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

IPO Activity – 2005 to 2007

Highlights

- A tale of two markets….2005 versus 2006 and 2007
- IPO funding expands but number of new entrants contracts
- 50% of IPOs in all three years raise between £3m and £30m
- Outlook: Extremely cautious and selective market, only funding high quality companies

While the top line growth in IPO funds raised from 2005 to 2006 was impressive at 65%, the makeup of the new entrants changed dramatically during 2006 with the emergence of Special Purpose Acquisition Corporations (SPACs) and Investment and Real Estate Funds. This trend continued throughout 2007. The bifurcation of AIM IPOs between ‘investment vehicles’ and ‘operating companies’ causes the aggregate and average metrics to be misleading.

All Companies	Number of IPOs	Gross Funds Raised (in £ billions)	Average Funds Raised (in £ millions)
2005	335	5.63	17
2006	278	9.32	34
2007	182	6.26	34
Total	**795**	**21.21**	**27**

Exclusive of SPACs and Investment and Real Estate Funds:

‘Operating Companies’	Number of IPOs	Gross Funds Raised (in £ billions)	Average Funds Raised (in £ millions)
2005	306	3.44	11
2006	172	2.77	16
2007	111	1.99	18
Total	**589**	**8.20**	**14**

The key takeaway from comparing the tables above is that only 60% of the IPOs in 2006 and 2007 were for ‘operating companies’ and those companies only captured 30% of the gross funds raised. Notwithstanding the bifurcation of the AIM IPO market, 50% of all of the IPOs in each of the three years raised between £3 million and £30 million.

Question: Why did the makeup of the new entrants change during 2006?

Answer: Aversion to risk.

By virtue of the fact that AIM caters to small and medium-sized, growth-oriented companies, a handful of companies do exceptionally well, some tread water and many perform below initial expectations. As such, it is difficult to “pick the winners”. Since AIM IPOs are largely backed

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by institutions, it's not practical for them to construct portfolios to mitigate that risk, therefore, they either choose not to participate OR develop new products.

The emergence of SPACs and the formation of Investment and Real Estate Funds allowed institutions to better manage their risk because:

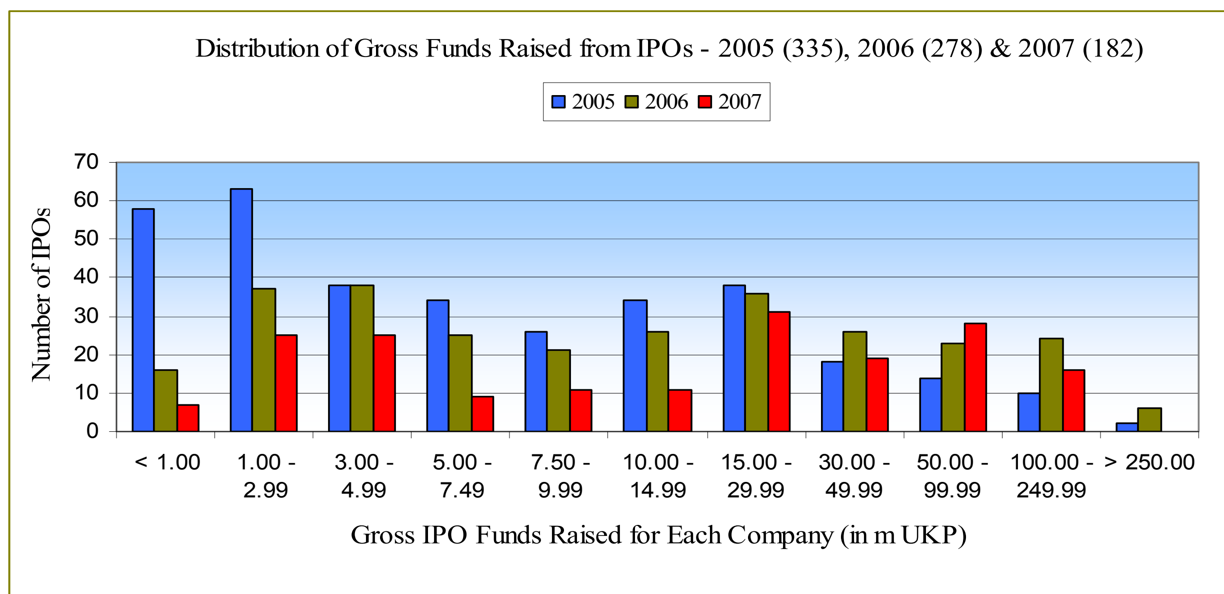
1. IPO funds committed to a SPAC are held in trust with the investors able to opt out of proposed acquisitions and have their investment returned or have their investment returned if a Qualified Business Combination is not consummated by a certain date.

2. IPO funds committed to an Investment Fund typically have narrow remits in terms of sectors and/or geography and only a certain percentage of the fund can be committed to any one company.

3. IPO funds committed to a Real Estate Fund are supported by "hard assets".

Question: What is the net result of this aversion to risk?

Answer: IPOs < £3 million have been replaced by IPOs > £30 million.



Very small 'operating companies' are no longer being funded which is good for the market since it increases quality. While AIM was founded in 1995 to fund these very companies and nurture them through to the Main Market, AIM has forged its own identity in recent years and, in fact, more companies now move from the Main Market to AIM! With a 12 fold disparity between the average company's market capitalization on AIM and NASDAQ, there is certainly scope for AIM to continue to address larger U.S. companies before becoming competitive with NASDAQ.

The outlook for 2008 is extremely cautious with an expectation that the market will be exceptionally selective, focusing on more mature, higher quality 'operating companies' with IPO fundraisings averaging around £20 million.

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