AIM Advisers, Inc.
Maximizing Present & Future Value

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About AIM Advisers
AIM Advisers helps small and medium-sized, growth-oriented U.S. companies complete IPOs on the Alternative Investment Market (AIM) of the London Stock Exchange. AIM Advisers also provides a range of services to the 52 U.S.-based companies that are already listed on AIM.

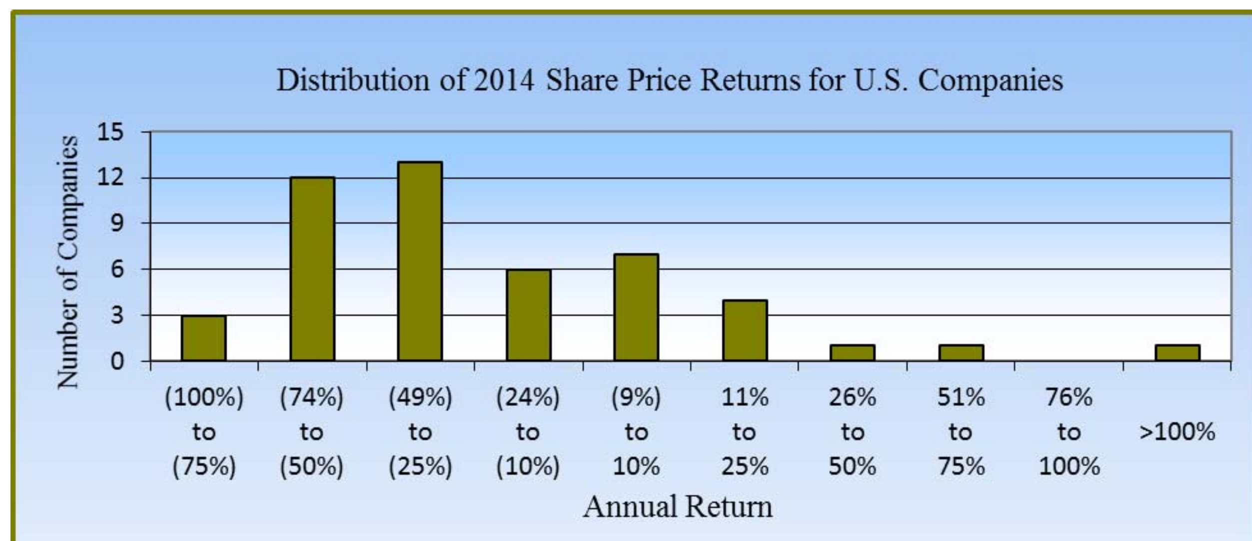
U.S. Company Performance – Share Price and Liquidity – 2014

Highlights

- U.S. domiciled companies register a weighted loss of 23%
- Foreign domiciled U.S. operating companies register a weighted loss of 37%
- FTSE AIM All-Share Index lost 17%
- Significant liquidity difference between U.S. and foreign domiciled U.S. companies

There were 20 U.S. domiciled and 35 foreign domiciled U.S. operating companies listed on AIM at the beginning of 2014. During 2014, eight companies delisted and five joined; three by way of IPO, one as a result of a reverse takeover and one migrated to AIM from the Main Market. Of the eight companies that left AIM; three completed their U.S. IPOs on NASDAQ in 2007, 2012 and 2013 and one on the NYSE MKT in 2011, simply deciding to concentrate their public listings in the U.S., two never developed their businesses to sufficient scale, one was a large oil and gas E&P company that was acquired at a 15% premium and the final one was an investment fund that wanted to issue a class of shares that weren't eligible for AIM, therefore, they used the LSE's Specialist Fund Market (SFM) for that purpose and then migrated from AIM to the SFM.

The eight leavers during 2014 are not included in the chart and analysis below because they either left during the early part of the year or their market caps were relatively small, however, the joiner by way of reverse takeover is included since that occurred in January. The majority of the underperformers during 2014 are junior mining and oil and gas E&P companies which were adversely impacted by global macroeconomic forces, such as central bank policies, slowing growth in emerging markets and the collapse of the oil price during the second half of the year.



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The weighted returns in the table below were calculated using the average market capitalizations of the companies during the year, similar to how an index fund would calculate returns.

Index	Unweighted	Weighted
U.S. Domiciled Companies	(16%)	(23%)
Foreign Domiciled Companies	(31%)	(37%)
FTSE AIM All-Share Index	N/A	(17%)

The weighted return contributions for the U.S. domiciled companies were tightly packed at +/-3%, with two exceptions, where weighted losses of 6% and 9% were recorded (absolute losses of 66% and 64%). The company that lost 66% is an aquaculture biotech company that gained 168% during 2013 after receiving regulatory clearance for commercial production in Canada, however, continuing delays with the U.S. FDA caused a retracement of the share price to early 2013 levels. The company that lost 64% is a clean water technology and engineering company, primarily focused on the oil and gas industry, that encountered what appear to be temporary delays with some large contracts, therefore, the company may need to raise additional capital.

The weighted return contributions for the foreign domiciled U.S. operating companies were also tightly packed at +/-4%, with three exceptions, one where a weighted gain of 5% was recorded (absolute gain of 125%) and two where weighted losses of 20% and 5% were recorded (absolute losses of 87% and 52%). The company that gained 125% is an agtech company that has developed naturally derived products for plants and soil that underwent a management change and entered into a significant European development and distribution agreement with an Italian-based agtech company. The company that lost 87% fell victim to a blog posted by a consultant who was paid by unnamed parties in which the company's business model and practices were questioned. The company strongly refuted the assertions made, completed a thorough internal and external review and published a detailed response. During 2013, this company gained 215% after integrating several acquisitions and achieving exceptional financial results, all of which was wiped out, likely temporarily, by an apparently malicious act. The company that lost 52% is an oil and gas E&P company with significant assets in South America that got caught by slowing growth in emerging markets and the collapse of the oil price during the second half of 2014.

In terms of average monthly liquidity (see the table below), the foreign domiciled U.S. operating companies outperformed the U.S. domiciled companies and AIM as a whole on both measures. As one would expect, the weighted results exceed the unweighted results, reflecting the positive relationship between a company's liquidity and its market capitalization. The unweighted results represent the level of monthly liquidity that the average company can expect to achieve.

For the foreign domiciled U.S. operating companies and AIM as a whole, the relative trading volumes were larger for the larger companies as investors exited those in which they were no longer comfortable with the risk/reward relationship, as evidenced by the underperformance of the weighted share price returns compared to the unweighted share price returns.

Average Monthly Liquidity	Foreign Domiciled U.S. Operating Companies	U.S. Domiciled Companies	Entire AIM Market
Weighted	5.35%	1.65%	4.72%
Unweighted	4.89%	1.69%	3.34%

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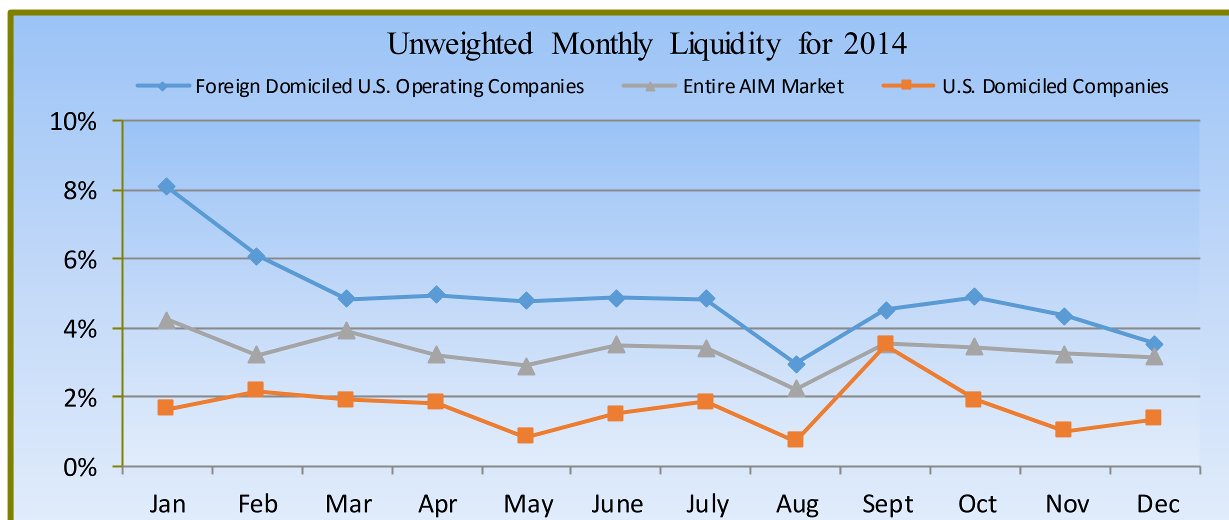
The chart below provides the monthly detail of the unweighted liquidity for each of the three categories in the table on the previous page. The liquidity pattern is relatively stable, barring some anomalies with respect to the foreign domiciled U.S. operating companies during the first two months, and the typical summer and December holiday season pullbacks. With the unweighted liquidity level on AIM as a whole at 3.34% during 2014, it is now clear that a step-change up occurred during 2013 to 3.32% from 3.08% in 2012 for the reasons outlined below.

From August 5, 2013, AIM shares can be held in UK Individual Savings Accounts (ISAs), the U.S. equivalent of IRAs, which provided a liquidity boost from retail investors into some of the larger, more well-known companies listed on AIM. In addition, at the start of the new tax year on April 6, 2014, the annual ISA allowance was raised from £11,520 to £15,000. Finally, the 0.5% stamp duty (tax) on the purchase of AIM shares was abolished from April 28, 2014.

AIM shares can be one of the most tax-advantaged investments; avoiding capital gains tax, income tax, inheritance tax and now stamp duty. The benefit for companies considering an AIM IPO, and for those already listed on AIM, should be a further reduction in the cost-of-capital and an increase in aftermarket liquidity; both positively impacting valuations.



From a U.S. perspective, the key takeaway from the chart above is that there is a liquidity advantage for U.S. companies that list on AIM via a U.K. holding company. The four main reasons being:

1. Once the Reg. S period expires, the IPO shares can trade directly within CREST
2. Pre-IPO shares not subject to Reg. S can immediately trade directly within CREST
3. Articles of incorporation fully conform to UK law, providing comfort to UK investors
4. Institutional investors only allocate a portion of their investments to non-UK companies

Nevertheless, irrespective of where a company is domiciled, liquidity can be improved. The reasons for a lack of liquidity are often company specific and not obvious. As a consequence, thoughtful and thorough investigation is needed in order to formulate actionable solutions. Several strategic decisions can be taken during the planning of the IPO to minimize the risk of lack of liquidity becoming a problem in the first instance; including, selection of the most appropriate Nomad, Broker(s), Financial PR/IR firm and Independent Equity Research firm.

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