

ALTERNATIVE INVESTMENT MARKET- COMPANY SURVIVAL?

Life on the Alternative Investment Market (AIM) has been a difficult affair recently for many companies; and specifically their management and investors.

From humble beginnings in 1995 AIM has seen rapid growth. In 1995 the ten AIM companies had a combined market capitalisation of £82million. By 2000 that had grown to 493 companies with approximately £15billion of market capitalisation and by 2007 1,347 companies with a combined market capitalisation of £75.5 billion.

The August 2008 AIM statistics make for less rosy reading. For the first time in 13 years the number of listed companies has fallen (to 1,292) and the market capitalisation is on the retreat (to £78 billion).

Clearly the impact of the credit crunch on companies and the market as a whole has been severe. If times are hard you have to question the justification to maintain a listing, pay listing fees and the supplementary costs that go with the listing (e.g. additional accountancy charges, broker fees etc).

Then there is the issue of fundraising, surely AIM's key raison d'être. Once the bountiful channel for fundraisings for new listings and placings by existing companies, AIM fundraisings have begun to wither on the vine too. Over £16billion of funds were raised by companies in 2007. For the first 8 months of 2008 that total has fallen to just under £4billion. That suggests less than 40% of 2007 funding has flown through in 2008, a shocking fall off the cliff for AIM companies seeking finance.

Much of that fall has simply been down to current economic conditions, reduced liquidity, an unwillingness of financiers to back riskier ventures and a general downturn in investor sentiment. So much is true, but for growth companies on AIM (especially those in cash hungry sectors such as mining and exploration), the sudden apparent (and in many cases real) withdrawal of funding has been hugely significant.

Many companies who ordinarily would have continued operations by raising an additional tranche of cash at a reasonable market price, have faced a difficult choice; either curtail operations or raise funds at painfully low prices. Some companies haven't had the luxury of a choice with no funding available emergency overhead cost elimination and restriction of activities has been the only way to survive (with minimal cash burn).

Many businesses with enormous potential lie stagnating, with exciting but redundant business models; the redundancy being inspired, not by the incapability of management to deliver, but by the lack of funding to invest in the perfectly justifiable projects under management.

In some unusual cases companies have market capitalisations below the value of their cash holdings, implying little or no future value can be derived from investment of the remaining cash in the business.

Undoubtedly AIM companies, like other sectors, will have better management in some companies and poorer in others. Such is the nature of business life.

But it is evident that management on AIM face enormous challenges in the fight for survival transcending the normal day to day challenges of running a public company and including building enough investor confidence to raise funds, promote more active trading of company shares and to build a stable foundation on which the company can grow and flourish in the years ahead.

That's all well and good of course but how do you rebuild or maintain investor confidence in your AIM company?

Well, every company is different, but you can apply a few basic ground rules (and it's amazing how certain companies don't follow some of these basics in the management of the business!)

1. **Keep up to date with the basics.** Ensure your regulatory news announcements are prompt and accurate. File accounts on time. Ensure the investor information on your website is kept up-to-date (especially the AIM rule 26 material).
2. **Promote your business actively.** Hiding one's light under a bushel in the hope that value will out in the end is a spurious strategy. Issue press releases summarising your achievements, prepare onsite presentations, hold seminars, undertake interviews and make sure the product, service or project information on your website is relevant and up-to-date.
3. **Have a broad and effective management team.** Which is easier said than done in a company with cash flow constraints and a desire to appear prudent to the market and investors generally. But you need good financial skills, operational skills, strategic capability, business development skills and above all, career history and market respect.
4. **Run a tight ship.** Overhead cost control must be paramount with working capital and cash burn monitored and controlled. Investors want to see their confidence in you rewarded with exceptional stewardship of funds, particularly in lean times. Working capital/cash flow management has to be one of the most critical elements of company operations, at all times.
5. **Match strategy to capabilities.** Particularly from a financial perspective. The most visionary and exciting strategy will come to nought if you run out of working capital and have to dilute existing holders to the nth degree. That being said, operating a paced business is not easy either, when investors are hungry for new developments and progress. Hence the need for exceptional communication skills to reassure investors of progress, but not at any cost and not threatening the very survival of their investment.
6. **Listen to the market.** Too often AIM management can appear aloof to the markets concerns triggering a crisis of confidence, share sales and a falling market capitalisation. Management attuned to the market's worries can structure their announcements to provide appropriate reassurance where worries are not entirely justified.
7. **Have a clear vision.** Constant chasing of new initiatives or changes to underlying strategy can be unnerving. Most companies start with a clear idea of what they want to achieve and somehow become distracted along the way. Diversification can be beneficial at times, but it is often the start of a drain on company resources from which it can be difficult to recover.

The next few years will no doubt see some attrition on AIM with many companies failing or stagnating under the pressure of economic conditions or the dearth of ready funding to support their business model. Astute companies, run by capable and proactive management stand a much

higher chance of survival. Obvious perhaps, but at the moment it is difficult to tell who the potential survivors are.

Value Generation Limited is a provider of strategy, efficiency and risk management services to SME organisations. In October 2008 Value Generation will launch a unique AIM Business Review Service branded *AIM-assist*, to help small and medium enterprises (SMEs) listed on AIM to manage their businesses more effectively. This service, involving a detailed company review, will provide AIM company management with a clear Action Plan Report to further improve strategy, efficiency and risk management of their companies. It will also include an *AIM-assist* rating, which provides an open assessment of management stewardship of the company in ten key areas under the strategy, efficiency and risk management headings. This rating can be published externally by the company to provide confidence to the market and investors generally.