

AIM – A Decade of Achievement

By Nigel Hawkins, Hardman & Co Analyst

- ▶ *AIM, which was founded in 1995, now hosts 959 stocks, currently worth over £100 billion.*
- ▶ *Since its founding, over £100 billion has been raised by AIM-quoted stocks – with 2006 and 2007 being its best years.*
- ▶ *The AIM Index has risen by 31% over the last year and by over 60% during the last five years. Impressive.*
- ▶ *AIM now hosts eleven companies with valuations of over £1 billion each, led by top on-line clothing retailer ASOS, currently worth c£5 billion.*
- ▶ *Liquidity on AIM has improved remarkably in recent years – Click here to read Keith Hiscock's article: [Liquidity - little understood, even before MIFID II.](#)*

AIM – A Decade of Achievement

Executive Summary

- ▶ AIM, which was set up in 1995, continues to prosper despite serious concerns about its future following the financial crisis of 2008/09. In short, it is now in rude health.
- ▶ Currently, 959 stocks are quoted on AIM, 43% below the record 1,694 that were quoted in 2007. As the increase in total AIM capitalisation suggests – the 2007 figure was £97.6bn v £100.2bn currently - the quality - perceived or otherwise - of AIM-quoted stocks has risen.
- ▶ The comparisons with 1995 underline how AIM has expanded; there were just 121 stocks then quoted, worth a modest £2.4bn. Importantly, too, AIM has been disproportionately skewed towards the new economy, with a substantial number of internet, technology and biotech stocks.
- ▶ Since 1995, AIM has raised c£104bn, with 2006 and 2007 being its most successful years – raising around £16bn in each of those years - compared with our estimated 2017 figure of £5.5bn. Interestingly, the majority of the money raised derives from further issues of existing AIM stocks rather than from those undertaking an IPO.
- ▶ AIM currently hosts 11 stocks with market capitalisations of over £1bn. The largest is on-line fashion business, ASOS, worth c£5bn. Fevertree Drinks, Hutchison China Meditech and Boohoo all have market capitalisations of c£2.5bn – all are young companies.
- ▶ Although the future for AIM looks bright, it could be disrupted by a weak economy, higher interest rates, tighter regulation, a less-friendly tax regime or even AIM-related shortcomings.

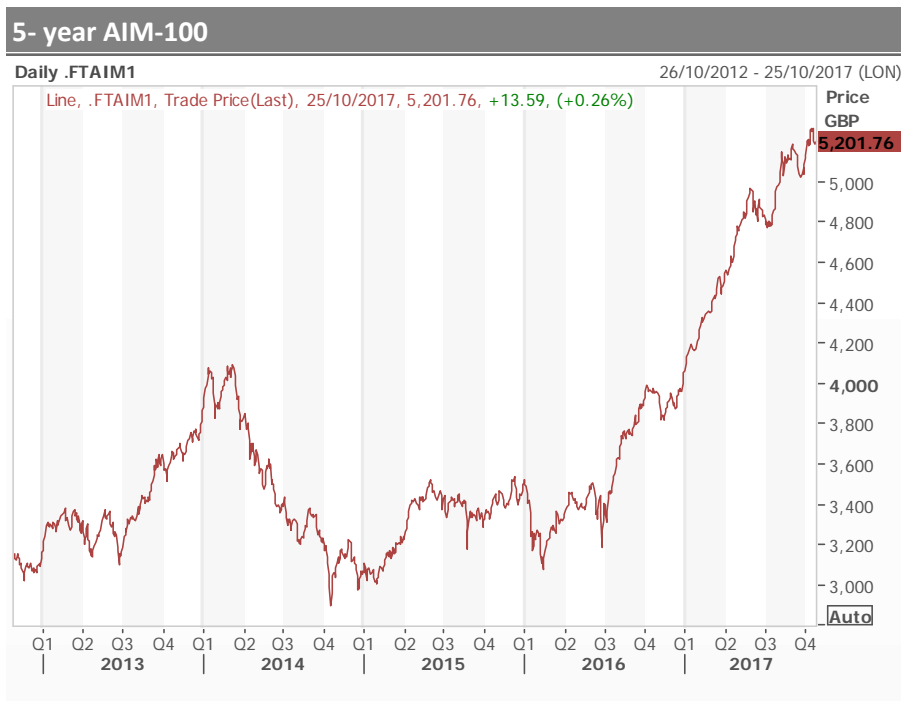
The 2008/09 Financial Crisis

Rich vein...

AIM is now 22 years old and is enjoying a rich vein of form as stock markets reach record levels. Indeed, the AIM-100 Index is now 5,184, compared with 3,950 one year ago and 3,200 at the end of October 2012. When compared with 2012, the AIM-100 Index has risen by over 60%.

AIM's resilience...

The Graph below shows the resilience of AIM's stock market performance over the last five years, especially considering all the downside factors which it has had to confront.



Source: Eikon Thomson Reuters

It should also be recognised that, back in 2008/09, when the financial crisis was at its height, there were real doubts about AIM’s ability to adjust successfully to a far less up-beat economic scenario. After all, the Government had just sunk £45.5bn of taxpayers’ money into Royal Bank of Scotland, with a further c£20 billion into the ill-fated Lloyds/HBOS merger.

No bull market phenomenon...

AIM’s subsequent success has proven that it is not simply a bull-market phenomenon - although its market value peak (including all AIM stocks) was in 2007 – it fell sharply as the financial crisis took hold. Once full-year figures are available for 2017, it seems virtually certain that the current year will exceed the previous 2007 peak not just in nominal terms but also in real terms.

High attrition rate...

Of course, AIM has had its share of troubles and critics, especially on the issue of insufficient due diligence. As the peak membership figures for 2006 and 2007 imply, a large number of companies have disappeared subsequently, many due to insolvency.

With so many companies quoted - 959 at September 2017 - it is hardly surprising that AIM has faced robust criticism. The long-running controversy over the insurance claims business, Quindell - now re-named Waterstone – raised several fundamental questions about AIM and especially its oversight of complex companies, of which Quindell was undoubtedly one.

Background

AIM's history dates back to the early 1990s and the decision to establish a new market whose listing requirements were considerably less onerous than those required for a full market quote. To a certain extent, it reflected an era of rapid change as new technology companies, some internet-based, emerged.

£100bn valuation threshold reached in 2017...

Figure 1 below shows how AIM has developed since 1995. By any measure, its expansion has been mightily impressive, especially post the financial crisis of 2008/09. In fact, the first nine months of this year have seen a market value for AIM stocks exceeding £100bn for the first time. Once a full-year figure is available, 2017 will be – short of a major market correction – a record year in terms of AIM market capitalisation.

Figure 1 – AIM Historic Data					
Year	Companies	Market Value (£m)	New Money Raised (£m)	Further Money Raised (£m)	Total Money Raised (£m)
19/06/1995	10	82			
1995	121	2,382	71	25	97
1996	252	5,299	522	297	819
1997	308	5,665	344	350	694
1998	312	4,438	268	318	585
1999	347	13,469	334	600	934
2000	524	14,935	1,754	1,338	3,092
2001	629	11,607	593	535	1,128
2002	704	10,252	490	486	976
2003	754	18,359	1,095	1,000	2,095
2004	1,021	31,753	2,776	1,880	4,655
2005	1,399	56,619	6,461	2,481	8,942
2006	1,634	90,666	9,944	5,734	15,678
2007	1,694	97,561	6,581	9,602	16,183
2008	1,550	37,732	1,108	3,215	4,322
2009	1,293	56,632	740	4,831	5,602
2010	1,195	79,419	1,201	5,649	6,850
2011	1,143	62,213	614	3,681	4,295
2012	1,096	61,748	712	2,451	3,163
2013	1,087	75,929	1,191	2,716	3,907
2014	1,104	71,414	2,604	3,122	5,727
2015	1,044	73,077	1,240	4,216	5,456
2016	982	80,814	1,104	3,662	4,766
2017 (YTD)	959	100,238	1,225	2,766	3,990
Total			42,972	60,985	103,957

Source: London Stock Exchange

The comparison with the 2004 data is interesting in that the number of companies then quoted is slightly above the current figure yet AIM's total market capitalisation at that time was just a third of the existing figure.

Big 11 skew figures...

In short, this suggests that the overall quality of AIM stocks is rising. It is the case, though, that the 'Big 11' £1 billion market capitalisation stocks, and especially ASOS, seriously skew the comparison.

Estimated £5.5bn of new funding for 2017...

Although the amount of money now being raised is well below the totals for 2006 and 2007, the fact remains that, for the 2017 full-year, an estimated £5.5bn of additional funding is expected to have been secured, mostly from existing AIM-quoted companies rather than from new market entrants.

Liquidity

Trading volumes soar...

There have been long-standing concerns, especially from those considering an AIM flotation, that AIM-quoted stocks lack liquidity, particularly in respect of the smaller AIM stocks where trading levels are low. Significantly, however, trading volumes on AIM continue to rise, as comparisons with 2007 – the year before the financial crisis – indicate. Significantly, trading volumes in 2017 are expected to be over five times those of a decade ago. Figure 2 tracks the trading trends since 1995: Executive summary

Figure 2 – Trading Data			
Year	Turnover Value (£m)	Number of Trades	Volume of Trades (m)
1995	270	29,099	544
1996	1,944	187,975	5,529
1997	2,415	217,426	6,443
1998	1,938	215,555	6,174
1999	5,178	829,480	19,862
2000	13,010	1,970,321	35,770
2001	4,583	703,400	26,862
2002	3,154	450,215	25,028
2003	5,859	819,024	56,054
2004	15,335	1,635,785	90,876
2005	37,863	2,120,375	95,850
2006	56,608	3,449,652	129,923
2007	72,367	4,156,569	143,703
2008	41,775	3,854,643	118,952
2009	27,987	3,762,160	164,073
2010	40,504	5,277,856	197,273
2011	47,783	7,312,198	273,773
2012	48,327	7,154,323	338,616
2013	39,597	6,425,265	490,073
2014	56,544	8,714,460	582,398
2015	41,779	7,476,748	675,361
2016	43,540	8,087,668	693,168
2017 (YTD)	50,028	8,541,625	660,892
Total	658,390	83,391,732	4,837,200

Source: London Stock Exchange

In fact, the issue of AIM liquidity has been carefully analysed by Hardman in recent months.

Hardman's AIM liquidity analysis...

Indeed, a major analytical insight into AIM liquidity – ‘Liquidity – little understood, even before MiFID II’ - was recently undertaken by Hardman’s Chief Executive, Keith Hiscock. It also addressed the complex research ramifications of MiFID II, whose long-delayed implementation is now due in January 2018.

Hard copies of this Report are available from Hardman; the text is reproduced on the Hardman web-site:

<http://hardmanandco.com/docs/default-source/newsletters/hardman-co-article---liquidity-little-understood-even-before-mifid-ii---october-2017.pdf>

Company Distribution on AIM

90% of AIM value in £50m+ stocks...

In assessing recent trends on AIM, it is salutary to consider how market capitalisation is split between its members. Figure 3 below indicates that almost 90% of the total value of AIM stocks is accounted for by companies with a market capitalisation of over £50m.

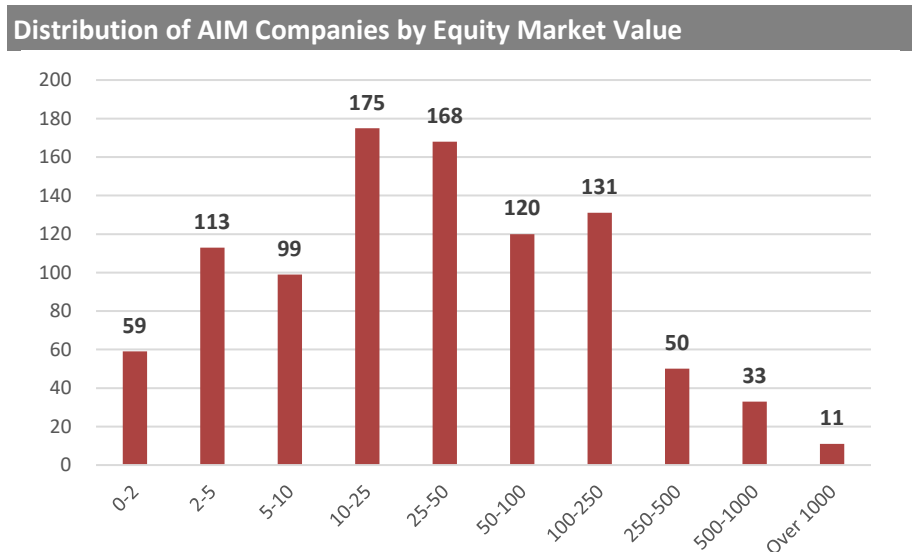
Figure 3 – Company Size on AIM

Value Range (£m)	Number of Companies	%	Equity Value (£m)	%
Over 1,000	11	1.1	22,673	22.6
500-1,000	33	3.4	22,105	22.1
250-500	50	5.2	16,535	16.5
100-250	131	13.7	20,168	20.1
50-100	120	12.5	8,663	8.6
25-50	168	17.5	6,037	6.0
10-25	175	18.2	2,843	2.8
5-10	99	10.3	759	0.8
2-5	113	11.8	378	0.4
0-2	59	6.2	78	0.1
Totals	959	100	100,238	100

Source: London Stock Exchange

AIM's £10m-£250m sweet spot...

In terms of the number of companies quoted on AIM, most are capitalised within the £10m and £250m level – essentially the AIM sweet spot; this is demonstrated by the bar chart reproduced below.



Source: London Stock Exchange

It is also significant that just 44 companies - each worth over £500m each - account for almost half of AIM's total market value. ASOS, with its c£5bn capitalisation, has a particularly distorting effect on these figures.

New v Further Issues

Further issue fund-raising is key driver...

Whilst many market commentaries tend to focus on stocks joining AIM, the fact remains that most of the funds raised on AIM are those that accrue from further issues: the new issue component is more modest.

In fact, AIM's strength lies particularly in facilitating the raising of additional funds by existing AIM members - this aspect of AIM is underplayed in the financial press and elsewhere. As recent data indicates, this process has seen £2.8bn of further funds being raised in the first nine months of 2017 alone.

Options and warrants dominate further funding...

Figure 4 provides a breakdown of how this money was generated over this period from a series of further issues. Most dominant are the funds raised through options and warrants.

Figure 4 – Fund-raising Data							
Month	Total (£m)	Cash Placing (£m)	Options and Warrants (£m)	Vendor (£m)	Further Issue (£m)	Others (£m)	Funds Raised (£m)
January	136	25	57	13	16	25	161
February	195	42	84	21	14	34	167
March	199	53	83	18	17	28	320
April	200	30	95	20	21	34	257
May	200	53	79	16	24	28	317
June	209	45	95	18	16	35	352
July	170	34	71	13	26	26	630
August	153	30	64	18	14	27	361
September	131	21	56	14	20	20	201
Total	1,593	333	684	151	168	257	2,766

Source: London Stock Exchange

In terms of sector split, Figure 5 provides a break-down of how new and further money has been raised on AIM during the first nine months of 2017.

Figure 5 – Sector Analysis				
Sector	New Issues	New Money (£m)	Further Issues	Further Money (£m)
Oil/Gas	9	81	191	485
Basic Materials	4	13	399	247
Industrials	11	350	186	246
Consumer Goods	2	37	38	38
Health Care	3	50	189	457
Consumer Services	4	77	146	134
Telecoms	1	40	20	210
Utilities	0	0	17	5
Financials	12	523	179	386
Technology	6	53	228	558
Total Equities	52	1,225	1,593	2,766

Source: London Stock Exchange

AIM multi-sector spread...

Whilst the above data covers just the last nine months, it does show several key sectors raising money, with the exception of the utilities sector, which has very few AIM constituents.

AIM’s Stars - The ‘Big 11’

One of the salient features of the AIM story since 1995 is how a few companies have grown very quickly – and aggressively.

No Vodafone...

To be sure, there is no comparison with the Vodafone story, whereby the former Racal subsidiary – within a generation of its founding – had become, by 1999, the fourth largest company in global history after Microsoft, Cisco and General Electric,

Nonetheless, there are currently 11 companies quoted on AIM, with a market capitalisation of over £1 billion each. Most of them simply did not exist in the 20th century; indeed, several, such as Boohoo, Clinigen and Purplebricks are less than a decade old.

Reproduced below are very brief potted profiles of AIM’s ‘Big 11’ and their latest market capitalisations:



ASOS – Market Cap. £5.0bn.

On-line clothing business, ASOS, was launched – despite almost universal misgivings about the financial outlook for on-line clothes sales - in 2002; it now has c13.4m active customers. In terms of age, ASOS targets the 20 something clothing market;



Fevertree Drinks – Market Cap. £2.5bn.

Based on a 17th century anti-malaria protection derived from the eponymous tree, Fevertree produced its first Indian tonic water in 2005; its thriving business has been boosted by the recent popularity of gin;



Hutchison China Meditech – Market Cap. £2.4bn.

With a pipe-line of novel oral drug candidates, notwithstanding the sale of prescription drugs and consumer health products in China, Hutchison China Meditech has seen increasing investor interest – CK Hutchison retains a majority stake;



Boohoo.com – Market Cap. £2.4bn.

Like ASOS, Boohoo is also a major player in the on-line youth clothing market. It was founded in Manchester in 2008 and had 5.2m active customers as at February 2017;



Burford Capital – Market Cap. £2.2bn.*

A major provider of finance to the legal market, Burford participates in a market where there are demonstrably unequal resources in litigation outcomes; it was founded in 2009;



Abcam – Market Cap. £2.1bn.

Having originally been established to buy anti-bodies via the internet, the Cambridge-based Abcam has become a global player in the supply of life science tools. Its current AIM valuation is c10x its 2016/17 revenues;



Phoenix Global Resources – Market Cap. £1.5bn.

Oil and gas, primarily in Argentina where it owns substantial resources, are the core businesses of Phoenix Global Resources. It joined AIM in 2007 and has evolved – as its name suggests – via various corporate deals in South America;



Breedon – Market Cap. £1.2bn.

Originally Enstone, the East Midlands-based Breedon is the largest independent construction group in the UK. It was founded in 2008 and owns key building assets including the UK's largest cement plant;



Clinigen – Market Cap. £1.2bn.

In 2010, three health businesses were merged to form Clinigen, which specialises in being a major procurer of medicines from a wide range of sources;



Purplebricks – Market Cap. £1.1bn.*

Set up as recently as 2012 in the Midlands, Purplebricks has firmly established itself as a major disruptor in the estate agency market, where it is the leading on-line 24/7 agent;



Plus500 – Market Cap. £1.0bn.

Established in 2008, Plus500's expertise lies in trading Contracts for Differences (CfDs), which have been widely used in the electricity supply industry since privatisation. Plus500 has Israeli origins and undertook an IPO on AIM in 2013.

N.B. Please note that companies marked with an asterisk are Hardman clients.

Downside risks for AIM...

The Future of AIM

Although AIM has prospered over the last 22 years, there is no guarantee that its expansion will continue. A major economic down-turn on the back of rising global interest rates – a favoured scenario by market bears - could test AIM's resilience.

Nonetheless, given how AIM surmounted the financial crisis in 2008/09, it remains well-placed to expand and to enable more new and further funds to be raised by its membership.

In addressing AIM's prospects for the future, we believe there are several criteria that need to be in place:

- ▶ Continuing good performances from the leading companies quoted on AIM and fewer bad news stories, of which the former Quindell controversy stands out;
- ▶ An ongoing robust economic performance despite all the uncertainties posed by Brexit and the likelihood of higher interest rates;
- ▶ A tax regime that continues to treat AIM stocks favourably – and underpins the prices of some AIM-quoted stocks;
- ▶ The ability of AIM to generate genuine liquidity, especially at the lower end of the market;
- ▶ The avoidance of excessive regulatory involvement, which could be triggered by further AIM-related scandals.

Conclusion

In rude health currently...

The overall conclusion is that AIM is currently in rude health – it is still the fastest-growing stock market in the world. It acts as a host to almost 1,000 companies and, by the 2017 full-year, should have assisted in raising c£5.5bn of new and further capital – an impressive figure.

But the worm may turn...

But if the economy turns south – a far from improbable scenario – AIM may look back on 2017 as a year of plenty.

About the author

Nigel Hawkins undertakes analysis of the Utilities sector at Hardman, along with working on some special projects.

He has been an investment analyst since 1989, focussing on the UK/EU privatised water and electricity sectors as well as the gas and telecom companies. He has worked at Hoare Govett, Yamaichi and Williams de Broe.

Before joining the City, he worked as Political Correspondence Secretary to Lady Thatcher at 10 Downing Street between 1984 and 1987. Prior to that, he qualified as an Associate of the Institute of Chartered Secretaries and Administrators (AICS) and graduated in Law, Economics and Politics from Buckingham University.

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