NEED CAPITAL? AIM HIGH

MORE AND MORE FIRMS ARE TURNING TO THE ALTERNATIVE INVESTMENT MARKET TO MEET THEIR FUNDING NEEDS. MARTIN SAVAGE OF HACKER YOUNG DISCOVERS ITS ATTRACTIONS.

The Alternative Investment Market (AIM) was created in 1995 – since then more than 850 companies have used it as a vehicle for growth, with in excess of £6.2bn being raised. According to The London Stock Exchange, AIM has raised over £16bn, and market capitalisations range from less than £1m to more than £100m.

In this article, we will find out why AIM has become a popular route for both domestic and many global businesses, and explore the particular situations where it is the most appropriate method of raising capital.

As part of an international network of chartered accountants, Urbach Hacker Young, we are approached by a wide variety of businesses wishing to raise development capital as part of a growth strategy or a phased exit strategy. These can either be established firms, subsidiaries of larger organisations, or 'early stage' businesses offering good products with significant development potential and the right capital backing.

Although there are many paths to follow in the UK when seeking to raise finance, including, debt finance, OFEX, AIM, venture capital, and a full listing on The London Stock Exchange, the key decision should always be based on meeting the company's specific requirements. The first step, therefore, is to put the right team of professionals together to help the business define its needs.

WHICH MARKET IS BEST? Presuming that the company and its team of advisers has decided on an equity-based approach to growth, the first question I ask concerns the amount of money required.

In most cases, businesses know broadly how much they need but aren't sure how to go about raising it. The answer to this first question can be very helpful in solving the second dilemma, because it can be a powerful eliminator.

My firm, for example, has been involved with AIM listings that have resulted in market capitalisations of between £1m and £50m. Although the firm was involved in raising over £5m on OFEX for one of its clients, which at the time was the largest such placing, this route usually has the capability to raise between £500,000 to £1.5m. So why, you may ask, should a firm that wants to raise a significant sum of, say, £5m to £15m, not use a more established route such as The London Stock Exchange? The answer is usually quite simple.

AIM is very attractive as it provides a lower cost structure because of its flexible regulatory environment. This is not to say that AIM doesn't have tough entry requirements, but it is more accessible for small- to medium-cap companies than those associated with joining the more established lists.

We find that this not only suits a lot of young, growing businesses, but entrepreneurial offshoots within larger firms, and it is a useful way of raising finance for acquisitions. Growing companies that are less established also feel the benefits of a less stringent regulatory regime once they have actually listed. I also believe that many businesses with no previous listing prefer to experience life as a public company without the full disciplines of the UK Listing Authority's rules.

The main difference is in the role of the nominated adviser (Nomad) responsible for the compliance of the issuer with the rules of AIM. Whereas a fully listed company deals directly with the exchange through its advisers, the Nomad will have a close working relationship and assist with the corporate governance aspects of the company's development, rather than merely providing a policing of corporate actions. Such advice and assistance can be useful for fast-growing businesses with management teams that are new to the ways of the City.

Some argue that OFEX offers greater flexibility than AIM, but in fact its official rulebook broadly follows the AIM guidelines in the form of a code of best practice. OFEX distinguishes itself by providing good access to compliance officers to resolve issues in an agreed but timely manner through its panel of OFEX-approved advisers, as well as a market for the company's shares.

IT'S NOT JUST ABOUT CAPITAL. As an adviser to any company following the equity path through a listing, it's also important to ensure that a close eye is kept on how each listing is behaving. It may well be, for example, that the amount of capital required could potentially be raised through OFEX, venture capital and AIM, but that only one of the options is buoyant at the time. In practice, the decision tends to be clear-cut after advisers have undertaken a

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proper appraisal of the business. The market for AIM and OFEX can fluctuate significantly in terms of share price volatility and liquidity for buyers and sellers. It's also a feature of markets that, while venture capital for one industry sector is strong, it can be weak for another. This leads firms to seek a partial exit and trade in venture capital backing for that of the public and institutional investors.

It is also important to be aware of how investors have historically performed on each of the markets. Hacker Young recently acted on behalf of Australian hydrocarbon fuels exploration business Black Rock Oil and Gas plc. From our experience of AIM, we knew that the firm's plans for organic growth and acquisition of existing oil and gas assets provided a sound business strategy. We were also sure that investors would be keen on the business. AIM investors include a range of institutions that have a track record in investing in oil exploration, and we were confident that the share subscription would be good on this occasion.

AIM is also suitable as a method for funding firms in the biotechnology industry. The biotech sector is full of small- to medium-sized businesses that lose money through 'high burn rates' but still manage to create shareholder value. Many of these businesses often have a short track record and a future based on a new idea that can be patented or the application of a new technology in an existing market. AIM provides these companies with the financing they need before they are ready for full listing on, for example, Techmark.

Oil exploration and the biotech industry are not the only sectors that have successfully raised finance on AIM. The platform is suitable for a wide range of businesses of a certain size, in any country. These can range from young venture capital-backed businesses to long-established family concerns. Similarly, AIM companies cover a broad range of activities, ranging from technology, to distribution, restaurants and leisure. They don't all do well, as the bursting of the dotcom bubble proved, but it does prove that there is capital available for ambitious projects that may not get support from the more traditional sources of finance.

RAISING YOUR PROFILE. Another key point to consider is the impact on the company's profile. Again, raising additional capital may not be the sole reason for a listing. A company or subsidiary may want to raise its profile among its public. For example, it may want to enhance its status with customers, suppliers or regulators.

Maintaining or establishing a company profile is also relevant when choosing between private or public equity. Although venture capital provides the management team with a funder with specific market knowledge, it doesn't do a lot for raising the company profile. Public equity also has the advantage over private equity because it can be used to offer key employees an incentive (providing shares are on an upward trend) that can be measured daily. Locking in key employees to establish and protect the skill base of the company can be an important factor in delivering long-term shareholder value, especially if it's a technology or research-based one.

CHOOSING THE RIGHT PATH. If your company is on an equity path looking to raise between £2m to £40m, AIM provides a highly suitable option. Although AIM listings are within the skill set of a select number of practitioners, the real difficulty is in not making sure that everything is done properly and on time, but ensuring the right route is chosen in the first place.

By choosing the right team of advisers who are able to deliver a range of funding solutions from the start, it is possible to verify that an equity approach is the right one. Second, the team will then make certain that the correct path is chosen, whether it's venture capital, AIM, OFEX, or any of the larger listings within The London Stock Exchange. The correct choice here will ensure your business gets access to the capital it needs and remains on track for exceptional growth and creation of shareholder value.

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