

Thriving on AIM

*Assessing the prospects
for ambitious
entrepreneurial
companies on the
Alternative Investment
Market (AIM).*

“AIM’s job is to be a growth market where companies that have reached a particular stage and need to raise serious money on the public markets can get to the next level.”

Tim Ward,
Chief Executive, Quoted Companies Alliance

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Foreword



David Snell
AIM Leader, PwC
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Welcome to *Thriving on AIM*. The report draws on the perspectives of growth company experts at PwC¹ and a range of market participants. It examines what the Alternative Investment Market (AIM) can offer prospective entrants, the prospects for companies already quoted on the market and how those companies can attract and retain the investment they need to fulfil their ambitions.

The report we published last year, *Securing AIM's future*, concluded that far from being broken, the AIM model is arguably more relevant to the UK economy and the entrepreneurs upon which it depends than ever before. Confidence has improved in the subsequent 12 months. 'Aggressive growth' now greatly outweighs cost cutting among the companies taking part in this year's survey, indicating that they see the tide as having turned towards expansion once again despite the worldwide economic difficulties. There are some encouraging signs regarding profitability, but there is also a real risk that companies adopting an aggressive growth strategy could be caught out by recent global macro-economic events and a fall back into recession. It is therefore vital that they prepare a 'Plan B' for such an eventuality.

1. "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

Having increased rapidly in the mid-part of the last decade, de-listings from AIM have exceeded new admissions since 2008. The slimmed down market is however arguably stronger than prior to the financial crisis, with the remaining companies having demonstrated their financial and commercial resilience. AIM has also been strengthened by a tightening of the market rules, particularly with regards to disclosure of director remuneration and the responsibilities of Nominated Advisors, and it is clear from our research that most companies feel that the London Stock Exchange (LSE) has got the balance of regulation right.

Most of the companies taking part in our research agree that AIM is a good place for entrepreneurs to grow their businesses. The companies that fare best tend to be fast growing enterprises that are looking to access significant capital to fuel this expansion. This is also a market that requires a significant amount of hard work to reap the rewards. Only companies that are ready to accept the full demands of running a public company, articulating a strong growth story and providing investors with a realistic opportunity to buy their shares will win through. Owners that simply look to AIM membership to raise their company profile or realise the value of their holding without putting in the effort needed to win over investors are likely to be disappointed. Indeed, there may be better options than AIM if capital and growth are not the foremost reasons for listing.

Almost all of the companies in our research recognise the importance of a strong growth story in winning over investors. Yet, most feel that maintaining effective investor relations is the toughest challenge they face. However, it is surprising how few see transparency and good governance as key to investor backing despite all the evidence suggesting how important these are. Smaller and riskier AIM companies are always going to be especially vulnerable to a withdrawal of investment in an uncertain economic environment. This is why it is more important than ever for AIM companies to sharpen market communication and maintain the highest possible standards of governance and transparency.

The Government has a central role to play in supporting investment in AIM companies, which are a key engine of growth. Our research highlights AIM companies' calls for a more favourable tax environment and less onerous employment legislation. Many participants also point to the importance of investment in and improved standards of education. The Government should take heed of the messages from companies that are going to be at the forefront of, and vital to, the recovery and re-balancing of our economy.

I would like to thank all the interviewees and companies taking part in the research for kindly giving their valuable time and insights. I hope that you find the analysis useful and interesting. If you would like to discuss any of the issues raised here please do not hesitate to contact me, or one of my colleagues.

David Snell
AIM Leader
PwC



Key findings

*105 executives from
96 companies surveyed*

Ambitious outlook

70% describe achieving ‘aggressive growth’ as their main corporate priority over the next 12 months, with only 10% citing cost control.

Average target of 24% growth, with 20% aiming for growth of more than 50%.

Main sources of growth are:

- Increase in existing market share (67%)
- Mergers and acquisitions (53%)
- New joint ventures (49%)
- New product or service developments (47%)
- Expansion into new geographic markets (44%)

Good platform for growth

57% believe AIM is a good platform for entrepreneurial activity to flourish.

90% believe that listing on AIM was the right choice at the time.

Main reasons for listing were:

- Raise capital (81%)
- Raise company profile (61%)
- Provide exit for owners or shareholders (53%)

82% are satisfied with the appropriateness of the market rules, with over a third very satisfied.

What companies believe that investors prize

99% believe that investors are looking for a strong growth story, 62% a distinctive offering and 51% high dividend yield (citing these attributes in their top three).

Only 28% believe that investors are looking for greater transparency, 21% improved corporate governance and 4% more diversity on their board.

Top five challenges

1. Managing investor relations (78%)
2. Managing news flow (77%)
3. Implementing adequate staff reward structures (69%)
4. Implementing changes to corporate governance (63%)
5. Establishing the right KPIs to track performance (57%)

These findings are based on research with AIM company executives and other market participants. We interviewed 105 executives from 96 companies in August and September 2011.

Primed for growth

The AIM companies in our research are remarkably confident about their prospects despite the faltering economy. They believe there are strong growth opportunities for agile businesses and that AIM as a whole has emerged leaner and fitter from the recent shake-out.

“The agenda for most AIM companies in recent years has been cutting costs, streamlining operations and accumulating cash as they’ve sought to weather the recession and bolster their businesses for the tougher market environment ahead,” said Simon O’Brien, a partner in PwC’s AIM team. “With most of the internal reshaping out of the way, companies are now all set to embark on a renewed drive for growth.”

As Figure 1 highlights, achieving aggressive revenue growth is the number one priority for the AIM companies in our research, greatly outweighing cost control and cash flow management. Their average target for revenue growth over the next 12 months is 24%, some way ahead of comparable surveys of FTSE 250 firms (average 12% target for growth)² and private companies (average 18% target for growth)³. One in five AIM companies are looking to expand turnover by over 50% in the next year, though these higher expectations may have been tempered

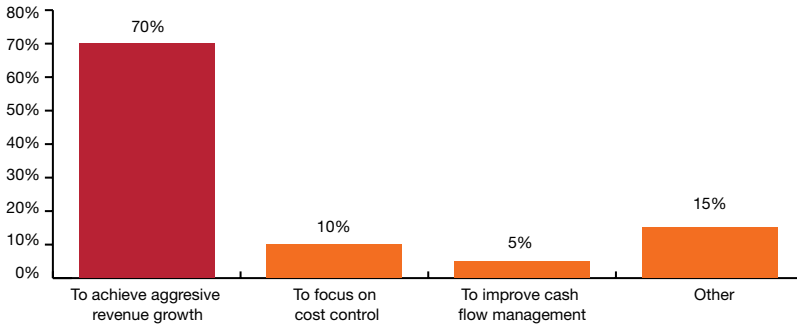
by the heightened market volatility and uncertainty in the period since the research was carried out. “Within the next two years, I want to see our business double in size. We’re currently a £60 million turnover business and we would certainly look to being north of £100 million as a minimum within two years,” said Sean Nutley, CEO of Silverdell Plc, a specialist environmental support services company.

This renewed confidence is in keeping with the recent return to profitability for many AIM companies, following the sharp dip of 2009 and gradual recovery of 2010. It also reflects the entrepreneurial high growth nature of their businesses, which contrasts with the steady dividend-focused approach of some more established stocks. Yet many executives accept that the nature of their businesses mean that returns can often fluctuate. “We’ve got an eye on the next three years to 2014 and we’ve got some really very significant and ambitious growth targets,”

2. PwC, ‘Realising ambitions for growth’ 2011. www.pwc.co.uk/ftse250ambitions

3. PwC, ‘Enterprising UK survey 2011: growth and aspirations of private businesses’

Figure 1: Ready to resume expansion



Q. Which one of the following best describes your main corporate priority over the next year?

Source: PwC AIM market survey 2011

said Gary Browning, CEO of Penna Plc, an HR consultancy. “But Penna has been operating in volatile markets, so if you look back at our results over the last eight years they’ve ranged from break even up to £8 million profit and back again. We broke even last year and we are now looking at a strategy for sustainable growth in profits going forward.” Some of the high risk and reward businesses might also require a considerable amount of funding before making a return. “Oil and gas exploration is a very risky business. The historic geological chance of success for exploration activities in our

business for the regions we operate in is one in six... so what you need to do is have enough funding such that you can drill more than two or three wells,” said Mark Reid, CFO of Aurelian Oil and Gas Plc, an exploration and production company.

Allowing entrepreneurship to flourish

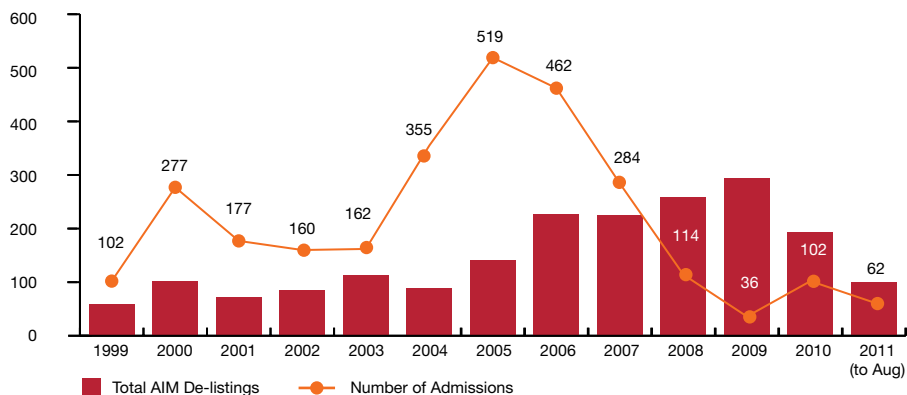
Most of the AIM companies in our research are generally positive about the market. Ninety per cent believe that listing on AIM was the right choice for their company at the time they listed and nearly 60% feel that the market continues to provide a good platform for entrepreneurial activity to flourish.

Market commentators have made much of the fact that de-listings from AIM have outstripped flotations since the high point of 2007. However, many of the executives we spoke to believe the withdrawal of what they see as weaker and less suitable companies has actually strengthened the market. “There has certainly been a clear out in recent months and years, which has done the market a lot of good,” said Jonathan Straight, CEO of Straight Plc, a company making containers for recycling and waste collection. “The companies that remain on AIM are better quality as they’re able to demonstrate that they have survived the fallout of the market,” said John McLean, Chairman of Albany Capital Plc, a pre-IPO investment company.

The number of de-listings fell in 2010 from a peak in 2009, suggesting that the rate of withdrawal may be slowing (see Figure 2). In turn, primary listings rose in 2010 and they will increase still further in 2011, though the money raised is still a fraction of the sums generated in the mid-part of the past decade (see Figure 3). The value of secondary issues is now much greater than new listings. Many of the issues have been carried out by foreign companies, reflecting the increasingly international nature of the market.

What comes through in this study is that most AIM companies believe that the market as a whole is in relatively good shape and that their own prospects are generally positive. Yet this optimism has to be set against mounting economic and financial market uncertainty. “As in previous downturns, investors may switch from smaller and riskier stocks to what they see as more secure companies,” said David Snell, leader of PwC’s AIM team. “In this challenging market environment, the key question for AIM companies is what is going to convince investors to keep faith.”

Figure 2: A leaner AIM market emerges



Source: London Stock Exchange

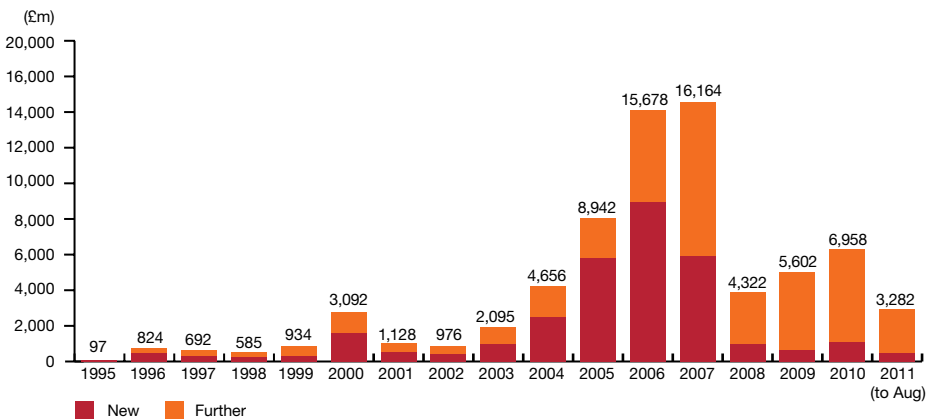
“The euro crisis has made a lot of fund managers reluctant to invest and they’re just sitting out this market at the moment.”

Jim Wilkinson,
CFO, Sportingbet Plc

Issues for consideration

- With growth as a priority, are you confident that you have the right processes and disciplines in place to continue to manage costs and cashflow?
- Do you have a clear roadmap for growth? In an uncertain economy, what strategies are going to allow you to significantly outpace your competitors and grow faster than the economy?
- How are you pacing growth to match your company’s resources and capabilities?
- With secondary fund raisings accounting for a larger percentage of fund raisings, how are you going to establish and communicate a track record?
- Have you assessed the potential impact of different economic scenarios on your growth and investment strategies? What plans do you have in place to manage your business should these scenarios arise?

Figure 3: Secondary issues dominate fund raising



Source: London Stock Exchange

What AIM can offer

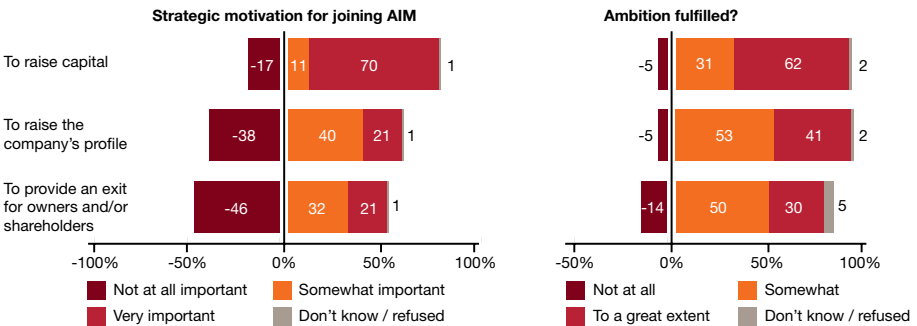
If enterprises are looking to secure capital to grow, AIM is a good place to look. If neither growth nor the capital to sustain it is critical, other options may be better.

“AIM is a market set up for growth,” said Mark Skedgel, a regional leader in PwC’s AIM team. “AIM has a strong track record of helping companies to raise funds and provides a good platform for acquisition. Membership can help to confer credibility on companies as they expand and governance demands increase.”

Figure 4 outlines companies’ rationale for listing on AIM. Capital raising is the most important motivation and the most likely to have been realised. This has been especially valuable for companies looking to raise money for acquisitions. While major transformational deals are rare, bolt-on

mergers have been a key feature of AIM company expansion in recent years. More than half of the companies we spoke to see M&A as a key source of growth over the next five years. An example includes Vertu Motors, which was formed in late 2006 to acquire and consolidate UK motor retail businesses and is now the ninth largest motor retailer in the UK. “Listing on AIM provided the capital to make our initial acquisitions, which gave us a good solid base of a size to grow from, and I think that was very important for us,” said Karen Anderson, Company Secretary of Vertu Motors.

Figure 4: Motivations for joining AIM and whether these have been realised



Q. Thinking about your company's strategic motivation for joining AIM, please rate the importance of each of the following factors in the decision making process.

Q. To what extent do you think being on AIM has enabled you to fulfil that ambition?

Source: PwC AIM market survey 2011

“Just be very clear about why you’re joining AIM...If you’re doing it for the right reasons then it has some real benefits, but access to capital should be one of those reasons.”

Gary Browning,
CEO, Penna Plc

Capital is the crux

Many of the companies in our research pointed to other potential benefits of listing, most notably raising their profile and providing an exit for owners. Nonetheless, most felt that capital is the crux. “There’s no point in coming to AIM if you’re not looking to use it as a market to access capital to fuel your growth,” said one of the Nominated Advisors who we spoke to for the report. Few feel this is the right market for companies that simply want to tick over. “If your business is going to grow year-on-year for the next five to ten years, then joining AIM is a great thing to do. But if you aren’t really going anywhere fast, then it’s the wrong thing to do... you can’t just keep the profit up; your turnover’s got to go up as well,” said one of the AIM company executives we spoke to.

Companies that believe joining AIM is an end in itself without making an effort to take the business to the next level are likely to be disappointed by the potential lack of market interest, share liquidity and ultimately the returns they receive. They have to be proactive in developing a clear strategy for growth and actively seeking out investment, cautions Mark Skedgel of PwC. His views are echoed by John Cowie, a Nominated Advisor and Director of Corporate Finance at Seymour Pierce, a stockbroker active in AIM. “Some companies are unrealistic about AIM and therefore AIM may not be the place for them,” he said. “If a company comes to us and believes that by putting itself onto AIM the owners can pocket a windfall bonus

Issues for consideration

- Are you clear about your reasons for seeking an AIM listing?
- Do you have a clear and compelling growth strategy to convey to the market? And do you know how you will do so?
- How are you managing the step change in management demands as an AIM company?
- Have you assessed your business from the investor perspective so that they understand your growth strategy and the investment opportunity?

and they can sit back and relax, we’d tell them to think again. AIM isn’t going to deliver something without working hard at it.”

If AIM is not the right place, other options are available such as bank finance, private equity or venture capital. Companies that aren’t looking to acquire capital to grow may be better advised to stay private. Businesses that are already highly cash generative are well-placed to seek private equity investment. Yet, for companies with substantial growth ambitions, which are likely to require capital beyond their own funds or borrowing capabilities, joining AIM can provide the answer. As we examine in the next section, an AIM quotation is only the beginning of making AIM work for your business.

Six steps to making AIM work

AIM companies need to be prepared for a huge step change in management demands when they join the market and be able to put themselves in their investors' shoes if they want to be successful in raising capital and strengthening share values.

1. Be prepared for the different dynamic of being a public company

“You cannot come on to AIM and carry on as if you're still a private company. You have to be prepared for the transition,” says David Snell of PwC. As a CEO, and possibly a significant shareholder, it is important to recognise that there will be significant extra demands on governance, investor relations and corporate leadership. Executives will also have to satisfy the needs of a variety of different stakeholders, rather than just the founders of the company. Several of the executives highlighted the challenges of market engagement and scrutiny, which can be difficult for a leader whose primary job has been building the company up from the inside. “One of the things the transition to AIM teaches you is that if you want to be the CEO, you have to be the CEO. It's a different job to managing a private company, it's a different dynamic completely,” said Sean Nutley of Silverdell. “You've got to be absolutely sure of what you're doing, saying and being, because you are an absolute reflection of the business inwardly and externally.”

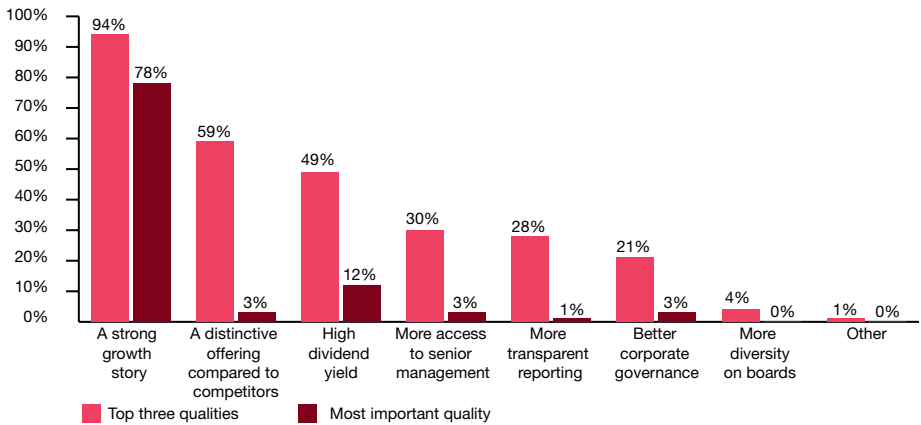
“When you're an entrepreneur you've built a business and you're like the spider in the middle that controls everything. When you come to the market, all of a sudden you're in the public's scrutiny. You've got to deal with a whole bunch of external stakeholders whereas before there were none or very few.”

Manish Kotecha,
CFO, Ncondezi Coal

2. Develop a compelling and credible growth story

The companies we spoke to recognise the importance of a strong growth story in attracting investment (see Figure 5), though they can often find this difficult to articulate in a way that is understandable, credible and relevant to potential investors. In defining their strategy, companies need to be able to identify their core competencies and what differentiates them from their competitors and then build an investment story around this. They also need to be able to back up their growth story with evidence of past delivery and provide KPIs that will allow investors to track success and hold management to account. “We look for companies with a clear vision of what they're trying to achieve,” said a fund manager we spoke to. “The company has to have a short-term story, of course, in terms of its results on a six month or an annual basis, but it's also got to have a story of where it's going, where it's heading and what the prospects are over a longer period of time. The companies that have that clarity of vision and have a desired outcome are the ones that are going to achieve things,” he said.

Figure 5: What investors expect



Q. What are the top three qualities that investors will want from a company like yours over the next three years?

Source: PwC AIM market survey 2011

3. Be proactive in managing the news flow about your company

Our 2010 study, *Securing AIM's future*, highlighted the difficulties smaller companies face in sustaining market interest beyond their initial float. These are further highlighted by the fact that the companies we spoke to this year see managing news flow and investor relations as the greatest challenges they face (see Figure 6). Yet these challenges have to be addressed. Indeed, we believe that market communications are more important for AIM companies than their larger counterparts given the problems smaller companies face in sustaining visibility and liquidity. "A company needs to understand the value of speaking to its investors on AIM; in fact I think that it is almost more critical for AIM than it is for the main market," said John Cowie of Seymour Pierce.

"Our experience is that with a clear strategy and a proven business model, funders are willing to step up to the plate. We are confident that we have a well-defined strategy, and our investor communications demonstrate how we are executing that strategy and sticking to our business model. The last thing shareholders need at the moment is a strategy lurch because that undermines credibility in all sorts of ways."

Michael Sherwin,
Finance Director, Vertu Motors

Some AIM companies have decided that having a dedicated investor relations team can improve their ability to get their message across while taking some of the pressure of day-to-day market communications off senior executives. “We have extra people here to ensure that we’re meeting all the external market issues,” said Manish Kotecha, CFO of Ncondezi Coal. “We have a business development guy who takes care of our investor relations. Ordinarily in a smaller listed company the FD would have to get more involved in that area. That means I can concentrate more on operational issues rather than getting involved too heavily with the market.”

“You’re not going to get your broker or fund managers interested in a thinly traded stock that has got very poor liquidity.”

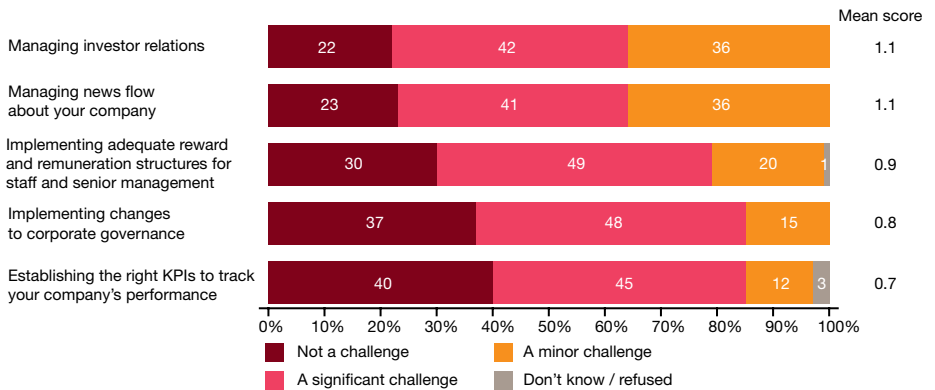
CEO, business services company

Nonetheless, most AIM companies lack the resources to have a dedicated in-house investor relations team. This is where experienced non-executive directors (NED) could prove especially valuable. A good NED will have experience of dealing with fund managers and is well-placed to advise on effective investor communications strategies.

4. Allow a sufficient free float to sustain investor interest

Nearly 60% of companies in our research held back some equity at their initial listing (see Figure 7). The chief reason was to allow flexibility for further issues, though a significant proportion are looking to maintain control over the company or have shares to pass on as an inheritance. This may discourage investment as investors want enough liquidity to be able to trade shares. Without a sufficient free float, interest may drop off and share prices will be held back.

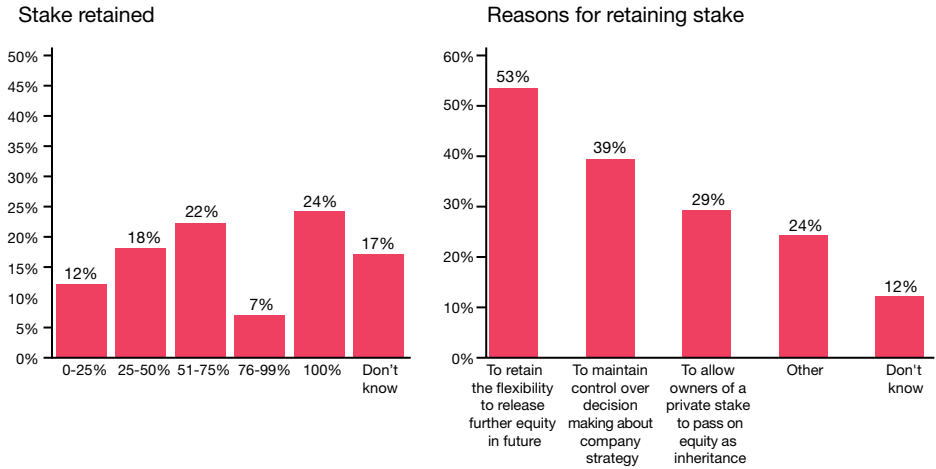
Figure 6: Greatest challenges AIM companies face



Q. Have the above issues presented a significant challenge, a minor challenge or not a challenge for your company during your time on AIM?

Source: PwC AIM market survey 2011

Figure 7: Retaining a stake at IPO



Q. What percentage of your company's equity was publicly traded when you first floated on AIM?

Source: PwC AIM market survey 2011

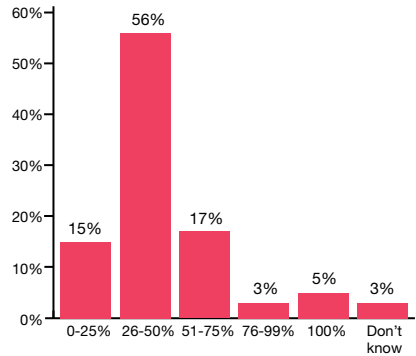
Q. What were the reasons for retaining a private stake upon IPO?

"I think if less than half of the equity is in public hands, then the owner of the majority of the shares is too powerful."

Jonathan Straight,
CEO, Straight Plc

While current AIM rules do not require a minimum free float, more than half of the companies in our survey (56%) back the idea of making enterprises intending to float on the exchange set aside a minimum percentage of shares that can be bought by the public. The average minimum threshold for participants' favouring a minimum free float is 46%, though a quarter would like to see it set above 50% (see Figure 8). "I think a free float is important," said a fund manager we spoke to. "We rarely invest in anything that doesn't have a free float of above 50% and certainly would not invest if there's a majority holder of over 50%."

Figure 8: Recommended minimum float



Q. What do you think the minimum free float on AIM should be?

Source: PwC AIM market survey 2011

“Picking the right Nomad is crucial because they’re one of your most important partners at the beginning and continue to be so through your listed life. I would direct any new joiners to AIM to spend a decent amount of time trying to select their broker and Nomad team.”

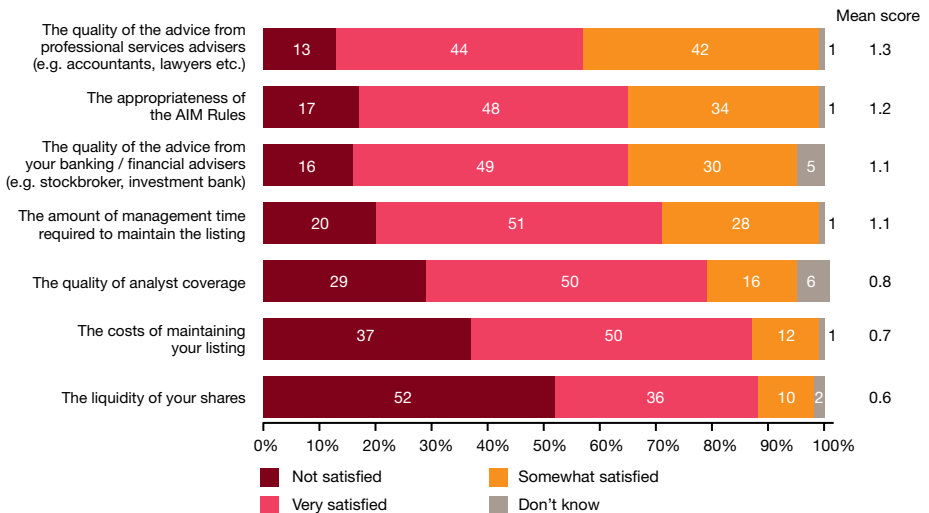
Andrew Lindsay,
CFO, Sirius Minerals Plc

5. Choose a good advisor

Professional support is clearly critical for companies that may have limited experience of operating as a public company and are striving to build up their profile. The choice of advisor is not just an important consideration in the initial flotation, but also in advising executives of what is expected of a public company and in helping to frame the market communications and sustain investor interest.

The companies in our research are generally satisfied with the quality of support they receive from financial and professional services advisors, though a significant proportion are not (see Figure 9). The executives and Nominated Advisors we spoke to stressed the importance of keeping in close and regular touch.

Figure 9: Satisfaction with AIM



Q. Thinking back to your expectations of an AIM listing, to what extent are you now satisfied with each of the following factors?

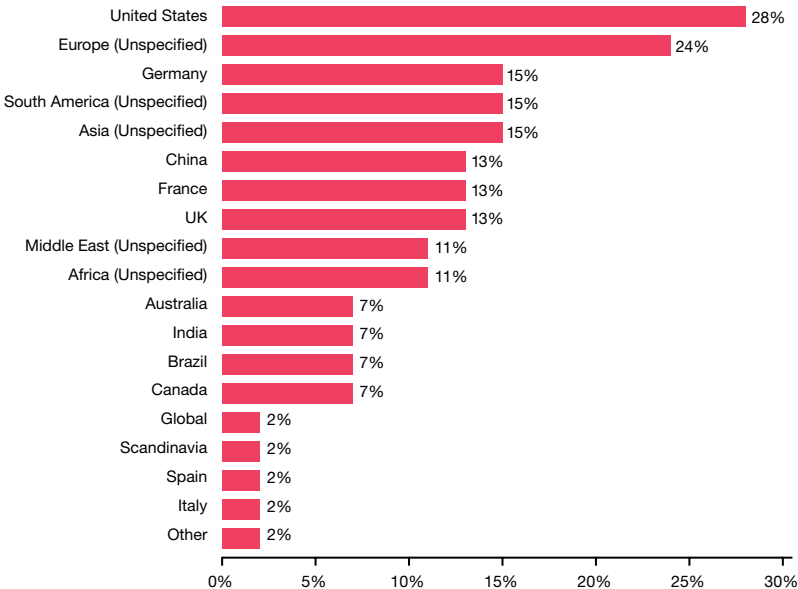
Source: PwC AIM market survey 2011

“You’ve got to make sure that once every couple of weeks you’re on the phone to clients saying, ‘Give me 20 minutes and tell me how business is going, are you on budget, how’s cash flow?,’” said John Cowie of Seymour Pierce. “You’ve got to be quite persistent as they’ve got busy lives and by definition they tend to have smaller and rather tighter boards. They don’t have the luxury of being able to say ‘it’s about time we called on our Nominated Advisor,’” he added.

6. Following opportunities for growth

AIM companies will need to assess the impact of different economic scenarios on their growth and investment strategies and develop plans to adapt. It’s particularly notable that the AIM companies in our survey that are looking to new geographic markets as a key source of growth see the US and Europe as their main focus (see Figure 10). Given the slow growth rates anticipated in these markets, the strategic options might include a shift of focus to faster growing emerging alternatives. Some AIM companies may be concerned that they don’t have the infrastructure to support such far-flung expansion. As PwC’s FTSE 250 study highlighted, however, it is possible to develop a lean and flexible approach to overseas growth built around targeted joint ventures and relatively small regional management teams.

Figure 10: Focus of growth



Q. In which countries will you focus future growth?

Source: PwC AIM market survey 2011

Choosing the next steps

While many AIM companies are looking to trade sales or moves up to the main market, others believe that AIM can provide a long-term home as long as they continue to grow.

Most of the companies in our research see AIM as a springboard to the next stage in their growth journey rather than a permanent home, though exit is mainly a medium-term rather than immediate objective. As Figure 11 highlights, a trade sale is favoured over a move up to the main market. A number of AIM companies have been acquired by larger groups in recent years. For some, this is an opportunity to realise the value of their investment. An example includes Castle Support Services, an engineering business, which was taken over by Sulzer, a Swiss group in 2010. Christopher Mills, Chairman of Castle, described the deal as offering “an excellent opportunity for Castle shareholders to realise a fair and reasonable value for their Castle shares against a difficult and uncertain global economic trading environment”⁴. For others, sale is a chance to reach out to new markets. An example includes Education Development International (EDI), which was acquired by Pearson Plc in March 2011. The deal will help “to take the business on to its next stage, creating a world-class organisation supporting vocational education and training programmes in the UK and internationally,” said Nigel Snook, CEO of EDI⁵.

The move to the main market would have the potential advantage of broadening access to investment. “One of the opportunities coming onto the main market gives us is to widen our share register and make it more representative of the sector,” said Martin McGann, Finance Director of London & Stamford Property Plc, which moved up in 2010.

One of the potential drawbacks of AIM is that ISA fund managers aren’t allowed to buy shares in the majority of AIM companies. Some institutional investors also have a minimum threshold for the markets they invest in, often FTSE 350.

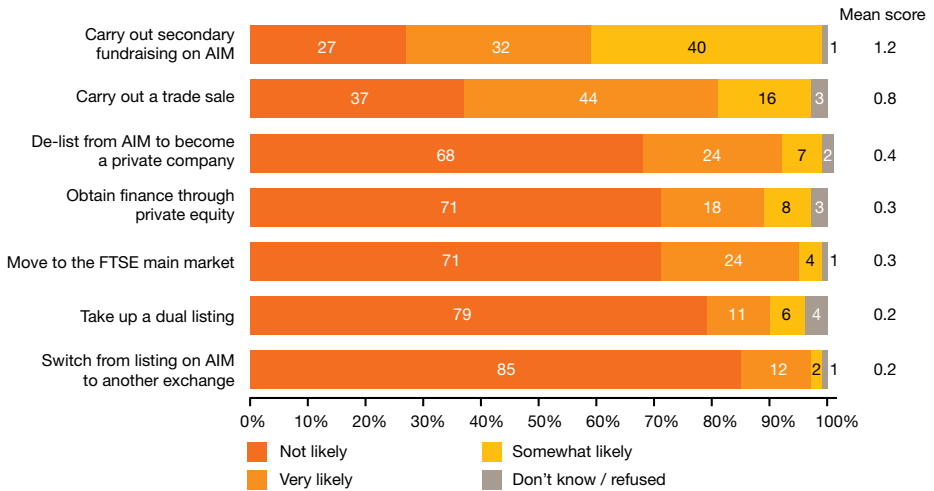
A further alternative is an international listing. Around a quarter of the companies we surveyed are considering listing on other markets. NASDAQ tops the list, with several of the executives we spoke to citing better understanding of their particular sector and risk capital overall.

However, moving to the main market may not suit all companies and even relatively large businesses continue to thrive on AIM. Potential advantages of retaining an AIM listing include the flexibility and generally lower cost of regulation in comparison to

4. Sulzer group media release, 02.06.10

5. Pearson Plc media release, 07.03.11

Figure 11: Options for moving on



Q. What is the likelihood that within the next five years you will...?

Source: PwC AIM market survey 2011

the main market. Penna Plc moved back to AIM from the main list in 2006. “I know a lot of people are questioning AIM at the moment, but for us it’s worked well,” said Gary Browning, CEO of Penna Plc. “The regulatory costs on the full list were disproportionately high. We also weren’t doing an awful lot of transactions, so we weren’t seeing the benefits of being on the full list of access to capital.”

There are a number of options depending on the financial and strategic goals of the enterprise. What is clear is that companies need to weigh up the pros and cons of AIM membership, balancing the flexibility of AIM with the potentially broader access to investment from moving to the main market.

Ready for the tough test ahead

AIM has emerged stronger from the shake-out and economic trials of recent years. Profits are returning and most companies are confident about their prospects. Yet, securing the investment they need to achieve their ambitious plans is going to be extremely challenging amid the prevailing market anxiety and risk of a renewed recession. Indeed, for some companies, the question could not just be how to thrive, but once again how to survive.

Experience of previous downturns suggests that some institutional investors may be less inclined to back AIM enterprises, preferring what they see as the safe haven of larger and less risky companies. A more positive scenario would see investors looking to AIM companies as a source of strong yield in an otherwise sluggish economy. As the ‘virtuous circle’ in Figure 12 highlights, it is not just AIM companies, but the LSE, Government and Nominated Advisors who need to play a full and active part in creating the right environment for investment and growth.

Drawing on the findings of our research and our wide-ranging work with AIM companies, this concluding section sets out what we see as the main priorities for member companies, prospective entrants and market stakeholders and the potential implications if these objectives are not met. Although some of the challenges are not new, they are likely to be heightened by the tough market environment.

AIM companies

Sustaining visibility and liquidity is going to be difficult for all smaller companies, AIM members included, though some are likely to fare much better than others. As we examined in our ‘Six steps to making AIM

Figure 12: Turning the vicious circle into a virtuous one



Source: PwC November 2011.

work', the companies that are likely to have the most success in attracting investment are those that put themselves firmly in their investors' shoes. Many companies are clearly struggling with the management of investor relations. They also have insufficient free float to make trading worthwhile. Yet, without sufficient focus on these aspects of their business, even the most viable businesses are going to see their potential unrealised.

Prospective entrants

Initial public offerings are nowhere near the peak seen in 2005. Yet 2010 and 2011 have seen a steady flow of new admissions. Businesses need to be very clear about what AIM offers and how to realise these benefits. Companies with high growth potential and significant capital raising requirements have the most to gain. All prospective entrants should recognise the hard work required not only in the IPO but throughout their time on AIM. Owners that simply look to AIM membership to raise their company profile or realise the value of their holding without putting in the effort needed to win over investors are likely to be disappointed. Indeed, there may be better alternatives to AIM if capital and growth are not the foremost reasons for listing.

Nominated Advisors

The role of Nominated Advisors is crucial and not just through the IPO process. It is notable that less than 30% of the companies in our survey see more transparent reporting and improved governance as among the top three qualities that investors are looking for in companies like theirs. Yet, these are the very attributes that are vital to establishing and sustaining market confidence, especially at this time of market dislocation. Nominated Advisors therefore need to highlight the importance of transparency and governance and support their clients in meeting investor expectations in these areas.

The Government

Fiscal pressures may make the Government reluctant to relax the tax rules relating to investment in AIM. Yet, with research participants targeting aggressive growth over the next 12 months, these are businesses that will be vital in stimulating the economy and increasing tax receipts. Tax incentives to invest in AIM are worthy of consideration.

London Stock Exchange

The LSE can also play its part by showcasing the benefits of AIM and making sure that it continues to provide an attractive option in a fast moving and increasingly competitive international exchange environment. Just as companies need to develop a compelling growth story, so does the AIM market.

Critical juncture

The next 12 months will be a critical period. AIM companies have the opportunity to be at the forefront of economic recovery or see their ambitions impeded by an uncertain and risk-averse investment environment. Having come through the turmoil and dislocation of recent years, the companies that remain on AIM have demonstrated their strength and resilience. The next key challenge is sustaining the visibility and investor support needed to take the business forward.

About this report

This report was prepared by PwC's AIM team. It draws on analysis of market trends and a survey of 105 executives from 96 AIM companies, representing a cross-section of sectors, company sizes and time on the market. The quantitative research was augmented by in-depth interviews with a range of market participants including Nominated Advisors and Fund Managers.

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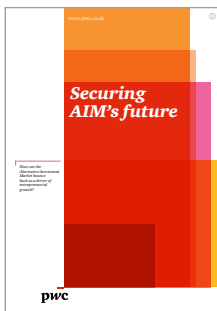
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Securing AIM's future



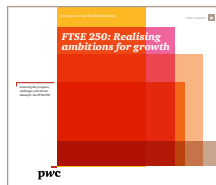
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