



The London Stock Exchange's AIM (LSE AIM) Overview Presentation - 2017



Mark McGowan
Managing Director
AIM Advisers, Inc.
1223 Wilshire Blvd., Suite 1855
Santa Monica, California 90403
mmcgowan@aimadvisers.eu
+1 310 903 0322

Table of Contents

• Background of AIM Advisers	1
• What is AIM and What Types of Companies List on AIM?	2 - 4
• Who are the Largest Investors in AIM?	5
• Why Do European Companies List on AIM?	6
• How AIM Works and the Key Professional Advisers	7 - 9
• Representative AIM IPO Capital Raise and Costs	10
• AIM Compared to NASDAQ	11
• AIM Compared to VC/PE Financing and Banking Facilities	12
• Is Your Company Suitable for an AIM IPO?	13
• AIM Advisers' Services - Prospective New AIM Entrants	14 - 17
• AIM Advisers' Services - Existing AIM-Listed Companies	18 - 19



Background of AIM Advisers

- AIM-focused consultant with a track record spanning 15 years
- Former Finance Director of AIM-listed DDD Group plc
 - Helped take public on AIM in 2002
 - Became Finance Director in 2003
 - Secured Japanese strategic investor in 2004
 - Engaged London-based independent equity research firm in 2005
 - Changed Nominated Adviser and Nominated Broker in 2004 and 2007
- CPA since 1993
 - Worked in public accounting
 - Small firm in Philadelphia
 - Grant Thornton Los Angeles
 - Grant Thornton Hong Kong and Grant Thornton International's Asia-Pacific Division
- MBA from UCLA Anderson in 2003
- 360° knowledge of AIM and excellent, long-standing relationships with the entire AIM ecosystem
 - Virtually all of the 40 Nominated Advisers and 80 Nominated Brokers
 - Half-dozen independent equity research firms and 20 financial PR/IR firms
 - Dozens of cross-border law and accountancy firms
 - Company secretaries, registrars and printers
 - The London Stock Exchange's 'AIM Team'

What is AIM and What Types of Companies List on AIM?

- Established in 1995 by the London Stock Exchange for growth-oriented SMEs to raise capital
 - AIM is an “exchange regulated market”, therefore, no external regulator
 - LSE delegates much of its regulatory authority to Nominated Advisers who it licenses and monitors
 - Nominated Advisers, or “Nomads”, are generally boutique investment banks or other professional firms
 - Nomads owe their sole duty to the LSE, although they are retained and paid by the company
 - The goal is moderate and balanced regulation, not one-size-fits-all
- 3,700 companies have raised £100 Billion on AIM since 1995
 - £42 Billion from IPOs
 - £58 Billion from Secondary Offerings
- AIM consistently raises over £5 Billion each year

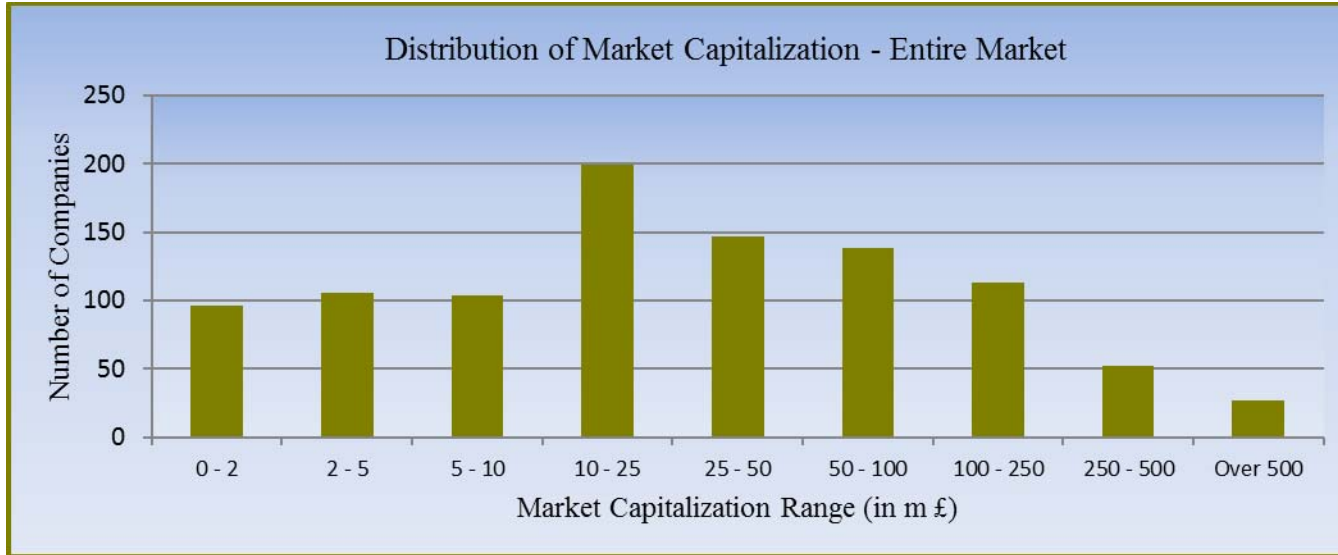
	IPO Funds Raised (in £ millions)	Secondary Offering Funds Raised (in £ millions)	Total Funds Raised (in £ millions)
2015	650	4,936	5,586
2016	1,137	4,056	5,193
Total	1,787	8,992	10,779

- 42 IPOs in 2016 raised an average of £27 Million, 37% for Selling Shareholders
 Significant capital can be raised on AIM at IPO and in the aftermarket



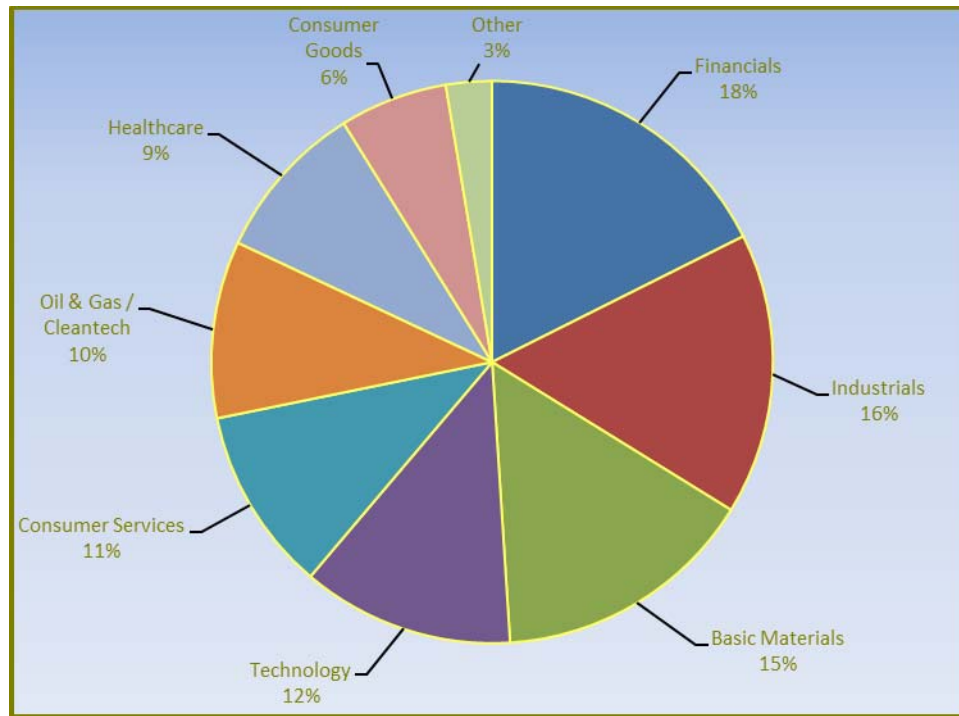
What is AIM and What Types of Companies List on AIM?

- AIM currently consists of 1,000 companies
 - Aggregate market capitalisation of £81 Billion
 - Average market capitalisation of £81 Million, median is £23 Million
 - 61% falling between £10 Million and £250 Million



What is AIM and What Types of Companies List on AIM?

- The sectors in which AIM-listed companies operate are quite diverse
 - With the exception of basic materials (mining) and oil and gas, some advanced technology is inherent in most



AIM is a large, mature market with a wide range of companies
Most are 'growth-oriented' with some international scope

Who are the Largest Investors in AIM?

Investor*	Value**	Number	Avg.**		Investor*	Value**	Number	Avg.**
Invesco	\$2,629	76	\$34.60		FIL	\$676	94	\$7.19
Hargreave Hale	2,143	461	4.65		Capital Research	660	16	41.25
Woodford	1,709	37	46.20		Artemis	630	111	5.68
Schroders	1,430	128	11.17		Hargreaves Lansdown	613	405	1.51
Octopus	1,132	136	8.33		River & Mercantile	551	75	7.35
BlackRock	1,119	123	9.10		J.P. Morgan	484	62	7.80
Liontrust	1,112	84	13.23		Majedie	427	55	7.76
Old Mutual	1,054	61	17.28		M&G	409	68	6.02
Baillie Gifford	987	63	15.67		Rathbone	389	282	1.38
Standard Life	982	146	6.73		Aviva	380	51	7.46
Henderson	977	204	4.79		Legal & General	376	88	4.28
Miton	815	153	5.33		Herald	367	110	3.33
Investec Wealth	768	318	2.42		Lansdowne Partners	361	17	21.22
AXA	717	121	5.92		Investec Asset	326	58	5.63
Barclays	692	408	1.70		Ruffer	326	80	4.07

* Excludes nominee accounts

** In millions of US\$ as of December 31, 2016

'Blue Chip' investment management, pension and insurance funds dominate the top 30 but 44%/56% split of institutional and retail investors

Why Do European Companies List on AIM?

- There are many reasons why European companies decide to list on AIM, some of which are unique to AIM and some of which are not
 - Financial
 - Raise cash to fund existing operations through to profitability
 - Raise cash to fund organic growth and/or acquisitions
 - Raise cash to fund international growth
 - Strategic
 - Create a liquid currency in shares for acquisitions
 - Diversify the shareholder base across many large institutional investors with deep pockets
 - Exit, partial or otherwise, of existing shareholders
 - Recapitalize the balance sheet by swapping debt for equity
 - Establish a market value for the company if the longer term strategy is to be acquired
 - Prepare the company for a primary listing on the LSE's Main Market
 - Prepare the company for a dual listing on NASDAQ
 - External
 - Regulatory environment is more appropriate for the company's size and stage-of-development
 - Attract an appropriate shareholder base and equity research following
 - Bolster confidence with current and prospective business partners
 - Attract, retain and incentivize employees and the board with shares and/or options
- In the current banking environment, opportunistic companies may access equity financing to:
 - Continue with their organic and/or acquisitive growth plans
 - Swap debt for equity to deleverage; reducing risk and interest expense
 - Use their new public shares to affect acquisitions of weak competitors that have:
 - Valuable IP
 - Rich customer lists
 - High quality employees

How AIM Works and the Key Professional Advisers

- The listing requirements are non-prescriptive
 - No minimum public float
 - No minimum initial equity
 - No minimum market capitalization
 - No minimum level of profitability
 - Company doesn't even have to have a trading history
 - Once listed, no minimum share price or market capitalization requirements
- Listing on AIM is almost as hard as listing on the LSE's Main Market
 - Rigorous financial and operational due diligence
 - Rigorous legal due diligence
 - Nominated Advisers put companies 'through the paces'; they're on the hook to the LSE
 - Very different regulatory model than the Main Market
 - Nominated Brokers are very discerning; they work on a success basis
- But on-going obligations are very straightforward
 - Half-yearly, management prepared, financials disseminated through the LSE's Regulatory News Service
 - Annual audited financials included in Annual Report and sent to shareholder along with voting materials
 - Notification of new developments that would likely lead to a substantial movement in the share price
 - Change in financial condition, sphere of activity, performance, or expectation of performance, of the business
 - Changes in shareholdings by Directors
 - Changes in shareholdings by significant shareholders (+3%) breaching a full percentage point
 - Change of Nominated Adviser or Nominated Broker
 - Substantial transactions (>10%)
 - Issuance of additional debt or equity securities

How AIM Works and the Key Professional Advisers

- **Nominated Adviser or “Nomad” - 40 London-based firms provide this service**

- One must be retained at all times
- Solely responsible for determining the suitability of companies seeking admission to AIM
- Guides the company through the IPO and orchestrates the due diligence work of the lawyer and accountant
- On an on-going basis:
 - Ensures company complies with the AIM Rules for Companies
 - Reviews and advises on the nature and form of regulatory announcements
 - Provides advice on business strategies and general market conditions

The Nomad and Broker are the company’s most important advisers and are often the same firm but consider separating these roles and/or appointing Joint Brokers

- **Nominated Broker - 80 London-based firms provide this service**

- One must be retained at all times
- Introduces the company to appropriate Institutions, PCBs and HNWIs
- Supports the IPO with the publication of equity research
- Sizes and prices the IPO in consultation with the company
- On an on-going basis:
 - Makes a market in the company’s shares
 - Publishes additional research
 - Provides advice on general market conditions
 - Assists with secondary offerings

It is crucial to appoint the Nomad and the Broker before any other advisers (i.e. lawyers and accountants), otherwise a company’s choices may be severely restricted

- **Lawyer**

- Typically drafts the Admission Document, with the assistance of the company and Nominated Adviser
- Carries out legal due diligence, including verification of Admission Document, at the direction of the Nomad
- Advises on structuring, taxation, share options, etc.
- Helps negotiate placing agreement with the Nominated Broker

How AIM Works and the Key Professional Advisers

- Auditor

- Issues an opinion on the company's historic financial statements
 - Three years or from inception, whichever is shorter
 - Audited financials go stale after nine months
 - IFRS for European Economic Area companies
 - Any stable currency

The Reporting Accountant role is unique and does not have to be carried out by the Auditor.

- Reporting Accountant

- Carries out financial and operational due diligence, at the direction of the Nominated Adviser
- Produces four reports addressed to the Nominated Adviser and the Directors:
 - Long Form - A private report which covers the financial and operational history of the company
 - Short Form - Condensed historic financials, and perhaps pro forma financials, for inclusion in Admission Document
 - Adequacy of Financial Reporting Systems - A private report on the company's internal controls
 - Working Capital - Verification and stress test of financial model and assumptions; IPO funds must cover at least 12 months
- The Reporting Accountant has no on-going role but the Auditor, of course, does

- Independent Equity Research (not required, but strongly suggested)

- Augments the Nominated Broker's research in support of the IPO and provides on-going coverage
- Can help with introductions to prospective investors at the time of the IPO and/or in the aftermarket

- Financial PR/IR (not required, but strongly suggested)

- Advises market-facing executives on how to interact with investors, the financial press and the media
- On an on-going basis:
 - Provides consultation on the nature and form of commercial and regulatory announcements
 - Actively engages with opinion makers and thought leaders amongst the financial press and industry specific media

Representative AIM IPO Capital Raise and Costs

Category	Description	Amount
Gross Capital Raised	£16,000,000 for the company and £8,000,000 for selling shareholders*	£24,000,000
Nominated Adviser	IPO oversight and regulatory obligations	150,000
Nominated Broker	Capital raising commission @ 4% (range of 3% - 5%)	960,000
Lawyer	DD, Admission Document, agreements, presentation, announcements	250,000
Reporting Accountant	Four Reports	150,000
Auditor	Audit of financial statements	80,000
Independent Equity Res.	Pre-IPO research	60,000
Financial PR/IR	Media training, financial and trade press coverage and announcements	40,000
Miscellaneous	Printing, AIM admission fee and out-of-pocket expenses	30,000
Net Capital Raised	Transaction Costs Approximate 7.17%	£22,280,000

* Financial investors can typically exit entirely at the time of the IPO and insiders / executive management can typically sell down 20 - 25% of their holdings, all on a case-by-case basis. A free float of at least 25% is desirable with 50% being ideal so as to increase the chance of achieving strong aftermarket liquidity and the derivation of a 'fair' share price / market cap.

AIM Compared to NASDAQ

- **AIM and NASDAQ are psychologically competitive but should be viewed as complementary**
 - Average market capitalisation on NASDAQ is £1.8 Billion
 - Average market capitalisation on AIM is £81 Million
 - Transition point is around a market capitalisation of £500 Million

AIM provides a 3 - 5 year bridge to grow from £10 Million to £500 Million
- **Many companies list on NASDAQ too early**
 - 75% of the companies on NASDAQ have market capitalisations below £500 Million
 - 65% of those companies have no research coverage, whereas 80% of AIM-listed companies are covered
 - U.S. investors don't know of or care about these 'small' companies
 - Regulatory burden on NASDAQ is disproportionate to the size of the company
- **Valuation and liquidity on NASDAQ are generally better but need to be considered in light of:**
 - Internal and external maintenance costs of listing
 - NASDAQ is £2 - £3 Million per year
 - Exchange Act and SOX impose a high regulatory burden on NASDAQ
 - AIM is £200 - £300 Thousand per year
 - AIM Rules for Companies impose a moderate regulatory burden on AIM
 - Dilution
 - Generally a bit more at IPO on AIM
 - Generally about the same after the company proves itself and accesses AIM's deep secondary offering market
 - Ability to use public shares as a currency for acquisitions
 - Liquidity on AIM averages 4% per month
 - Liquidity on NASDAQ averages 12% per month for companies with market capitalisations below £500 Million
 - Liquidity on NASDAQ is solidly above 20% per month at market capitalisations above £500 Million

Proper choice of Nominated Adviser, Nominated Broker(s), Independent Equity Research firm and Financial PR/IR firm are the keys to a successful IPO and to maximizing valuation and liquidity

AIM Compared to VC/PE Financing and Banking Facilities

- AIM is competitive with, and complementary to, VC/PE financing and significant banking facilities
- Benefits of AIM
 - Diversifies the shareholder base across many large institutional investors with deep pockets
 - Allows management to retain operational and Board-level control
 - All other things being equal, valuation is higher because of liquidity
 - Creates a liquid currency in shares for acquisitions
 - Bolsters confidence with customers, partners and suppliers
 - Helps attract, retain and incentivize employees and the Board with shares and/or options
 - Establishes a publicly derived market value as a starting point for acquisition discussions
- Benefits of VC/PE financing and significant banking facilities
 - Less time consuming
 - Less expensive in terms of transactional costs
 - No regulatory burden, other than perhaps debt covenants
 - Strategic input from, and access to a network of commercial contacts with, some VC/PE firms
- Complementary aspects
 - VC/PE firm exits via AIM IPO
 - VC/PE firm either can't or doesn't want to fund the next stage of growth and uses AIM
 - Exits in 1 - 3 years as part of an organized secondary offering
 - Or holds and continues to help the company grow to £500 Million for a primary listing on the LSE's Main Market or a dual listing on NASDAQ
 - Swap debt for equity to deleverage; reducing risk and interest expense
 - Optimize the capital structure (WACC) with equity sitting alongside debt

Is Your Company Suitable for an AIM IPO?

- **Quantitative criteria**
 - Generating at least £2 Million of annual revenue
 - 'Growth-oriented', defined as growing revenues and/or profits by at least 20% per year
 - Minimum opening market capitalisation of £10 Million
 - Doesn't necessarily have to be profitable but must have a very clear path to profitability
 - Valued using 5-year DCF model, revenue multiple, EBITDA multiple and/or P/E ratio
- **Qualitative criteria**
 - Outstanding management team with a demonstrable track record
 - Solid Board of Directors, or the ability to formulate one during the IPO process
 - Willingness and ability to be subjected to an appropriate level of due diligence
 - Sound internal controls and good corporate governance, or willingness to put in place
- **Other criteria**
 - Reasonable valuation expectations, taking a 3 - 5 year view where the IPO is the beginning not the end
 - High quality professional advisers, companies are judged by the company they keep
 - Appreciation of the obligations a public company has to all stakeholders

AIM Advisers' Services - Prospective New AIM Entrants

Unlike a Main Market IPO, where there is a short list of similar investment banking firms, Nominated Advisers and Nominated Brokers are plentiful and do not form a homogeneous group. Each tend to focus on certain sectors and on certain size companies where they have relevant connections within the London investment community and equity research analysts to support an AIM IPO.

- **Preliminary determination of suitability for an AIM IPO**
 - The crucial first step
 - Advice is frank and constructive
 - Yes, let's proceed to the next step
 - Maybe, here's what I'd like to know to make a determination of suitability
 - No, here's what the company needs to do to potentially become suitable
 - Saves companies time, money and derisks the process / increases the chance of success
- **Packaging up the opportunity for presentation to Nominated Advisers and Nominated Brokers**
 - Preparation of AIM-tailored documents and/or PowerPoint presentations
 - Company reviews and edits for messaging, completeness and accuracy
- **Nominated Adviser and Nominated Broker(s) Selection**
 - There are 40 Nominated Advisers and 80 Nominated Brokers
 - I've built excellent, long-standing relationships with virtually all over the last 15 years
 - Arrange conference calls with the most suitable Nomads and Brokers as an efficient, cost-effective first step
 - If positive, face-to-face meetings in London
 - If positive, a brief test marketing exercise with investors may be desirable to more precisely assess appetite
 - If positive, negotiate with the interested Nomads and Brokers and engage with the final candidate(s)

AIM Advisers does not receive referred work from the Nomads and Brokers
Approach is agnostic, setting up the competitive process for the company

AIM Advisers' Services - Prospective New AIM Entrants

When a Nominated Adviser and a Nominated Broker(s) have been appointed, then there's an actual transaction to work on and I can provide a number of services to help a company through an AIM IPO

- **Assembling the Team & Strategic Advisory**
 - Short listing of and introductions to the other member of the working group
 - Lawyers in the UK and across Europe, if required
 - Auditors in the UK and across Europe, if required
 - Reporting Accountants in the UK
 - Independent Equity Research firms
 - Financial PR/IR firms
 - Company Secretaries
 - Registrars
 - Printers
 - Oversight, strategic advice and participation in weekly working group conference calls and/or meetings

It is crucial that a European company seeking a listing on AIM thoroughly investigates all of its options with respect to its various professional advisers. These advisers are often the key factor to a successful IPO and to success in the aftermarket.

AIM Advisers' Services - Prospective New AIM Entrants

- **Investment Case**

- Creation, or bolstering, of the financial model and supporting business case
- Oversight of house and/or independent equity research
- Creation of the investor presentation for the roadshow
- Assisting the company and the Nominated Broker(s) with sizing and pricing the AIM IPO with reference to likely prospective investor reaction

Companies get one chance to present their investment case to prospective investors, therefore, it is important that it be sound, well thought out and supported by as many facts as possible. Being viewed by prospective investors as balanced and reasonable builds credibility and assists in their risk / reward analysis and investment decision.

- **Accounting & Auditing**

- Assessment and documentation of internal controls
- Assisting the Reporting Accountant with their four reports
- Preparing internal management accounts for audit
- Preparing supporting schedules and gathering documents for audit and inclusion in the Admission Document
- Preparing IFRS financial statements for audit and inclusion in the Admission Document
- Liaising with the Auditor in connection with their detailed fieldwork

For companies that have not been subjected to audits in prior years, this will be a significant exercise since three years of audited financial statements are required. For companies that have been subjected to audits in prior years, it's probably not necessary to change your audit firm but a Reporting Accountant must be appointed.

AIM Advisers' Services - Prospective New AIM Entrants

- Legal

- Gathering, reviewing and summarizing documents for the Attorneys
- Assisting the company, Attorneys and Nominated Adviser with drafting the Admission Document
- Assisting the Attorneys with verifying the Admission Document, as directed by the Nominated Adviser

The verification process is quite extensive and requires supporting evidence for all statements of fact and representations from the Directors as to why they believe statements of opinion to be true. Proper preparation and drafting of the Admission Document in the first instance can save a significant amount of time and cost.

- Ongoing Advisory

- Advising on the timing and size of secondary offerings and other strategic decisions
- Advising on communications with the Nominated Adviser, Nominated Broker(s) and Investors
- Oversight of house and/or independent equity research
- Advising on the form and content of commercial and regulatory announcements
- Advising on the performance of the company's professional advisers

After having been engaged, to a greater or lesser extent, in a company's AIM listing, I will have a vast repository of knowledge about the company, its professional advisers, investor base and the multitude of personalities involved. Admission to AIM signifies the beginning of life as a public company.

AIM Advisers' Services - Existing AIM-Listed Companies

The 700 European-based companies listed on AIM have undoubtedly had very different experiences since joining AIM; however, there are some commonalities amongst those that face challenges.

Having spent the last 15 years as a consultant focused on helping growth-oriented companies complete IPOs on AIM and as the Finance Director of an AIM-listed company, I have personally addressed the main challenges by leading the post-IPO change of Nominated Adviser and Nominated Broker on two occasions, by completing three secondary offerings and by engaging a firm to write independent equity research.

In addition to the ongoing advisory services I provide to prospective new entrants to AIM, there are three main services I provide to those with whom I was not engaged at the time of the IPO as follows:

- **Introductions to London-based firms that write independent equity research**
 - Particularly useful if the Nominated Broker is no longer providing coverage
 - Power of independent equity research lies in its:
 - Wide distribution, as opposed to the Nominated Broker's more narrow distribution to their trading clients
 - Ability to analyze the readership download activity
 - Proactively address Institutional, Private Client Broker and High-Net-Worth Individual readership
 - Organise targeted secondary offerings
 - Increase liquidity

AIM Advisers' Services - Existing AIM-Listed Companies

- **Liquidity studies**
 - Liquidity is necessary in order to obtain a fair valuation
 - Key benefits of positive liquidity are:
 - Investors are satisfied with their returns
 - Less dilution from secondary offerings
 - Attractiveness of shares to acquisition targets
 - Increased morale and excitement from employees and board who often own shares and/or hold share options
 - Reasons for lack of liquidity are often company specific and not obvious
 - Work with management, the board and other professional advisers to formulate actionable solutions
- **Board / Audit Committee appointments**
 - AIM-focused consultant for 15 years
 - Former Finance Director of an AIM-listed company
 - CPA since 1993
 - MBA since 2003
 - International living and working experience; Hong Kong / Asia-Pacific, 1998 - 2000
 - Qualified under the UK Corporate Governance Code as “having recent and relevant financial experience”