Chesham Amalgamations

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Can AIM justify its existence?

The Alternative Investment Market was established to give small and medium sized companies the advantages of public company status without the costs involved in a listing on the Stock Exchange's main board. Regulations were less rigorous, and therefore less expensive, in audit and compliance terms. It was also recognized that investors would be less well protected. The market was a success, and there are now 1650 companies listed on AIM.

Here at Chesham, we were delighted with this new facility. We do after all specialize in the SME sector, and the ability of smaller companies to use paper for acquisitions made transactions easier. But the Stock Exchange, like many other City institutions, seems to have succumbed to the exploding costs of bureaucracy and compliance.

A recent deal in which we have been involved has nearly been scuppered by AIM's escalating costs. It should have been a fairly straightforward transaction. Both the AIM company, and the acquisition are in the same trade, so there was no question of an entrepreneur looking for a cheap listing. Admittedly, the company being acquired had superior leadership, and would have been invited to take the top slot on the group board, for the benefit of all shareholders. The £3-4m acquisition, however, despite its small size, was considered to be a reverse takeover, and so all the fees required for an independent listing immediately kicked in. At about 10% of the acquisition cost, both parties have been forced to consider whether it is sensible to do the deal. Indeed and very happily they have; but they will defer completion so that the costs will drop into a future accounting period!

A suggestion has even been made that the AIM listing is irrelevant, and that it should be allowed to lapse, with the company going to the Plus Market instead. But even here, we have heard about companies which have been given cost estimates of around £75,000 but ending up paying around £250,000.

The problem is that compliance has become the health and safety nightmare of finance. This has had an inevitable effect on the level of business being done. According to a report in the Sunday Times, new issue funds raised on AIM this year have fallen to about £1bn compared with £4.7bn at the same stage last year. Other issues have raised £3.6bn down by almost a half.

When transactions fall, interest in the market also drops. According to the same Sunday Times report, up to 40% of AIM's 1650 companies do not trade a single share on any given day. This has grave implications for the future of the market. If the market stifles activity by imposing excessive costs, it will wither and die. Unfortunately, this can happen quite suddenly, even in the time the Stock Exchange takes to invent a new compliance order.

The Stock Exchange is currently considering new ways of encouraging brokers to deal. However, it should remember that the fundamentals are really about company performance and successful deal-making. In the case of the small "reverse" we have touched on in this newsletter, the opportunity could well be lost to transform an un-investable AIM company to something much more attractive. But rules is rules.