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# Alternative Investment Market: The first ten years

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# Background

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- Established by **London Stock Exchange** in June 1995 as a regulated market of a Recognised Investment Exchange
- It replaced the Unlisted Securities Market (USM)
- Provides a **less costly** route which could be used by smaller companies to **raise capital** both on their introduction to the market & thereafter

- The market provides an opportunity for companies to **raise capital** for expansion, a **trading facility** & a way of **establishing a market value for their shares**
- AIM companies tend to **trade on wider spreads** than companies on the main market, & **liquidity can be a problem**
- One of the advantages of investing in AIM companies is that for tax purposes they are **treated as 'unquoted investments'**.
- Significance is that for every year that you hold AIM shares, you get 5% **taper relief** on any gains you subsequently make.

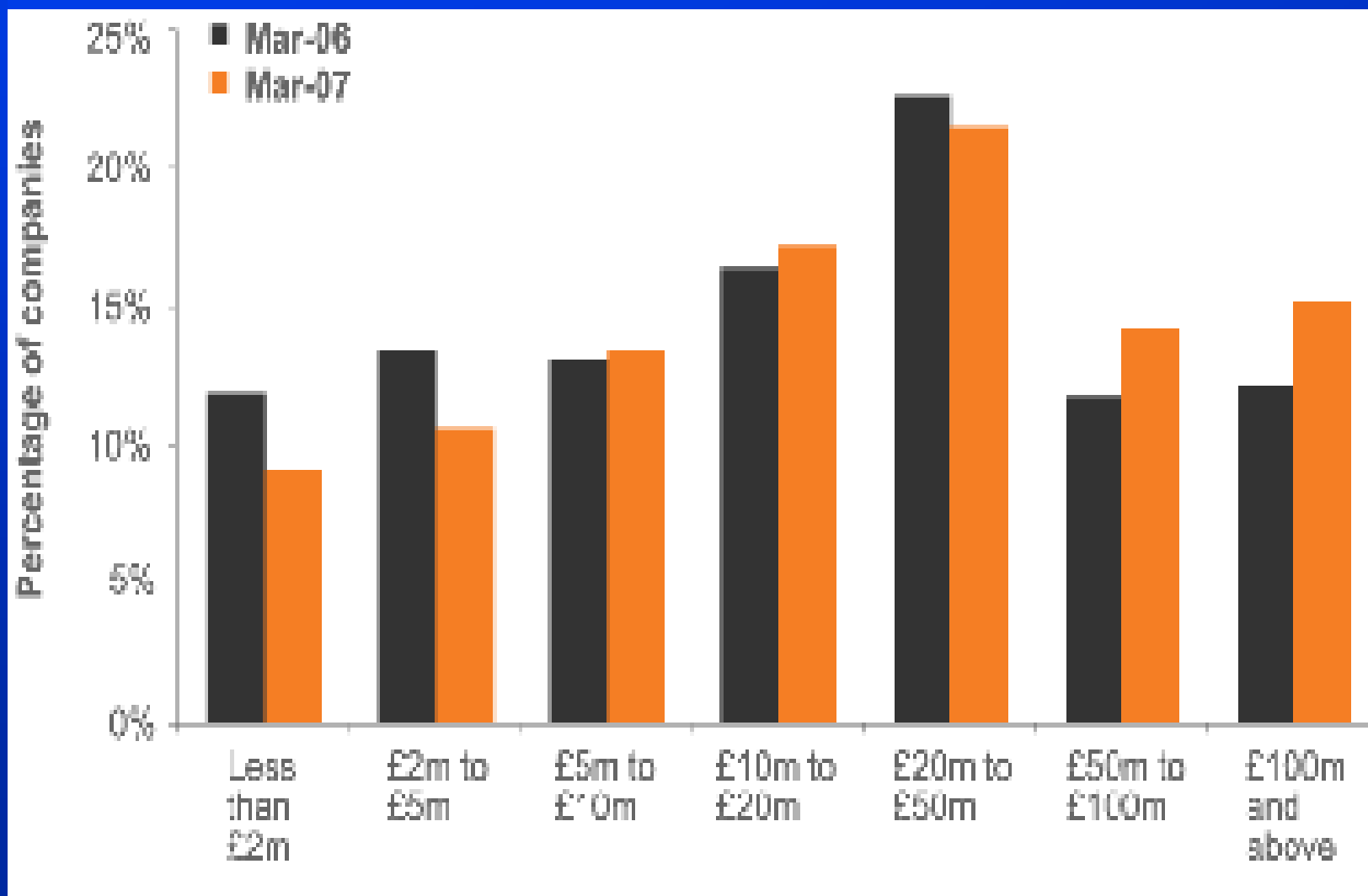
eg a higher rate taxpayer who would normally pay 40% CGT, & holds shares for one year then sells them, only pays 35% CGT. If held shares for four years or more, the tax rate falls to 10%.

- By the end of 2004 almost 1,000 companies were on AIM & its market capitalisation has risen to about £24,000,000,000
- The market has proved particularly popular with mining & resource companies in recent years
- By some calculations, AIM has accounted for almost two-thirds of total IPO's in Western Europe during the past year

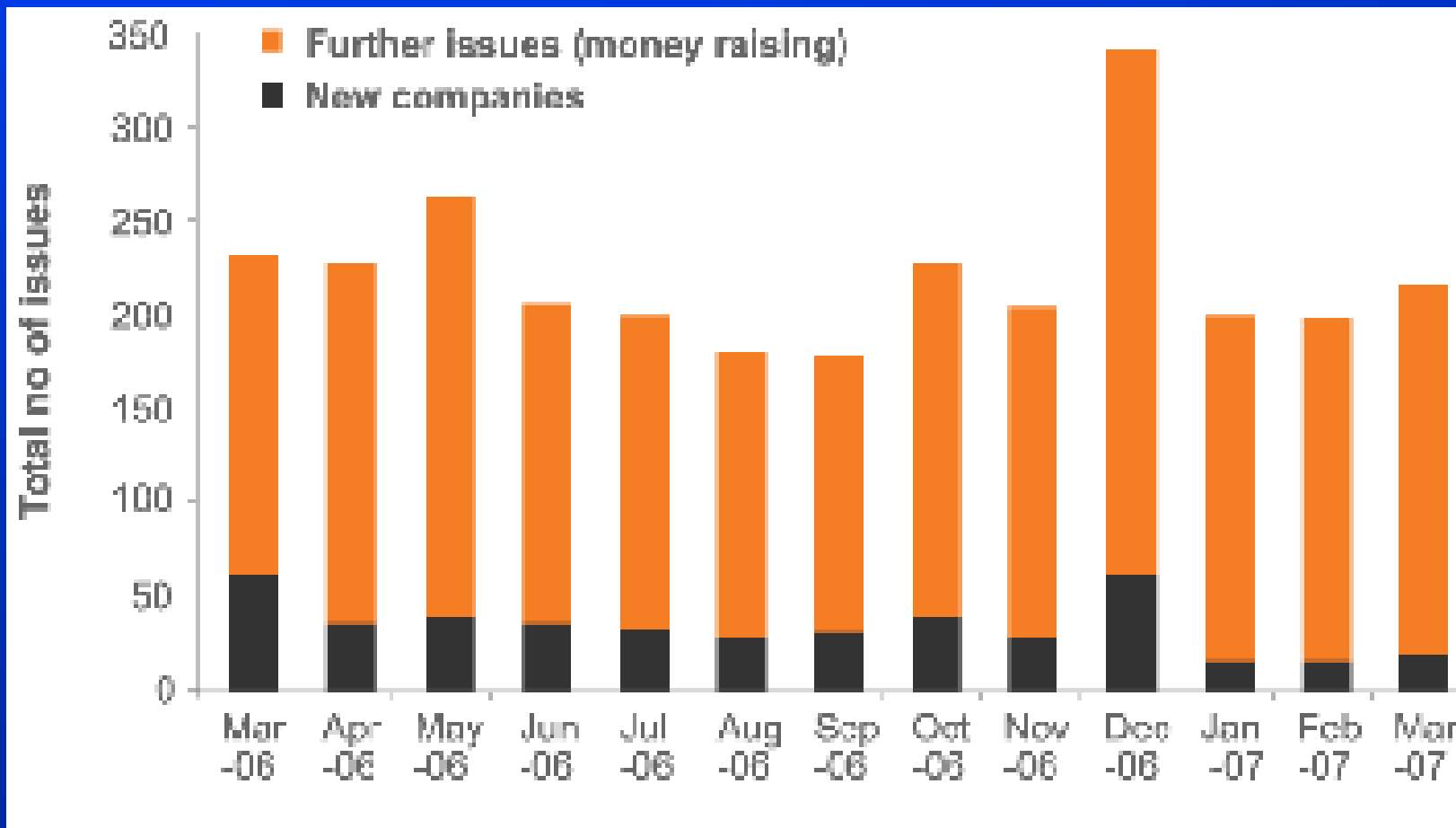
# AIM Listing Requirements

- For a company to be admitted to the AIM market it needs to produce an **Admission Document** which should include all information which an investor would reasonably require & expect to find, to make an informed assessment of the assets & liabilities, financial position, profits & losses & prospects of the company, together with the rights attaching to the shares to be issued
- Under the AIM rules all companies admitted to AIM must have a **nominated adviser** ("NOMAD") whose responsibility is to work closely with the company & advise it on its obligations as a company whose shares are traded on the AIM market.

# Market Value Distribution



# Money Raised



# The Data

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- **All companies listed** on AIM over the period 1995 to 2005 (n=1,225)
- **Company accounts data** (turnover, employment, shareholder funds, gross profits, operating profits, dividends, assets, investment, liquidity ratios & profitability ratios)
- Typical time-series is 5-6 years data (& 1,225 companies in cross-section)



# Sample Statistics (1994 prices)

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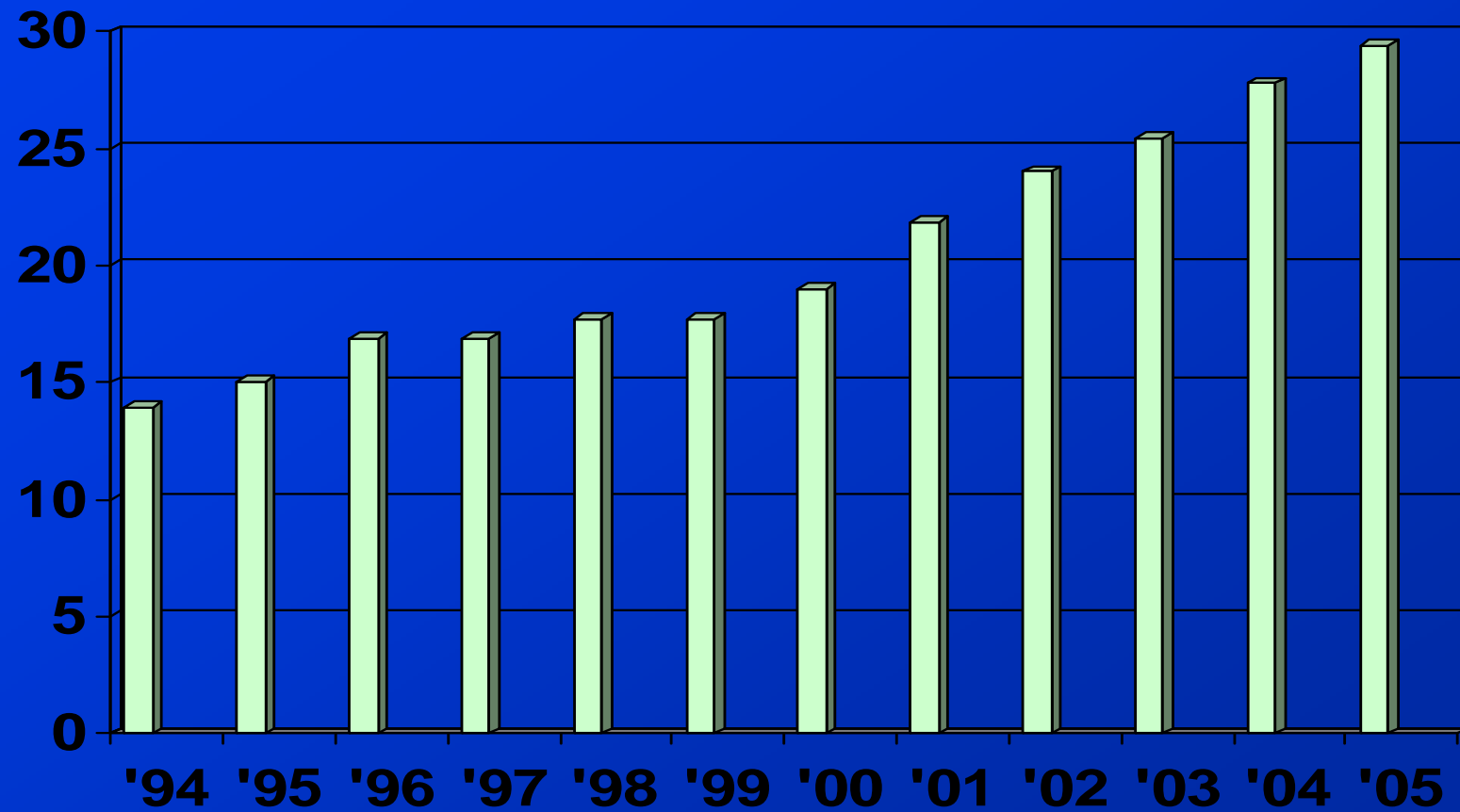
- Sales Turnover £19.1m
- Gross Profits £5.0m
- Operating Profits (-£0.16m)
- Investment £2.6m
- Profit Margins (-3.78)
- Gearing Ratio 105.19
- Employees 284
- Age of Company 11.4 years

# Variability Over Time

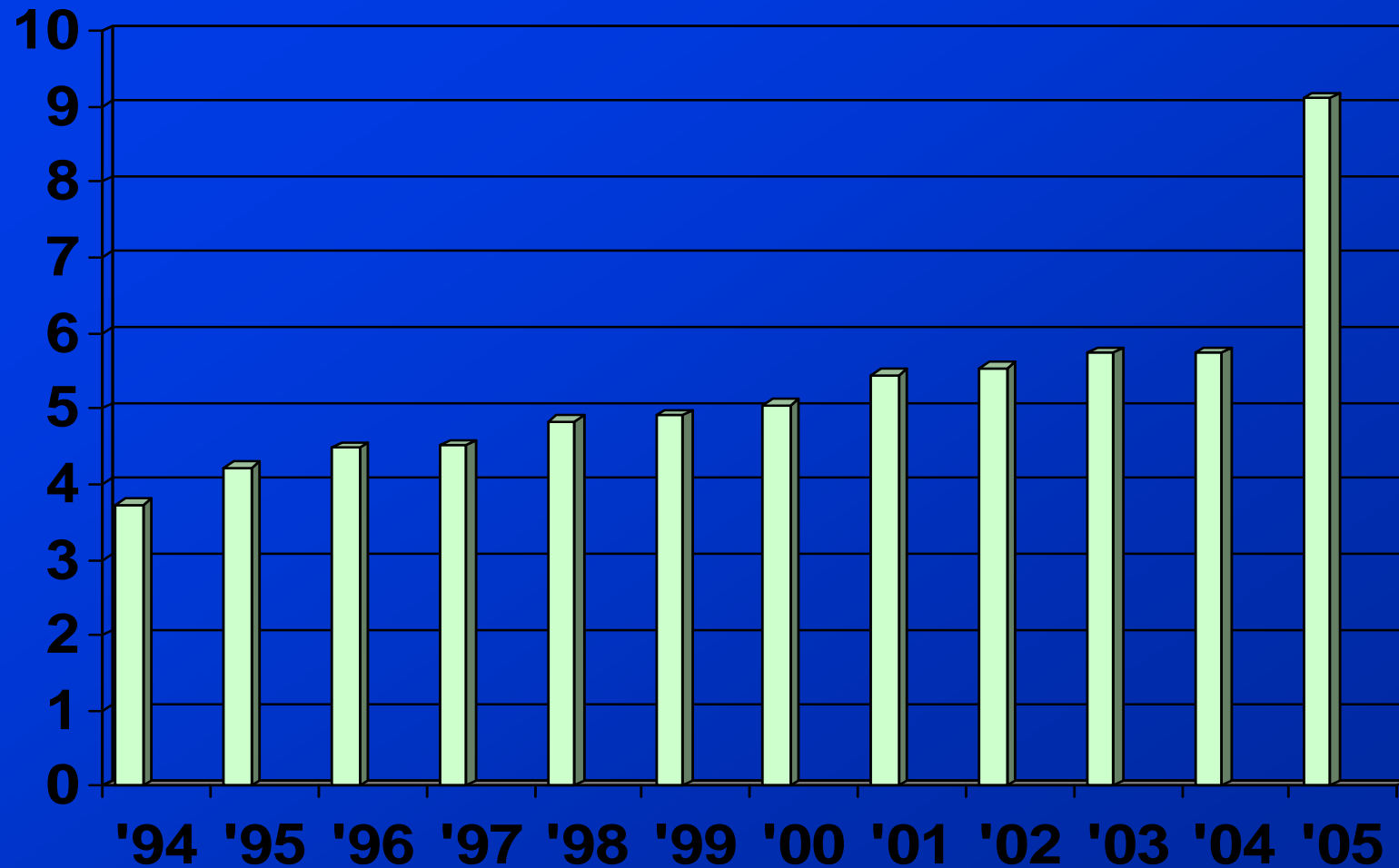
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- Turnover - greater between companies
- Gross Profits - greater between companies
- Operating Profits - greater between companies
- Investment - greater **within** companies
- Profit Margins - greater between companies
- Gearing - greater between companies
- Employment - greater between companies

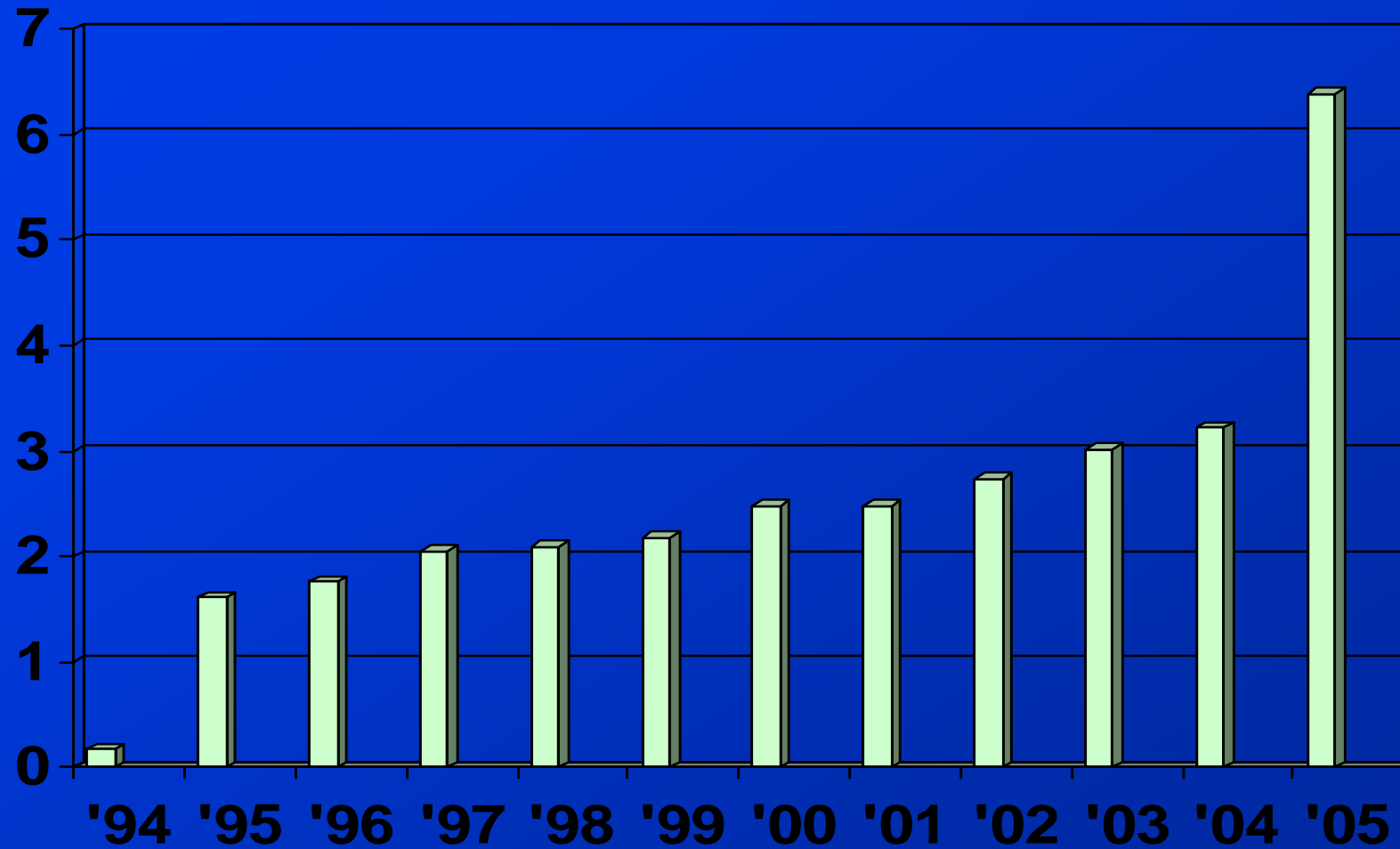
# Turnover Dynamics Real £m



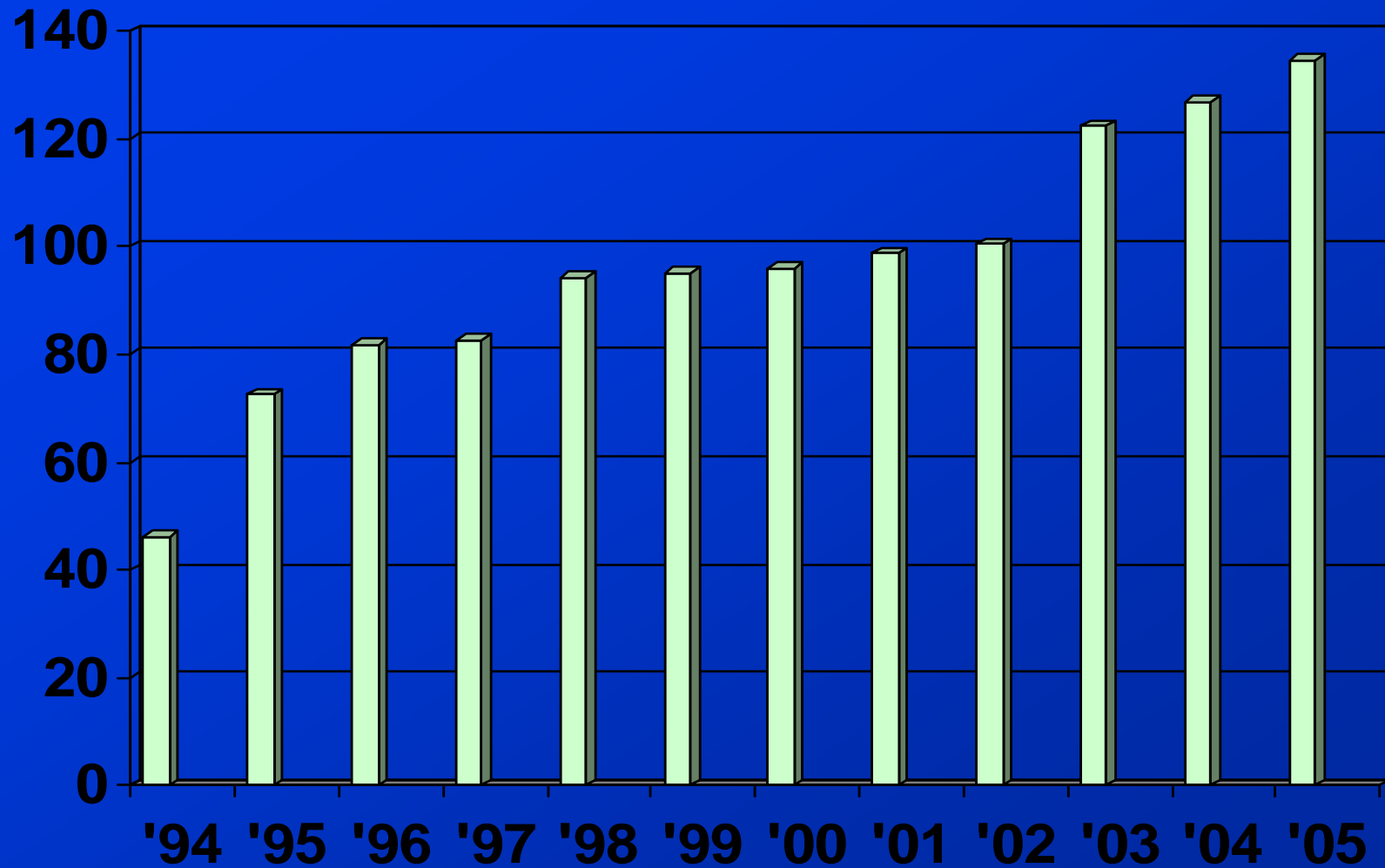
# Gross Profit Dynamics Real £m



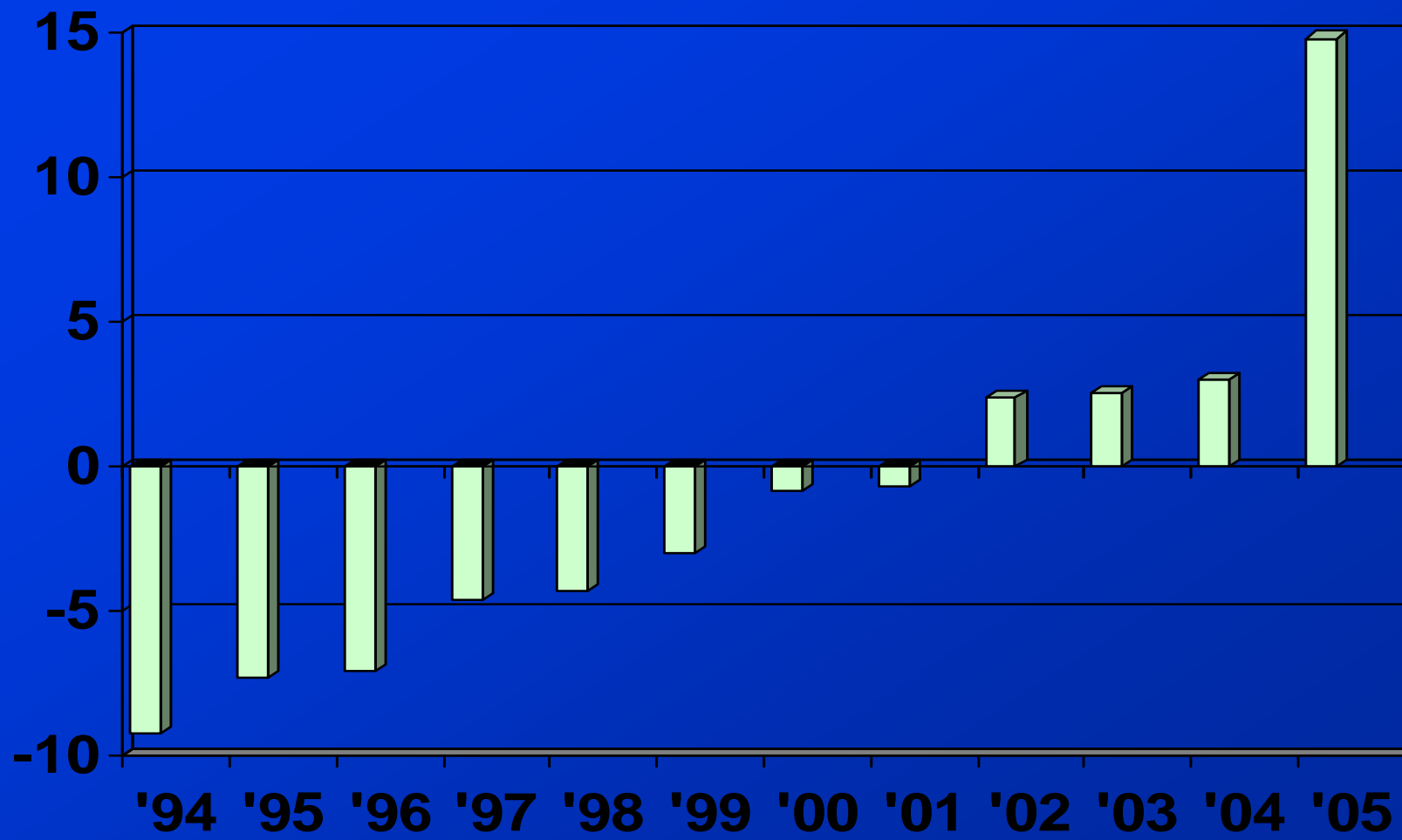
# Investment Dynamics Real £m



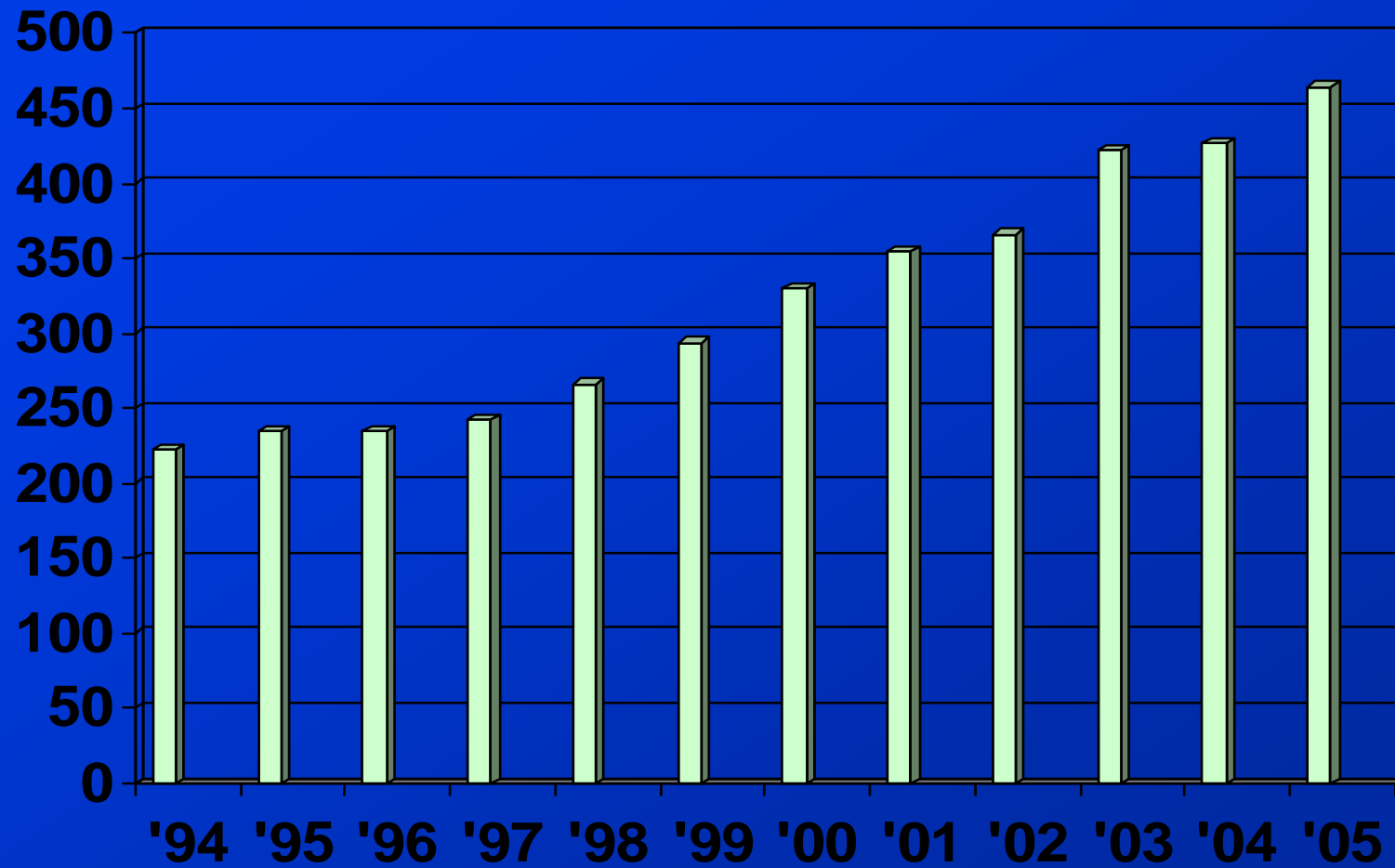
# Gearing Dynamics



# Profit Margin Dynamics



# Employment Dynamics



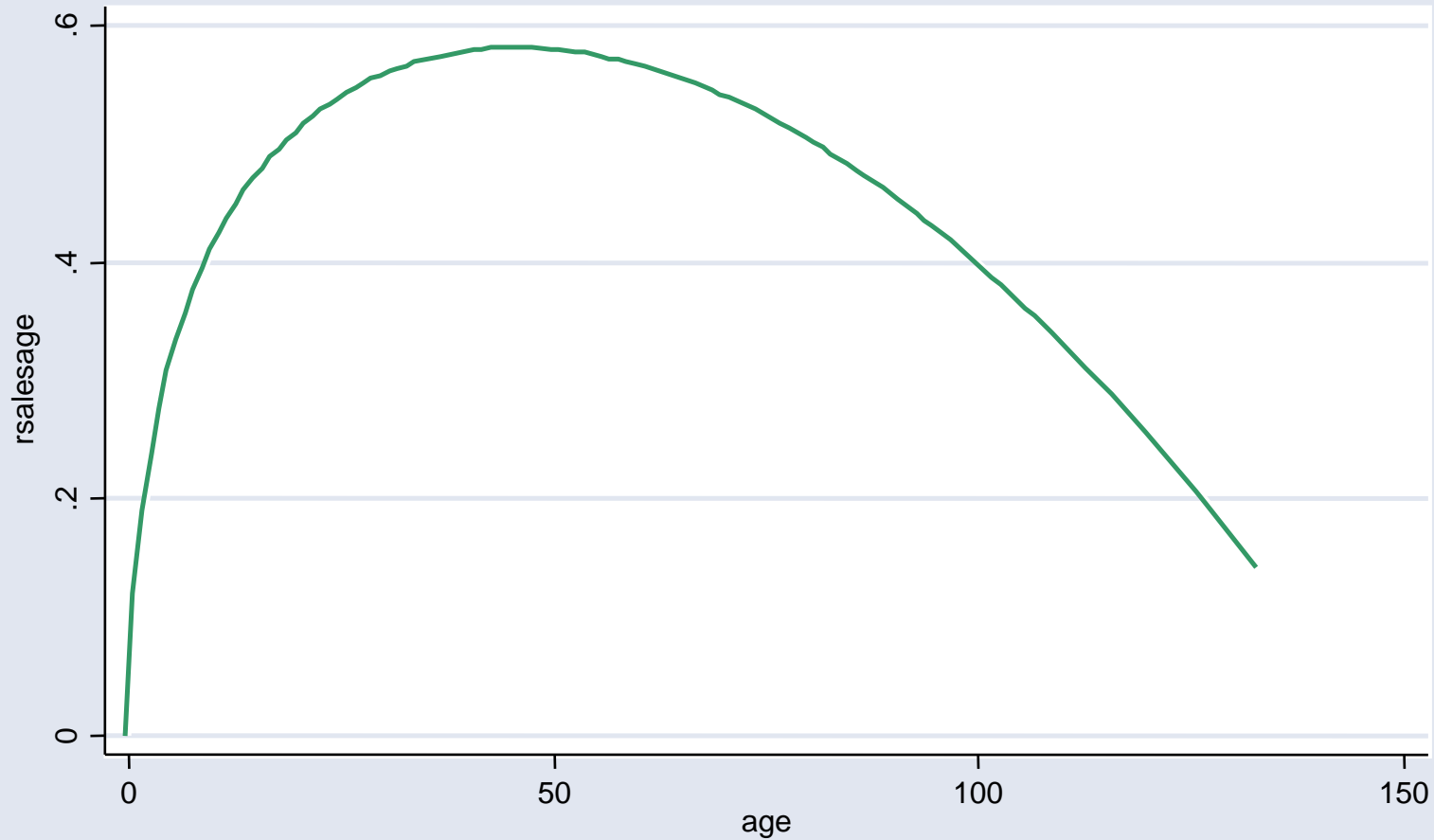


# Panel Data Estimation

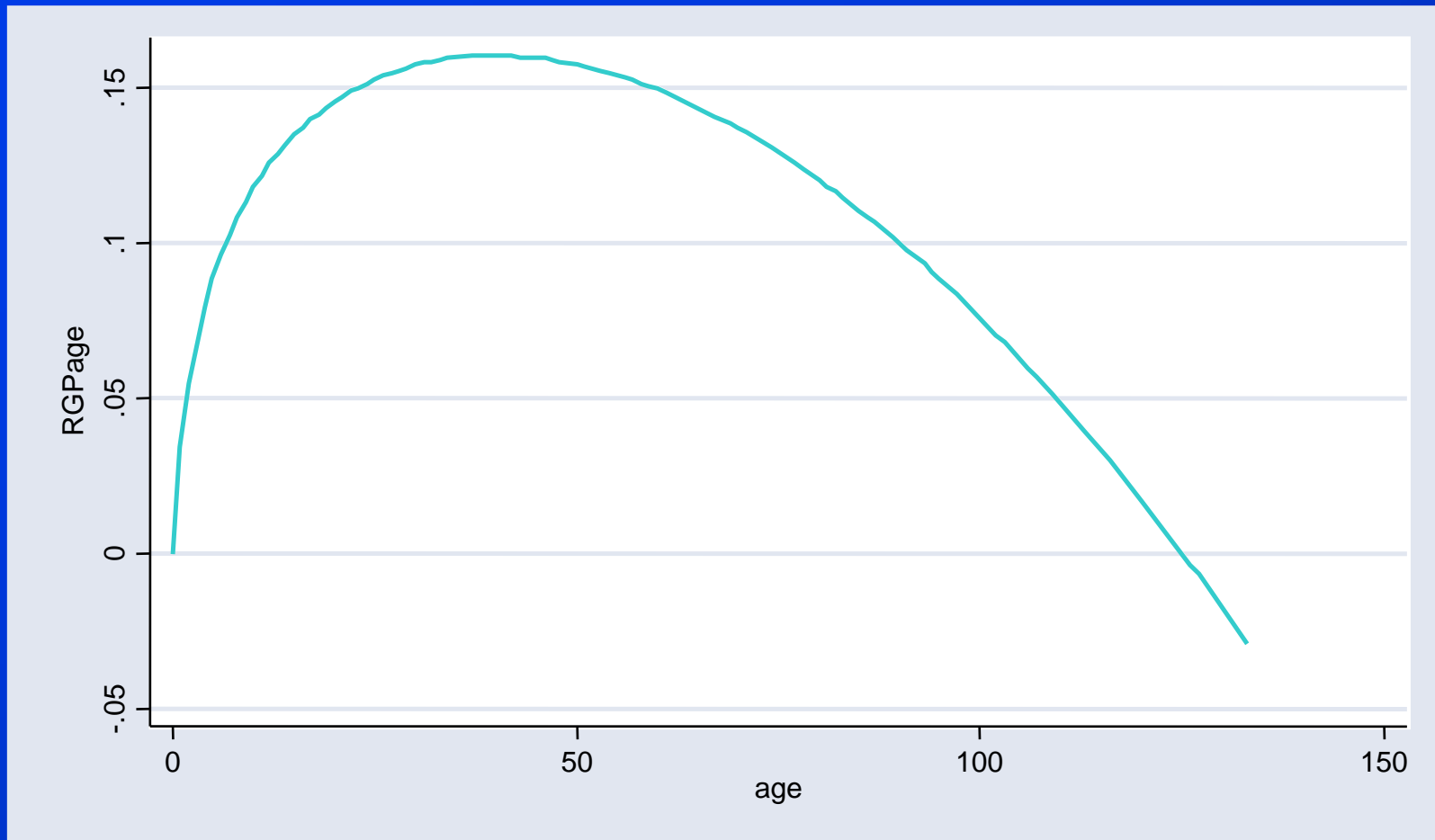
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- Estimate pooled, RE and FE models
- Static and Dynamic
- Gross Profits and Sales Turnover
- Typical model has 6 years in time-series and 900 cross-sectional observations
- Generally covers 2000-2005

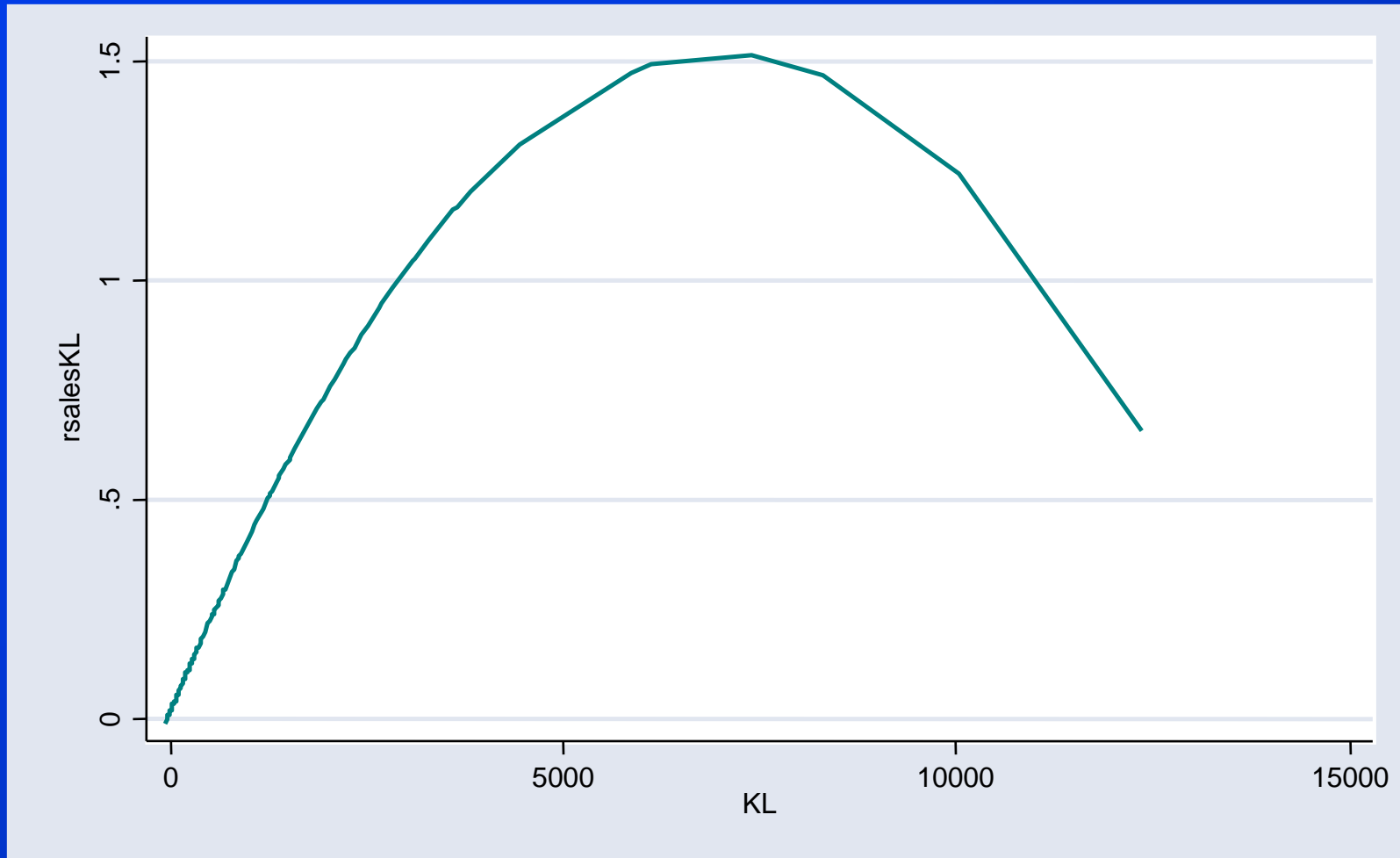
# Sales pc and Firm Age



# Gross Profit pc and Firm Age



# Productivity and Capital



# Summary

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- AIM set up 12 years ago to provide equity to smaller firms
- Only 10% of current issues for new companies
- Typical company is 11 years old with sales of £20-25m in current prices
- Market (firms) generally grown although profitability still an issue
- Still time to grow & improve performance for most listed firms

