this before and need to get tried and tested managers who have seen it all before.

"Has the board got experience of protecting cash and in looking for ways of attracting alternative finance? Are customers profitable, if not cut those who do not make money for the company Customer is not king now, cash is king," he says.

Those companies that will survive are those that culturally shift and manage themselves in a different way, he believes.

Yorkville, which specialises in equity tranche funding for firms, has seen enquiries rise by more than three-fold and the sums requested go up from tens of millions to hundreds of millions.

He thinks AIM should do more be more proactive to boost liquidity and also suggests putting companies on probation when they initially join the market, especially if they are a venture capitalist/private equity backed float.

He would insist VC-backed companies that come to the market must have on the board someone who has run a growth company in the past.

Strzelecki expects AIM will look markedly different over the next three years. It will be smaller and fitter with more diversity and companies that are hard to sectorise. "This is where the smart companies will be, the ones that have changed their model to adapt to the conditions."

Liquidity and ISAs

Boosting liquidity is something everyone wants, but is hard to achieve. Making AIM more appealing to private investors has been suggested as a way to boost liquidity.

The obvious route is to alter the rules on ISAs to allow them to include AIM-listed shares. Traditionally, the tax breaks on AIM were considered generous enough for investors, but with institutional funds reluctant at present, banks paying nothing on savings accounts and companies crying out for cash, the argument that private investors could play a bigger role clearly has appeal.

Philipp Prince also argues that AIM investment could have a place in private investors' portfolios. He adds, though, that any move to boost private investor involvement would have to be handled carefully so as to avoid possible problems down the line if the public are encouraged to invest in early stage, higher risk companies.

"I'm not sure getting personal investors is the right way, but if the quality on AIM is a little bit better and retail investors are brought in a sensible manner, it would improve liquidity. The LSE is very concerned about liquidity, trying to work on the research side of things, it may not work but at least they are trying to do things," he says.

Plenty of ideas

Another plus point is that AIM is so international compared with any other market you can invest in and you get a pretty good international exposure. David Banks, at Seymour Pierce wants to see some more effort put into attracting foreign investors, especially in Asia.

International development

In short, the consensus seems to be that AIM needs to be leaner and meaner going forward and should take the current downturn as opportunity to regroup ready for an upturn.

It needs to get away from being seen as a market where any company can list and to be seen again as the place to find the most promising companies for the future.

How successful it is in achieving this may just be the most important determinant of its future.

WISHLIST

- Reduce companies listed by 400
- Allow Aim-listed companies into ISAs
- Increase VCT thresholds to between £15-20m
- Encourage more investors from Asia
- Put newly listed companies on one year's probation