

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 47 U.S.-based companies that are already listed on AIM.

**U.S. Company Performance – Share Price and Liquidity – 2016**

Highlights

- U.S. domiciled companies achieve a weighted return of 14%
- Foreign domiciled U.S. operating companies achieve a weighted return of 83%
- In aggregate, U.S. companies’ weighted return 66% vs. FTSE AIM All-Share Index 14%
- Significant liquidity difference between U.S. and foreign domiciled U.S. companies

There were 12 U.S. domiciled and 35 foreign domiciled U.S. operating companies listed on AIM as of the end of 2016. During the year, six companies delisted from AIM and four joined; one via reverse takeover and three via IPO. The IPOs occurred in March, August and November and returned 96%, 21% and 69%, respectively, from their listing dates through the end of the year.

The reasons for the six delistings are wide ranging. One company was acquired for double its IPO price after being listed on AIM for nearly nine years. Two companies confronted changing industry forces with one reacquired by the original private equity owner and the other likely unsalvageable. One company simply hadn’t delivered on market expectations, although the business is valuable, however, with a small free float the original private equity owner made a reacquisition offer. The final two companies left AIM as a result of the collapse of the natural resource sectors over the last couple years; one in coal mining and the other in oil and gas E&P. These companies had low valuations and dim prospects for raising additional capital.



While the distribution of share price returns during 2016 in the chart above was relatively flat, the beta (risk/reward) on AIM is high since the market consists of SMEs. Sixteen of the 43 companies that were listed on AIM for the entire year lost at least 25% and 15 of 43 gained 26% or more. One dollar invested in each of the 43 companies would have yielded a return of 11%. An investment strategy weighted by market cap would have yielded 66%, however, only seven companies provided the majority of the share price action. AIM has always been a ‘stock picker’s market’.

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	44%	14%
Foreign Domiciled Companies	(1%)	83%
FTSE AIM All-Share Index	N/A	14%

The weighted return contributions for the U.S. domiciled companies were tightly packed at +/-1%, with three exceptions, two where weighted gains of 9% and 13% were achieved (absolute gains of 36% and 88%) and one where a weighted loss of 9% was recorded (absolute loss of 22%). The weighted return contributions for the foreign domiciled U.S. operating companies were also tightly packed at +/-1%, however with four exceptions, three where weighted gains of 8%, 12% and 74% were achieved (absolute gains of 126%, 80% and 193%) and one where a weighted loss of 7% was recorded (absolute loss of 48%).

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 expected, all of the weighted results exceed all of the unweighted results, reflecting the positive relationship between liquidity and market capitalization. The unweighted results represent the level of monthly liquidity that the average company can expect to achieve.

Average Monthly Liquidity	Foreign Domiciled U.S. Operating Companies	U.S. Domiciled Companies	Entire AIM Market
Weighted	4.36%	2.07%	3.50%
Unweighted	4.22%	1.26%	3.28%

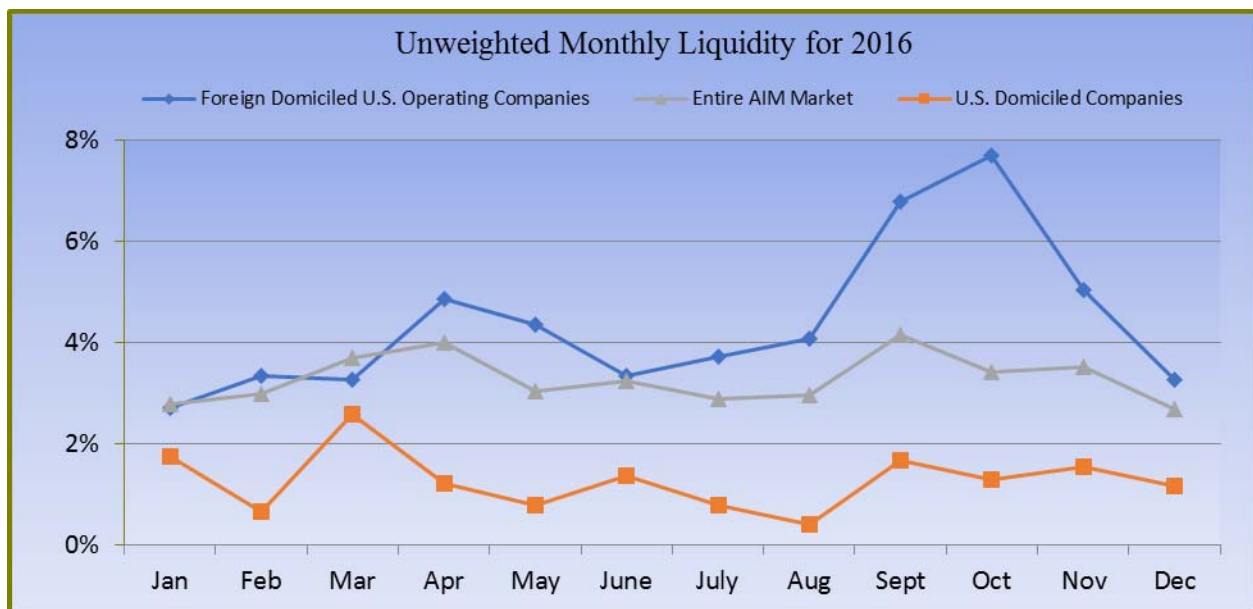
While there is a positive relationship between liquidity and market capitalization, liquidity is a double-edged sword. With respect to the U.S. domiciled companies, there was a preponderance of sellers of the larger companies as evidenced by the underperformance of the weighted share price return versus the unweighted share price return. The opposite was true for the foreign domiciled U.S. operating companies; a preponderance of buyers of the larger companies as evidenced by the outperformance of the weighted share price return versus the unweighted share price return.

The chart on the next page provides the monthly detail of the unweighted liquidity for each of the three categories in the table above. With the unweighted liquidity level on AIM as a whole for 2016 at 3.28%, it is now very clear that a step-change up occurred during 2013, 2014 and

2015 when liquidity was 3.32%, 3.34% and 3.29%, respectively, compared to only 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 2014 tax year on April 6<sup>th</sup>, the annual ISA allowance was raised from £11,520 to £15,000 (it was £15,240 for the 2015 tax year and remained so for the 2016 tax year). 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 stamp duty. The benefits for companies considering an AIM IPO, and for those already listed on AIM, are a 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 UK holding company. The three main reasons being:

1. Shares can trade directly within CREST; no Depository or Depository Interests required
2. Articles of incorporation fully conform to UK law, providing comfort to UK investors
3. 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. Consequently, thoughtful and thorough investigation is needed 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 AIM Nominated Adviser, AIM Nominated Broker(s), Financial PR/IR firm and Independent Equity Research firm.