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UHY Hacker Young
Chartered Accountants

Capital Markets Outlook

A focus on AIM

Predictions for the year ahead plus tips and advice from our specialist capital markets team

Helping you prosper

Contents

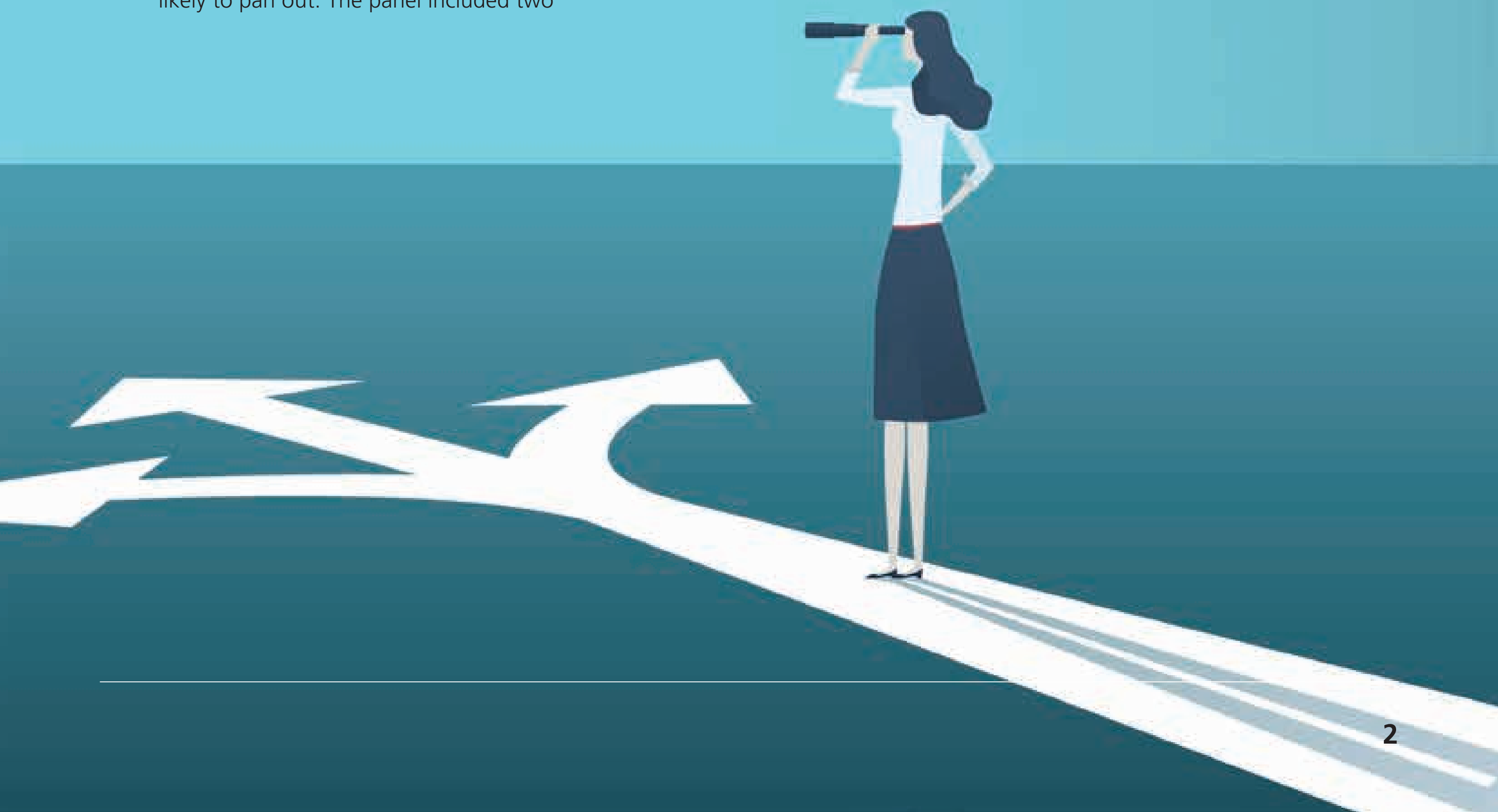
Welcome to our Capital Markets Outlook

This first edition, of what will become our regular series of Outlooks taking a look at the UK and international public markets, focuses on AIM; the London Stock Exchange Group's (LSEG's) growth market. Our capital markets team review the highs and lows of recent years whilst casting a view on AIM's outlook for the future.

In this issue, we review how the market has changed ten years on from the financial crisis of 2009 and how political uncertainty is affecting investor confidence. We also assess the impact of the updated AIM Rule 26 on corporate governance issues, and investigate how this change could have positive impact.

In our experts' perspectives piece we spoke to a panel of experts who work closely with AIM and its listed companies for their views on what makes AIM such an attractive option for businesses and for their predictions on how the next 12 months are likely to pan out. The panel included two of UHY's own capital markets team, Colin Wright and Dan Hutson, corporate lawyer Michael Bennett of Hill Dickinson, Matt Butlin, Head of Equities at Allenby Capital and, of course, the LSE's very own Head of AIM, Marcus Stuttard.

And for companies considering an IPO on one of the UK's markets, Colin Wright discusses the factors to consider when choosing which market is best for your company and, in particular, takes a closer look at each of the UK's market alternatives for small and medium sized growth focused companies.



A dramatically improved market

Ten years on from a global financial crisis, AIM is a dramatically improved market

70%

fall in the number of companies leaving London's junior market per annum in the last decade

81%

drop in number of companies delisting as a result of financial stress or insolvency in the last decade

Ten years ago, at the time of the collapse of Lehman Brothers and the broader global financial crisis, AIM was going through its own personal crisis.

Partly because of its success in attracting international businesses, the UK's junior stock market had attracted fierce criticism from the US. John Thain, then chief executive of the New York Stock Exchange, was stung by AIM's ability to attract US companies and accused AIM of having low standards.

This was followed by a very tough financial crisis which had a particularly significant impact on smaller businesses. For example, AIM lost 275 companies in the 12 months between July 2008 and June 2009 – more than 60 as a result of insolvency.

Responding to this criticism, and the wave of delistings, the London Stock Exchange continued to raise the bar for an AIM IPO. Weaker companies were discouraged and Nomads were encouraged to winnow out companies that were failing investors through issues such as poor reporting.

Today, ten years on, AIM is now indisputably the home of many of the UK's most successful companies, attracting institutional investment and forecast to pay more than £1billion in dividends in the next year.

Our research shows a **70% fall in the number of companies leaving London's junior market** per annum in the last decade, with **only 81 companies delisted**, a fall from 218 in 2008 (year end 31 December 2018).

The **number of companies delisting** as a result of financial stress or insolvency per annum **is down by 81%** in the decade, from 62 in 2008/9 to 12 in 2017/18.

Whilst this has meant AIM has fewer companies than it had ten years ago, what it lacks in quantity it has made up for in quality. Success stories such as ASOS and Fevertree are just two of the companies that exemplify the strength of the market.

Not only are companies building successes of themselves on AIM, they are also attractive takeover targets. In the past 12 months, 31 AIM companies were taken over; suggesting that the AIM brand offers reassurance to both bigger corporates and PE firms looking for acquisitions.

In addition, for most businesses, the process of listing on AIM has never been seen as a better deal. Not a single company delisted in the last 12 months citing the cost of being on the market as the primary factor for their departure, compared with 47 that did so in 2008/9. Businesses that want to raise additional funding, or private owners looking to realise the value of their business, now see AIM as an attractive option.

What next for AIM?

Looking ahead, AIM will need to continue to strike a balance between maintaining robust checks on its companies, whilst ensuring the market remains accessible enough, so that it continues to attract growth businesses from emerging technology sectors.

Perhaps the next step for AIM is to focus on growth. Many market participants would like to see a more active marketing campaign to attract high quality UK and overseas companies and to promote the market to both private and institutional investors.

AIM fundraising tops £1bn in the first quarter of 2019

Despite the Brexit uncertainties impacting UK economic activity, fundraising on AIM during the first quarter of 2019 eclipsed all eight of its other European growth market rivals combined. This strong start to 2019 demonstrates that the AIM market is able to weather the storm of almost unprecedented political uncertainty, and remain Europe's leading market for growth companies.

In total, AIM companies raised more than £1.1bn in 106 fundraises (IPOs and secondary fundraises, including rights issues) in the first three months of this year, compared with £424m raised in 41 fundraises on eight other junior markets across Europe.

AIM's closest rival in fundraising, First North Stockholm, saw £297m of funds raised in the first quarter – just 28% of AIM's total for the quarter.

From our perspective, strong fundraising levels reflect the leaner and healthier position of AIM today, as compared to just a decade ago. Tough economic conditions and more robust market requirements have led to weaker companies leaving the market, and better-run companies surviving and growing.

However, Brexit-related uncertainties have still had some impact on AIM. The junior market saw just one actual IPO in the first three months of the year which represents the lowest IPO activity since Q1 2009 and the lowest volume since Q1 2013.

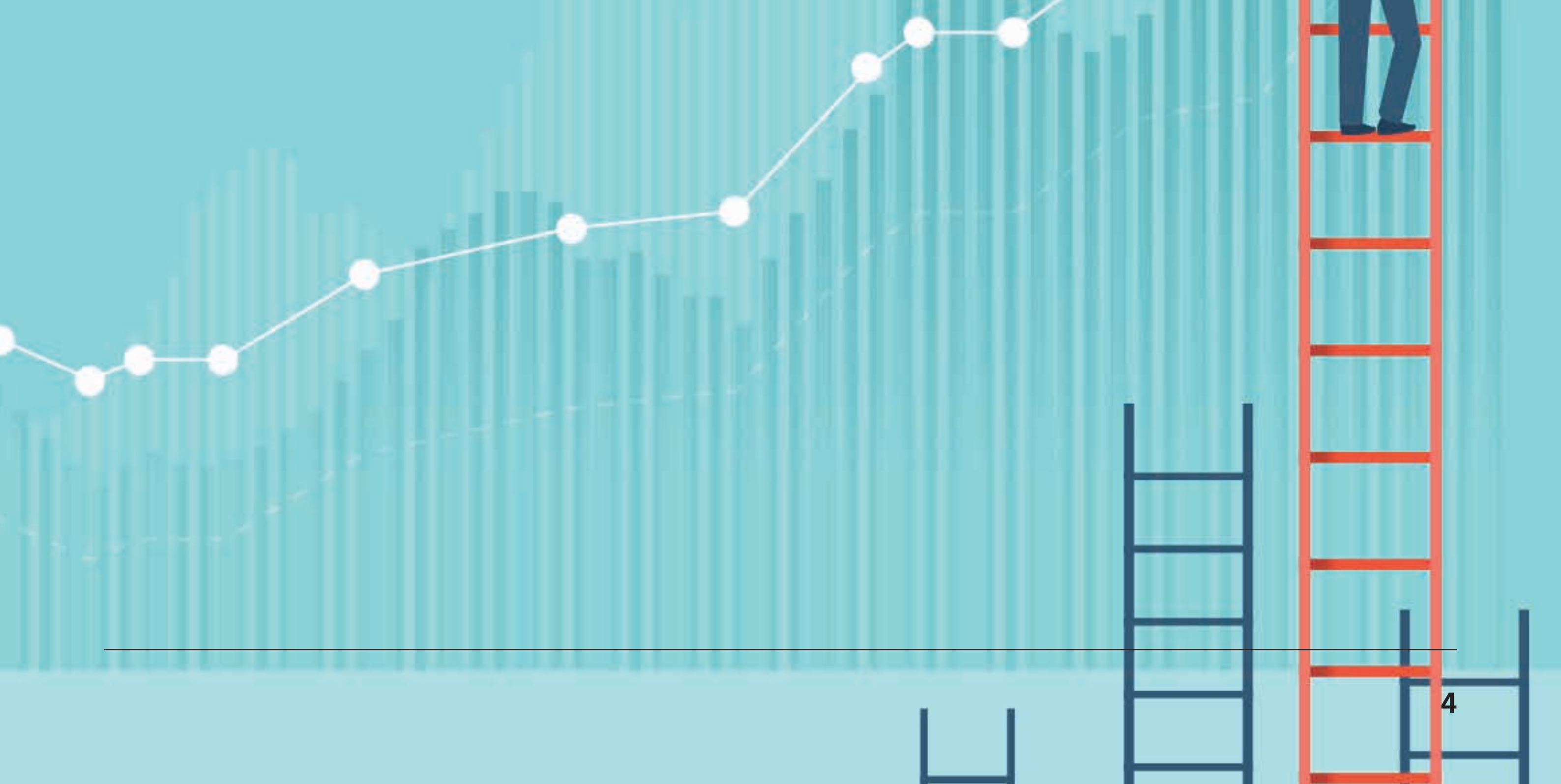
It appears that whilst investors in growth businesses are still comfortable in taking part in AIM's secondary fundraises, Brexit seems to have led to a wait-and-see approach among less tested companies considering floats.

But this is not a situation being solely experienced by AIM or indeed the UK. Proceeds from Eurozone IPOs fell 99% in Q1 of 2019 compared to the same quarter in 2018, while US and China IPOs raised half of their Q1 2018 totals.

The outlook for IPOs for the rest of 2019 is more positive though, with Loungers PLC, which operates the Lounge and Cosy Club brands of café bars, listing in April with a valuation of £183m.

Despite the final quarter of 2018 being particularly tough, the majority of companies on AIM seem to be weathering the storm and are coping well. In many ways the market grew in stature last year with the introduction of the mandatory AIM Rule 26 in September being an important feature in enhancing its standing.

AIM has thrived through a number of downturns, meaning most investors are not 'spooked' by the short term effects of Brexit – they can take a longer view and be confident that the market will bounce back. With a higher number of AIM companies now paying dividends, the future for AIM remains bright.



Improving communication between shareholders and investors: **AIM Rule 26**

As of 28 September 2018, AIM companies are required to provide details as to which recognised corporate governance code they have elected to follow under the new AIM Rule 26. This could be the much needed catalyst to propel corporate governance disclosures from an arbitrary requirement, often limited in its content, to a purposeful and informative report in which the reader can get a feel for the company's practices and culture, and increasing effective communication between existing and potential shareholders.

In 2018, UHY worked in collaboration with the Quoted Companies Alliance (QCA) to write our sixth Corporate Governance Behaviour Review report. The 2018/19 review consisted of an analysis of 50 small and mid-sized companies listed on AIM both before and after AIM Rule 26 coming into effect.

Previous editions of the Review had seen several companies disclosing the bare minimum on their websites and/or annual reports, with only the larger mid-size companies making a significant effort with their disclosures. During this time, a common phrase used by the smaller AIM listed companies was: "As the Company continues to grow, the directors will review their compliance with the code from time to time and will adopt such provisions as they consider to be appropriate to the size of the Company." The extent to which they were truly reviewing the code and explicitly trying to implement the recommendations was never disclosed and the phrase became the 'go to' boilerplate statement included in many corporate governance reports.

After the update to AIM Rule 26, we saw a stark improvement in the level and quality of disclosures, with a significant rise in the number of disclosures compared to previous years. For example, performance evaluation of the Board increased from 22% to 42%, and 70% of the companies provided a description of the roles and responsibilities of the chair, chief executive and any other directors with specific individual responsibilities or remits (an increase from 39% in 2017).

Further room for improvement

Whilst the new rule is definitely a step in the right direction there is still some work to be done. It is widely considered that a diverse board (not just limited to gender and ethnicity) can promote innovation and challenge the status quo of an already resolute board. However, our 2018 findings show that just 26% of companies describe the relevant experience, skills, personal qualities and capabilities that each director brings to the board.

For the past six years the results of our research have also been examined by a group of institutional investors. We often ask them the following questions: Does good corporate governance matter? Or is this just simply another box ticking exercise?

Every year the answer is yes, good corporate governance is very important and it does matter. Strong governance practices allow companies to tell the reader the story of their company's development, providing insights into what has happened over the past year – both the good and the bad. It all works together to build a picture of who the company is and where it is going.

Our group of investors said that those with insufficient disclosures could find it difficult to attract investment, as better disclosures allow companies to build a stable and trustworthy reputation. As most companies listed on AIM are usually in the growth stage of a business cycle, investors can look past the share price if it is apparent that there are sufficient governance structures and processes in place to support the upward trajectory of the company as it develops.

Aim Rule 26 gives companies an opportunity to access and review several aspects of their governance. If they struggle to effectively communicate their governance structures to stakeholders in writing, the board needs to ask whether the current approach to governance is the correct approach.

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M&A deal activity on the up for AIM

Despite ongoing political uncertainty, the weaker pound has presented a number of international companies with a good opportunity to buy AIM companies at more favourable prices.

Whilst the number of M&A deals taking place which involved AIM companies fell to 24 deals in 2018/19 (year-end 31 March) from 29 in 2017/18, 45% of these deals involved an international buyer last year compared to 38% the year before.

Investors are likely to be perusing the UK market with interest, with many potentially anticipating a further drop in value, dependent on the outcome of Brexit. Those prepared to take a risk are likely to be awaiting the final outcome of Brexit, hoping for an even better deal in the event of a post-Brexit fall in Sterling. Our second issue of this Outlook later this year may well be reporting an upturn in M&A activity.

The total value of transactions involving international buyers reached £1.3bn last year, which represented 63% of the total for all completed transactions (£2.1bn).

Private equity (PE) buyers were also particularly active, with eight transactions involving PE buyers last year, up from two in 2017. **The value of PE-backed transactions also reached an impressive total of £961.2m**, a significant increase from the £85m value over the same period in 2017.

It is possible that this was a reflection of fund managers' perceptions of an increase in the opportunities to acquire under-valued AIM companies which slipped under the radar of other buyers amidst broader investor nervousness during the course of 2018.

In many ways, AIM companies are currently in their best shape ever. London Business School's recent analysis of the AIM market shows three-quarters of constituents (by value) were profitable; two-thirds of constituents were dividend payers; and on average, companies had been on the market for 13 years.

The quality of acquisition targets on AIM is clearly on an upward trajectory and this has been further reinforced by the latest corporate governance requirements which came into effect last year. It is predicted that this improved emphasis on governance will improve transparency and accountability across the board. From our experience, once uncertainty is finally out of the way, any displaced activity usually picks up as well. With M&A activity already at full steam ahead, 2019 could be another busy year for AIM companies and their advisers.

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Value of daily trading of AIM shares soars

With perceptions of AIM being London's 'junior' market, institutional investors have often eschewed companies listed on AIM, not only because of their size, but because many of the shares were relatively illiquid. However, this has changed in recent years and the daily value of shares traded on AIM has climbed sharply. In 2017/18 (year-end 31 March 2018) the average value of the daily trading of AIM shares per company was £327,580. That is a 300% increase on just two years ago, when the average was £108,908.

Share liquidity is vital as it allows shares to be bought and sold with less impact on their price – in other words, the spread between bid and asking prices is relatively narrow. This is important for institutional investors because they can build up a stake or exit a position without significantly moving a company's share price. Good liquidity on an exchange therefore fosters confidence amongst investors, which in turn is self-reinforcing by attracting more investment-grade companies.

The recent sharp increase is a sign of increasing interest in a number of institutional grade companies that are now listed on AIM. Successful companies such as ASOS and Boohoo have prompted institutional investors to take a fresh look at the market for other investment opportunities – and there is an active market in these shares amongst private investors too.

This increased interest is partly due to institutional investors now feeling that they can rely more on AIM companies to have the right financial and corporate governance structures in place to make businesses investable. This is down in no small part to AIM's hard work to shed its 'wild west' reputation and introduce regulations to increase confidence.

Over £250 million trades on AIM on a daily basis

Company	Average value of shares traded daily 2017/18 (£)
ASOS	£29,235,300
Boohoo.com	£22,063,000
Fevertree	£16,583,000
IQE	£13,802,900
Burford Capital	£8,471,600
AIM total	**£277,480,300**

The recent corporate governance reforms, which oblige companies on AIM to comply with a 'recognised' corporate governance code, should only enhance the already burgeoning reputation of AIM amongst institutions.

More institutional interest in AIM listed companies could be a real game changer for the market and make AIM a much more attractive destination for businesses to list. If liquidity continues to increase as it has done over the past year, then investors will be much more excited at IPO stage.

Liquidity is crucial for any public market to encourage investment, and AIM is continuing to improve rapidly. Clearly, the next step for AIM to continue improving as a market is to increase the number of businesses choosing to list. The rise in liquidity will only help on this front.

A look at AIM:
The experts' perspectives

Colin Wright
Capital markets specialist
UHY Hacker Young

Dan Hutson
Capital markets specialist
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Michael Bennett
Corporate lawyer
Hill Dickinson

Marcus Stuttard
Head of AIM
LSEG

Matt Butlin
Nominated adviser
Allenby

We asked a panel of experts who work regularly with London Stock Exchange Group's (LSEG) growth market, AIM, and its quoted companies for their insights on the current state of play for the market. We asked why AIM might be the right choice for a company's IPO, and for their thoughts on how the market might need to adjust for the future.

We wanted a broad range of opinion, so our panel was selected from our own capital markets team, a corporate lawyer, a Nomad and the Head of AIM, Marcus Stuttard.

What do you think currently makes AIM an attractive option for businesses?

As LSEG's Head of AIM, we knew Marcus Stuttard would have a long list of reasons why he believes LSEG's growth market is of real appeal to businesses, but the other experts on the panel were inclined to agree.

Within his list, Marcus highlighted three key stand-out areas of strength for AIM; the ability for companies to raise capital, not just at IPO, but ongoing and on a long-term basis; the quality of investors who surround the market, which Marcus says is a comment he hears regularly from AIM companies; and the increased profile and visibility which AIM companies are afforded through their being on the market. Marcus told us that "AIM companies are frequently winning contracts that they couldn't win as a private company. Their position on AIM gives partners the confidence to do business with them through the added levels of transparency."

One of our own capital markets experts, Colin Wright, supported Marcus' views but added that the ever improving liquidity of shares is also of real appeal and means that AIM "is well regarded around the world as one of the leading markets for growth businesses". Colin also highlighted AIM's recent updates to their corporate governance requirements, which he believes are an improvement and which will result in better run and more transparent companies, less corporate failures and more attractive long term returns for investors. Dan Hutson, another of UHY's capital markets specialists, agreed with Colin and suggested the added benefit of the tax reliefs afforded to investors in AIM shares, which are numerous and range from capital gains tax reliefs to inheritance tax benefits.

Matt Butlin of Allenby also supported Marcus' views about the importance of the benefits of further fundraisings as a real attraction for businesses. He highlighted that, whilst more than £2bn of funds were raised through AIM IPOs in 2018, almost £4bn was raised through secondary fundraisings by companies already on the market. And it is the speed of process for raising further funds, particularly in comparison with most other global markets or private company fundraising, which Matt sees as a stand-out for the market. He summarised that AIM, if used correctly, can offer business owners capital for growth, a partial exit if required and a currency for acquisitions.

Michael Bennett of Hill Dickinson threw the role of the Nomad into the conversation, and sees this supervisory and regulatory steward of the market as a real benefit. Michael said that AIM "allows smaller companies to move quickly and adopt a flexible, commercial and risk-taking approach to developing their business with the support of a Nomad who knows the individual business, the sector, and the people involved."

Has the move to improve the quality of companies on AIM made for a tougher admission process and is there a risk that the more robust regulatory environment will make other markets more attractive?

There is certainly a consensus amongst our experts that the quality of companies on AIM today exceeds that of decades past. Whilst the number of IPOs has slowed, obviously in large a reflection of the subdued markets and economic uncertainty in recent years, the quality

"There are currently more technology companies listing in Europe than in the US, and with many of those on London's markets."

of those businesses that remain on AIM and which are coming to the market today are "one step further in their life-cycle and are of a size and stage of development, management sophistication and transparency which makes sense for accessing public markets" according to Michael Bennett, which he says "must be a good thing". Matt Butlin agrees saying that, "with hindsight, there was a period in the past when many companies were listing on AIM too early in their lifecycle and which were not ready for the extra costs and management time that a quotation on AIM demands".

Colin doesn't believe that this higher quality of AIM companies is necessarily the result of a tougher admission process, but rather a more stringent suitability assessment being made by Nomads at the start of the process. He says "in the past there were too many inappropriate companies listed on AIM and too many aborted admission attempts with Nomads realising that their clients were not suitable for a public market at too late a stage in the process, resulting in wasted time and costs for all involved." And Dan is quick to point out that "the bar being set at a sufficiently high level provides credibility which in itself is attractive".

Marcus agrees with Colin that nothing has particularly changed in terms of the rules, which are fundamentally the same. He is clear to point out that London Stock Exchange has been "very careful to evolve the market but stay true to the original founding goals from its launch, of being a disclosure and principals based market". Marcus believes the higher quality of AIM companies is also the result of the investors surrounding AIM and the increase in their desire to invest in a slightly larger company.

But a few of the commentators felt that tighter regulation of a market and an IPO process, which requires companies to be more advanced in their development and with better access to third-party funds pre-IPO, will of course deter some and make other markets more attractive. Those experts did agree, however, that this is a good thing for companies on AIM, giving them access to a bigger and better quality pool of investors who see AIM as a serious investment market and who are willing to invest more substantial sums.

Have you seen any trends in new entrants to the market coming from specific sectors – or are any sectors particularly growing faster than others?

Marcus is extremely proud of the varied range of markets represented on AIM, and cites companies from a total of 38 sectors coming from more than 90 countries according to the latest stats. The experts agreed that there were certainly some more prominent sectors coming to the market in recent years, with technology companies getting a mention from most. Marcus told us that there are currently more technology companies listing in Europe than in the US, and with many of those on London's markets.

Predictions for continued prominence covered more tech businesses, with a reference in particular to gaming companies from Marcus, who cited the IPOs of Codemasters Group Holdings and Team17 Group last year.

The new kids on the block, referenced by both Dan and Michael, are the medical marijuana companies coming in from Europe – with both commentators having seen a flurry of interest in recent months. But all were agreed that the investors are ultimately looking for small to mid-sized operators in high growth areas of the economy, with Matt adding that companies which can qualify for EIS and VCT fund investment "add another layer of investor interest."

AIM companies are now required to apply a recognised corporate governance code. What do you think will be the main challenges for AIM businesses in implementing this change and have you observed an actual improvement in corporate governance?

The general consensus amongst the commentators is that the requirement for good corporate governance has become the norm, particularly for public companies. It remains a topic high on the board agenda for many companies and, where it is, it is seen to boost companies' reputations, improve internal controls, reduce the risk of conflicts and frauds and ultimately ensure long term corporate success and growth for companies.

Marcus was quick to point out that the rule change last year was merely an evolution from a previous requirement in Rule 26. All AIM companies were previously required to have a website on which they disclosed information including details about the governance code they had selected to follow, and to explain to what extent they were complying with the code. That rule has now been extended to ensure that all companies must choose a code and state the extent to which they comply, but also to provide an explanation for areas with which they do not comply.

Matt explains that AIM investors, while they require a strong level of corporate governance, also need to recognise that "smaller companies do not typically have the resources to comply fully with many of the corporate governance codes". Dan believes that good corporate governance is "not something that can be documented and put on a shelf to be referred to as and when needed but must be embedded in culture and mindset", like Matt, Dan believes that "improving corporate governance takes time and, whilst the need to adopt a recognised code is a good step forward, the real test will follow in the coming years when it can be determined as to whether those processes have been embedded and are at the core of how the business is run". Colin added that success will lie with each company's board of directors, who he says will need to "maintain their enthusiasm and ensure that their companies deliver on the changes, continually keeping their policies updated and relevant for their company, stage of growth and industry".

Marcus summarised AIM's objectives for the evolution of the regulations, he said "We are trying to make sure there is a good and consistent disclosure of companies' governance arrangements, so that investors can have informed conversations with companies. We do not want boilerplate statements, we really want companies to think about their governance arrangements and how they are appropriate for the individual company bearing in mind its size and stage of evolution. We want them to keep their governance under review so that, as the company grows, the board can think about how they evolve those arrangements in conversations with their investors, with relevant input from their Nomad. It is a good opportunity for companies to take stock of their existing corporate governance arrangements and, in some cases, think about whether their disclosures properly reflect the board arrangements and disclosures they have in place and whether some of those processes need to evolve".

A number of Nomads have left the market. Given their prominent role, do you see this as a continuing trend or threat for AIM?

Everyone saw the role of the Nomad as one of the unique features of AIM which adds real strength. Dan summarised it as "a unique role which carries a significant regulatory burden but provides real benefit to the small and mid-cap market". While all of our experts acknowledged the reduced number of Nomads as compared with a few years ago, there was mixed opinion as to how much of a threat this is to the market. Colin believes that the reduced number is possibly a result of natural de-selection and that the market is better placed as a result. He feels that the reduced number "is only a threat if it continues to the point that there is insufficient competition, quality and choice in the market".

Michael showed empathy for the increasingly stringent remit of the Nomads, however, saying "As corporate lawyers there are very few professions we feel sorry for, but Nomads are one! Essentially, individual Nomads are being asked to take more responsibility, undertake more work, and look after more clients, for less money than they earned in 2005!" He goes on to point out that fewer Nomads will inevitably drive up prices and suggests that is "perhaps not a bad thing", given that increasing prices are likely to result in the emergence of new Nomads.

Matt is more downbeat in his view of the current decline in Nomad numbers and emphasised the stats, which show a reduction to only 31 Nomads currently supporting the market, down from 41 five years ago. He said "I am sure we will end 2019 with that figure somewhere between 25 and 30".

But Marcus believes there is still "plenty of choice and plenty of capacity". He suggests that, given the very central role of the Nomad, it is important that firms continue to have relevant ongoing transactional experience and states that London Stock

> "The requirement for good corporate governance has become the norm, particularly for public companies."

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Exchange is "very confident that the set of Nomads that we have are very active in the market and have the relevant experience". He also highlighted the importance of having a broad enough set of firms with sector focus or experience with varying sizes of business.

What do you believe are the main risks for AIM and its companies over the next 12 months?

No points for guessing the leading response to this question from all commentators. The much abhorred 'B word' and the continuing economic uncertainty were always likely to have an impact on the volume of IPOs taking place across AIM, as it has across all European markets. But the first quarter of 2019 has actually seen AIM buck the trend of reduced investor appetite which normally correlates with a recession or bear market. Indeed, despite Brexit worries, there was still more money raised on London's AIM market in the first quarter of 2019 than on eight of its European growth market rivals combined. AIM companies raised almost £1.1 billion in 106 fundraises in the first three months of this year, compared with £424 million raised in 41 fundraises on eight other junior markets in Europe.

Colin supports these stats with his belief that AIM companies can possibly be in a stronger position than their private counterparts "as long as the market and its companies can keep up with change and compete with any disruptors". He believes that AIM has a real advantage due to its long history and dominance. Where Colin sees potential for concern is from other market competitors in Europe, and further away, who he says "would love to be able to grab some of AIM's success by enticing companies away from AIM".

Michael highlights the importance of the need to "continue lobbying and working with the City of London and other non-partisan groups to ensure AIM listed companies can still efficiently access capital from Europe". He feels it should be a priority to "ensure the UK remains at the forefront of the early-stage tech and life-science developments and a place where entrepreneurs can successfully base their company, access capital, and retain control of their original vision".

And Marcus' opinion reflects that shown by the early 2019 stats on fundraising, he said "We continue to see investors deploying significant amounts of cash and capital through secondary fundraisings, which has been a long-term trend over the life of AIM, and this gives us continued confidence in the market. It is a key strength of AIM and continued to be so even during the period of the financial crisis. Companies on AIM are in a stronger position than some of their private peers due to their access to a deeper pool of capital."

What needs to be done to continue to attract high quality companies to AIM going forward, especially with the continued uncertainty and risk of Brexit?

Dan was succinct in his response to this question, highlighting that it's all about balance. In his opinion, AIM must continue to "manage the tightrope between running a respected market but not one that overly burdens companies with red tape".

Colin, whilst acknowledging the need to continue the focus on improved corporate governance, gave a nod to the younger generation of investors. He flagged the group as being increasingly interested in ensuring the companies in which they invest are focused on environmental sustainability, make an effective social impact and provide equal opportunities. They are also interested in real technological disruptors. Colin says "Impact investing, and socially responsible investing, is rapidly growing and the next generation of investors want to generate social and environmental impact as well as financial returns. AIM should ensure that it is pushing its companies to openly address these issues and challenges as well as communicating their achievements in these areas to their investors and other stakeholders."

For Michael, he is looking for AIM to return its focus to junior mining and resources companies. He wants the market to "champion the resources sector and build the technical specialism needed to support and capitalise on improved commodity prices, as it did in the 2000s". He indicated that it was macro-economic factors which impacted a number of high quality exploration projects, leaving them adrift as access to capital dried up. As these companies make a return to form, he is looking to AIM to provide "the knowledge, expertise and research they need to enable the 'best in class' to access the much needed funding".

For Matt, he believes the future for AIM is bright. He thinks AIM should be really profiling the major success stories on AIM, citing the ten companies currently listed on AIM with a value in excess of £1bn, saying "most of these companies joined AIM at a fraction of that value, but successfully used AIM for fundraisings and M&A to achieve the levels they are at today". As he was keen to point out "Success breeds success."

And it was down to Marcus to end the conversation on a high, saying "A wider set of companies are raising capital to accelerate their growth and we would expect an increasing number to understand the benefits of raising that capital through AIM, so we are doing lots to build the pipeline, with much planned business development. At London Stock Exchange Group, we are also working with companies through our ELITE initiative; where they receive early stage business support, mentoring and education, through intermediaries, lawyers, accountants and also through earlier access to investors and capital. This is to ensure the whole early financing ecosystem is joined-up, allowing companies to move seamlessly through seed capital to venture capital to public market, ensuring no gaps."

"AIM must continue to manage the tightrope between running a respected market but not one that overly burdens companies with red tape."

Which market is best for your company?

Colin Wright
Capital markets specialist
UHY Hacker Young

When talking to companies who are considering a public listing, we often get asked which market is best for them. The answer is rarely straightforward, with multiple factors to consider, and can often depend on the stage of development of the company alongside its future plans and aspirations.

In this article, Colin Wright of our capital markets team takes a closer look at each of the UK's market alternatives, explores what makes them different and how to determine which one could be right for your company.

Being 'listed'

When companies describe themselves as being 'listed' on their websites or marketing literature they do not always make it clear which market they are listed on, let alone which segment of a market.

In the UK there are the following routes to being a listed company:

- London Stock Exchange: Main market – Premium Listing
- London Stock Exchange: Main market – Standard Listing
- London Stock Exchange: Main market – High Growth Segment (HGS)
- London Stock Exchange: Alternative Investment Market (AIM)
- NEX Exchange – Main Board
- NEX Exchange – Growth Market

Each of these alternatives is geared to different types of business, with different requirements both for listing and for ongoing compliance and regulation.

LSE Premium Listing

A Premium Listing is aimed at the largest listed companies on the London Stock Exchange (LSE) that are looking for a highly liquid market. To maintain a Premium Listing companies must meet and maintain the UK's highest standards of corporate governance and comply with ongoing listing rules; with all of this incurring significant listing and ongoing costs in order to qualify. The Premium Listing is only open to equity shares, not listed debt. To obtain a Premium Listing, a company must comply with the listing requirements imposed by EU legislation and with more onerous 'super-equivalent' standards set by the UK's Financial Conduct Authority (FCA) and included in the Listing Rules.

LSE Standard Listing

The Standard Listing is used for equity shares, Global Depositary Receipts (GDRs) and debt listings. A Standard Listing allows issuers to access the LSE's Main Market by meeting EU standards (reflected in the Listing Rules) only, rather than the UK 'super-equivalent' requirements required for a Premium Listing.

LSE High Growth Segment

The LSE's High Growth Segment (HGS) is a segment of the LSE, launched in 2013, which is designed to attract mid-sized UK and European companies that can demonstrate significant growth in revenues and are aspiring to join the Premium segment of the Main Market. These companies must be incorporated in the EEA, have historic revenue growth of 20% over a 3 year period, have free float of at least 10% (with a value of £30 million) with the majority raised at its admission to HGS.

AIM Market

The AIM market has been operating for more than 20 years and was developed to meet the needs of smaller, growing and emerging companies. It is the most popular choice as an alternative to joining the Main Market. AIM is not a regulated market so companies are not required to comply with the full listing requirements of the FCA. It is focused on helping smaller, growing businesses raise capital to aid their growth and to raise the profile of companies with its investors, customers and other stakeholders. Whilst initially focused on meeting the needs of UK growth companies, AIM is also well known internationally, not just in terms of investors, but also the number of international companies on its market.

Rather than prescriptive entry criteria, for example on minimum size, trading history or free float, companies must instead demonstrate their readiness and suitability to join a public market. AIM can be seen as a stepping stone to ultimately moving up to the Main market but many companies remain on AIM for as long as they are public companies.

NEX Exchange Main Board

The NEX Exchange Main Board is an EU regulated market aimed at large companies also listed on the LSE or another EU regulated market. These companies would join the Official List of the FCA in a similar manner to those on the LSE Main Markets.

NEX Growth Market

An alternative to AIM is admission to the NEX Exchange Growth Market (formerly called ISDX, PLUS and for those old enough to remember, OFEX). The NEX Growth Exchange is geared to smaller companies that would typically list on AIM. The market generally has less liquidity and is harder to raise capital. It is, however, easier, cheaper and quicker to list on NEX, and the NEX regulation team are currently looking at ways to increase the number of companies on this market.

What are the main differences between the three growth markets?

For the purpose of this article, we have considered the needs of small and medium sized growth companies considering a stock market listing and, as such, we look at the differences between the LSE Standard Listing, AIM and the NEX Growth market.

The listing requirements and financial regulations are numerous between the three main choices for growth companies. On the next page we have detailed the key differences in requirements, and the areas which we are most frequently asked about by companies considering a listing. We have merely attempted to provide a brief summary of the differences and, as such, you should seek detailed advice in relation to your company before coming to a decision.

The following table applies to trading companies. Investment companies may be allowed certain variations in the respective rules, for which you would need to seek specific guidance.

Requirements	Standard Listing	AIM	NEX Growth
EU regulated market	Yes	No	No
Inclusion in FTSE indices	Not eligible, only Premium Listed companies are eligible	Not eligible	Not eligible
Listing documentation	Prospectus, vetted and approved by the UK Listing Authority (UKLA)	Admission Document, not vetted by UKLA or AIM Exchange. The Nominated Advisor (Nomad) is responsible for ensuring its compliance	Admission Document, not vetted by UKLA or NEX Exchange. The Corporate Advisor is responsible for ensuring its compliance
Revenue track record	No formal requirement but normally three year trading record required	No trading record required, but preferred. AIM may require substantial investors to be 'locked in' for 12 months after listing if there is minimal revenue earning for at least two years	Minimum 12 months trading history, with published audited accounts covering at least 12 months. NEX may require substantial investors to be 'locked in' for 12 months after listing
Minimum market capitalisation at listing	Minimum market capitalisation of at least £700,000	No minimum market capitalisation	No minimum market capitalisation
Shares in public hands (free float)	25% of your shares must be held by the public	No prescribed level, but a minimum level preferred. Nomad must assess the probability of sufficient liquidity following listing (appropriateness)	Minimum of 10% of issued shares held by the public
Sponsor required	No sponsor required. Only required for Premium Listed companies	A Nomad is required at all times, a unique feature of AIM. The Nomad must ensure the company is appropriate to the market and that the directors are capable of acting for a public company	Corporate Advisor is required at listing, and at all times, who will work with the NEX regulation team during the admission process
Corporate broker	No requirement	Company must appoint and retain a broker at all times. The Nomad may also be the broker	No requirement
Prospectus for listing	Prospectus required	Admission Document required, similar information as Prospectus	Admission Document required, similar information as Prospectus
Historical accounts at listing for admission	Must have audited accounts, published or filed, for a three year period (or shorter period since incorporation). Audited accounts may not be more than nine months old, otherwise six monthly interim financial information (which may be unaudited) required to be published in Prospectus	No formal trading record requirement, but three years preferred. Audited accounts may not be more than nine months old, otherwise six monthly interim financial information (which may be unaudited) required to be published in Admission Document	Must have audited accounts for a three year period, if trading for more than three years. Audited accounts may not be more than nine months old, otherwise six monthly interim financial information (which may be unaudited) required to be published in Admission Document
Accounting framework	IFRS (EU) or other approved GAAP (IFRS equivalent) for non-EEA companies	IFRS (EU) or other approved GAAP (IFRS equivalent) for non-EEA companies	IFRS (EU) preferred but UK GAAP or US GAAP allowed. Other (IFRS equivalent) national GAAP allowed if pre-approved by NEX Exchange
Financial reporting obligations following listing	Must publish annual accounts within four months and half-yearly financial reports within two months	Must publish annual accounts within six months and half-yearly financial reports within three months	Must publish annual accounts within five months and half-yearly financial reports within three months
Management statements	Must publish an interim management statement in each six-month period of the financial year	No requirement	No requirement
Corporate governance	Must identify the corporate governance code it is subjected to in its directors' report and its degree of compliance	Expected to comply with corporate governance guidelines for smaller quoted companies and required to provide details on which code it is following. Where they have identified areas of non-compliance they are required to explain why	Less onerous and prescriptive, NEX companies should have due regard for the principles laid down by the UK Corporate Governance Code published by the FRC, insofar as appropriate in relation to the nature and size of the issuer
Prior shareholder approval for significant transactions	No prior shareholder approval for most transactions, including significant transactions	No prior shareholder approval for most transactions, unless the transaction is a reverse takeover or disposal resulting in a fundamental change of business	No prior shareholder approval for most transactions. A NEX listed company must announce, as soon as possible, the agreed terms of significant transactions
Tax relief	Does not qualify for tax relief through an enterprise investment scheme (EIS) or venture capital trust (VCT)	Does qualify for tax relief through an enterprise investment scheme (EIS) or venture capital trust (VCT), provided certain criteria are met on size limits, fund raising limits and type of trading activity	Does qualify for tax relief through an enterprise investment scheme (EIS) or venture capital trust (VCT), provided certain criteria are met on size limits, fund raising limits and type of trading activity

Choosing the right market for your company

There are clear benefits to all three markets. The ability to raise capital can vary widely between the three, as does liquidity of share trading following an initial listing. Standard listed companies have higher requirements for corporate governance, financial reports, interim management statements, and annual information updates to be released to the public, thereby creating better investor confidence. They are also not required to get pre-shareholder approval for potentially transformative decisions, such as acquisitions or large placings, whereas AIM companies do. AIM companies are required to keep a Nomad and broker on retainer and refer to them for compliance issues. Some companies may prefer a Standard Listing in order to avoid ongoing Nomad costs and potential Nomad and shareholder interference.

Likewise, a number of companies prefer AIM and NEX as results and activities are not required to be disclosed as quickly as Standard Listed companies and there are more lenient reporting requirements.

Before making any decision regarding the market for your listing, it is vital that you weigh-up your objectives for the listing, what are you hoping to achieve? And also determine whether any of the routes to market could cause concerns for current and future shareholders and the company's strategy going forward.

The AIM Designated Market Route

There is a fast-track admission route to AIM, which allows for a more streamlined process, for companies with shares that have already been listed on one of a set group of overseas exchanges.

The requirement is for the company to have had shares listed for at least 18 months on the top tier markets of either the Australian Securities Exchange, Johannesburg Stock Exchange, NASDAQ, NYSE, SIX Swiss Exchange, TMX Group, the UKLA Official list, or any EU Regulated Market or SME Growth Market.

Maybe surprisingly, there is no fast-track route for an AIM company wishing to move to the Main Market. Companies are required to go through the full LSE admission listing process. It is however possible for a Standard Listed company to move to the Premium Listing without needing to issue a new prospectus, unless it is also offering shares to the public as part of the moving process.

NEX Exchange offers a fast-track and dual-listing route to listing on the NEX Growth market.

A Scottish and Impact alternative

To further add to the choice of stock markets in the UK, there are currently plans in motion to set up a new stock exchange in Scotland, which could be up and running by the end of 2019. The Scottish Stock Exchange (Project Heather) will be based in Edinburgh and run on a Euronext trading platform. It is expected to benefit growth sectors in Scotland and globally, particularly renewable energy, biotechnology and social and environmentally friendly companies. We look forward to being able to feature more details on this initiative in a future publication.

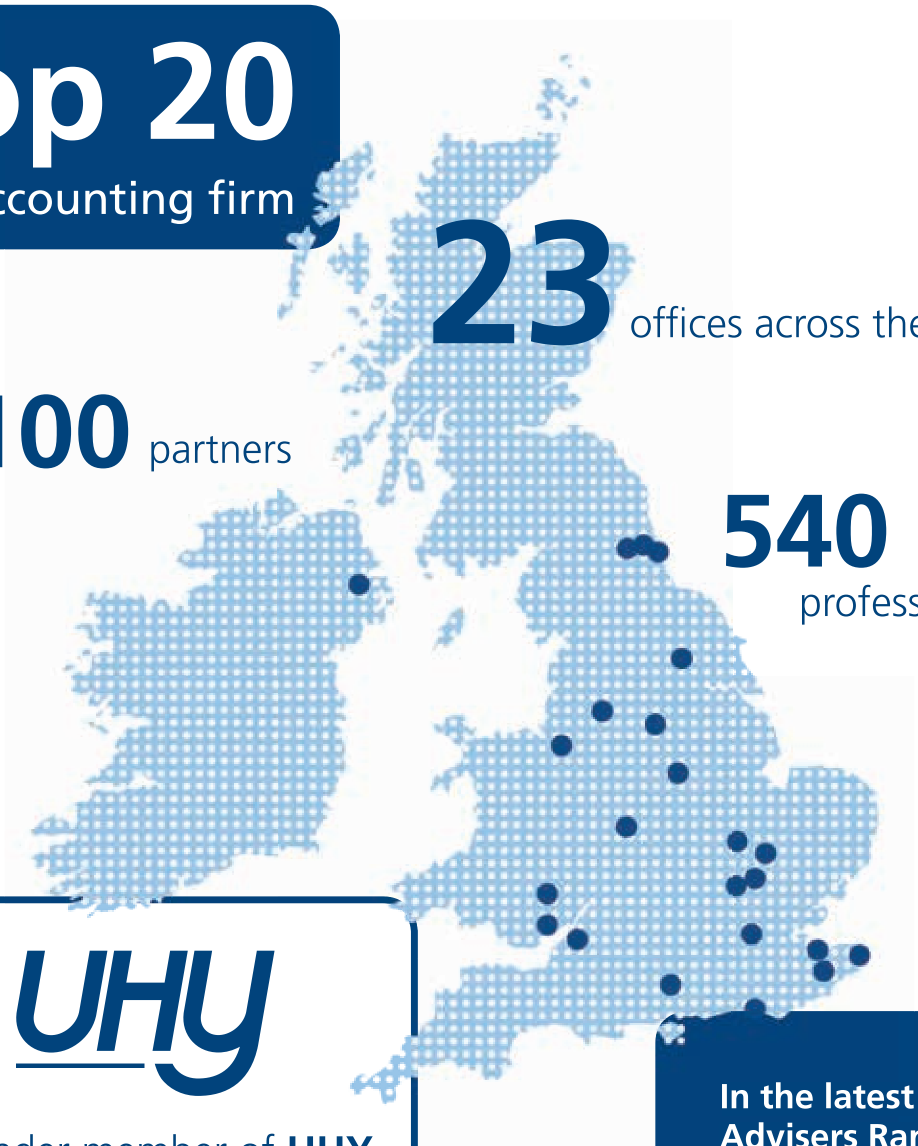
European alternatives

There are also several European alternatives for SME growth companies. The Nasdaq First North market has recently become more popular for UK companies and it now has a total of more than 260 companies. The Irish Stock Exchange is common for UK companies listing their debt and the Vienna Stock Exchange is also used by UK companies for debt and equity listings.

If you are considering a listing and would like further advice on the best market for your business, please contact one of our capital markets team who will take you through an exercise to determine the company's readiness for a public listing, and explain the options available to you.

Our national expertise

Top 20
UK accounting firm



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Founder member of **UHY,** our international network

325 offices
in more than
100 countries

In the latest Corporate Advisers Rankings Guide, we are currently ranked:

15th
by number of AIM listed audit clients

13th
by number of stock market audit clients

Our capital markets experience

If you are looking to float on a stock exchange our Capital Markets specialists can advise you on the most appropriate markets to consider, such as AIM, NEX, the LSE Main Market or other international markets, and will provide continued advice throughout the listing process.

We are currently ranked 13th in the latest Corporate Advisers Rankings Guide for auditing stock market clients and 15th for AIM listed companies specifically. Our experts have a wealth of experience advising both UK based and international companies and provide an integrated and tailored approach.

Providing a comprehensive range of services

The range of services we provide to the sector includes:

- Advice on market most suited to your needs
- Assistance in preparing financial model and business plan
- Business valuations
- Introductions to other advisers
- Tax planning and international tax advice
- Ongoing support with regulatory commitments and reporting duties
- Secondary fundraisings
- Moving markets.

Contact us

For more information, get in touch with your local capital markets specialist:

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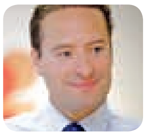

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Other office locations: Abergavenny, Ashford, Belfast, Birmingham, Bristol, Broadstairs, Cambridge, Chester, Huntingdon, Jarrow, Letchworth, Newcastle, Nottingham, Royston, Sittingbourne, Sunderland, Winchester, York.