AIM: Many happy returns!

The AIM market started life in June 1995 and has certainly celebrated its 21st year in spectacular form. In the 12 months to 30 April 2017 the FTSE AIM All Share Index rose 32.4%, massively outperforming the FTSE 100 Index (up 15.4%) and the FTSE 250 Index (up 16.7%). Indeed the (more concentrated) FTSE AIM 100 Index rose by a pretty staggering 40% over the same 12 month period.

Furthermore, in a major milestone in its history, the total of new money raised on AIM went through £100bn in February this year.

So AIM has a lot to celebrate right now. As at 31 March 2017, AIM could claim:

- Record average AIM company market capitalisation of £89.2m
- Record 8 companies over £1bn market cap plus a further 201 over £100m
- Record percentage of AIM constituents paying a dividend
- 182 AIM companies have made the move onto the LSE full list
- Much more evenly balanced sector split, with Resources no longer dominating AIM as they did for much of its history.

Then April saw £450m raised for IPOs onto AIM, the busiest April since 2006.

Changing & improving composition of AIM

As recently as February 2011, Basic Materials (Mining shares make up approx. 80% of the Basic Materials sector) plus Oil & Gas dominated AIM at 47.8% of AIM's entire market cap. By March 2017 Basic Materials (including Mining) and Oil & Gas represented just 15.7% of AIM. In sharp contrast the Consumer Goods & Consumer Services sectors have risen from a combined 10.7% in February 2011 to 27.8% now. (See pie charts on p 2).

AIM now a more attractive market for private investors

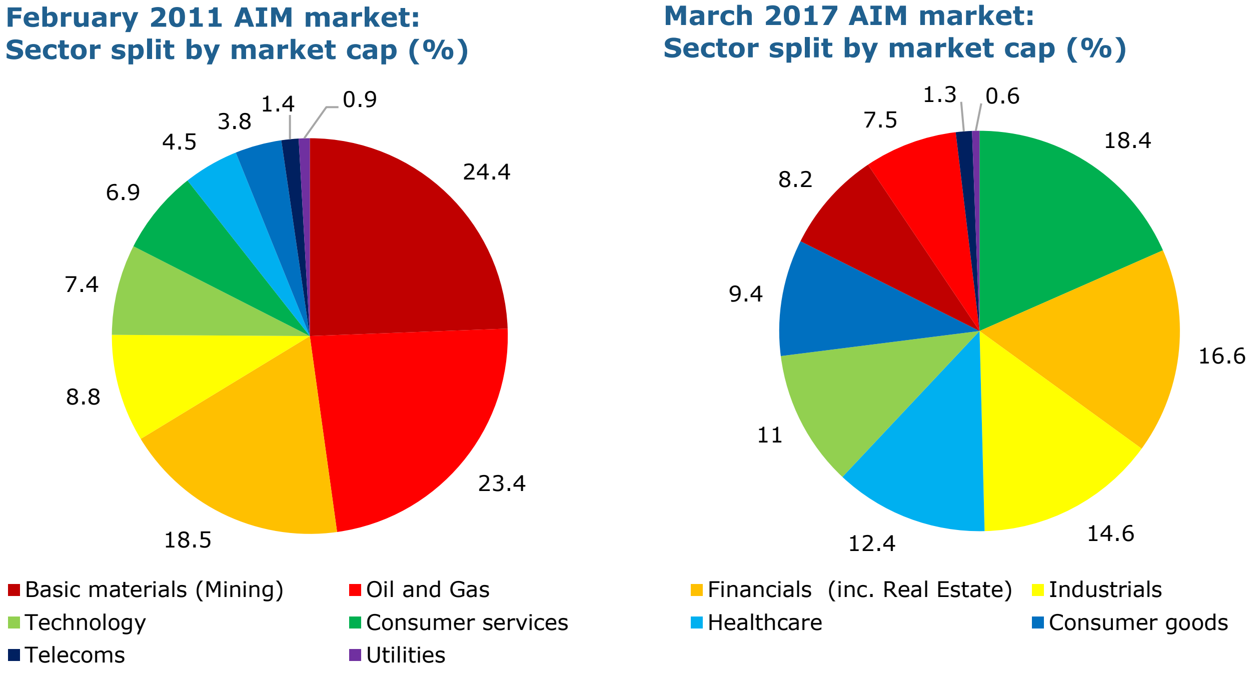
Like most 21 year olds, AIM is now wiser, more rounded, more sophisticated, more grown up and altogether a more attractive proposition than it was in its teenage years. As a result of this increasing maturity, boosted by the stellar outperformance AIM has achieved over the last 12 months, it has far broader investor awareness, acceptance and participation (in the UK and overseas) than was the case as recently as a few years ago, when the over preponderance of oil & mining shares meant AIM's reputation remained overly short term, speculative and prone to disappointment.

In a trading update in mid March, Close Brothers, which owns leading AIM market making firm Winterflood Securities, said the following: "The first half (6 months to 31 January) saw a **significant improvement** in financial markets and **investor sentiment**, with rising equity markets and **high levels of retail trading activity**. As the leading market-maker to retail brokers, Winterflood achieved a strong performance with **no loss days** in the period".

The Office for National Statistics, in its paper: Ownership of UK quoted shares, published in Sept 2015, (relating to the end of 2014), stated that over 30% of AIM shares are held by individuals. This high number confirms the increasing all round attractions of AIM to private investors. With various helpful tax changes over the last 4 years giving a nice tail wind, and an increasing number of AIM shares offering high / sustainable / growing yields, we believe that AIM looks in fine fettle as it approaches its 22nd birthday next month.

Gilbert Ellacombe **May 2017**

Changing composition of AIM



Source: LSE AIM market statistics

OK, the number of companies currently listed on AIM is "only" 973, versus the peak in December 2007 of 1,694. But the current total AIM Market Cap (at £86.8bn) is not a million miles away from the 2007 year end peak of £97.6bn, despite the substantially lower number of companies now on AIM. **The companies may be fewer in number, but they're considerably bigger, and better in quality**. Of course the AIM market was set up to allow companies with minimal financial track records to list (and raise money) to further their expansion / exploration plans. So by definition it was always going to have a (much) higher risk profile than the LSE main market. However, with the benefit of hindsight, many would say that for quite a few years a decent number of AIM listed companies overly favoured "Risk" over "Reward"!

In recent years there have been fewer AIM IPOs, but the average IPO market cap / fund raise have been considerably larger than was generally the case 7 – 10 years ago, when a very high proportion of AIM IPOs were (speculative) Oil or Mining companies. In the last few years, a far greater proportion of companies listing on AIM have been decent sized companies, with established track records (and experienced management teams), joining AIM with the immediate (declared) intention of paying meaningful (and growing) dividends. Not surprisingly, as a result, the average recent post IPO AIM share price performance has been substantially better than was generally the case when more speculative companies were joining AIM.

A greater proportion of listings in recent years have been "UK" companies: in 2016 77% were UK based, against 67% in both 2014 & 2015, and just 57% in 2011. Many would argue (and the statistics would appear to confirm) that "UK companies" have been more successful – performance wise – than "overseas companies" on AIM. Currently approximately 72% of AIM listed companies are incorporated in the UK, (with the USA, Africa and China - in that order - the most important overseas locations), although, looked at by another measure, approx. 35% of AIM listed Cos have their main operations overseas.

Over 3,600 companies have listed on AIM during its 21 year history. It's worth noting that in addition to the 182 AIM companies which have transferred to the full list, several hundred more have been successfully taken over (at a premium).

Obviously in mathematical terms, as every month goes by, the average length of time since listing per AIM company increases. Hopefully a longer period as a listed entity means that the company's Directors have more experience of dealing with (all) investors, a more complete and "investor friendly" website, and better / more detailed & more timely communication skills generally with the market.

Tax breaks encouraging private investor participation

The number of tax breaks / advantages available to AIM listed companies has increased substantially in the last 3-4 years. For several years shares in most AIM listed companies have been free from Inheritance Tax, if held for at least 2 years, and, as such, have played an increasingly important role in private individuals' estate planning.

AIM companies were finally allowed into ISAs from August 2013. The ISA allowance that tax year was £11,520: in the tax year just starting it is 74% higher at £20,000 pa.

In a further boost to liquidity, AIM share purchases have been (0.5%) stamp duty tax free from April 2014.

The (spring) 2014 George Osborne budget, spelling the virtual end of the annuity pensions business, offered a further substantial opportunity for quoted companies, including those on AIM. With minimal income opportunities available in recent years on Index linked gilts (or any other UK Government bonds), nor indeed obviously on cash accounts, investors are turning to higher yielding shares to address their income requirements. A greater proportion of AIM companies than at any time in its history are currently dividend paying, and many now offer substantial (sustainable) yields of 6% plus.

Individual winners

The "daddy of them all", in terms of performance, size etc. of AIM listed companies has obviously been **ASOS**. Founded and run for the first 14 years of its quoted life by the dynamic & charismatic Nick Robertson, ASOS IPO'd at 20p in October 2001. At 5,820p today, the shares are up a mind boggling 29,100% in 15 years. Its market cap is currently £4.7bn, making it easily the biggest company on AIM.

A similar recent success story, in the same "online consumer selling space" is **boohoo.com**, which IPO'd in March 2014 at 50p, rose to 85p on its first day of dealings, then suffered a profit warning within its first 12 months of listing and fell (briefly) as low as 22p, since when it has recovered eightfold to 188p, giving a current market cap of over £2bn.

Overseas 'multi-baggers' have been rather fewer in number, but again there are some massive success stories: **Hutchison China MediTech** (Hutch Chi Med as it is known) IPO'd at 275p in May 2006, and has risen to 3,000p now, taking its market cap to £1.81bn. It is safe to say that not all Chinese companies listed on AIM have been this successful!

Ironically all three of these "winners" fell (well) below their IPO prices in their early years on AIM.

Of course at the smaller end of the market cap spectrum there have been dozens of multi baggers, spread across a variety of sectors, many still going strong, and some augmenting their growth (and share price outperformance) by acquiring other AIM listed companies to help grow their businesses. Successful examples of this strategy are far too numerous to mention individually.

At the end of March 2017 there were a record 8 AIM companies over £1bn market cap, with a further 25 over £500m, plus another 51 between £250m - £500m, and a further 125 over £100 m cap. Of the £100bn of new money raised (for companies) in AIM's 21 year history, the split is: new money raised at IPO £41.87bn, follow on (secondary) company raises £58.55bn.

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Equity Development has been working with small companies for 20 years, producing detailed research across a wide range of sectors during this period. We organise regular Private Investor Forums, Company webinars, and offer twitter commentary on company news.

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