

AIMing in the right direction

The Alternative Investment Market (AIM) has been established for over a decade as a UK stock market for smaller companies, offering substantial tax breaks for investors. Here we weigh up the advantages and disadvantages, and highlight the procedures, for both companies and investors.

AIM at a glance

AIM was set up in 1995 by the London Stock Exchange (LSE), particularly to help smaller, but innovative and entrepreneurial companies to raise capital and create a market for their shares. It has its own rules and regulatory requirements, simplified relative to LSE's main market. There is

easy and economical route to market, but it is, of course, not a one way street and set out on the table below are some of the main benefits and drawbacks.

If you consider that your company may be ready, or are interested in grooming your company for AIM, then you will need to be aware of the following:

Suitability for AIM

It is important to address what investors are likely to be looking for. This will include a business plan (setting out the clear reason for coming to the market and illustrating real growth

The Professionals

You will need a skilled team of advisers working closely together. These will include a Nominated Adviser (Nomad) who will assist your company in complying with the rules of the market and will stay with you after flotation. A Broker will be needed to assist in pricing the issue, helping to place shares and promoting trade once you have come to market. Solicitors will be needed to act with the Nomad and also to provide advice, and a Reporting Accountant will also have a major role in assessing the project and putting together the necessary financial information.

Documentation

You should not underestimate the management and professional advisers' time required for

Benefits	Drawbacks
To raise capital for funding organic growth or acquisitions	You must accept the disciplines and scrutiny of having shares traded publicly
To offer existing shareholders an exit strategy and a chance to realise their investments	The directors will face increased accountability for their decisions and actions, and must ensure that the company is run in the interests of ALL shareholders
To issue shares, as opposed to paying cash, in order to acquire other businesses	The amount of work, (in particular, senior management time) required during the admission process
To raise your company's profile and status with customers and suppliers around the world	Dilution of the interest of the existing shareholders and thus control over the company
To broaden your company's shareholder base	The shares may not always be easily tradable
To reward and encourage employees through the introduction of share incentive schemes	The uncertainty created by market conditions and other factors, which may affect the share price

no minimum size or requirements with regard to track record, which makes the barriers to entry lower than the LSE.

Already established as Europe's leading market for smaller, growing companies, more than 2,200 have been admitted to AIM since its inception, including 200 companies from 22 different countries outside of the UK. More than £24 billion has been raised.

One of AIM's goals is to increase the number of non-UK companies listed so, as well as countries such as Australia, USA and Israel, we can expect more listings from the likes of China and Central & Eastern Europe. The types of companies listed on AIM are diverse, with strong representation for the gas, oil and mining sectors.

AIM for entrepreneurial businesses

Is AIM right for you? A flotation on AIM can be an incredibly powerful way to continue the growth and development of a company. It is a relatively



potential), evidence of a good management team (with the necessary experience to take the company forward), strong financial controls, established systems of management reporting and transparency over ownership and control.

preparing and presenting documents in an acceptable form. Two of the key documents are the 'Admission Document' containing a full description of the company, its history, business, future plans, senior management, and so on and the 'Long Form Report' which is a detailed accountants report on the finances and prospects of your company.

How does a company come to AIM?

The shares of a company can be brought to market by any one of four routes: a) an offer for sale, whereby shares are offered by a company sponsor to institutional investors and private individuals, b) an offer for sale by tender - shares are underwritten at a minimum price and applicants may subscribe for shares at any price above this level, c) a placing - new shares or shares of existing shareholders are offered to a fairly narrow group of people, or d) an introduction, when a company's shares are already widely held and the company can simply be 'introduced to the market'.

If you would like to learn more about taking your company to AIM, please call Colin Ellis on 020 7022 0060 or email cle@hydeconsulting.com



Costs And Timing

The costs of admission to AIM are considerably lower than a full listing, but are still likely to be in the range of about £300,000 to £400,000.

Although the admission process is simpler than a full flotation on the LSE, you need to start the ball rolling up to six months before the target date. From then on the process accelerates with draft documentation available about three months before the flotation date. You need to be prepared for virtually full time involvement of all relevant people in the last six weeks.

AIM for the investor

Those used to investing in blue chip companies may shy away in horror at the perceived investment risk of the AIM market and, at the time of writing, many of the smaller AIM listings have been particularly volatile. There has also been bad press with regard to the management of some of the poorer companies.

However, whilst it may be necessary to apply additional criteria or caution, one should not lose sight of the advantages. The volatility can act to the benefit of the investor as the very size and nature of the companies on AIM means that the potential for exponential growth is much greater than for bigger, more mature companies.

The risks can be managed, partly by understanding the composition of the companies on AIM. If one thinks of it as a pyramid, with the smallest or start up companies (capitalised at perhaps £3m or £5m) at the base, then (unless you have specific reason to do so) investing in these may be considered a bit like the 3.30 at Goodwood! At the next level are companies which have shown an ability to survive and may be capitalised at, say, £15m. These may have potential for growth, but should still be considered as very risky.

The top of the pyramid is the area where institutional investors have become active, with companies capitalised at more than £50 million and this may now be viewed as prime private investor territory. Many well know names such as Domino's Pizza, Majestic Wine and Young's Brewery are in this category and, in addition to their substance, are also well researched with relatively good liquidity in terms of buying and selling shares.

In addition to the opportunity for large (and sometimes fast) profits, investing on AIM also currently offers some tremendous tax breaks. The tax benefits arise because investments in AIM listed companies are capable of qualifying as business assets (and usually do so). This has two massive advantages:

Capital Gains Tax Mitigation

Business Asset Taper Relief applies provided there is no substantial non-trading aspect to the company. This effectively reduces the rate



of CGT on any gains to 20% for investments held for over one year and 10% for investments held for more than two years. For active investors, this has the great benefit that they have the potential to keep 50% more of any gain, (i.e. 90p in the pound instead of 60p), and thus reinvestment decisions are not curtailed by a high hurdle rate for replacement shares.

Inheritance Tax Mitigation

As soon as estates are in excess of £285,000, the state takes a whopping 40% of any balance. Whilst one can plan against this to a certain extent, there are often drawbacks, such as having to be sure you will live for another seven years, having to part with capital or income that you may need later in life and so on. However, investment in the appropriate AIM listed shares is an ideal way to wholly mitigate inheritance tax, retain control of your assets, and benefit from the income and any capital growth. Qualifying AIM listed shares have full exemption from IHT provided that the shares have been held for two years and the company conducts a qualifying business (share or property dealing or investment holding companies are excluded). For the more mature investor, therefore, the shares will no longer be part of the estate for IHT purposes - giving massive savings of 40% on what is left to your loved ones.

As can be seen, the potential CGT and IHT benefits are tremendous and the only word of caution is that with the government's voracious appetite for our money, the generous reliefs currently available may be reduced in future.

How To Invest

Any good stockbroker should be able to help you to select and deal in the right AIM stocks for your portfolio. If you are investing for IHT mitigation then it is quite possible to create a separate AIM portfolio in which investments can be switched but, by judicious management, the 100% relief from IHT can be retained (once you have survived the initial two year period).

If you are looking to set up an AIM portfolio, then it may be sensible to agree basic criteria with your stock broker. For example, you could agree a minimum market capitalisation of, say, £40 million, a yield of 1% with the dividend covered 1.5 times and gearing of less than 50%.

If you are interested in AIM investment or tax breaks, then please contact Malcolm Coomber or Charles Green on **020 7022 0050**. If you would like to learn more about taking your company on to AIM then please contact Colin Ellis on **020 7022 0060**.