MOORE STEPHENS

London capital markets

Is AIM still considered the world's leading growth market?

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Survey background

We conducted a survey from 17 January to 9 February 2018 targeting directors of AIM listed companies and their professional advisers. Throughout this report we compare the responses of these two groups. Within our company respondents group we include directors of listed AIM companies, company secretaries, directors of delisted AIM companies and investors, on the grounds that all share similar interests (these represented 51% of respondents). Respondents in the 'professional adviser' group include representatives of nomads, brokers, lawyers, financial PR agencies, financial advisers and accountants (which represented 49% of respondents).

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Foreword

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For many, AIM is considered the most successful growth market in the world*, but is it still suitable for raising growth capital for small and medium-sized enterprises (SMEs) and aspiring international companies?

We ask this question because of the changing profile of AIM companies over recent years. In recent times, AIM issuers have achieved significantly larger market capitalisations – up from an average of £70 million in 2013 to £111 million in 2017, an increase of 59%. At the same time, there has been a declining trend in the number of international companies listed on AIM, from 21% of the total population in 2013 down to 16% in 2017; the number of international companies delisting outnumbers new international entrants to the market.

Our survey sets out to test current sentiment among AIM companies and their advisers in relation to AIM. Does AIM still retain its reputation as a leading – if not *the* leading – growth capital market? Does it still have a sufficiently 'light touch' in its regulatory approach to maintain reasonable quality standards without placing too large a compliance burden on its listed companies? How could AIM be made more attractive for good quality and high-growth SMEs and international companies in future?

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* London Stock Exchange; http://www.londonstockexchange.com/companies-and-advisors/aim/aim/aim.htm

Some of our findings will come as no surprise to anyone familiar with AIM's original purpose and its recent history. Growing companies still come to AIM primarily to raise capital, as well as to build their profile. Perhaps more surprising and interesting are the areas of disagreement among respondents, particularly on the nature of AIM's current regulatory approach. Some believe other markets are becoming more attractive to companies that would once have considered AIM their natural home.

Survey participants suggested how AIM could be improved. We share these here to encourage further debate. The market has proved successful since its inception and it is in all our interests for that success to continue into the future.

We hope you'll find the report findings of great interest – I certainly did – and if you wish to discuss the findings in more detail, please don't hesitate to get in touch.

Survey findings

60%

agree AIM is performing well

How well is AIM performing?

Based on the views of our survey respondents, AIM is performing well. Asked to score AIM's performance over the last 12 months on a scale of 1 to 5 (where 5 is most positive), 60% of all respondents awarded a score of 4 or 5. Only 10% gave the lowest scores (1 or 2). Directors were decidedly more positive on this matter than advisers.

Looking ahead, more than half the respondents indicated optimism about AIM's likely performance over the next 12 months, with directors, again, more positive. Both points are perhaps a reflection of the growth in equity capital market valuations over the last 24 months.

44% also have a relatively positive impression of current market sentiment and about the ease of performing a secondary fundraise. The divergence between companies and advisers is particularly clear in relation to secondary fundraisings, with company respondents giving an average score of 3.50 out of 5, and advisers 2.88.

Only

21%

think it's easy to IPO on AIM

However, advisers gave their lowest average score (2.65) to the ease of completing an IPO on AIM compared to 12 months ago. Across all respondents, only 21% think the ease of completing an IPO compares well, while 30% indicate that it has deteriorated. This is no surprise given the recent slowdown of IPO's on AIM relative to its peak years.

We also asked about the perceived performance of companies (UK and international) listed on AIM. The companies whose directors participated in this survey appear to be performing well: 86% of company respondents think their company is well positioned to increase revenue over the next 12 months, even given recent political and economic uncertainty. Advisers are slightly less confident but still optimistic, with 71% expecting the companies they advise to increase revenues.

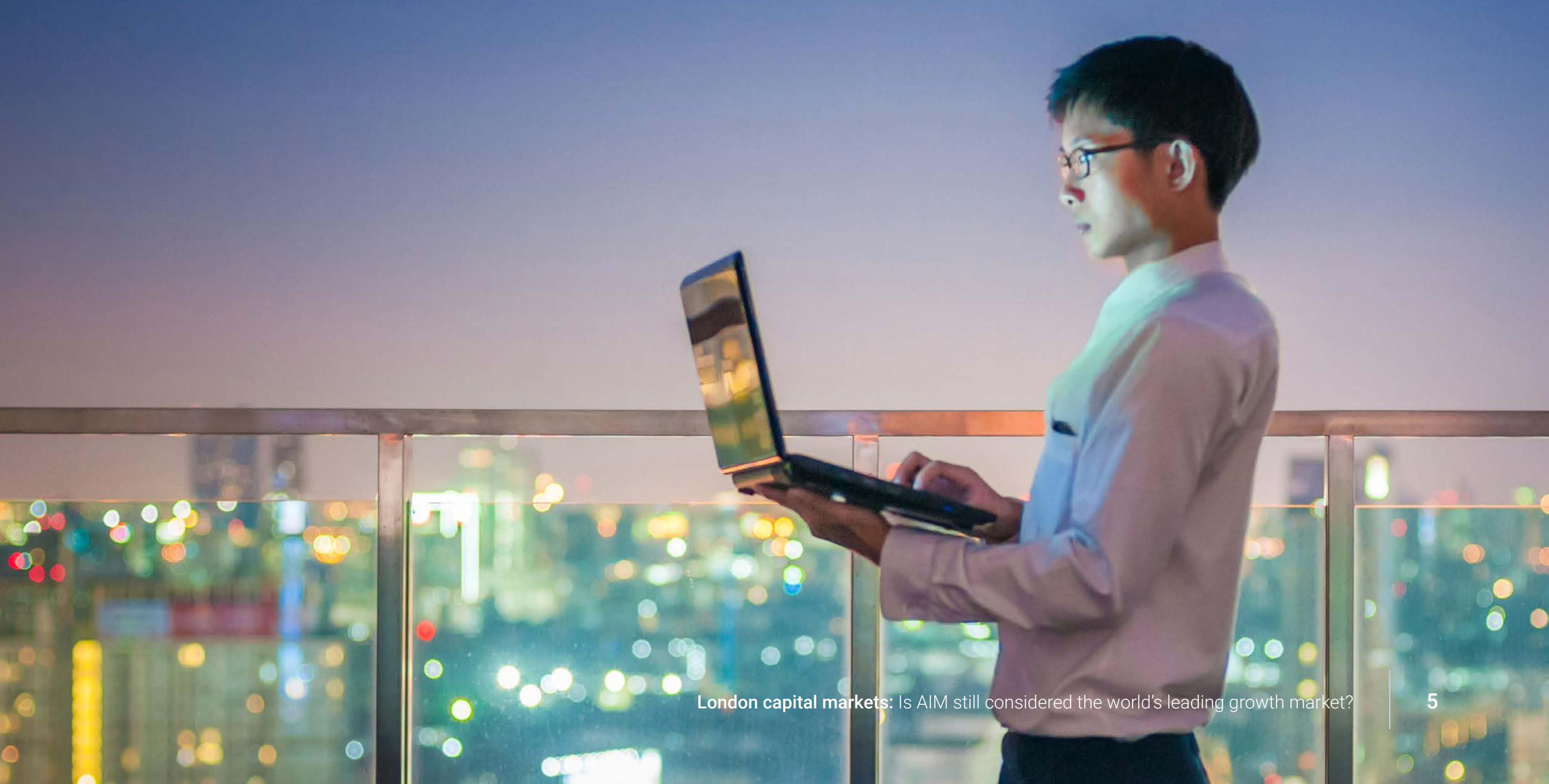
43%

agree AIM is attractive for international businesses

How well is AIM performing for international companies?

One of the key triggers for this survey was to see how well AIM is meeting the needs of international companies. We found that AIM is generally considered attractive for international businesses by the directors, who responded with average score of 3.22 out of 5. Directors of international companies on AIM (11% of our participating companies) give an even brighter picture, scoring an average of 3.50.

Advisers see the market somewhat differently and are slightly less optimistic, giving an average score of 2.88. This difference in opinion is reflected in one adviser's comments: "Several international companies did not get the investment they were hoping for by listing on AIM."



There's no doubt about what draws companies to AIM: access to capital.

Why do companies list on AIM?

There's no doubt about what draws companies to AIM: access to capital. Across all respondents, 84% say access to capital is an important or extremely important factor in a company's decision to list on AIM. Interestingly, advisors seem to hold more weight on this factor then the company directors themselves (4.50 out of 5, compared to 4.06).

Top factors in decision to list on AIM

2018 survey	2016 survey†
Access to capital	Access to capital
Reputation or profile	Reputation or profile
Facilitate M&A	Access to European or global consumer markets
All respondents	All respondents
	Improving corporate governance (advisers only)

† In our 2016 survey, both companies and their advisers saw the ability to access European or global consumer markets as an important or extremely important reason for listing on AIM – a factor not found as important in our latest survey. The difference is perhaps explained by the contrasting respondent profiles: participating companies in the 2016 survey were based in China and the Asia-Pacific region, whereas most of the 2018 company respondents were from the UK.

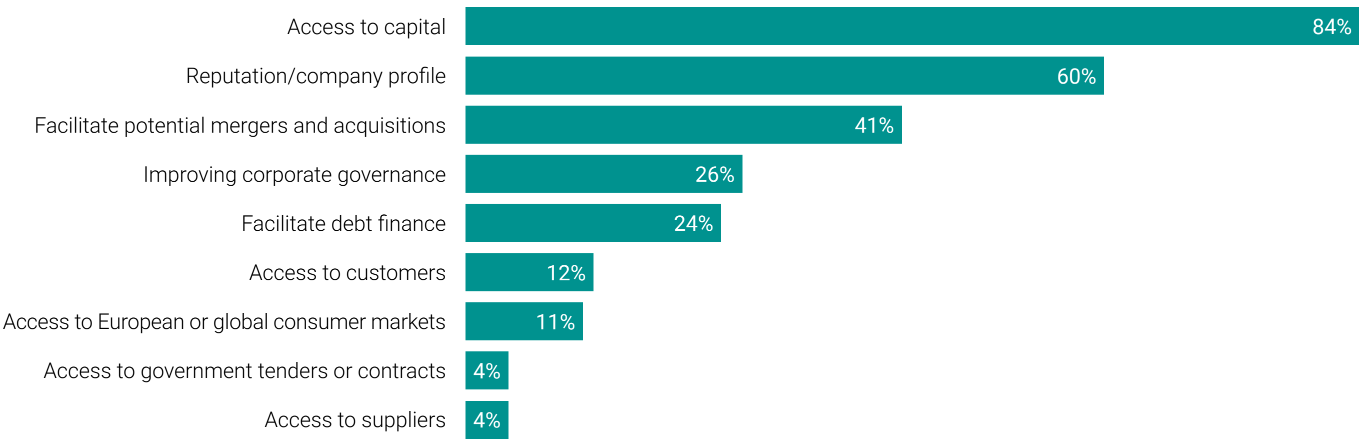
60%

believe a company's reputation or profile is benefitted by an AIM listing

Another important factor – for 60% of respondents – is the benefit that an AIM listing can deliver for company reputation or profile. Interestingly, our 2016 survey of Asia-Pacific and Chinese companies on AIM, '*London capital markets: Bridging the cultural gap*', also found that access to capital and improved reputation or company profile were the top two reasons why companies chose to list on AIM. However, that survey found a difference of opinion with advisers, who saw improving corporate governance as the most important reason for an AIM listing, followed by improved reputation or company profile, with access to capital coming third. Our latest survey found little emphasis being placed by either companies or advisers on corporate governance as a driver for joining AIM – only 26% think this is an important or extremely important factor. This is likely to be a consequence of the diminishing number of Chinese listed companies on AIM.

Numerous respondents in our 2018 survey also see an AIM listing as facilitating potential mergers and acquisitions – 41% overall considering this an important or extremely important factor, with companies and advisers again holding similar views.

Primary reasons for listing on AIM



> AIM Regulation has ‘encouraged’ those in the bottom quartile to delist through a tougher approach to regulation. In addition a number of smaller growing overseas businesses have found it very difficult to satisfy AIM Regulation of their suitability.
>
> AIM company director

Why are there fewer companies on AIM?

The total number of AIM listed companies has continued to fall year-on-year since 2007. We asked survey respondents why they think this is.

Tougher regulation

Various participants refer to the activities of AIM Regulation or the ‘AIM Team’. For example, one AIM company director comments: “AIM Regulation has ‘encouraged’ those in the bottom quartile to delist through a tougher approach to regulation. In addition, a number of smaller growing overseas businesses have found it very difficult to satisfy AIM Regulation of their suitability”. As a result, this respondent believes there has been a move by listing advisers to list overseas companies, that “would otherwise have seen AIM as their natural home”, on the London Stock Exchange’s (LSE) Main Market, NEX Exchange or Nasdaq First North.

Similarly, a participating adviser comments: “Generally, the AIM Team is now trying to dissuade smaller companies from floating on the market.”

One adviser, on the other hand, refers to the fact that the stock exchange has introduced new “unwritten rules” that are “designed to rid the market of bad companies.”

This also hints at the potential tension that now exists in the market. AIM was set up to be a ‘light touch’ market, whereby there was less regulatory burden allowing nomads greater autonomy to act as the arbiters of which companies were suitable to join. That autonomy and authority is questionable given respondents to our survey feel the AIM Team can effectively reject new market entrants on the grounds of suitability.

> There were too many companies on AIM that should not have been there as they were too early stage with no sustainable business model.
>
> AIM company director

> AIM's appeal of a decade ago has gone due to many uncertainties in the listing process.
>
> AIM adviser

One respondent company sees a problem in the new approach to regulation, describing nomads as simply "middlemen". This participant also refers to a "torrent of regulations" and ever-changing AIM Team personnel and management, which have created a "huge hurdle" for fledgling companies to jump. In this director's view, markets in Toronto and Australia "kill AIM for ease of operation and capital availability."

The removal of smaller companies isn't necessarily seen as an unwelcome development. One company director comments: "There were too many companies on AIM that should not have been there as they were too early stage with no sustainable business model." Removing such companies is arguably a welcome development, potentially reducing the likelihood of companies failing (due to unproven business plans and speculative operations) and increasing confidence in current AIM-listed companies (with potential knock-on share price benefits). AIM was, after all, designed for growth companies, not start-ups.

Other attractive markets

The Standard Listing, originally designed for companies already listed elsewhere (and so assumed to already be achieving certain desirable standards), has begun attracting companies that would previously have joined AIM but are now considered to be falling below certain hurdles, based on 'rules' not written in any rule book.

It's noted by one adviser that some overseas companies that are compliant with AIM Rules have "failed at the last hurdle to satisfy regulators on grounds of suitability." Some have then decided to make use of the effort and costs already invested by successfully achieving a Standard Listing on the Main Market. This adviser concludes: "AIM's appeal of a decade ago has gone due to many uncertainties in the listing process".

> ... the costs of an AIM listing are "too much for the smaller companies".
>
> AIM company director

Ongoing costs

The burden of rules and regulations in general is highlighted by many respondents, but costs are also a concern. Quoting total costs of around £200,000 or more a year, with £30,000 to £50,000 required for nomad fees, one director believes the costs of an AIM listing are "too much for the smaller companies."

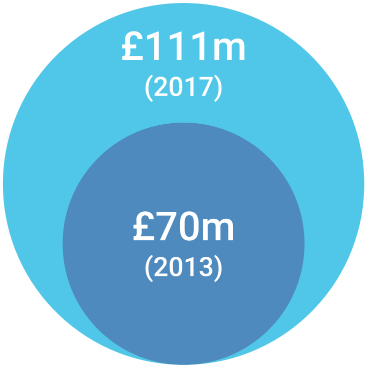
Financial crisis

The financial crisis is also credited with the fall in number of AIM listed companies. Having "weeded out many of the smaller AIM quoted companies which could not raise monies", the credit crunch removed companies that "should not have been there in the first place."

A junior market

The fact that there should be movement in the population of a growth market such as AIM is also identified. One adviser sums up this dynamic situation neatly: "If a company succeeds, they will leave and join the Main Market. If they fail, they will drop out. That's the nature of a junior market."

Average market capitalisation

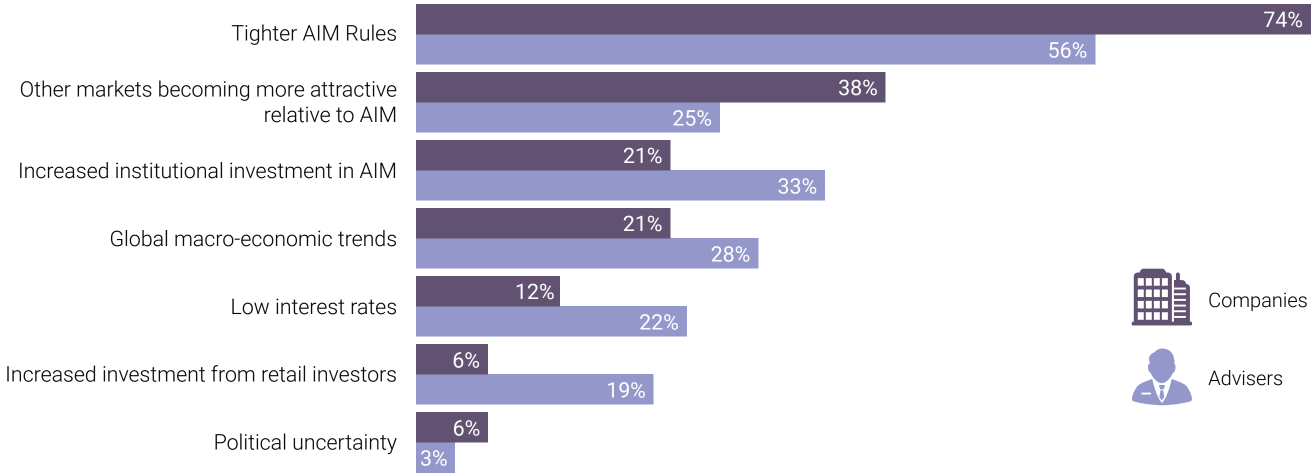


Why have market caps increased?

Between 31 December 2015 and 31 December 2017 the number of AIM listed companies fell from 1,044 to 960, yet the average market capitalisation increased from £70 million to £111 million. The majority (64%) of all respondents believe this is due to tighter AIM Rules – advisers in particular, with 74% of them highlighting this as a factor, compared to 56% of directors. As identified above, many respondents perceive that smaller companies have been encouraged to leave AIM, which would naturally result in a rising average market cap.

Some respondents (31%) think other markets have become more attractive (particularly advisers, 38% of whom hold this view compared to 25% of companies) and just over a quarter point to increased institutional investment in AIM – particularly companies (33% of company respondents hold this view, compared to 21% of advisers).

Main drivers behind increased average market capitalisation and fall in number of AIM companies



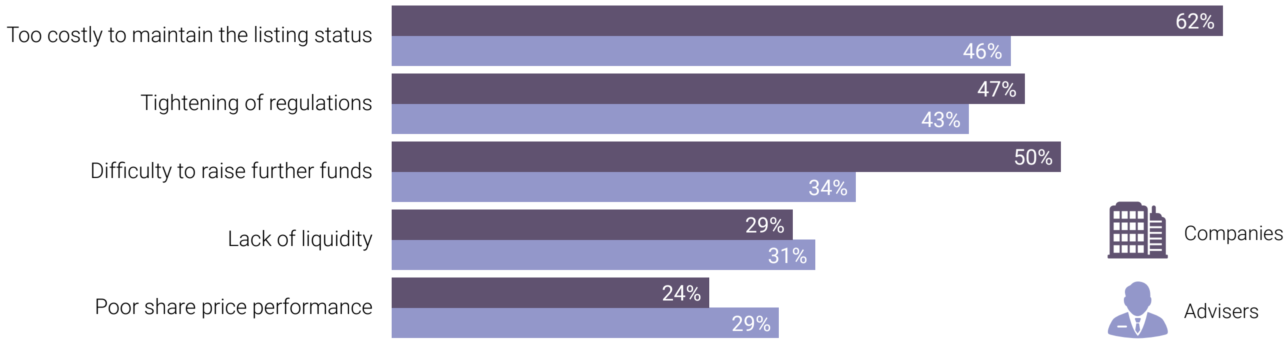
Why do companies delist from AIM?

High costs associated with maintaining listed status (for smaller companies) and tighter regulations were identified as reasons for fewer companies on AIM earlier in our findings. These views are reinforced by about half of respondents ranking costs (54%) and regulations (45%) as primary reasons why companies have delisted from AIM in the past two years. However, it's interesting to note that the written regulations have hardly changed.

Ranking third is the difficulty of raising further funds (identified by 42% of all respondents). Advisers hold this view particularly strongly, with 50% believing this to be a reason why companies have delisted, compared to 34% of company directors. One company respondent may look at going private due to the regulatory and compliance burden of their AIM listing, coupled with what they found to be their limited ability to raise "serious amounts" of capital.

Overall, 30% of respondents think lack of liquidity could be a factor leading to delistings from AIM, and just over a quarter (26%) identify poor share price performance as a cause. Unsurprisingly, company respondents seem to place slightly more emphasis on share price performance than advisers do.

Primary reasons for delistings in the past two years



79% do not plan to list on another market

Do companies plan to list elsewhere?

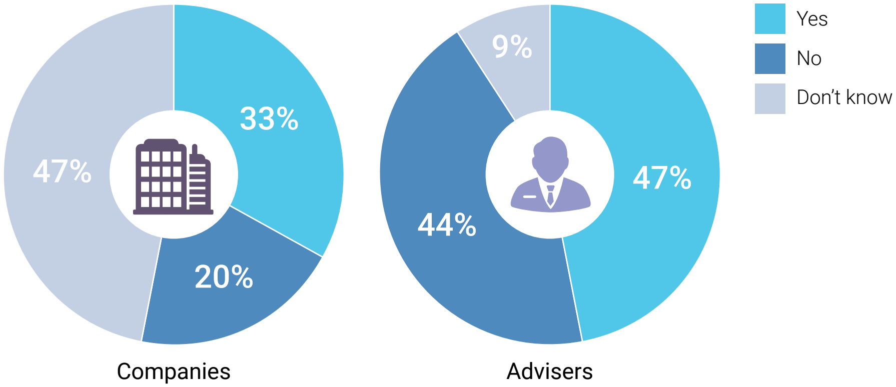
Just over three-quarters (76%) of company respondents have no plans to join the LSE's Main Market. Similarly, the vast majority (79%) of companies participating in our survey have no plans to list on a market other than AIM. Of those that do, some are considering a dual listing in the US because some employees are based in the US and this would make it easier for them to trade in the company's shares. One Irish company is, understandably, already dual-listed on the Enterprise Securities Market (ESM) in Dublin.

Companies that are contemplating switching to another market are looking at Nasdaq "in order to benefit from institutional knowledge", or Frankfurt or the ASX in Australia "in order to increase the number of potential investors and get proper recognition for project valuations."

How successful is AIM for SMEs?

AIM has been a highly successful growth market in the past, supporting SMEs in their development, but is it still considered a success?

Is AIM the world's most successful growth market?



> AIM is the most successful growth market in the world, but nomads are getting very disillusioned with all the arbitrary implementation of rules. Companies simply won't join if this continues.
>
> AIM adviser

The differences between company respondents and advisers are intriguing. Advisers are extremely split on this issue: 47% think AIM is the world's most successful growth market for SMEs, while 44% think it isn't. Only 9% say they don't know. In contrast, 47% of companies don't know, while only a third think AIM is the most successful growth market for SMEs. The remaining 19% think it isn't. Given that these companies have listed on AIM and appear to be benefiting from it, their relative reluctance to declare AIM to be the best is striking.

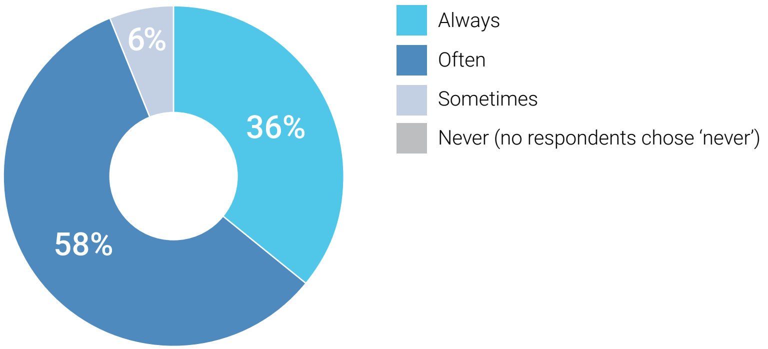
Nevertheless, one company respondent declares that "AIM is unrivalled in the world" while one adviser mixes similar praise with caution: "AIM is the most successful growth market in the world, but nomads are getting very disillusioned with all the arbitrary implementation of rules. Companies simply won't join if this continues. They'll go to Nasdaq or elsewhere to list."

How satisfied are companies with nomads and other advisers?

This question was asked only of our company respondents. The majority appear highly satisfied with their professional advisers (nomad, broker, accountants and lawyers): 36% say they are always satisfied and 58% are often satisfied with their advisers' performance.

Only two specific criticisms were voiced, one referring to cost. However, nomad costs are an unavoidable accompaniment to an AIM listing. Another respondent says their nomad is perhaps afraid of "falling foul of the regulator", and this is "sometimes at conflict with the company's view." This respondent may be referring to the confusion that can arise when there are 'soft' unwritten rules being applied in a market.

How satisfied are companies with their professional advisers?



50%

agree LSE should completely abide to written AIM Rules

whereas

30%

think LSE should apply certain unwritten 'soft' rules on a case-by-case basis

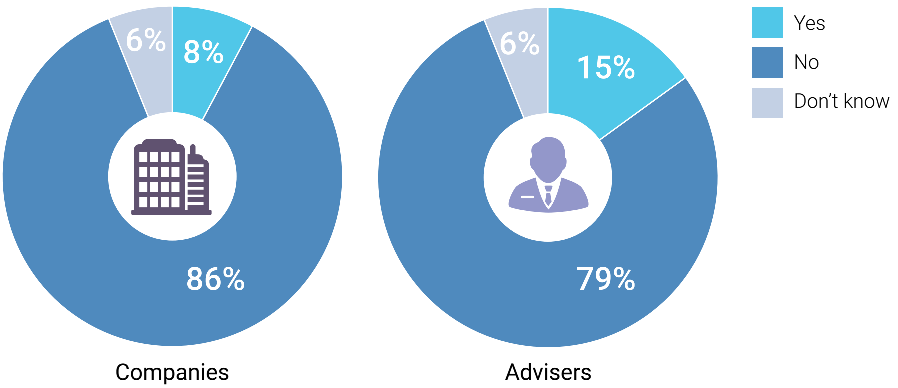
How should the LSE enforce its rules?

We asked survey participants to share their views on how they think the LSE should enforce the AIM Rules on admission. Companies and advisers are in broad agreement on this issue, with roughly half of both groups want the LSE to abide completely to the written AIM Rules. In contrast, roughly 30% think the LSE should apply certain unwritten 'soft' rules on a case-by-case basis (which, according to the responses to our survey, appears to already be happening). One in 10 of all respondents think the LSE should apply certain unwritten 'soft' rules to all cases (12% of advisers and 8% of companies).

Least support is expressed for the suggestion that the LSE should apply new and tighter rules on admission (welcomed by just 9% of respondents overall). This is no surprise, given that, as identified earlier, many respondents (45%) think that tighter regulations are causing companies to delist from AIM.

In fact, there is a clear message from both companies and advisers that they consider the AIM Rules to be tight enough: the vast majority of both groups do not think the AIM Rules should be tightened (86% of companies and 79% of advisers). However, there is slightly more support from advisers for this idea (15% of advisers, compared to 8% of companies).

Should the AIM Rules be tightened?



Key improvements

- Greater transparency of regulation.
- More empathy for growth companies.
- Improved communication.
- Reduced costs.
- Increased profile.
- Maintain standards.

How could AIM be improved?

Finally, after asking about the current status of the market, we asked respondents to share their views on how AIM could be improved.

Greater transparency of regulation

Given many respondents' concern regarding the unwritten or 'soft' rules that AIM Regulation may apply, it's not surprising that some would like greater transparency and clarity over regulation. For example, one adviser calls for "greater clarity on suitability / eligibility issues." One delisted company director wants "transparency of how the AIM Rules are interpreted, especially as nomads seem to offer different interpretations."

Another director, however, notes that "the general shift towards AIM Regulation wanting to pre-vet is not helpful" and would prefer nomads to continue being responsible for pre-vetting companies before they join.

More empathy for growth companies

Perhaps with the regulatory burden in mind, one adviser calls for AIM's "growth market origins" to be respected and for the market not to be made "a clone of the premium market." Similarly, another would like "AIM Regulation to be more empathetic to growth companies" and says: "Remember why the market was created." As highlighted earlier, AIM was originally designed for growth companies looking for capital to drive further development.

Continuing this theme, one company director would like AIM to be turned back into "the lightly regulated and vibrant market that it once was." In this respondent's view, investors "would need to know they are playing in a high risk-high reward zone" and AIM regulators should "stop trying to protect people who should not be investing in the market anyway."

However, turning the clock back in this way is easier said than done – and some would see the LSE as being justified in trying to increase the standard of AIM companies and so reinforce the market's reputation. The worldwide trend is for increased regulation, so the challenge is to find the right balance.

> “They need to tell everyone what they are doing, not changing the rules behind closed doors...”
>
> AIM company director

Improved communication

Some respondents feel that communication could be improved by AIM Regulation. One company says: “They need to tell everyone what they are doing, not changing the rules behind closed doors and then springing those changes on everyone.” Could this involve capturing and setting down the currently unwritten rules in AIM guidelines? And then sticking to them?

One adviser suggests creating two sets of rules, stating: “At the moment, some really worthy companies are missing out because they cannot afford it or cannot meet the regulations. Have lighter regulations and requirements for them and a tighter set of rules for the larger companies. You have to balance risk and reward.” Such a dual-rule approach would help to address the needs of a broader range of companies, but could be hard to implement. If the current requirements really are too much for some companies, they could consider other markets such as NEX, Nasdaq First North or even a Standard Listing on the LSE's main market – which, as we highlighted earlier, one AIM company director indicated is already the case for some international companies who attempted to list on AIM.

Reduced costs

Reducing costs is the plea of many respondents. One adviser says: “If it cost them less, companies would be able to stay in long enough to attract the further investment they were hoping to obtain by being there.” However, if companies are able to access the capital they desire by listing on AIM, then arguably there should be an acceptance that joining a reputable market comes with a degree of cost attached.

Increased profile

On a different note, some respondents see the potential for AIM to develop an even higher profile than it has already. One company highlights the potential for the LSE to increase its marketing activities: "AIM remains an unknown entity to too many UK family companies and marketing of the opportunity to seek a listing could be stepped up by the LSE."

Maintain standards

As well as the suggested improvements, some respondents appear satisfied with AIM as it is. One company director says: "We are actually very pleased with AIM and do not find it difficult to comply, and the kudos it gives the company makes it well worthwhile." Another agrees: "The increased cost and tighter regulations have ruled some companies out, but for ourselves, we see it as very good. The fact we are listed shows we have to be compliant and that for us is a good thing. I would not recommend making it easier for anyone because the current required standard proves credibility." Another company respondent says that AIM is "improving already," adding: "The loss of smaller companies who should never have been there in the first place shows the current system is working."

Some advisers also agree no change is required. One in particular believes that "things are good" as they are now, explaining that "the tightening of rules has led to increased investor confidence". Another calls for AIM to "keep it up," adding that the introduction of tighter rules has brought "an end to the Wild West days" and "the market cap is up, which is all good."

Conclusion

This survey has identified some noteworthy concerns among both companies and advisers, particularly around the current regulatory approach.

Overall observations from our survey

There is no doubt that AIM has been a successful market and is still considered to be so. It still has a strong appeal for growing domestic and international companies, which are drawn by the prospect of accessing new capital. But AIM cannot rest on its laurels. Our survey has identified some noteworthy concerns among both companies and advisers, particularly around the current regulatory approach.

AIM's efforts to increase the size, maturity and quality of its quoted companies does appear to be dividing opinions. Some companies and advisers see value in the shift in emphasis through a reduced likelihood of company failures, enhanced reputation and potentially increased shareholder value. On the other hand, other companies and advisers bemoan the reduced autonomy of the nomads, are concerned about the application of unwritten rules and the generally higher compliance burden and costs of maintaining an AIM listing.

How should AIM respond? We have found strong demand for AIM to stick by its written rules. There may also be a need for greater transparency around the rules. But as the split opinions in this survey illustrate, finding the right regulatory stance is a difficult balancing act.

The challenge for AIM is to achieve the perfect outcome of attracting good quality growth companies, irrespective of their current size, without over-regulating the market.

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There are several stages to a successful listing, and our expert professionals provide hands-on support throughout the IPO process and beyond from pre-IPO planning advice, introduction to other key advisers and acting as reporting accountants, through to ongoing audit support and taxation advice pre- and post-IPO.

We support clients on international markets across the globe. If your business and personal interactions need to expand globally, we'll help make it happen – coordinating advice from a network of offices throughout the UK and in more than 100 countries.

If you're considering listing on AIM, read our helpful guide to joining AIM on our website (www.moorestephens.co.uk/publications/brochures/a-guide-to-joining-the-aim-market) or get in touch with one of our specialists to the left.

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