THE NETWORK OF LEADERS

CRITICALEYE

AIM CEO Breakfast – September 2009

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Chair
Matthew Blagg, CEO, Criticaleye

Key Take-aways

- AIM is very volatile, with single investors able to move price considerably in either direction
- The quality of the advisors and brokers has left something to be desired
- It is important for AIM-listed companies to have a high-quality advisor, an exciting story and a great presentation team to attract new investors to raise money
- Invest in investor relations – this way, the CFO can stay focused and the CEO can manage key relationships

It has been, without a doubt, a tumultuous year for the markets and securing funding has been a nightmare for some. But the situation is looking up on AIM according to the AIM-listed CEOs that took part in this breakfast discussion. Although, many had to do discounted offerings, the group felt that it is relatively easy to raise money on the list and in many cases it is easier to run an AIM-listed company.

Future of AIM

Yet, the future of the market was questioned. In the past, AIM was often thought of as a stepping-stone to the main list, but lately, many companies are moving down, a situation in which one participant's company has found itself.

The CEO of this firm expressed disappointment with the quality of the market and the lack of professionalism of the advisors. He asserted there is very little due diligence carried out at the onset and on an on-going basis. One problem is that the Nomad (nominated advisor) is the primary source of regulatory advice (so you are clearly dependant on his/her competence).

To combat this one-sided advice, speak to as many brokers, accountants, investors and/or lawyers as possible. It will give you the consensus view of what is happening with your stock on the market and what you as a CEO need to be aware of to maintain your profile and comply with the practical best practice on regulatory advice. There is plenty of free advice and updates issued by a variety of people.

Quoted Companies Alliance was also recommended as a good source of almost free information for smaller listed organisations on how to work within AIM.

Although there are issues with AIM, it will not encounter a mass exodus, as it isn't feasible for most of these companies to be listed on the major markets. The full market is usually not an optimal place for small companies, as only large companies gain good liquidity.

Due to the nature of the AIM, (being made up of smaller companies that are often riskier investments) investors are largely institutional and/or high net-worth individuals taking advantage of the investment's substantial tax benefits. However, concerns that these benefits could be taken away always adds to the uncertainty of the future of the market. Another worry is further competition from European stock exchanges. Other markets such as PLUS, which is more lightly regulated were also mentioned.

Fees

The consensus was that brokers and brokerage firms are taking every opportunity to 'milk' fees and increase retainers. One Member said that in the process of talking to firms and advisors, he was quoted "astronomical" fees. After attending a Criticaleye breakfast, he realised that indeed the fees were too high and then had the courage to go back to them and successfully negotiate a lower fee and retainer. Holding 'beauty parades' and seeing other brokers will, at the very least, keep the house broker on his toes.

Retail investors

How important are retail investors? The natural liquidity and volatility of AIM is a major issue for listed companies. It is common for stock prices to rise or fall due to the activity of a single investor.

In fact, one delegate had recently experienced a fall in stock price due to this phenomenon and was now trying to rebalance the ratio of retail to institutional investors to prevent further damage. He is attempting to increase the pool of investors to reduce the impact. One participant even went as far as to say that he would prefer to have a few retail investors to help soften the blow of single investors.

Many were more comfortable having institutions own their stocks as it is easier to move stocks from one institution to another.

According to Members, obtaining new institutional investors has been very difficult. In order to secure investments, many more meetings are needed then would have been the case 18 months ago. One delegate had not seen a problem in this area, he said, “as long as you have an exciting story, a quality broker and a great presentation team, there shouldn’t be a problem.”

One Member looking to raise funds was interested in the group’s thoughts on short- versus long-term investors. He worried his organisation was raising small amounts too frequently. Many believed that “money is money” and you get it where you can. Others felt AIM investors were in it for the long haul, which can be detrimental to liquidity.

Investor relations

Investor relations was a key discussion point among the attendees. The group was divided over who should deal with investors - the board, the CEO or an investor relationship manager.

One participant thought hiring an investor relationship manager could be a good idea as his CFO is spending too much time speaking to investors.

Another participant said that an investor relationship manager was the best hire he had ever made. Although expensive, it took a lot of pressure off the CEO and management. Others, however, expressed doubts that institutional investors would want to deal with an IR manager rather than the CEO as the latter was the driving force in any company and investors want to get the measure of him/her.

It is important to have the right people on the board that can work for the company in this area. One Member said having a former stockbroker and merchant banker on his board has been a definite advantage in investor relations and understanding the market. They were crucial figures when speaking to the City.

The board should forge relationships with investors to ensure consistency, as a change of management is inevitable.

One participant said that a charming, well-spoken chair, that is also a shareholder, can be useful in the City and dealing with investors.

Others disagreed and felt that it was the job of the CEO to have a relationship with key investors to set the strategy and drive the business forward. One Member had decided to cease non-CEO activity with investors and now manages investors with a strong management team led by the CEO.

One participant suggested that your house broker should establish, with you, the optimum range for your share price and to let you know immediately if they felt there was a change required leading to more or less investment, subject, of course, to close periods (a period where you can’t talk to your broker or anyone else unless an insider).

News flow

A point of interest was the regulatory problems surrounding retail investors. In the UK, you cannot raise funds from existing shareholders, but a participant, who had just done an open offer, contended that there is a derogation that allows organisations to raise up to £3 million from existing shareholders. An idea in which most were interested as it takes a considerable amount of PR and investor relations to attract new retail investors. It was also mentioned that Brussels were looking at increasing the limit to €10 million and the UK authorities were the stumbling block.

This led to a debate about news flow, a common source of information for retail investors. How much news should flow out of the company? One participant from the biotech industry felt making frequent announcements is important. Others disagreed, arguing that during the height of the downturn press releases could be very damaging to their stock prices and information released should be limited. However, be aware of the Stock Exchange requirements.

Conclusions

- Ensure you understand why you are on AIM, raising money, getting share options, getting private investors to exit, etc, and then manage your ‘City strategy’.
- Understand where your investors are coming from and what are they looking for.
- Ensure you are aware of how the market works, share prices and movements and anticipate what could change a price.
- Make sure you understand the rules especially information flow (you have joined a club).
- Use all your City contacts to be as informed as your advisors on the levels of fees.
- Use the experience held within Criticaleye (it costs nothing more).
- Take advantage of the free and modestly priced information available (QCA, accountants, lawyers, free technical updates, professional bodies and so on).
- Remember it is your company and as CEO you drive the information flow to the market and of course the success of the company, all of which will affect the price in the long term.
- If you are in it for the long term don’t endlessly worry about short term fluctuations of your share price.