European guide to AIM
2008

London calling: AIM's attractions for European companies

London's AIM is increasingly a key source of equity capital for growing European companies. Across the region a significant number have floated their shares on AIM in recent years. The exchange's substantial pool of dedicated small company investors, its broad range of sectors traded and its low costs should continue driving European names to the world's leading growth market.

BAKER TILLY

Crossing the Channel

Why should European companies consider a stock exchange in London for their listing? The answer is not obvious. After all, AIM is located in a different time zone from most countries in the region, operates UK trading hours, usually trades in a foreign currency and has its own local admission and regulatory processes.

Yet as many as 202 European companies (as of March 2008) have now made the move to London via an AIM quotation. Their number has quadrupled in three years. As recently as April 2005 the market was hosting just 54 companies from the region.

These companies represent every corner of Europe. Besides Western Europe, and Central and Eastern Europe (CEE), they are also drawn from the former Soviet Union (CIS) and the Middle East (including Israel, Turkey and North Africa). They come from a wide variety of industrial and commercial sectors, including construction, engineering, mining, oil and gas, retail, travel and leisure.

Taken together, European companies are one of AIM's largest foreign groups. Their combined March 2008 market capitalisation was GBP20.6 billion (GBP11.3 billion CIS/CEE, GBP8.3 billion western Europe and GBP1.0 billion Israel/Turkey/Middle East/North Africa). To date, they have raised just under GBP6 billion from sales of new shares via the exchange.

Clear attractions

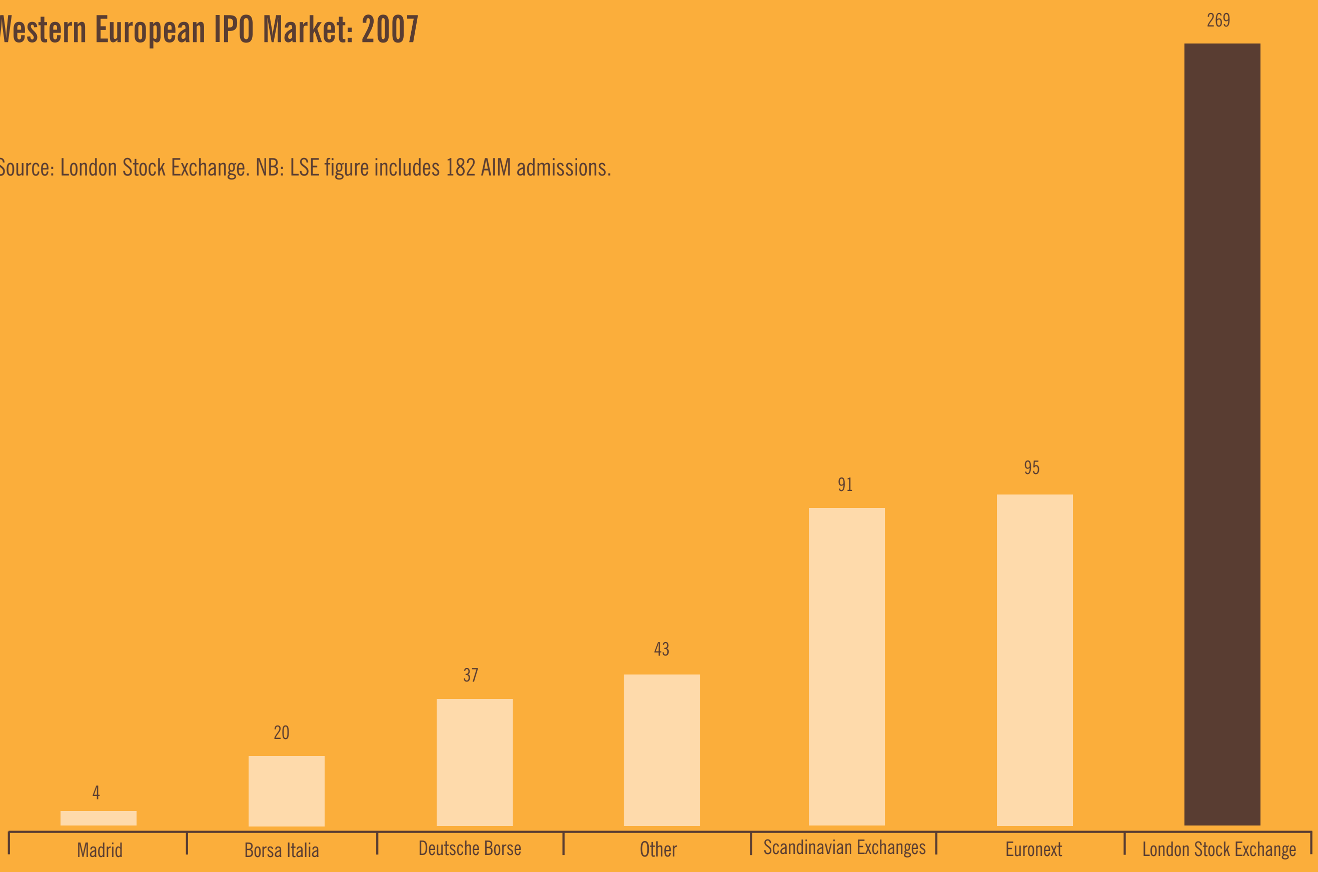
12-year old AIM's attractions for all of these companies are clear. The first of these is size. By number of companies quoted (more than 1,600), it ranks as the largest stock exchange in the UK - Europe's biggest equity market.

Considered separately from its parent (the main list of the London Stock Exchange), AIM ranks as the world's sixth-largest stock market by volume of capital raised. More than 550 international companies from some 70 countries are now quoted on AIM.

2007's challenging market conditions which have extended into 2008 have led AIM's IPO volume to decline. But total funds raised on the market still rose to a new record level, thanks to a surge in 'secondary issues' – new issues of shares by companies already on AIM.

Western European IPO Market: 2007

Source: London Stock Exchange. NB: LSE figure includes 182 AIM admissions.



Geared to growth

AIM combines its size with a clear focus on growth companies. This contrasts with many local European exchanges, where smaller stocks often struggle for attention from investors and brokers.

AIM accommodates businesses at the very early stages in their development. It sets no minimum size for quoted companies, and requires no track record or minimum 'free float' (shares readily available to potential buyers, unlike long-term stakes held by management and other large institutional holdings). It also does not usually require shareholder approval of acquisitions.

It also operates a distinctive approach to regulation. This puts as few constraints on young, fast-growing companies as is consistent with protecting investors adequately. In particular, it uses nominated advisers (Nomads) – the investment banks or other advisers responsible for bringing companies to market – for this balancing act.

A company quoted on AIM must always have a Nomad. Its Nomad is responsible for determining a companies suitability for the market and ensuring that it continues to adhere to the exchange's rules. The increasing participation of leading institutional investors on AIM indicates that this system of self-regulation works well.

Best practice for Nomads was codified into a new rule book in February 2007.

AIMs costs are competitive. As of April 2008, it is shifting to a market cap-based admission fee of between GBP5,870 and GBP66,250. The exchange also levies an annual fee of GBP4,750, regardless of the company's size.

Underwriting and professional fees too are often higher in other markets.

As a result of all these advantages, AIM "has become a vital link in the risk capital financing chain – supporting innovation and enterprise across the world," said London Stock Exchange Chief Executive Clara Furse in a 2007 speech.

Adding weight in the West

The argument that AIM offers "critical mass such that it is attractive for certain European companies", as Claire Dorrian, Senior Business Development Manager, Western Europe at the London Stock Exchange puts it, has already drawn a diverse range of companies. These come from as many as 16 Western European countries, from Belgium to Switzerland.

> *Critical mass such that it is attractive for certain European companies*
> **Claire Dorrian, London Stock Exchange**

"We have had some success with the concept of a pan-European market for international growth companies," believes Elizabeth Parrott, Business Development Manager, Western Europe at the London Stock Exchange.

AIM's western European listings particularly reflect the depth of London's pool of dedicated growth company investors. One measure of this: nearly 10 times the number of fund managers at investor meetings as would typically attend in Frankfurt, for example, according to London Stock Exchange's Parrott.

A clear further driver is the expertise in some sectors that has developed in London. An example is 'cleantech' environmental technology, where as many as 80 companies (not all European) are quoted on AIM. This compares with just three in Germany, despite government support for this area, and no more than 20 on any of the world's other stock exchanges, according to AIM.

The western European group is headed by 40 companies from neighbouring Ireland. They number more than twice as many as those from the region's next most active market on AIM, Germany.

AIM's competitiveness in a much larger European economy should be boosted by the London Stock Exchange's merger with Borsa Italiana. Plans for integrating the Borsa's Mercato Expandi, which hosts over 25 relatively large Italian growth companies, with AIM have yet to be announced. Nonetheless, the merger should limit Italian companies going to rival markets.

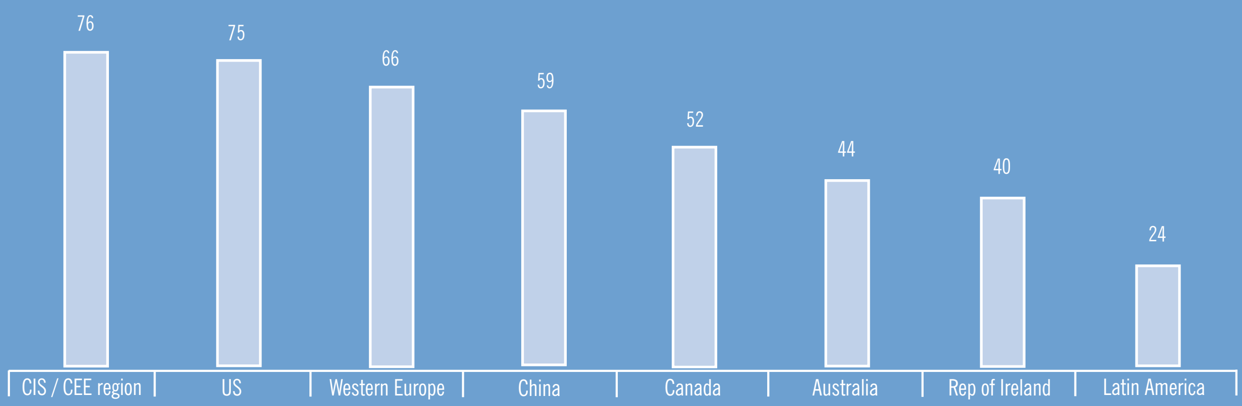
"The merger will give the London Stock Exchange a direct stake in the eurozone and an opportunity to tap into the Italian business community, which has an ample supply of small and medium-sized companies potentially suitable for an AIM-type market," concludes a 2007 report on AIM by the London School of Economics and Political Science.

Israel is also an important source of companies for the exchange. 20 admissions to date can be compared to around 100 on NASDAQ, which has a long history of hosting Israeli stocks. Recently, however, AIM has appeared to match or even outstrip its US rival's performance.

Ted Verkade, Baker Tilly International's Chairman for Europe, Middle East and Africa, characterises the Israeli economy and companies as "very entrepreneurial, in constant need of capital and used to operating internationally." He sees a good fit between these attributes, which are further enhanced by Israel's strong links with the UK and US, and AIM.

International Companies on AIM: March 2008

Source: London Stock Exchange.



Emerging from the East

Although the exchange's first admission from the CIS and CEE region dates back to 1996, recent economic growth has seen these markets emerge as important sources of companies for AIM. Emerging markets are Europe's likeliest source of new companies on the exchange, according to Chilton Taylor, Head of Capital Markets at Baker Tilly.

"Through AIM they can gain access to capital not always available domestically," he says. Similarly, Baker Tilly International's Verkade sees "great development potential" for AIM in the region.

"I can't imagine a better fit than between the high growth and need for capital in this region and AIM's unique role in providing growth companies with access to financing. These are exactly the conditions that AIM was built for," says Jon Edwards, Senior Business Development Manager, CEE/CIS at the London Stock Exchange.

AIM's CIS sector is far bigger than its CEE counterpart. Although the two contribute a similar number of companies, the CIS group had a March 2008 market cap of some GBP9.6 billion (an increase of 200%-plus from valuation at admission), compared to CEE's GBP1.6 billion.

Many of the region's AIM companies operate in natural resources. They are led by some 15 mining and precious metals stocks with a combined March 2008 market cap of GBP2.6 billion. They also include more than 10 energy companies valued at some GBP3.5 billion.

The region's spread extends far beyond the resources area. Other sectors represented include cement, chemicals, consumer finance, dairy products, gaming, marketing, media, restaurants and telecoms. As much as GBP4.3 billion in March 2008 market cap is accounted for by real estate developers and funds, and equity funds.

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> **Jon Edwards, London Stock Exchange**

"The overall appeal of AIM is helping to draw a broader level of interest across sectors," believes Edwards at the London Stock Exchange. Due to the region's fragmented economies, even sectors that would be regarded as low-growth in developed markets - such as packaging – provide such rich opportunities for consolidation that they can deliver strong growth to attract investors.

Once companies have established credibility with AIM investors, they are able to return to the market to raise further capital. A striking example is the Coffeeheaven chain, which has expanded across eastern Europe on the back of repeated secondary issues of shares after its flotation on AIM in December 2001.

Plenty of CIS/CEE companies are contemplating joining their peers on AIM. Besides Russia, Ukraine could prove a particularly fertile source of new admissions, Baker Tilly's Taylor believes.

"It is such a buoyant market across the board – from property to trading companies," he says.

Interested institutions

AIM has attracted a particularly strong base of institutional investors dedicated to small and medium-sized company shares. Professional investors now hold nearly half of AIM stocks by value. This is a higher proportion than on other small cap markets.

This deep and highly sophisticated pool of institutional capital is led by BlackRock Merrill Lynch, one of the largest US investment institutions. The firm manages AIM holdings worth EUR2.4 billion, according to exchange data.

Major AIM investors: March 2008

Source: London Stock Exchange.

Black Rock Merrill Lynch	€ 2,396m
Invesco	€ 1,935m
AXA	€ 1,442m
CDS & Co (Nominees)	€ 1,312m
Fidelity	€ 1,281m
Artemis	€ 1,143m
Landsdowne Partners	€ 1,134m
CSFB	€ 1,124m
Aviva	€ 969m

To service these institutions, AIM has also developed broad research coverage of its stocks - including foreign companies. This again stands in contrast to other equity markets, where smaller stocks can very quickly become ignored after listing.

Having succeeded in attracting so many European companies, the new challenge for AIM is to persuade more of the region's investors to hold its stocks. Already institutions across Europe, including Scandinavia and Israel, are investing on AIM, according to Baker Tilly's Taylor.

"We have seen a flow of European capital to AIM, with companies bringing local investors with them and some diversifying of exposures," confirms Dorrian at the London Stock Exchange.

> *It is really key for UK institutions to see domestic investors in transactions as well.*
> **Chilton Taylor, Baker Tilly**

This is creating a new source of demand. It removes pressure on UK investors to absorb all of every AIM new issue and provides reassurance about less familiar foreign companies. Some Nomads seek to sell 20% of any European share issue on AIM to investors in the company's local market, according to London Stock Exchange's Dorrian.

"It is really key for UK institutions to see domestic investors in transactions as well," concludes Taylor at Baker Tilly.

As a result, UK Nomads are linking up with European investors. While no domestic European firm has yet sought to become a Nomad in its own right, agreements have been signed between UK players and Spanish corporate finance houses, for example. Co-operations have been agreed with Greek advisers as well.

Conclusion: a credible, valuable financing source

In conclusion, AIM offers European companies an important and credible source of public equity capital. Whether a company's initial growth was in western Europe/Israel or the emerging CIS/CEE economies, the exchange provides a valuable financing channel for future expansion.

Besides making valuation of a company's shares transparent, a public quotation on AIM gives other important benefits. It allows companies to give key employees the incentive of share options. For those looking to increase growth, it provides a currency to pay for acquisitions.

AIM investors do not require the same level of management input and boardroom representation that venture capital or private equity investors typically expect, nor the minimum levels of free float seen on other exchanges. These can be important considerations for entrepreneurs and other company founders.

At the same time, AIM provides an appropriate environment for public companies. Unlike bulletin boards and over-the-counter markets, it offers a robustly regulated market.

"This philosophy marries the high standards of initial and ongoing disclosure that have become the hallmark of London's markets with relatively liberal entry criteria," LSE's Furse notes in a 2007 article.

Coping with competition

AIM is very strongly positioned in the battle for growing European companies, but faces increasing competition. Most notably, Euronext launched a rival small and mid-cap market called Alternext in 2005. Euronext owns the Amsterdam, Brussels, Lisbon and Paris stock exchanges and forms part of a broader group that also includes the New York exchange.

Alternext's approach has similarities with AIM's. It operates a similarly light self-regulatory model and imposes few restrictions on listed companies (however, it does require a free float of at least EUR2.5 million and two years of financial reporting). It too employs investment banks and others as 'listing sponsors' with significant obligations for the companies they bring to market.

The market has now attracted more than 120 companies – 42 during 2007 - and has a March 2008 market cap of more than EUR5 billion. To date companies have raised over EUR1.6 billion from Alternext transactions.

The Alternext universe is dominated by companies from its parent's four countries of operation, particularly France. But it is slowly making progress beyond its local area, with 2006 and 2007 having brought its first offerings from 'foreign' European companies (meaning not from Belgium, France, Portugal or the Netherlands) – Antevenio of Spain, Assima of the UK and Italy's Safwood – as well as a few non-European names.

"Undoubtedly, there is competition at the exchange level but AIM is a far more developed, global market with a longer history and a critical mass of companies, investors and advisers," counters Parrott at the London Stock Exchange.

Elsewhere in Europe, Germany's Deutsche Boerse – which operates a growth company segment called Entry Standard - has had a little success in attracting new listings from the CEE region. The Vienna stock exchange has also listed a couple of Hungarian stocks.

> *AIM is a proven concept with a much more established reputation than its counterparts in continental Europe, so companies perceive the chance of being successful there as much better.*
> **Ted Verkade, Baker Tilly International**

In addition, the Warsaw stock exchange has more than 10 dual and single listings of companies from the Czech Republic, Hungary, Slovakia and Ukraine.

The WSE is also developing a niche in hosting issues by micro-sized Polish and other companies via its New Connect facility. Launched in August 2007, this is targeted at market caps of up to PLN20 million (GBP4 million). This makes it more of a competitor to London's smaller company-oriented PLUS Markets exchange (the former Ofex) than to AIM, judges Baker Tilly's Taylor.

"Some smaller companies may be happy with a smaller, less international marketplace," says Edwards at the London Stock Exchange. He cautions, though, that "it is no stretch to say that the Warsaw investor pool is more limited than London's."

In general, size and history make AIM a preferable flotation route for growth companies, believes Verkade at Baker Tilly International. "If you raise capital through an exchange, there is always the risk of being unsuccessful. AIM is a proven concept with a much more established reputation than its counterparts in continental Europe, so companies perceive the chance of being successful there as much better."

About Baker Tilly

Baker Tilly is a leading independent firm of accountants and business advisers that specialises in providing an integrated range of services. We provide our growing and established business clients with audit, accountancy, personal and corporate taxation, VAT, management consultancy, corporate finance, IT advisory and restructuring and recovery services. The firm has national coverage through its network of offices and is represented internationally through its independent membership of Baker Tilly International.

Baker Tilly is recognised as a market leader for AIM – having acted for over 250 companies which have sought an AIM flotation, and with over 160 AIM clients.

Baker Tilly has been voted Growth Company AIM Accountant of the year a record four times.

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