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

IPO Activity – 2009 vs. 2008

This newsletter takes a different format than previous newsletters and simply seeks to answer three main questions:

1. After 13 months (Aug. '08 – Aug. '09, incl.) with only 4 IPOs, are the 11 IPOs during the last four months of 2009 indicative of a return to more 'normal' levels of IPO activity?

   No, not in the short-term.

2. Have investors abandoned AIM or the London markets more generally?

   No, as evidenced by the exceptionally strong market for secondary offerings.

3. What criteria are Nominated Advisers, who solely determine the suitability of companies for AIM, and Brokers, the proxy for investors, looking for from potential AIM issuers?

   The bar is set high but is not insurmountable. See pages 4 and 5 for details.

Given the sparse activity over the last two years, it is necessary to examine the market at a more granular level in order to spot trends, if any, that may exist. After five quarters (Q3 '08 – Q3 '09, inclusive) of virtually no IPO activity, there were two IPOs in September 2009 and three in each month of Q4 2009. On the surface, this may appear to be a very positive sign of future IPO activity but the vast majority were for 'investment vehicles', funded to target distressed real estate / commercial businesses, or small specialty finance companies. During 2009, 10 of the 13 IPOs (77%) were for 'investment vehicles' whereas during 2008 only 13 of the 38 IPOs (34%) were of this nature, consistent with the historic levels of 39% and 38% in 2007 and 2006.

Quarter	**Number of IPOs**	Gross Funds Raised (in £ millions)	**Investment Vehicles**	**Operating Companies**
Q1 '08	11	275	2	9
Q2 '08	20	555	9	11
Q3 '08	6*	85	2	4
Q4 '08	1	3	0	1
Q1 '09	0	0	0	0
Q2 '09	2	222	2	0
Q3 '09	2**	34	1	1
Q4 '09	9	354	7	2
Total	**51**	**1,528**	**23**	**28**

* Five of which were in July.
** Both of which were in September.

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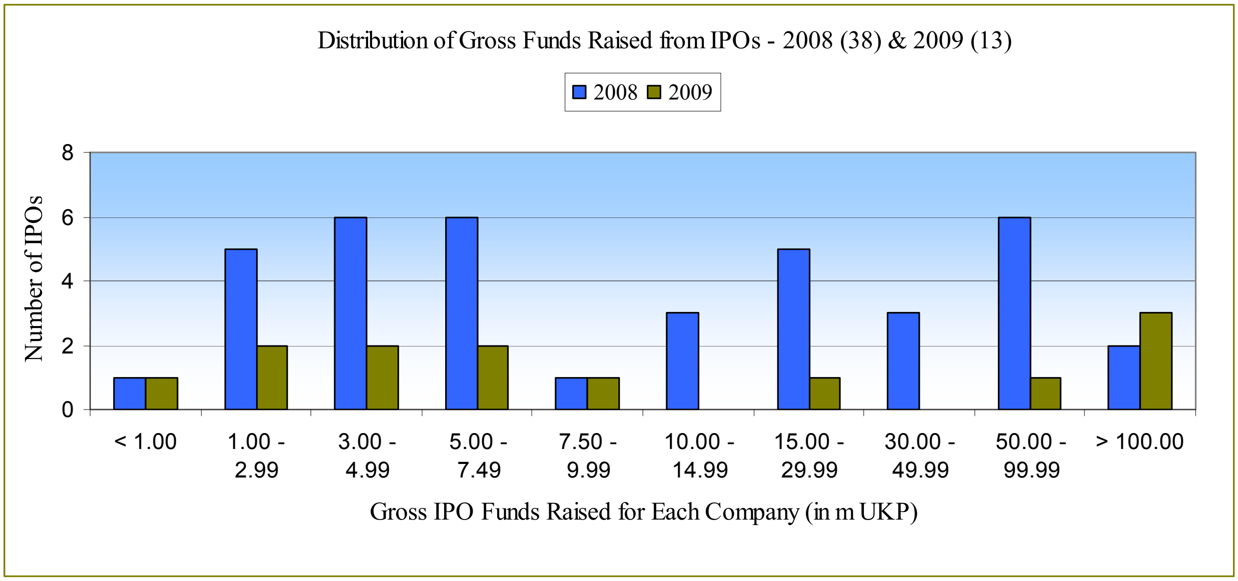
The lack of 'operating company' IPOs is also evident in the chart below. These companies typically raise between £7.5 million and £50 million ($12 million - $80 million) of growth capital and/or to take out existing shareholders.



While any IPO activity is a necessary precursor to the possible return of more 'normal' activity, it is reasonable to question whether there are other factors, structural or otherwise, that may impede the eventual resurgence of 'operating company' IPOs on AIM or the London markets more generally. In addition to AIM, the London Stock Exchange operates three other markets; the Main Market, the Professional Securities Market and the Specialist Fund Market. In the aggregate, only nine IPOs were completed on these three markets during 2009, six of which (67%) were for 'investment vehicles'. Seven of the nine IPOs (78%) were on the Main Market with the other two markets capturing one IPO each. Interestingly, the three largest IPOs on AIM during 2009, which raised an aggregate of £472 million ($755 million) of the £610 million ($976 million) total (77%) are, in theory, better suited for the Main Market or the Specialist Fund Market but chose AIM primarily because of its sensible regulatory model and the speed at which IPOs can be completed without the 'interference' of the UK Listing Authority (UKLA) and the Financial Services Authority (FSA).

At first glance, the table on the next page leaves one with a positive impression of the robustness of the secondary offering markets in London during 2009, particularly the Main Market; however, it is important to understand the types of offerings and why they are occurring.

Rights Issues are often undertaken by companies facing severe financial distress where new investors can not be identified and existing shareholders don't necessarily want to invest more, therefore, all shareholders are faced with a choice; invest to hold their positions or face dilution and the possible collapse of the company, the ultimate dilution! Rights Issues on the Main Market spiked in 2009 to £51 billion ($82 billion) from £28 billion ($45 billion) in 2008.

Placing & Open Offers are not necessarily good or bad and consist of a Placing tranche, consisting of new shareholders and/or existing shareholders eager to invest to hold or increase

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their positions, and an Open Offer tranche, an invitation to the balance of the existing shareholders to participate which can be for the positive reasons of their being broader appetite amongst existing shareholders and for good corporate governance or the negative reason of the Placing tranche not being adequate to finance the continuing operations of the company. Placing & Open Offers on the Main Market held firm in 2009 and 2008 at £19 billion ($30 billion).

Placings are straight issuances of shares for cash, perhaps to new and/or select existing shareholders, without extending an invitation to participate to the balance of the existing shareholders. Placings on the Main Market are not too common given the increased shareholder protections compared to AIM. Placings on the Main Market decreased substantially to £6 billion ($10 billion) from £13 billion ($21 billion) in 2008.

In summary, secondary offerings on the Main Market attracted an additional £16 billion ($26 billion) during 2009, however, it was all directed towards Right Issues and Placings dropped by £7 billion ($11 billion), which was also directed towards Rights Issues.

AIM is much easier to analyze in terms of secondary offering activity since the vast majority of transactions take the form of Placings. Indeed, during 2008, £3.1 billion ($5.0 billion) of the £3.2 billion ($5.1 billion) raised on AIM in secondary offerings were through Placings which increased by 16% during 2009 to £3.6 billion ($5.8 billion).

While Placing & Open Offers are rare on AIM (there were only three during 2008 which raised an aggregate of only £25 million ($40 million)), 2009 witnessed three large transactions which raised an aggregate of £1.0 billion ($1.6 billion) of the £1.1 billion ($1.8 billion) total. All three transactions were for real estate investment, development and management companies with one moving up to the Main Market a few months later.

In order to conclude on the health of the secondary offering market on AIM, one needs to dig a little deeper into the Placings. There were 580 Placings on AIM during 2008 which raised £3.1 billion ($5.0 billion) for an average Placing of £5.34 million ($8.54 million). During 2009, there were 673 Placings on AIM which raised £3.6 billion ($5.8 billion) for an average Placing of £5.36 million ($8.58 million), virtually identical averages. The differentiating factor however is the relative number of companies that were able to access the secondary offering market on AIM; only 36% during 2008 but 54% during 2009, which is consistent with the historic levels of 57%, 50% and 48% in 2007, 2006 and 2005, respectively. This is a good sign that the market has expelled the vast majority of the weak and is enthusiastically supporting those that remain.

Type of Secondary Offering	**Main Market**	Gross Raised (in £ **billions**)	Average Raised (in £ **billions**)	**AIM**	Gross Raised (in £ **billions**)	Average Raised (in £ **millions**)
RI*	50	50.699	1.014	2	0.008	4.000
P&OO**	36	18.747	0.521	21	1.123	53.476
Placing	81	5.773	0.071	673	3.607	5.360
Other	153	1.092	0.007	66	0.123	1.864
Total	**320**	**76.311**	**0.238**	**762**	**4.861**	**6.379**

* Rights Issue
** Placing & Open Offer

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The future for AIM IPOs. What are Nomads and Brokers looking for from AIM issuers?

In order to answer this question, I undertook an informal survey of the vast majority of Nomads and Brokers. Since the 60 Nomads and 100 Brokers generally serve different types of companies in terms of size (i.e. proposed capital raises and opening market caps.) and sector (i.e. industry), I posed the same questions to other key market participants who may have a broader view of the market; securities lawyers, accountants in the areas of audit and corporate finance, financial PR/IR firms, etc. as a cross-check on the views expressed by the Nomads and Brokers.

At the macro level, the general belief is that investor appetite for larger, typically Main Market IPOs will first have to return before serious consideration can be given to investor appetite returning for AIM IPOs. Many of these larger, Main Market IPOs will likely come from Private Equity portfolios; however, the obvious challenge will be synchronizing valuation expectations. Caution surrounds the UK economy, which has the dubious distinction of being the only G20 nation still in recession (Q3 '09 GDP shrunk by -0.2%), there is an upcoming general election to be held no later than June 3rd where current indications are that there will be a change of government and tax rate increases are likely given UK debt/GDP levels comparable to the U.S.

From a sectoral perspective on AIM, there has always been appetite in London for commodity-focused companies given the development of the North Sea oil and gas assets in the 1970s/80s which attracted world-class equity research analysts and a sophisticated institutional investor base. Oil and gas and mining, such as gold, other precious metals and gems, should continue to prove attractive. Positive comments were also made about the technology sector in general, and cleantech in particular, renewables and/or industrial technologies that promote energy efficiency, since technology companies are inherently international and often have high growth prospects. There is definite apprehension towards consumer-facing business, those in the consumer goods and consumer services super-sectors on AIM, given the fragile state of the UK economy and the perhaps even more fragile state of UK household finances.

The consensus view for H1 2010 is that AIM investors will continue to focus on supporting the companies that are currently on the market, are performing well and are in need of additional growth capital. AIM IPOs during H1 2010 will largely be confined to the same types of 'investment vehicles' which came to the market during 2009; those focused on distressed real estate / commercial business and small, niche players in the specialty finance space. AIM investors will look for signals from the Main Market, in the form of larger company IPOs, before more broadly entertaining IPOs of companies that have been the traditional mainstay of AIM.

While the bar is set high for 'operating companies' wishing to complete an AIM IPO during 2010, it is not insurmountable. The fundamental debate often comes down to valuation, and rightfully so, in some respects. A key feature of AIM is the breadth and depth of its secondary offering market. Companies that are willing to accept a reasonable valuation, with a view towards proving that they can meet or exceed their operational promises and financial targets, will have ready access to the secondary offering market, presumably at ever increasing valuations. The net effect is often less dilution. Coming to the market at an unrealistic valuation where the share price plummets, liquidity evaporates and trust is lost leaves the company with little ability to raise additional capital or use its new public shares as an acquisition currency.

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The following is a non-exhaustive list of the criteria that AIM Advisers uses to vet potentially suitable U.S. company for AIM IPOs, effectively looking through the lens of prospective Nomads and Brokers. Obviously, overall consideration necessitates the use of judgment. These points are meant to provide a starting point for discussions.

1. 'Growth-oriented' company[1]
2. Minimum opening market cap. of £30 million ($48 million), with acquisition strategy[2]
    - At least $24 million of annual revenue and $2.4 million of net income[3]
3. Minimum opening market cap. of £50 million ($80 million), without acquisition strategy
    - At least $40 million of annual revenue and $4.0 million of net income
4. Maximum opening market cap. of £250 million ($400 million)[4]
5. International scope (sales and/or operations), current or post-IPO, preferably UK/EU[5]
6. Outstanding management team with a real track record[6]
7. Solid Board of Directors or the ability to formulate one during the IPO process[7]
8. Willingness to fully and fairly disclose any potential 'skeletons in the closet'[8]
9. Sound internal controls and good corporate governance, or willingness to put in place
10. Reasonable valuation expectations, willingness to take a long view[9] (see prev. page also)
11. Free float of at least 25% post-IPO, ideally around 50%[10]
12. Strategic investor(s) and/or existing shareholder(s) anchoring the IPO[11]

While historically 15% of the U.S. companies that have listed on AIM have been backed by VCs/PEGs, given the changing landscape of AIM and the factors above, the future outlook is that closer to 50% of the U.S. companies listing on AIM will come from VC/PE portfolios.

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[1] This would be characterized by growth of revenues and/or profits of at least 20% per annum, whether organic or through acquisition.

[2] Current market appetite is for a minimum opening market cap. of £50 million ($80 million), however, with a credible acquisition strategy that can executed with the capital raised from the IPO and/or the company's new public shares over the first year or two on AIM, the opening market cap. can be as low as £30 million ($48 million).

[3] This is a rule-of-thumb. Valuation is ultimately determined by reference to the company's DCF model. There is no requirement that companies joining AIM be profitable, however, the market is currently risk adverse, therefore, companies will either already be profitable or will be able to clearly demonstrate self-sufficient post-IPO.

[4] Above this level, U.S. companies are better served on the U.S. public markets from the perspectives of valuation and liquidity and should be large enough to bear the internal and external costs of Exchange Act reporting and SOX compliance. London's Main Market might be a consideration but the rationale is weak. No U.S. company has its primary listing on the Main Market.

[5] Many technology companies meet this test since they are often not reliant on physical locations. London-based investors will not accept U.S. companies seeking to raise capital on AIM as the 'venue of last resort' and/or because of an inability to be able to comply with the Exchange Act or SOX; however, a conscious decision to avoid onerous U.S. regulation for companies in the $48 million - $400 million market cap. range is viewed as sensible.

[6] An added bonus would be a management team that has previously made money for public company investors.

[7] In a U.S. context, many companies considering AIM are quite small and often need to augment their BOD.

[8] Voluntary disclosure of any personal bankruptcies, corporate bankruptcies, companies that havc gone into administration, liquidation, etc. will typically not cause a company / management team to be deemed unsuitable.

[9] If these are present, companies that consider completing an IPO on AIM during 2010 should be able to negotiate lower professional fees, given increased competition for fewer listings, and attract meaningful media attention.

[10] UK institutional investors are very reluctant to invest in AIM-listed companies that will not have a free float of at least 25% (this is a requirement on the Main Market) for fear of Special Resolutions being 'crammed down' and to increase the chance of achieving strong aftermarket liquidity and the derivation of a 'fair' share price / market cap. The 50% free float target is usually achieved through a combination of new shares issued by the company for cash and existing shareholders reducing their positions.

[11] Given current market conditions, this would likely be a requirement in the ultrahigh-risk biotech space, however, moving down the continuum of less risky sectors, the traditional view of institutional investors is that pure financial investors can exit entirely at the time of the IPO and insiders / management can sell down 20 - 25% of their holdings, all on a case-by-case basis.

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