MOORE STEPHENS

Published by DECISION magazine
www.decisionmagazine.co.uk

Copyright L A Dillner, publisher 2015

First published in DECISION magazine in December 2015. All rights reserved. No part of this publication may be reproduced in any form or by any means - graphic, electronic, or print, including photocopying - without the prior permission in writing of the publishers.

No responsibility for loss occasioned to any individual or business acting or refraining to act as a result of reading material from this book can be accepted by the authors, publishers or any party involved in its compilation, publication, and distribution.

Writing by Larry Dillner and Susan Fenton, www.fwords.co.uk
Photography by Andy Scaysbrook, www.andyscaysbrook.com
Design by Jill Din, Artz, www.artz.co.uk

Typeset in Dutch 801 Roman, Helvetica TT Bold

Contents

Introduction...3

Addressing all those preconceived notions...4

Absolutely essential for incentivising...6

More visibility for company's attributes...9

When the market is quite unforgiving...11

Investment for a solid business case...12

Established and paying dividends...14

How to manage the slings and arrows...17

Financial information as a marketing tool...19

More effective way to raise money...21

Preparing for the new challenge...23

Now growing a scalable business...25

Excitement from new opportunity...27

Why exiting was an important move...29

Regulation has to be seen to work...31

Taking the only option available...31

Enabling company to have breakthrough...33

Creating a position which is sustainable...35

Why flotation was a necessity...37

Change of plan after invasion...40

Different approach to investment...42

Now very much a growth market...43

Introduction

It's a market which has generated £90billion of equity for companies in twenty years (the majority of the fund raising following their listing). That's the statistic. But in reality, does the Alternative Investment Market deliver on being the home of ambitious, innovative companies in what is becoming an increasingly risk-adverse environment, and will it continue to do so?

Does AIM achieve the fusion of structure, professionalism with dynamism?

What are the other advantages of being listed (such as international status, key staff recruitment and retention)? And how is it possible to make the transition from a successful business run by an entrepreneur to a successful entrepreneurial company?

Addressing all those preconceived notions

It's being long enough for the apocryphal to maybe influence our thinking. There are certainly some pre-conceived notions regarding the Alternative Investment Market and liquidity.

But actually, as Marcus Stuttard, Head of AIM reveals, they can be readily dispelled.

What changes have been made to AIM over its twenty years, and how were they mission critical?

"Core principles have guided us over twenty years and we don't deviate from them. For example we make sure AIM is sufficiently differentiated from the main market because we want to offer choice. Some exchanges take the view that they can provide one market but with different tiers. Other markets have concentrated on specific growth sectors, which has resulted in all of our European counterparts focusing predominantly on technology companies. Because we're not defined by one sector, it means we haven't been subject to the same market shocks and volatility.

"A significant change since AIM was launched is that the depth and scale of the investment community has broadened from small cap fund managers to include for example Fidelity, Schroders, Henderson Global, who look at AIM equally as the main market. The mandate can be restricted, with a greater percentage invested in fully listed companies, but they are still investing in AIM. In other growth markets in Europe there isn't the same level of institutional investment, and the quality of the share register of relatively small companies is a characteristic of AIM.

"Another change is that AIM was launched specifically as a feeder, a steeping stone to the main market. There have been around 200 companies which have transitioned, but 300 have gone the other way, highlighting AIM as a definite market in its own right. The invisible hand of how the markets work mean that when a company reaches a certain size it will take the broader view of whether a move is right.

"Should there be an AIM for bigger companies and one for smaller businesses?

We've looked at that, but that kind of split can be quite arbitrary and wouldn't necessarily reflect the way people want to invest. We already have indices such as the AIM 50 which meaningfully 'cut' the market.

"Previously the classic questions asked by companies considering an IPO were 'how quickly' and 'how cheaply' can it be done. Now companies are prepared to take more time, to ensure they have been introduced to the right people. There is an eco system of advisers who support AIM.

"The role of the non-executive director has also changed over the twenty years. At one time they would have had multiple appointments, a considerable number, but now there's a greater recognition of the time commitment which needs to be made to a company, a realisation of the core nature of their role, so it's less likely they will have quite as wide a portfolio as in the past.

"One of the things that AIM has resisted is the temptation to add to the growing administrative burden that companies face - the exceptions being where we have some additional rules relating to oil and gas companies and to cash shells. But it's a fine equilibrium - providing access to capital at a reasonable cost while at the same time providing the necessary degree of disclosure and transparency necessary. We only have a vibrant market if there are investors.

"Companies on AIM continue to have a higher profile than their private company peers, but the flipside is that often when there is talk about small cap companies, AIM is the proxy, so that if there is a company failure, sometimes the notion is that there must be a problem with AIM. I don't want to overplay this, but over the last twenty years, some people have been both amazed and jealous of the global impact and success of AIM, and have thrown some mud at times."

Is one of the issues concerning liquidity, or the lack of it?

"Liquidity is important because it can facilitate transactions and further fund raising, but first of all we need a bit of context. If we compare AIM companies to those on the main market across equivalent size brands which have the same bandwidth of market cap, then actually liquidity on AIM is often higher.

"In fact, most of the money raised on AIM in recent years has been through further issues. Both UK government measures, the abolition of stamp duty on AIM shares and the inclusion of AIM shares in ISAs have supported liquidity. In the first eighteen months after they were introduced, average liquidity increased by 50%. Companies also have a role to play in increasing liquidity, with perhaps the founders retaining a smaller percentage."

Could any 'disruptive' sources of finance have an impact on AIM, and the likelihood of companies progressing to flotation?

"We actually spend a lot of time focusing on the provision of pre-IPO stage finance to ambitious companies because we need a pipeline of robust, well-capitalised businesses with real growth prospects and ambitions. Whether it's friends, family, business angels or organisations such as the Business Growth Fund, we need to engage with the early stage providers of finance so that companies can fully appreciate the importance of equity finance.

"Only 3% of SMEs use equity finance - 55% finance themselves, including with the use of credit cards. In the UK, 80% of business finance is through debut or loan. In the US, it's the opposite; 80% is equity. So there's a huge opportunity to re-balance financing in this country. Certainly the abolition of stamp duty on AIM shares, and the inclusion of AIM shares in ISAs sent an important message about the importance of equity investment.

"We've seen a couple of IPOs where there was previous or simultaneous crowd funding investment. The availability of peer-to-peer investment is really helpful, and it might mean in the future that owner-managers see the natural choice is to really push on and build their businesses once they reach say a £10million turnover rather than look for a trade sale. We want them to continue to develop so that they can come into the AIM pipeline.

"In 2014 we launched our ELITE initiative, which offers businesses with real potential a structured eighteen-month programme to guide their management teams on how best to fast-track their development and capital raising processes, how to access the most suitable funding for their needs, whether private equity, venture capital or the bond or equity markets, as well as giving them advice on building their profile and reach. The programme was originally launched in 2012 by Borsa Italiana, Italy's main stock exchange which has been part of our group since 2007. ELITE also allows our vibrant international advisor and investor community the opportunity to engage with a pool of high quality, dynamic companies and entrepreneurs.

Is there a danger that the complexity of financial reporting could stifle AIM?

"In business life generally there is more red tape, but when we regularly ask for feedback, whether there are any disclosures requirements which should be removed, people tend not to point out anything specific.

"In terms of paperwork, if we benchmark AIM against private equity and venture capital, I don't think it's to the market's disadvantage, and I would say the level of preparation and due diligence for an IPO on AIM is similar to a VC or a trade sale route.

"I talked earlier about the benefits of an AIM listing, and in addition to visibility there's credibility - that comes as a consequence of being more transparent, which is all part and parcel of the financial reporting. It's the process which puts a company in a stronger position.

"But it is worth making the point again that access to further capital is a key advantage of an AIM listing, and that it can be achieved in the majority of cases without the cost of having to prepare and distribute a circular to shareholders.

"I would make the point that corporate

governance shouldn't simply be seen as a set of rules or codes to be followed by a listed company. Good governance should be at the core of every ambitious business with growth potential."

Let's look forward. Where do you see AIM in twenty years?

"We're living in really exciting times, with fast-track growth companies emerging, and fantastic innovation taking place all around us. With a joined up financial eco system for business development, AIM will be perceived as a natural progression for companies. More of those with the potential to become really large businesses will see AIM as the next step in their development rather than considering a trade sale at an earlier stage. I think the desire to be a public company is still aspirational."

Absolutely essential for incentivising

The ability to incentivise and retain employees through share options isn't just a benefit of being AIM listed. According to Jerry Randall, the chief executive of international consumer healthcare company Venture Life Group plc, it's "absolutely critical". He explains: "To achieve extraordinary performance you need to incentivise people. Without it you will get steady growth but we needed more than that. I want our people to get out and grow the business. If they have equity they have that additional motivation as owners."

Randall says that when he floated a previous company some staff who'd joined at the start earned enough to pay off their mortgages, but unlike having shares in a private company, they wouldn't have had to wait for to realise the value. "With a private company, until there's an exit, really the shares are worth nothing. People can't buy a car with them or go on holiday or pay off their mortgage. Here, it's real money; they know they can sell their shares for real cash."

Being listed also makes recruitment easier, says Randall. "A quoted company is seen as stable and candidates can easily and immediately find out about your finances. It's a more credible offering."

The other benefits include not so much access to capital - "you can get money from anywhere", says Randall – as the speed of that access. And that funding is more flexible than other options. " AIM means you can get investment without having to give away 99% of your company," he muses.

Randall is speaking from experience: though Venture Life floated only in 2014, he has taken a business to AIM twice before. The former chartered accountant was a nomad for the successful float of Old English Inns; then he co-founded Sinclair Pharma in 1999 and floated it in 2003. Later it went to a full listing.

After he left Sinclair he become executive chairman of biotech company Silence Therapeutics, leaving that business in 2013 to float Venture, whose mission is to improve the lives of an ageing population through developing and selling clinically tested food supplements, cosmetics and medical devices into pharmacies in more than forty countries through an international network of sales and marketing partners.

The business has a market cap of £27million, turns over about £9million and is expected to move into profit soon. "It's an exciting time," says Randall. "The step to AIM last year was a real turning point and was validation for everyone."

With his background he's a long-time aficionado of being listed. Being on AIM, he says, gives businesses "powerful tools to raise money quickly, and gets you through doors that wouldn't otherwise open.

The biggest issue with flotation is the work involved, which means there can be an inevitable loss of momentum for the company. The process takes six to twelve months, he says, and needs dedicated input from the management team. "If you're launching a new product or opening a new office you can delegate it but if you're floating a business the only people who can do it are the senior directors."

And the additional work doesn't stop once

Jerry Randall, Venture Life Group plc

the company has gone public. “The management team will need to spend something like one day a week just dealing with market activities,” explains Randall, “so it can lose 20% of their time just from being listed.”

That said, the hard work of the listing itself is a one-off in terms of fund raising. “With private equity it takes that amount of time every time you raise money,” he says. “And it’s much better than having a private equity firm on your back that can pull the rug when they like. Once you’re on the market you can raise money any time. I can go to my shareholders and talk about an opportunity and ask if they’re interested in backing it and I can get a decision in days.”

By way of example he talks about when Venture Life raised £5.5million one spring and took on two institutional investors. “In the autumn I had a phone call from one of them offering us more capital, and I’ve been around long enough to know that you raise money when you can, not when you need to. By the following week we had £4million extra in the bank. It’s very unlikely that you could ever achieve that as a private company.”

Randall thinks investors’ appetite for AIM is strong but that they are increasingly looking for companies of substance as opposed to riskier punts – institutional investors in particular. “I think risk appetite has changed. In the early 2000s valuations were very optimistic. Biotech is the classic example; One company, which had yet to produce a saleable product was valued at £1billion; I don’t think we would see that today. There are investors prepared to take a risk, but the valuations are much more realistic. You need substance to have a punchy valuation.”

There are three types of investor on AIM, Randall says. The institutional investors who will put in up to say £5million; individuals who put in a few thousand pounds to “get a bit of the action”; and in the middle the traders and hedge funds who will typically put in £500,000 to £750,000. It’s these that generate the liquidity that is desirable for smaller cap companies, not least Venture Life; Randall is working to broaden the shareholder base for that reason.

The three-year plan is to increase revenue to nearer £20million-£30million. That kind of ambition, says Randall, makes Venture the sort of company which should be on AIM. “Those without that kind of drive shouldn’t really be there, and AIM should make it harder to get in. There are too many companies at the bottom, dragging it down. AIM should be for those aspiring to have at least a market cap of £100million.

“If the aspiration is to be say £30million I don’t think it’s really appropriate to be a public company. Equally, there comes a stage where a business should outgrow AIM. Sub £500million, AIM is perfect. Above that, a company should consider the main market.”

That said, Randall adds that Sinclair returned to AIM after moving to the main market at £120million market cap; the company had believed that on the main market it would get more institutional investors on board, but found “it didn’t make a blind bit of difference.”

Those who invest in Venture Life see the three-year plan and can satisfy themselves the company intends to get a lot bigger, says Randall. “But not all investors are savvy. In the nineties there were some spivy brokers, taking chunks of shares and stuffing them into clients who didn’t really understand the companies they were investing in. When I was at Silence I even had shareholders ringing up saying ‘what does the company actually do?’!”

That said, he admits it can be hard to ‘understand’ a small company as there’s not so much written about them: “It not a given that a quoted company will get good coverage. We signed a thirty-year deal with China that was worth at least £30million and we didn’t get any coverage in the media.” And a lack of analyst research, especially independent research, for smaller cap companies doesn’t help in this regard. “Even your own brokers are arguably not independent,” muses Randall. “We have to find a way of having more independent coverage so potential investors can make more informed decisions.”

Governance on AIM is slightly looser than on the main market, he says, where a company like Venture Life would be expected to have five non-executive directors, which would be “just silly” for a business with only eighty staff. But even on AIM, investors can still expect businesses to comply with the high standards

of governance, particularly on remuneration, required of a fully listed company.

Not that Randall is saying they don't have a point. Directors on very high salaries also tend to be too risk-averse, he thinks. "If your only financial benefit is salary you won't risk it by making a big decision." It's not like that at Venture, where Randall and his fellow directors control 40% of the shares and have "relatively low" salaries. "That means our motivations are entirely aligned with the shareholders," he says. "The greatest incentive for us is to grow the share price. I don't care about my salary; the real value is the equity."

Compliance, he argues, doesn't mean a company has to get so tied up with bureaucracy that it can't move fast. "We did a deal with a big pharmaceutical to make a haemorrhoid product for them," says Randall. "Why don't they make it themselves? Because big corporations are so stuck in their bureaucracy that they sometimes they can't move fast enough to get a product to market when they want to. If I had an idea today I could get it to a product in a year. Bigger companies can't do that. Our risk assessment is quick and it gives us the flexibility to move forward."

Venture Life probably won't move to the main market; Randall says it's not necessary from a fundraising perspective. "We have some really big institutional investors and I've never been turned away from investor meetings because there was a policy not to invest in AIM stock. So we don't see any motivation to do it unless we could see tangible evidence that it would be beneficial."

So what are the plans for the long term? "We have opportunities to grow to a certain level, maybe £100-200million market cap," thinks Randall. "We could be bought by a company that wants our products; we don't have our own sales team on the ground so we would be a prime target for a company with a sales network that could unwind our partnerships and sell the products itself. Or we could do an M&A and buy a smaller company which has a sales force and do the sales ourselves."

The demands of the public market on the director are harder than those relating to running a private company, muses Randall, and there are admonishments and punishments if they get it wrong. What would he advise others thinking of taking their company to market? "For one thing," he replies, "plan the corporate structures and procedures properly, well in advance, and not 'on the back of a fag packet'. I would spend some time with people who have taken a company to market themselves."

And perhaps most importantly, do it for the right reasons. "This isn't about departing from the business with a lot of cash at the earliest opportunity," says Randall. "When you float it's the start, not the end. Investors are buying into your vision so if you sell your shares in the first three years you will be Mr Unpopular. If you want to realise a lot of cash, don't go public."

His top three motivations for an AIM listing? The ability of the company to raise money for expansion quickly, the opportunity to fund corporate transactions, and being able to incentivise employees.

More visibility for company's attributes

From the Atlantic Telecom administration, one of the more spectacular dotcom bubble bursts, with their market cap of £2billion but sales in double-digit millions, what is now Gamma Communications plc were set up in 2002 to pick up some of the assets.

From the start, the providers (now) of voice, data, and mobile services for business had two major shareholders prepared to take the long term view, happy for value to be built up over years.

In 2011, the company decided to investigate the possibility of floating on the main market, but didn't get anywhere close to issuing an 'intention to float'. "It was more a case of looking ahead to see how we could create liquidity in the future," explains chief executive Bob Falconer. "We didn't need to raise capital, and growth has been organic; we hadn't pursued a build and buy strategy."

At the back end of 2013, the company decided to look at listing again, this time "because the business had grown and matured

substantially."This time AIM had caught their eye. For a very specific reason, as group commercial director Malcolm Goddard explains: "If you are a growing company, the more acquisition opportunities are going to present themselves, and you need to be in a position to grab the perfect ones for your business. There are some big elephants in any marketplace, so there's a need to be able to dodge between their feet to do the deal. Speed can be of the essence, especially if the vendor has private equity ownership which will be looking for a relatively quick sale. With the main market, an acquisition which amounts to one quarter of your company's value requires shareholder approval. On AIM, a company can make the opportunistic move without the time and expense of issuing a prospectus."

"What was also on our minds is that a listing would give us more visibility than we have as a private company," explains Falconer. "Our listing provides some assurance that we're going to stick around, especially where we are competing against Virgin Media, BT, Vodafone. There had been times when we didn't make a tender list because we were less known and the procurer hadn't done their homework. And the purchasing department isn't sticking its neck out by putting a listed company on their list."

With a 2014 turnover of £173million, the cost of listing at less than £1million didn't trouble Gamma, but Falconer was conscious of the time. "It is a distraction, although in the context of the whole business, the additional requirement was trivial. That said, in the run-up I was devoting thirty to forty per cent of my time, but I pretty much knew that was going to be the case. The big debate was the initial public offering price. Getting that right is absolutely key because something has to be left on the table for the next guy. But it's completely an art rather than a science."

Every member of staff was issued £1000 of shares, which were worth £1200 by the time they got hold of them, something of a demonstration of the value of having them. "You would be surprised by how much of a vested interest they have in the share price," says Falconer. "What wouldn't be a good idea is for the flotation to be a big selling down by the management. That can create ill feeling especially if the staff's contribution hasn't been recognised with shares."

Falconer can point out some very specific differences post flotation. "The previous board was made up of shareholders and the managers of the business. The public board has a non-exec chairman, two independent non-exec directors, and the dynamic is distinctly different," he explains. "The meetings are more probing, and while they take more time, a good board will add value. Having a chairman who has other non-exec appointments has been invaluable in terms of guidance, but their role takes some getting used to. Writing the board papers used to take an hour or so, but now it takes at least a day because of the detail. I also think that non-execs on a public company board are seen as more independent than their counterparts at a privately-owned business.

"AIM also takes away the debate about the pay of the directors because a listed company will have a remuneration committee. As a quoted company there are obligations on reporting transparency, but even if AIM reduced the requirement, we'd still have to do it because investors would want us to."

One area where Falconer has been pleasantly surprised is the timeline expectation of investors. "We have 150 on the register and their thinking is not as short-term as we are often led to believe," he says. "We recently made a £4million investment which meant that cash was going out of the door for twelve months, but there was a lot of enthusiasm from the investment community. Nobody marked us down. But what I'm not clear on is why there is a trail of small zombie-like companies on AIM, and whether than puts investors off looking at the market."

According to Falconer, choosing to float has to be an individual decision for a company to make. "Some entrepreneurs chop and change very quickly, and although they can be very successful, that's an approach the City is uncomfortable with and finds extremely difficult," he explains. "So you need to map your path and be consistent. Investors don't like surprises, but that doesn't mean that you should become more risk adverse. You just need to

be very clear about the strategy and pass the watertight test. You'll also be held to account every six month months with the interim and end of year results, so it's not a great place to be for anyone who is bombastic, or if the business is built around one person, which won't give an impression of depth and sustainability.

"If the CEO of an AIM company makes an acquisition, they will be also be held to account. In a private business, if it doesn't quite work out, the owner-manager can grin and bear it rather than have to explain why."

One issue does concern Falconer though. "It does feel like there can be a conflict of interest with NOMADs," he says. "They're broking your shares, so when they venture an opinion, is it sales led, which could bring them another fee, or is the motivation regulatory and related to best practice? With other advisers, the lawyer, the accountant, it's a very clear relationship because they aren't wearing more than one hat. I appreciate that combining functions reduces cost, but I wonder if there is some way to effectively separate the regulatory and broker functions."

When the market is quite unforgiving

"AIM does provide access to additional funding, but once the share price goes through the floor, that comes at a severe price to the shareholders. There are always hiccups on the way to delivering a strategy, and the stock market is quite unforgiving." Gordon Watt is talking from experience. He's the chairman of PipeHawk plc, a company which started out by developing ground probing radar.

Originally there had been Enterprise Investment Scheme funding from some wealthy individuals. Gordon Watt was one, but when a future round came solely from his pocket, it was on condition that he sat on the board as a non-exec. "The remit, a strong one at the time, was to get a listing on the basis that we now had a product, not merely an R&D project," he explains. That came in 2009, and raised £2¾million; £500k went instantly to pay off creditors, the rest invested in stock and establishing a sales operation.

All went well - for six months. Which is how long it took the company to realise that it took more skill to use the product than had been thought or suggested. "We had spent the money raised, so I took on the role of FD for a couple of days a week and guaranteed the bank overdraft," Watt recalls. "The chairman resigned, so I took on that role; then the MD left, so I added that to the list."

He had a plan to shift the emphasis from product supply to actually using it to provide the service, the implementation of which was arguably dependent on the company's AIM listing: The acquisition of ADN, both their biggest user and customer, was paper-based. The flip side was that their MD left a couple of years later because he didn't like the controls required in a plc environment. "Paper is quite useful, but the downside is that you can't provide any narrative about what you think the company is really worth, because the share price is there in black and white," says Watt. "It is probably easier to persuade someone that a private company is worth more because there is no such marker.

PipeHawk were also looking at the availability of EU funding for mine clearance when they came across a company which needed to exit from an EIS. Again, it was entirely a paper swap acquisition, and Watt describes QM Systems as the driving force of the group. But a £2million turnover dropped to £500,000 with the loss of a client, and Watt decided to put in more investment personally - he's provided £4million in total. So why didn't he simply take advantage of the floor-level share price and take PipeHawk private? "I actually like the kudos and status of being chairman of a listed company," he smiles. Another acquisition had been Sumo Services, with the intention of franchising operators.

According to Watt, the obvious difference once a company is listed is the degree of scrutiny, but he says governance can be provided with a fairly light touch. "You can make a song and dance about it or not. My view is to do what is required. I would make the

MOORE STEPHENS

point that more information doesn't necessarily result in greater clarity. I have seen reports which only an analyst could interpret. We don't try to ride rough-shod over governance; in the chairman's report I explain why we don't have a nominations committee and why we there are only three plc board directors, one a non-exec. The actual reason? We're too small. And our approach means that the cost of being on AIM is less than £100,000 a year."

Corporate governance is not something which has come up at any AGM, although usually it's only the same five or six shareholders who pitch up. Watt calls them "the true believers."

A chartered accountant, Watt was a director of British Bus who subsequently took a couple of companies to market and invested personally in others. And he's up-beat about PipeHawk. "We're close to making things happen, but it's a devil's own job to announce to the marketplace that you've got a new mousetrap and that it's better," he points out. "I would say that unless a company is stunningly successful, being on AIM doesn't really help to get the message out. But you could argue that AIM gives you better credibility. When our businesses are talking to suppliers, they say they're a subsidiary of a listed plc, and that has resulted in better credit arrangements. Being on the London Stock Exchange stands for something.'

Although he isn't convinced that being able to offer share options has really been alluring. "I suspect that if a key member of staff was thinking of leaving to join a private business, a listed company could offer share options, which might make a difference," he muses. "Staff here have had stock options, but in my experience, generally speaking, they don't really value them.

Watt's advice to companies looking at AIM is unambiguous. "You have to be completely clear about the reason for joining AIM and accept that the way things have been done will change. The other requirement is to present a credible strategy. And it will be a different working environment. When you own the company, you can just get on and order the new Rolls. You have to be prepared that you aren't so much in control when the company is listed; there will be independent directors who will say things you don't necessarily agree with. Even if you retain a majority stake, there will be shareholders saying you can't have that kind of car on the company any more."

Investment for a solid business case

"We were looking for further investment and a wider, more flexible shareholder base and AIM gave us access to capital – simple as that," says Mi-Pay Group chief financial officer John Beale, explaining why the payment processing service provider listed on AIM in 2014.

Mi-Pay manage the solutions for processing digital payments, primarily via mobile top-up and international calling cards, as well as online, credit card and direct debit payment methods. Using partners' products and their own bespoke solutions, they also do fraud screening and indemnify customers against fraud loss.

The company was founded in 2003 and ten years later it was considering how to get further investment following a six-year period of venture capital backing which came to an end. "We had a solid business case, real, next-generation technology, and opportunities in Asia," says Beale. "We needed continuing investment; the question was identifying the best medium."

The business discovered a shell, containing £4million cash, that had previously invested in Autoclenz, a car valeting business. Doing a reverse takeover of the shell offered the big advantage of not having to go through the process of a listing. To add to the £4million, Mi-Pay raised another £700,000 from existing investors. Albion, the existing VC investors, kept their money in and became majority shareholders in the new plc, joining the board.

The dust having now settled, Beale doesn't mind admitting that the process was "painfully complex and time consuming" because the transaction involved a reverse buyout with due diligence into the shell company.

Beale had joined in February 2011, knowing there was likely to be some kind of exit. "So I had three years to build the documentation and

it's a good thing I did," he says, "because it was complex to the point where sometimes even our advisers' technical team didn't know from first-hand experience what had to be done."

And he believes the admission document was unnecessarily weighty. "I get the thing about needing corporate governance and I realise you have to tick all the boxes, but it really was over heavy. Do you really need a seventy-five-page document for a £3million business with twenty-five customers and forty employees? Seriously?"

Beale says he sometimes looks back at the admission document and smiles. "Anyone reading it wouldn't have understood more about the business than they did before. There were fifty statements I had to sign and half of them were irrelevant. I wrote forty-five pages on internal conduct and governance that I'm sure no-one ever read cover-to-cover. Maybe it was for the greater good but I spent half my life writing interim reports and updating the website. I used to spend that time on operational business."

The situation was complicated by the fact that both the CEO and the CTO live overseas, which made it hard to have informal conversations to get things clarified. With hindsight he says he might have hired an investor relations manager from the outset, or a marketing manager with experience of working in a listed business, to take some of the burden off him. "If I'd had someone living and breathing these areas and keeping the 'this is Mi-Pay' message to external audiences continually updated, I would have been much happier."

Having that kind of resource would also have been a help in terms of dealing with the subsequent shifts in share price. "We listed at 41p and because there were VC investors who had been locked in and now had an opportunity to exit it soon went down to 30p. Because there was limited liquidity it pushed the share price down when they exited. There was nothing we could do about that. I thought it was unfair because the share price wasn't a true reflection of the company's performance, but that's the nature of the beast."

Having been through the process, Beale would like to see AIM offering more by way of training for the directors of prospective joiners. "I have a bee in my bonnet about this," he says. "If AIM is perceived as a slightly easier, cheaper, more flexible route into the listing world, directors shouldn't be saying the next day 'what do I do with this'? For example, I've got a section 431 - what is that, and what am I meant to do with it? I would find it useful to know what these things are that turn up on my desk and what I have to do with them. AIM would say go to their website and find out, but I think given the cost of listing and the fees paid to advisors, we could get more help with the practical side of it. Having to invest in training would be neither here nor there for AIM and would probably be of real benefit."

And he comes back to that "privilege of listing" cost. "AIM is supposed to be a hotbed for growth but how does spending 10%+ of the money raised on the actual listing really help any company to become the next Apple?" wonders Beale.

On the plus side, the biggest benefit, and the main area where he has noticed a difference after listing, he says, has been access to money. "I was unsure that the concept of easier access to capital was real but now I'm confident that it is. It's a less political process. In other words, although VC investors could produce money faster than it would take the business to get the same money from the market, they might not agree to do so. But once a business is on the market it can raise money from a board decision, and has a wider and more competitive investor base to work with." It's a subtle shift in control, says Beale. "In one sense it was easy in VC world as we only had one call to make. But VC investors can dictate terms. In the new world, though we have to do more outward-looking presentations, the shareholder base is stronger and if we want to do something there can be conversations with different people."

Another distinct advantage in being listed is the confidence it inspires in customers. "When we were trying to do a deal with a blue chip company they actually asked 'how secure are you as a business?'. The moment I walked in and told them we'd just listed they never said that again." Being listed also enabled Beale to finally open a bank account in Singapore after a year of trying. "I'm sure what got it done was

getting listed. It gives third parties confidence. They don't have to worry about who really owns the business as they would with a less transparent, privately-owned business."

Turnover at Mi-Pay is now north of £3million; they raised another £1.75million in March 2015 and have no big capital expenditure requirements, so in 2016 the business should be cash positive.

"Listing is damn hard," concludes Beale, "but you have to accept that. It is what it is. Only when you're in the midst of it will you understand the enormity of what you were being told before."

Established and paying dividends

"One of the problems with AIM," muses Simon Walther, finance director of Cohort plc, "is a common perception of listed companies as high-risk investments, rather akin to putting your money on a horse." Are there too many oil and mineral prospectors and biotechs trying to find a cure? "Investors won't get a dividend until there's a breakthrough - and that might never come - or they might get oodles of money from the sale of the company," he muses.

But, adds chief executive Andrew Thomis, that's not a description which fits the majority of AIM companies. "It's very diverse. There are more traditional businesses like us, that have a record of making things, a decent customer base and good contracts. We're not searching for something to sell. We're well established, cash generative, and we pay dividends."

Cohort plc is the umbrella company for four acronym businesses (MASS, MCL, SCS, SEA) operating in defence and related markets. Walther, Thomis, and chairman Nick Prest met when they were senior managers at armoured vehicle maker Alvis. When that business was acquired by BAE Systems in 2004, Prest and Thomis left to research new opportunities in defence-related technical advisory services. He met Stanley Carter, founder of defence advisory business SCS (and now a non-exec of Cohort), and they decided to get together to take SCS onto AIM in 2006. Cohort was founded on the principle that the subsidiaries would prosper by being part of a larger group, where they could benefit from financial oversight, management support and the exchange of information and practices. The innovation and responsiveness of the smaller businesses would be combined with the stability, shared knowledge, wider market access and lower funding costs of a listed group.

Thomis says listing wasn't intrinsically a difficult process. "Fundamentally it was about bringing together the people who had the ideas with the people who had the funds to pay for them to happen." Private equity investment had been considered, but it was thought that AIM would offer more flexibility. "On AIM you can be working with a diverse group of investors who can come in and out as they want," says Walther.

The company raised £10million through the IPO then did two subsequent issues of several million pounds apiece to make acquisitions. It has since paid down that debt and now holds "significant cash" for investment. "Our strategy is to grow through acquisition as well as organically," says Thomis, and "there are a number of interesting opportunities in the sector." Walther adds: "We aren't going to act in haste just because the money's there. And our investors have never asked 'why haven't you spent this money; what are you going to do with it'?"

Access to funds when you need them is a notable advantage of being AIM listed, Thomis says. "We have never had a problem raising money when we wanted to; institutional investors tend to have deeper pockets."

Then there's the ability to offer incentive share schemes at all levels – which makes employees feel they have a real stake in the business. And Walther believes there is evidence that banks tend to lend more to a plc than they would to a private company – and at better rates.

Being listed also gives a certain gravitas, adds Walther. "Major customers like the MoD and NATO do like to look at the balance sheet and be able to satisfy themselves as to our ability to deliver particularly large contracts."

Andrew Thomis, Cohort plc

The listing has brought the subsidiary businesses considerable advantages, says Thomis. "For example, within a few years MASS had won a contract of more than £50million and it would have been hard for the government to award that to a £15million turnover private business. And they were able to make an acquisition straight off the balance sheet; otherwise they would have had to find £1million." Similarly, SEA has won several contracts from BAE Systems, who might not have had such confidence in a privately owned contractor. And they've made a £12million acquisition.

Would Cohort ever move to the main market? "I wouldn't rule it out," replies Thomis, "but it's not a crystallised long-term intention. We know from personal experience that at our size it doesn't make a lot of difference to liquidity. And the main market would have significantly higher costs - as well as a heavier regulatory burden. A benefit might be the greater visibility we would have with a main market listing, which could help to give customers confidence in our financial standing."

Walther recalls a Stock Exchange event where one of the speakers said small companies were like lobster pots – easy to get into but damn hard to get out of. "Recently we had a five or six per cent move in the share price but normally our price might not shift for six weeks at a time. The ideal world would be having twenty-five institutional investors each owning 2% of the stock. That would enable new guys to come in and out and trade up or down between them."

Another growing issue for AIM listed companies is compliance Walther believes: "There is a drive towards more and more information disclosure not relating to finance, but to corporate social responsibility, gender balance and environmental policies. The FRC [Financial Reporting Council] says they will reduce it but they never do. Investors and customers like information, and over time, through legislation or practice, they have put more pressure on quoted companies to provide more of it. That's not a criticism but it can be onerous. Look at the size of the annual reports of FTSE 100 companies; they must have whole departments just producing these things!" "We have to live with it," shrugs Thomis. "On the plus side, the openness of public companies perhaps generates more confidence among their stakeholders." I'm not going to criticise the management of private companies," says Walther, taking up this point, "but some don't see presenting information as important until they get to the point of needing a £5million loan for a new machine, when the bank will ask 'what is it you do again?'! Plc management will have a different approach: business owners will moan about the banks but the more you talk to them the more likely they are to be on your side. The same with shareholders. The mantra of 'no surprises' does work."

If the Cohort management could change anything about AIM it would be the prohibitive cost of doing rights issues, and the effect of regulation on retail investment. "One thing that always strikes me as not very sensible," says Thomis, "is the application of prospectus rules. Having to produce a prospectus to do a placing is prohibitively costly. It might make perfect sense if you're raising a billion pounds but not £5million. So smaller companies move to institutional placings rather than rights issues, and institutional investors get their shares at a discount to the market at the expense of retail holders. The end result is that retail investors are disadvantaged by regulations designed to protect them."

Cohort has delivered a 20% annual growth in dividends since listing nine years ago, which Thomis says is tangible evidence for investors of the company's maturity and ability to generate cash. Some income funds would like a better yield, especially IHT (Inheritance Tax) funds, where the dividend effectively covers the management costs of the fund. But Thomis points out: "We don't sell ourselves as a yield company but a growth company."

What advice would they give a business thinking of going public? "Find a good NOMAD," replies Thomis, "a full service organisation that wants to help you in your relationships with institutional investors and make a market in your shares." He says the relationship with the NOMAD (theirs was chosen after a 'beauty contest' when the business

was first listed) is very important. "There have been times when we've been operationally troubled and they have stood by us and helped. If a business goes wrong it can damage the NOMAD significantly and that's an incentive for them to get to know you pretty well."

For his part, Walther's advice is to have someone in-house who has experience in running a public company. "One of the big distractions is that management spends at least three months, and possibly longer, with their eye off the business ball. Then it all happens and they have to produce what they said they would. Six months later there could be a big hole in sales. There's nothing worse that promising a figure and delivering less. So find someone who has experience in a listed environment; someone who will make sure you can deliver what you are going to promise the City."

How to manage the slings and arrows

"Without the fuel of finance you can't get the engines of growth to operate and AIM enables a lot of companies to raise money and create wealth; it's an essential part of the funding mechanism in the UK." That's the view of Tim Ward, chief executive of The Quoted Companies Alliance, the independent membership organisation which champions the interests of small to mid-size quoted companies.

"The ability to raise money for growth and acquisitions aside, there is also the often-overlooked commercial advantage that stems from the visibility of information about a quoted company," says Ward. "The fact that they've gone through a regulated process, that the information is public, inspires confidence among customers and suppliers. If you're pitching for a new contract, for example, you're more likely to create trust if you're a listed company."

Ward says the value of AIM to the economy is vast. There are nearly 2000 small and mid-size quoted companies in the UK, representing 85% of all quoted companies. They employ about 1.4 million people, representing nearly 5.5% of private sector employment in the UK.

So, what is the ideal company to join AIM and get the benefits Ward has referred to? "Generally they need to be of a size and substance to cope with the slings and arrows of being on the market," he suggests. That normally means a minimum market capitalisation of about £25million. "I know a lot are below that and it doesn't mean they're inappropriate," says Ward. "But most are trying to get above that figure."

The ideal AIM candidate also has a management team that's prepared to spend at least a quarter of their time on stock market matters. They will need additional skills, such as the ability to communicate with a new set of stakeholders: the shareholders.

"There's an innocence to pre-IPO companies unless the management have been through the process before," he comments. "It's difficult for them to know the impact of what's going to happen next and some of the smaller ones bite off more than they can chew."

So companies need to know what questions to ask, he says, and some advisers could do a better job of educating their clients, Ward suggests. "It's also difficult to find good non-execs with experience of the public market."

What can be an unwelcome change for some newly listed companies is the new level of public scrutiny into what used to be considered internal matters, says Ward. For example, they can no longer circulate financial results internally as soon as they've got them because such figures have become price-sensitive information that could lead to insider dealing.

The business also has to be able to ensure consistent performance in line with what they promised they could achieve, as the market doesn't like surprises. "But public scrutiny is a good thing," Ward counters. "If you want the money, and to have your shares traded, the cost of that is doing what investors expect, and creating trust. It's the cost of public capital."

Which leads onto the whole area of corporate governance. The Quoted Companies Alliance annual review into corporate governance behaviour showed "patchy" results in terms of disclosure. "That's not to say companies aren't

doing the right thing internally, but they're not explaining it very well," suggests Ward. "That said, some fund managers will say 'we know the CEO and the management team; disclosure is not that important; the guy's a maverick but he delivers'."

Where the issue is more important is among private investors. "My sense is that corporate governance is going up their agenda, getting more into the vocabulary of the market," says Ward. "People are taking it more seriously because it inspires trust and if you don't have trust what will happen to your share price?"

The QCA has a list of twelve principles and a set of minimum disclosures and many companies adapt that code to define their own structure and approach. It's all about having behaviours that enable the creation of sustainable long term value for shareholders, says Ward, pointing out that it's not necessary or relevant to comply with every one of the principles. "It's not 'what can we get away with?' but being responsible and saying 'what are the key things we need to be explaining'?"

Another issue for quoted companies is how to manage their reputation in a public market where rumours circulate wildly on blogs and chat-rooms. "Some people set out to create rumours to generate movement in the share price and that can be market manipulation," says Ward. "But a bulletin board only has to be responsible for one rumour which turns out to be correct to get a reputation for being right. So if a company reacts to one rumour, it has to react to them all."

Ward points out that the much talked-about and desired liquidity doesn't come from having long-term shareholders. "It's provided by different investors who don't have the same time horizons." Which is why he stresses the importance of communicating with shareholders. "It takes time, but if you're on a public market and you're not big enough to deal with the shareholders, the question is are you big enough to be on the market?"

One challenge for the smaller listed company is the complexity of accounting standards. Accepting that they are important in inspiring confidence in the market, Ward thinks that the standards can be overly demanding. "We're concerned about the International Financial Reporting Standards (IFRS) – it's heavy duty and companies are having to spend a lot of time on it," observes Ward, who thinks the big jump in accounting complexity should take place if and when companies move from AIM to the main market.

"AIM is supposed to be a lightly regulated growth market so a more proportionate IFRS would be good. Why shouldn't a company join the market using the UK accounting standards and then decide when the time's right to adopt IFRS? "There are also companies which don't follow the rules and this can damage the reputation of the market - but whose fault is it? Maybe some NOMADs were too keen to earn a fee and perhaps the regulator and the shareholders didn't ask enough questions, so some inappropriate companies were able to float. We want every company to succeed but inevitably there will be failures. At the end of the day we want to highlight performance within AIM rather than performance of AIM."

Looking forward, Ward wonders whether having the one AIM market is the answer. "Why not evolve it into two or three markets depending on the size and type of company, reflecting the different risks associated with them? For example, oil and gas companies are in there with property companies, together with technology companies, despite being very different breeds."

Ward's ideal would be to find ways for investors to be able to view the market across a variety of parameters, for example by growth rate, ratios such as free cash, to market capitalisation, or to look at all service companies across all sectors. That would be particularly useful for private investors, he says. "Fund managers have analysts to cut and slice; they don't."

Financial information as a marketing tool

As he hands round copies of his company's annual report, Phillip Blundell observes that the requirement imposed on listed companies to be transparent with their financial information can be turned into a useful marketing tool.

"That's one of the advantages of being on AIM," says the chief executive of Eagle Eye Solutions Group. "It gives you status, and an authoritative platform to get across key messages, not just the figures."

Founded in 2003, the company has created a universal digital transaction network connecting consumers, brands and retailers, allowing secure delivery and redemption of offers, vouchers and rewards. Today they're the UK market leader in digital promotions, working with more than a hundred household-name brands such as Asda, Greggs, JD Fashion, Ladbrokes, Marks & Spencer, Mitchells & Butlers, Pizza Express, Tesco and Thomas Pink - as well as all of the leading point-of-sale systems providers.

There are still plenty of opportunities in a sector that is still paper and plastic heavy, says Blundell. He says the move to digital will benefit retailers by allowing them to identify the individuals redeeming vouchers and build profiles of their behaviour. "The e-commerce revolution will change the way we live our ways. In the UK over a billion vouchers are redeemed each year and five billion gift cards. At the moment the digital element is very small. The market is huge."

The timing is right for Eagle Eye to take advantage of this trend. "Before the invention of smart phones there was less of an imperative for retailers to shift," explains Blundell. "But smart phones mean you can put coupons in a digital wallet and contactless technology means they can be redeemed at tills. The other issue was connectivity – now with 4G we have a robust telephone network for validation as well as having devices we're all comfortable with."

The business floated in 2014. With some high-profile investors in the form of Terry Leahy (ex-Tesco CEO) and City investment analyst Bill Currie, a float wasn't vital as a means of raising money for organic development but as Blundell explains, there were two reasons for doing it. "The main one was to make an acquisition [of mobile and digital marketing specialist 2ergo]. The vendors didn't want private paper, they wanted public paper. And the other reason was to be able to raise more money from new investors. An AIM company can get a good price if it has a good story."

Blundell had been through the process before, having previously run an AIM-listed company: "I knew what I was doing and how much effort we really needed to put in, and had a strong understanding of how it worked and the ups and downs."

He says the process can be intimidating for companies new to the listed markets and there can be a temptation for all the senior people to get "sucked in" to the process and get distracted from the day job. He advises keeping the number involved to a minimum. "We kept the founder and the sales guys away from it," he explains. "The only people who spent a lot of time on it were me and the finance director."

The success of that strategy has been borne out since. "We have traction, a fully integrated business, our share price went up, and we have raised a lot more money," says Blundell.

The founders have remained involved since the listing. "We didn't see it as an exit for anyone: it was a growth story, about taking the business forward," Blundell explains. "That's what AIM is for."

Private equity was considered as an alternative. "Bill and Terry are very into that world," he says, "but it was felt that PE investors too much influence over us. By comparison, institutional shareholders don't interfere, and they don't want much of our time. They do bring notes from the last six months and everyone has an opinion - they might say have you thought about this or that - but they do it in a positive way."

Being able to attract a recognised finance director and sales director was part of the appeal of going public, says Blundell. It also meant the business could attract two experienced non-executive directors. That quality up-lift has implications for the decision-making process. "Our directors have been able to introduce us

Phillip Blundell, Eagle Eye Solutions Group plc

to some major players and have given us more of an understanding from the other side of the fence, what drives marketing in big brands. We wouldn't have been able to bring in that new dynamic as a private company."

The quality of the board certainly helps. "When we wanted to raise £6million to take out vendors from a previous acquisition who needed funds to do something else, the first thing we said to advisers was Terry (Leahy) and Bill (Currie) have put a lot of money in so you don't need to panic."

Does being public enhance perceptions of a company? "I don't know how potential customers overseas will view our status," replies Blundell. "Will Wal Mart know about AIM? I don't know. But I'm sure that our transparency will be of some value."

Is the ability to offer share options providing a significant benefit? "This might sound strange but I don't think it does, except at senior level," says Blundell. "People in their twenties are more interested in the challenge of the environment. We have employees with share options and I think they see it as something far into the distance, to put in a drawer and forget about. They're more focused on the short term, what's the working environment like, are there bike schemes and good coffee."

Have there been any disadvantages to being public? "There have been, I suppose – such as when the share price went below the issue price for a while," recalls Blundell. "It meant having debates at board meetings that we shouldn't have been having. You can't control the share price and ultimately your value is in the success of the business rather than other factors, but it can be a distraction if people start worrying about it if they don't need to. "

Blundell thinks liquidity can be an issue for smaller companies, where there is little trading in shares because most are owned by founders and their friends. He thinks brokers could be more proactive in offering to buy blocks of shares or advisers could suggest that investors divest some shares in order to diversify, which would go some way to create movement in the market for shares.

"One of our founder's bugbears is that if we were in America we would be worth a billion and people would be throwing money at us. "We've been very much UK at the moment but because of our success so far we can now look overseas and that's the focus for the next twelve months," he says. That will help the goal of doubling turnover in the next year: "I feel that's a reasonable target and justifies the investment shareholders have put in."

What advice would Blundell give to anyone thinking of floating their business? "You absolutely need a long-term plan," he stresses. "You will come unstuck if you can't articulate the longer journey. You also need a very robust medium-term business plan. Without that you're wasting your time. And assemble a good board, particularly if you haven't been involved in public markets before. Having experienced people around you to take some of the burden off you can make a huge difference."

More effective way to raise money

"Look at 'Who Wants to be a Millionaire'," suggests Stephen Streater, using an analogy from television to make a point. "Ninety per cent of the time in 'Ask the Audience', the audience gets it right."The chairman of Forbidden Technologies – whose cloud video platform, Forscene, is used by broadcasters, in professional web video, education, and by consumers - is talking about crowd intelligence, something he says AIM companies get in heaps from their shareholders. "The intelligence of the crowd allows engagement and feedback that we would not have as a private company," says Streater.

Forbidden Technologies floated on AIM in 2000. "Being quoted on AIM was where we wanted to be and we were just big enough to do it," says Streater. "It crucially gave us access to a knowledgeable and engaged consumer feedback panel – in the form of the private shareholders who like and understand the product and want to see it succeed and therefore are its harshest critics."

The company has around a dozen institutional shareholders (plus Streater and co-directors, who between them own a significant chunk). Streater says another big advantage is access to capital. Though it's "scary" not having a dominant investor who can bail you out, he says, being able to raise money on the market is simpler than having to turn to other sources.

"If you say you need £2million and can get something done in two years, venture capitalists will say 'why can't do it with £1 million in twelve months', so that's what they'll give you," says Streater. "Then you need another fundraising. It took twenty years to develop the electric car; the iPod took fourteen years. But how many VCs will wait fourteen years for you to be successful? These things take time."

Notably, Forbidden were doing video on the internet in 2000, five years before YouTube launched and six years before YouTube were bought by Google. Explains Streater: "We launched a system in 2003, allowing broadcasters to stream TV live to the internet. But it was rather before its time, as broadcasters which might have been expected to embrace it said they were anxious because they didn't have the IP rights to broadcast outside their territories. We said 'why don't you change the contracts?' but they said that would take years. The following year we launched video editing on line. But no-one understood the concept. People didn't believe it was possible to do these things on the internet when they were used to machines costing hundreds of thousands."

In 2013 Forbidden raised £8million through a placing and an open offer, money for updating the technology, expanding their US presence and tripling investment in R&D. Institutions provided the bulk of the money in the fund raising.

Another benefit of being quoted is being able to give share options. "Everyone here is important; if someone leaves it's like losing an arm," says Streater. And then there's the kudos it brings. "AIM gives the perception of punching above your weight. And it's good for aspirational, innovative companies, he says, pointing out that the acronym of Alternative Investment Market is appropriate in that respect.

Perhaps counter-intuitively, Streater lists having to conform to rules and regulations as a benefit of an AIM listing. "It's productive because as a private company you can do it completely wrong and never know. If you're listed and doing the wrong thing you will find out pretty quickly. That said, the listed business needs to keep focused on which of the rules are really relevant to it. There's safety in rules but there comes a point where they can hold you back," says Streater. "AIM is supposed to be the least regulated market; so more regulation wouldn't be better. Einstein said the purpose of science was to simplify as far as possible - but not further."

On this theme, there are two types of people, he says: mappers and packers. The packers (the vast majority) can only follow instructions and facts and don't use their initiative and creativity. The mappers are the thinkers who can work out a different route to get to the same place. "The difference is that the packers want 5000 regulations and everyone gets weighed down by them. AIM shouldn't micro-manage; it should be more of a mapper, not a packer."

Streater points out that being regulated doesn't stop companies – banks being a case in point – from failing. Neither does it deter "dodgy" companies from being on the market. But dodgy is different from high-risk. "You can't tell people not to take a risk," he says. "It helps the economy to have people taking risks. Without them there would be no liquidity."

Indeed, Streater deals in shares himself and likes a spot of risk. "I make more money on what you might at first glance describe as basket-case companies than those on the FTSE 100. My Silicon Valley friends won't invest unless a company's directors have had three failed businesses. Yes, some will go bust again, but if you buy shares in ten companies, some will have director who have learnt to succeed."

One of the challenges for the AIM company is finding good NEDs. "What we do is quite complex and you can't be a layman and know enough about it," says Streater. "Who do we want as non-execs: someone in their sixties who's never even played on a mobile phone? No, we need people who know what's happening in the industry. For example, how

much investment should we make in broadcast TV opposed to sports? You have to know the people both in the sports industry, who tend to be risk takers and open to new ideas, and in broadcast, who are quite conservative." He makes the point that the most knowledgeable experts in the sports industry in particular tend to be younger, and poses the question: "What would a regulator and investors make of a twenty-something NED?" He also thinks there's a conflict of interest where NOMADs are concerned. "I come across it time and again; for example, do NOMADs represent the company or AIM itself?"

Another thing AIM could do is reduce the cost of doing a rights issue, which Streater says is now around £600,000. "The cost of a rights issue should be £30,000. "You don't always need to raise millions," he points out. "It should be possible to raise £200,000 if all the company requires is money to do a feasibility study."

Streater also points out that just as people assume that a private company with VC-backing must be on the right track when in fact it could actually be struggling, they can't always get past a statement about losses from a listed company to see its true potential. "As an AIM company we had to put out a trading update last year," he muses, "and then we were asked why we'd spent all that money and it wasn't reflected in sales. But the figures didn't reflect the new product we'd just launched." A related issue is the proliferation of bulletin boards which Streater is convinced leads to market manipulation. "You need a thick skin," he says. "You can't respond to the bulletin boards because if you say something it will be misinterpreted and you'd also be on them full-time.

"We're a high-risk company but there will be high returns if it works. We're doing things that have not existed before in a market that's not existed before. We're hoping that following our launch of Eva [currently number one in Google for video social networks), and the release of Captevate, our consumer online video editor, we could become an extremely valuable company."

Preparing for the new challenge

Many business owners who take their companies onto AIM are unprepared for the challenges of their new status, according to Frank Lewis, serial AIM company director and chairman. "I don't believe they really understand how long the process is going to take, how much of their time it takes and the impact of managing the process on the existing business," he says. "A lot of them don't know what's hit them.

"The problem is that they used to exercising control. They want the benefits of being listed but want to still behave like it's still their private company. They think they can have the best of both worlds, the advantages of being listed but still being able to run it as a private company. Well that's not going to work. To be successful they need to apply and then comply with good corporate governance and look after the interests of all the stakeholders.

"The main incentives for listing should be fund raising (though it's not as significant a reason as it used to be as there are alternatives such as private equity), realising personal capital growth, obtaining an objective market value, incentivising management through share options and, if all goes well, the chance to take the step up to the main FTSE. Without a disciplined approach, there will be compliance and governance issues, and a failure to manage or achieve profit expectations."

But there are the extra costs of being of AIM which need to be factored in. "NEDs, NOMAD's, PR people, it all adds up," says Lewis. "If you're not growing exponentially, that all becomes a burden and investors get disillusioned. A business best suited for a listing isn't just showing growth or the potential for it, but is able to demonstrate a sound strategy and business plan, a stable structure and robust management team. It should also have good financial reporting and forecasting, and be able to scale up for more growth – and it must be prepared for greater disclosure."

And disclosure can be an issue for some, he says, with a business leader's attitude depending on how comfortable they feel about

an enhanced level of accountability and having to "undress themselves in a public arena."

Lewis says AIM is regarded as a good place to be by foreign companies, the Chinese in particular. But, he points out, there can be issues brought about by cultural differences: "They don't always understand that they not only have to sign up to the rules but they have to comply with them." Important because looking ahead he thinks it's inevitable there will be even more processes and compliance. That said, he believes AIM needs to go back to its roots and help entrepreneurs without having layers of regulation. "Otherwise some entrepreneurs are going to choose private equity instead – or even in some cases crowd-funding - instead of coming to market."

Lewis has been involved with the listing of "several" AIM companies, and has also served as a non-exec and as chairman for companies involved in natural resources, technology, distribution, and infrastructure. He refers to a quote which once described NEDs as being like bidets: 'no-one's quite sure what they're for but they add a bit of class'. "But that isn't their purpose at all," he says. "The NED is the independent voice providing business-critical input and commercial reality to a technically based management team and shareholders. The NED should be able to advise on everything from acquisition strategy to international trading matters, reporting and accounting procedures to risk, governance, debtors and City issues. They need to have the ability to step into sensitive management/shareholder situations to support the leadership and underpin or help improve management skills and business understanding. They provide commercial clarity, acumen and common sense to situations where management teams cannot always see the way ahead and should help to develop realistic and sustainable operational plans. Their communication skills need to be excellent and they have to comfortable operating and interacting with senior business figures, investors, professional advisers, brokers and other stakeholders. Their role is to ensure the company is well run, but not to run the company."

In short, the NED should be able to add real value to the business. But Lewis knows not all of them can cut it. "There are still appointments made on the jobs for pals basis, and they don't have the relevant experience or won't challenge the executive. Although this still happens, companies are realising they need directors with experience and independence."

In that context Lewis recalls walking away from a Russian telecoms company. "Basically they were doing things without telling me, so I voted with my feet." He makes the point that the NED has to feel comfortable with the management of the company, just as they do with the NED. "There has to be chemistry," he says, "and there has to be trust."

There's a similar challenge for businesses in choosing the right NOMAD - the advisory firm required to manager the admission of a company to AIM and subsequently to ensure compliance with the AIM rules. "The requirement to have NOMADs can be a great benefit to companies," believes Lewis, "but like all professionals, whether doctors, lawyers or accountants, their qualities and specialisms differ."

"Remember," says Lewis, "that the listing is a beginning of the process not the end. Appointing NEDs as soon as possible in that process will mean that their experience and expertise can be put to immediate use. And don't over promise and under deliver. A failure to meet your first-year forecast is likely to lead to a rapid deterioration in the company's share price as well as impacting on the credibility of the company's management with investors."

Now growing a scalable business

After more than thirty years of running CSS Total Security and CSS Locksmiths, Roberto Fiorentino saw the opportunity for the reverse takeover of already AIM-listed Croma to form CSS Group plc. If it was meant to bypass the process of going public, he isn't convinced that's how it worked in reality.

In effect there was delisting then a re-listing, which took a year with the documents constantly being adjusted. "Just for all the boxes to be ticked racked up £1.5million in costs," he recalls. "The number of times we were told by an adviser that they were waiting for information which we had already provided but had gone to another department at their firm."

The Croma chief executive became chairman, and Fiorentino assumed the position.

"When you have been in control of something for so long, you develop certain traits," he says. "For the first year on AIM it was suddenly all about procedures, what you can say and when. If I was speaking to an investor, should I be answering their question about the share price at that particular time? As the owner of a private company I could talk as freely as I liked about what the company was achieving. Delegating is difficult for a control freak, but AIM forces you to do that. The dynamic of the board meetings changed - now I was being asked ' what are you doing about this, or that, and having to be answerable."

Not that Fiorentino was cowed by the experience. At an impairment review meeting, not something which he had called or attended when he was the owner-manager, the auditors proposed taking £2million off the balance sheet, applying a 13% discount factor. I was arguing that I thought the number was wrong but I was told that we needed to sign off and that I had to take it on the chin. I requested a delay to get the facts and figures straight, booked an audience with the auditors and after three hours they said actually, we don't need to do the impairment at all. Sometimes you need to deliver that knockout blow for people to realise that your tenacity brings results for the company, it's not just you being difficult.

"You need to be prepared for a completely different way of operating, of people from outside the business asking pointed questions and requiring answers. In practical terms it shouldn't be a problem because a well-run company will already have processes and procedures regardless of whether it's public or private, but you have to be able to cope with the same question being asked in different ways by different people. What it comes down to is this: As a private company you want to hit the bull's-eye. As a public company you have to."

The CSS brand has always been associated with innovation. Using a Mercedes, and the marque is pertinent, the company demonstrated on television the first car alarm, with a remote control device which would start the car engine from a kilometre away but keeping the doors locked. "We were inundated with requests after the broadcast," Fiorentino recalls, "but then Mercedes wrote to all the owners to say that if they fitted our product it would invalidate their warranty. A year later they came out with a system of their own."

Then there's the effective utilisation of CCTV. "Usually CCTV is passive - it can replay what has happened," says Fiorentino. "We thought of how external detection equipment could be linked to CCTV so not only does it alert the operator but it provides live imagery. The Intelligent Video Analyser removes 'false positives', and analyses the size of the 'subject'; and whether it's coming in from an unauthorised route."

But what is going to get CSS Group plc closer to its stated aim of becoming the security provider of choice is the FastVein access control system that utilises new technology to identify humans from the veins inside their finger," "By using a scanning device which shines infrared light through the top of the finger and a camera underneath, FastVein identifies the person in about a second," explains Fiorentino. "The system recognises veins from a database of authorised entrants, and has the ability for the client to dispense with keys altogether; they just use FastVein to open their doors. The technology requires blood in the veins, so if a criminal tried to use a severed a digit there wouldn't be a

Roberto Fiorentino, CSS Group plc

scannable vein pattern. “This new technology has proven very expensive to develop although we are now at the early adopter stage within a number of market sectors. Time will tell if this will become one of the Biometric technologies of choice. “For me,” says Fiorentino, “this makes me realise that a feelgood factor still comes from meeting a client’s requirements.”

But what drew Fiorentino to AIM? “It came about,” he says, “because a client asked me whether I had considered outside investment or flotation, and I realised that we had built the business on technology and applying it to meet the needs of the customer; we hadn’t drawn a strategic picture. Of course as a listed company it’s all about strategy, and being pro-active; creating opportunity rather than just being re-active, and having the resource to take advantage of opportunity which does comes your way. What it means is that you are growing a business which is scalable, which I didn’t really have before.

“I know the process of listing the company unsettled some of the staff, who were concerned whether it would change, and what didn’t help was that I was spending so much time on the float I’d become more remote. It’s ironic of course, because if the owner-manager gets run over by a bus then the business and staff are at risk because the business probably has to be sold. What has happened is that they now realise that the company isn’t a one-man show - the owner-manager - and that actually they’re part of a winning team.”

But there are some fundamental differences that a CEO has to contend with. “In a private company, if it’s been a bad year, the owner-manager just draws down less money. As a public company you can’t go backwards, so if it happens, everyone notices,” Fiorentino suggests.

“What I have learnt is that with a turnover of just under £16million we’re probably still too small to warrant the cost of being on AIM, but that is being addressed in a three-year plan to grow the business. The regulations are considerable of course compared to being an owner-managed business. I’m not convinced they can really be that effective because if someone sets out to abuse the privilege of being a public company, they will be actively looking at ways to do it. That’s how crime happens. Regulations can only flag up that abuse after the event. But what AIM does is to get you noticed as a company, and in security, being a listed company provides the client with a sense of well-being.

“AIM also provides a financial cushion in that when we need to raise money to develop a new product or take advantage of an unexpected opportunity, we have more options and we can do it quickly.”

Excitement from new opportunity

If his business was still on AIM, says Alistair Hancock, it would probably not be going through such exciting - and rewarding - of times. He suspects that the board of a listed company would not have allowed software development and services company Rubicon Software to develop in the somewhat opportunistic way it has.

It was while he was studying computer science at Cambridge University that Hancock started the business. He found a “modicum of success” through developing CRM systems for local charities, at a time when they still tended to manually type their address labels. He was soon diversifying into providing similar software for trade associations, and was in the right place at the right time to take advantage of the evolution of the internet to become a “serious” business. He developed a web content management system, which he managed to sell into a multinational, which ended up spending £1million a year with Hancock.

Then something “cataclysmic” happened: the multinational in question decided to outsource its web work to India, still owing Rubicon Software money, teaching him an important lesson about eggs and baskets. With hindsight he thinks that reacting by threatening to turn off their website wasn’t perhaps the wisest of moves.

“It can be good to know you’ve got people

over a barrel, but you should never tell them. When you tell a blue-chip company that you can flick off their internet instantly if they don't pay you, they think you're a crazy man. I didn't actually have the moral – or really the immoral – calibre to turn them off but the client said 'you need to sit down with our procurement people to structure a new deal', which was code for 'we're going to do you over'. I had no idea what I was up against. They had me for breakfast. I thought I was negotiating long-term payment terms but I was actually giving them the right to walk away."

Somehow he managed to build the business back up, with the help of bright A- level and university students. But in the dot com crash web content management "went off a cliff" and, having lost their biggest customer, Rubicon Software decided to return to their original specialism of CRM, focusing on financial services companies. The product they developed "was quite successful" and some customers, Market Harborough Building Society for one, remain customers to this day.

By 2006 Rubicon saw the opportunity to become the leading supplier of software to the burgeoning sub-prime lending sector, and the decision was made to list on AIM. The motivation was more about gaining credibility than raising money.

"There are a lot of charlatans in IT so we wanted to prove that we understood what being regulated meant, to demonstrate our credentials, which would improve our chances to sell to financial services organisations," says Hancock.

However, there was an aspect of being listed that never sat well with Hancock. "In the run-up to the flotation I was told my job was to make money for the shareholders. It wasn't about doing the right thing which would subsequently result in making money for the shareholder. I found that a hard thing to accept because I don't wake up and think 'how can I make money?' but 'is there a better, smarter way of doing things?'. So I felt I was between a rock and a hard place."

Nonetheless, Hancock "lived and breathed" his new role and what was expected of him, and things went well for a while, with Rubicon gaining high profile clients like Merrill Lynch. Then Northern Rock crashed. A hoped-for contract with a building society fell through and then the sub-prime market "just vaporised," leaving Rubicon with bad debts and a cash flow problem. "It's astonishing that we survived," says Hancock. "Again we had put all our eggs in one basket, and then someone put a flame thrower over the basket."

Cuts had to be made. "My commercial director, a friend since we were eighteen, had to go, with other people who'd been with me for years," says Hancock. "We were struggling for cash; the share price was nothing. Then another customer went bust. I started to think I can't do this anymore and took insolvency advice."

Knowing their next results were going to be outside AIM guidelines of being within 10% of expectations, Hancock had to call an extraordinary general meeting. "We said to investors 'we told you it was really bad but we were way off the mark – it's much worse," recalls Hancock of the painful meeting. "The 200 investors, mostly friends and family, said 'how did that happen? That wasn't supposed to happen, Alistair'. But we had done nothing wrong apart from being in the wrong place at the wrong time. Things happen, they just do."

Hancock decided that Rubicon had to get out of financial services, believing the company's reputation would have been damaged by staying in a sector that had become "toxic." Instead they became more of a generalist software developer. A key moment came when Hancock was invited to lunch by a former customer, who wanted some smart technology for a new solar equipment distribution business. With the offer of a revenue share, he accepted, becoming a quasi-CTO of the business. And with the help of the technology that Rubicon supplied, the turnover of the solar business, Segen, grew significantly over the following year, getting Rubicon out of their immediate cash flow problems.

But solar was not what the investors of Rubicon had signed up for. "The City story was that we were CRM for financial services and there were pundits who thought if we weren't going to deliver that, we should have gone down like the Titanic," says Hancock.

Meanwhile, his board was "frazzled",

he says. “They were nice people who had previously been successful in whatever they did and they were keen to come away without scars on their reputations. They weren’t quite rats off a sinking ship but they didn’t want to be involved any more. They wanted a way out, without it seeming like they were looking for a way out.”

The chosen solution was to de-list, in August 2011. Legacy licensing revenue from another customer had made the business at least viable and Hancock was able to buy the business back, leaving money in a cash shell. The shell was subsequently reversed into by Fastjet plc, so now the former investors own shares in a low-cost African airline.

What happened was that Segen started to take huge volumes of orders thanks to customers wanting to get solar before planned changes to the feed-in tariff, and Hancock had previously negotiated a share of 0.5% of revenue, capped by an “implausibly high” ceiling that no-one ever expected to reach.

Meanwhile, in 2013 another almost chance event led to Rubicon returning to the financial services sector. Hancock was approached by a start-up that wanted to create a specialist investment and software business to deliver innovate solutions which would “put the consumer first, starting with the problem of pay-day and short-term loans.”

The idea appealed to Hancock’s sense of social justice, he says. “Uberima wants to build a trusted consumer brand driven by smart software. It felt like the opportunity I had been waiting for my whole career. I believe this could be the next big thing,” he explains.

Hancock got a large equity stake in the business, in return for giving Uberima the IP on the software that drives it. That deal means Rubicon don’t receive licensing fees, but Hancock points out: “I’m not really interested in near-term money but in establishing a disruptive business in financial services that’s all about being building trust and empowering consumers.”

Uberima was a chance for Rubicon to start with a blank screen and build software from the ground up. “I can’t tell you how exciting it was to have the chance to use everything I’d learned in thirty years, in a place I really enjoy being,” says Hancock. He thinks he would never have got to this place had Rubicon stayed on AIM: “I’m glad we did AIM; I learned loads, how to cut a deal, how to put your reputation on the line. There was nothing I did that couldn’t withstand scrutiny. But I can’t believe it would have been possible to do what we’re doing now if we were still listed. My board wouldn’t have let me spend this much time on one customer or devote time and resources to an ethical business that doesn’t make any money yet.”

He points out that being involved in an innovative start-up requires technology to be developed quickly and decisions to be made at a similar pace, and he doubts that a business like that could go at the necessary speed if constricted by AIM investors’ requirements for recurring revenue and profitability. “We’re in three or four different markets with different technology, and that’s not a business model you can sell to the City,” suggests Hancock. “AIM’s not the right place if you want to build from a standing start because your appetite for risk is going to be larger than that of the investors, even though people talk about AIM as speculative.”

Why exiting was an important move

Most companies are on the market as part of a strategy to be there. Innovise is an example of one which was there more by accident than by design. Innovise were listed as Contemporary Enterprises plc in 2001 as a cash shell [a purpose-built vehicle with no active business, designed to raise cash to finance acquisitions]. The company “hobbled along” for a couple of years with a market cap of £1million (about the same amount as the cash raised) and then bought a software business.

Enter Mike Taylor in 2006, who wanted to buy the software business and did a reverse takeover of the parent company to obtain it, changing the name to Innovise plc. Now group chief executive, he explains he didn’t aspire to the listing, just the operational asset, but the

shell company came as part of the package. He then embarked on a series of acquisitions - mostly equity fuelled. Turnover grew as a result from £2million to £20million in five years. But in recessionary times the focus on acquisitions tailed off, and Taylor felt it might be appropriate to de-list.

"AIM is good when you're in growth mode and need equity to grow," he explains. "But when you're in consolidation or organic growth mode it's unhelpful. We weren't going to make future acquisitions; our focus was on organic growth. Regulatory documentation, compliance, and their cost slow things down without any benefit. And there was no liquidity of any nature, which resulted in the share price not reflecting the true value of the business."

With a background in corporate finance Taylor understood the pros and cons and a couple of years ago took the view that it was the time to de-list. Some shareholders did an MBO of half of the group while the original shareholders carried on with the pure-play software business. Other assets have been sold to the management of the businesses, who had always been shareholders.

After de-listing, the business stayed as a plc for some time before becoming a private company in 2014. Then in mid-2015 a group of major shareholders implemented an MBO of a key division, resulting in a smaller and more focused Innovise. "In a corporate sense, it's almost like we marched all the way to the top of the hill then back down again," muses Taylor. "The process of coming off AIM was very smooth and not very costly. That was because the reason for us leaving was non-contentious so no-one objected."

Was it the right thing to do with hindsight? "Yes, I think so," he says. "We have organised ourselves into the two constituent parts of our business, software and services. We don't need to make any further acquisitions and we don't need third party capital," says Taylor. "We're in control of our own destiny, which is very much a position I wanted to get to. It's a very powerful feeling."

Even after the de-listing and the recent MBO there are still close to seventy shareholders and Innovise are gradually buying back shares from non-involved parties who have relatively small quantities of stock, as and when they want to exit, gradually consolidating ownership into the private company.

One issue which Taylor no longer has to contend with is disclosure. "It's great when things are going well but if it's not you probably don't want to reveal too much of that kind of information in a public forum," points out Taylor.

Being on AIM is often cited as a way of showing the world that you are well-run and regulated, but he's is sceptical. "Is being on AIM really viewed as a sign of a company's quality? The compliance that comes with AIM is largely irrelevant to how a company conducts its business. It's got nothing to do with how you treat staff and customers, only how you treat shareholders. It can be an awfully run business and still satisfy compliance requirements. It's misaligned trust.

"When the company was listed, board meetings tended to focus on compliance , and that does mean you can take your eye off the operational ball. To my mind what's much more important is having Investors in People and ISO accreditations." Good governance is useful to any business of course, he adds, but an AIM listing is not essential to achieve that. "Most of our journey was driven not by AIM per se – that was just the vehicle. We have tried to retain all the things we thought were good and mostly they were not AIM specific," Taylor maintains.

Interestingly, Taylor thinks that an AIM listed company should include eventually leaving AIM as a long-term strategy option. "If I were to give advice to the director of an AIM company it would be ask yourself: do you understand why the company is there still; do you know what you're doing it for, and what is the long-term strategy?"

Would he ever go public again? "If the strategy was such that it made sense I would never say never but I doubt it would be for this business," he replies. "And I would be much more deliberate about the decision as to whether AIM, private equity or some other structure was the right way forward. AIM is one of the potential answers but it should never be the only one."

Regulation has to be seen to work

Richard Kellett-Clarke doesn't hold his punches when it comes to ideas about how AIM could be improved. Says the chief executive of document management collaboration solutions and services supplier Idox: "If regulation is seen to work, then good companies will benefit from that perception, that they are indeed a better credit because they're more disciplined and have better governance.

"AIM is very attractive because the amount of regulation is quite light yet adequate. The regulations are fine: I just think they should be applied properly because regulation of the market and the quality of the businesses in it are paramount to building the reputation as a place to be."

"I need the market to succeed to help my quoted company achieve its potential, and AIM could be the number one market in Europe for medium-sized businesses, if it's properly regulated to international accounting standards. But we still hear some horror stories, like the CEO of an AIM listed company based overseas who simply walked away, disappeared, leaving UK shareholders to lose their money. Who the hell did the due diligence with that company to allow it to come to market? If the market doesn't apply its own regulations to prevent that sort of thing happening, then it will deter responsible businesses."

He also cites a company that claimed it had found billions of barrels of oil. "It was only after the share price went up there was a sort of retraction, followed by a stronger retraction," he says. "There's something wrong with a process that allows all that to happen."

AIM should be more of an attractive alternative to private equity financing or debt financing, he believes. "With debt finance you might have to put your house up as security, and with PE there are hooks they don't tell you about. You believe you have more control as there are fewer people to tell you what to do as. You'd be mistaken in thinking that."

Kellett-Clarke continues the theme. "Someone needs to shatter that myth that a PE-backed business will be more professionally run and is going to be more successful, because patently it's not true. I gather that timeframes for PE have increased so maybe it's less of a get-rich-quick option despite the favourable tax structures."

AIM should benefit by comparison says Kellett-Clarke, but he is adamant that being in the public market has to create a perception of having integrity and discipline. He does point out that some of the aspects of being on the market are double-edged swords. "I don't like that fact that you have to report every six months but I do end up talking to twenty people, investors, who have a vision of the world that's much wider than my more myopic, head-down view," he says by way of example. "I can learn a lot from them."

He also knows that it can be frustrating when the share price does not reflect the company's belief in its own value. He shrugs: "You just have to accept the market will make its reasoned judgement about your business." Then there's the question of liquidity. "You end up with investors with stock and not sufficient liquidity for them to move it, so the share price stays the same," he muses. "The institutional investors who form the bulk of the shareholders are solid and loyal and when they buy and sell it's in large chunks but to other institutions, so there's no big movement in the share price. I would like there to be more retail investors because they push the share price up and down."

Taking the only option available

"AIM is the natural starting point for companies with inherent drivers for a full listing in the future but with no trading record at present," says Michael Hunt, chief financial officer of ReNeuron Group plc, the clinical stage stem cell business. "As a high risk bio-tech company, VCs weren't going to touch us, so AIM was really the only option." They floated in 2005, raising £10million, and recently raised £68.4million in a follow-on financing.

Their investor profile has changed from high net worth individuals to institutions now owning 85% of the stock; the top four own over 60% of the total. “We suffer from a lack of liquidity partly for that reason, but we would prefer to have investors who understand there is a long-haul to the end-game,” says Hunt. “Also we simply don’t have the resources to spend as much time as we’d like with retail investors. There is obviously a limit to the ability of the management team to be able to deal with queries from individual shareholders who have maybe less than £1000 worth of stock. Ultimately we need informed investors who can support us to get the job done in terms of building value in the business across our therapeutic programmes.

“If we are talking to our peers there can sometimes be a little intellectual snobbery about AIM, that it’s a casino exchange for get-rich-quick punts and so on. To be honest, I don’t partake in those discussions. They’re irrelevant. AIM has enabled us to raise the funds we needed. The £68million we recently raised proves that.

“Thinly traded stock can still create demand, and that can be enough to capture the investor’s attention that we could make a difference to their portfolio. If your story is good enough, that you are going to generate real value in the medium to longer term, that should happen regardless of what sector you are in or market you are on.”

All the more important, because for a company in ReNeuron’s position, Hunt believes the traditional funding models are broken. “I’m biased as I’ve spent almost all of my career in public companies,” he says, “but I think VCs are limited now because most no longer have the investment time horizon necessary for today’s drug development programmes, especially those with novel approaches to addressing disease such as cell and gene therapy. Evergreen funds will invest for longer, but what we are doing is completely pioneering - the opposite of a well-trodden path.”

But public markets aren’t entirely a perfect panacea. “I take a rather dim view of having to make disclosures which provide little or no insight for a company of our size and stage of development and therefore no value to the reader,” says Hunt. “I accept that proper and full disclosure is necessary, but the level of regulation has to be commensurate with the type, size, and stage of the business and the amount of investment,” he suggests. “It’s the business proposition, the quality of the management team which is what makes people want to invest, not esoteric disclosures on treasury policy. My approach is to play a straight bat. Disclose what is material or relevant and adopt a comply or explain approach to corporate governance.

“For example, the non cash-based disclosures in the accounts, such as share option future values is almost a shot in the dark for us. My fear is that such a disclosure could be inadvertently misleading to the reader, but because it’s been made, there in black and white, it might be seen as sacrosanct - even though it’s actually rather an arbitrary figure because of our type of business and the many assumptions that are necessary to derive it. I don’t want to give the impression that I think regulation isn’t a good thing. I’m just making the point that it needs to be proportionate and relevant. Instead of there being a catch-all approach, perhaps specific types of disclosure could be dependent on the nature, size and stage of the company and its sector. I think that would help investment decisions and enable the real risk factors to be more readily understood.”

And the potential, which in financial terms, is probably better appreciated elsewhere. “It is clear that in life sciences there is more of an active and broader market in the US in terms of both equity and non-dilutive financing sources,” says Hunt. “In California, for instance, the state government has been putting in $3billion over ten years to support stem cell research, but we are where we are. I think the US has a better record of translating new ideas into money.”

He also says he isn’t obsessed about the status of ReNeuron being a public company. “It’s a route to finance and to hopefully generate a meaningful return to investors,” he explains. “Like most, I believe a listed company should strive to under promise and over deliver, keep close to the right investors who matter, and mustn’t get too hung-up on any deficiencies in the market.”

Enabling company to have breakthrough

It was seventeen years ago that cloudBuy created a platform on which companies could consolidate all their e-commerce activities. But it was the move into e-procurement which seemed to really hit the hot buttons.

In 2005 cloudBuy signed up seventy local authorities for their e-procurement and spend analysis software, and realised that they needed to raise capital to cover more spectacular growth which was bound to come on the back of central government announcing that it would provide funding to enable more councils to take the digital route.

Despite just missing the dotcom boom, cloudBuy raised £10million by floating on AIM, on the assumption that they would carry on signing up public sector organisations. What happened though was the government "quietly ignored' its own pledge on e-procurement.

"According to the National Audit Office the NHS alone would have saved £2billion just in 2010 if it had adopted e-procurement. Government started using e-procurement back in 2005 and still hasn't rolled it out," says executive chairman Ronald Duncan. "This is the country which built the first canals and railways, invented the machine tool, the internet, but struggles to roll out e-procurement, so that having been ten years ahead of the game, it will not meet the EU deadline of October 2018."

Understandably it still rankles. After listing, cloudBuy managed to sign up barely a handful of new clients. If ever there was an example of a company which couldn't (instead of merely wouldn't) meet its targets, then this was it.

Ronald Duncan had co-founded cloudBuy after a decade of running his own computer software development company. He studied physics at Cambridge and is a chartered physicist and member of the Institution of Analysts and Programmers. He's also a former UK downhill ski champion who competed at two Olympics, and was chairman of Snowsports GB, the governing body of skiing and snowboarding, leaving the organisation in a strong position having won three world cups.

Not one to give up easily then. "Why didn't I de-list the company? We had got investment from some venture capital trusts and taking cloudBuy off market would have hurt them. I also had an eye to the future," he explains. "I could see that despite what had happened, our shares were still under-valued, and after eighteen months we were recovering, which motivated investors. I remember we had a spike in share price in one day from 1p to 8p. What that taught me is that there isn't a correlation between sales growth and the rise in share price."

That said, there were times when he thought retaining the listing was maybe the wrong call to have made. Duncan wanted to make an acquisition which would have removed a competitor; the board blocked it. Then he wanted to move the focus to the private sector; the board said that the money had been raised for a specific strategy and that he should stick to it. Two of the original directors were voted off, and Duncan is convinced that he would have followed had it not been for the fact his wife's vote prevented it from happening."

Duncan was determined to transition the company from providing the public sector with e-procurement to being a digital e-commerce provider with clients across the globe. And staying on AIM, he believes, enabled cloudBuy to make a breakthrough. Visa came on board as a partner. The announcement though was met with a fall in the share price. "People were convinced we'd want to raise more money to fund the work, so we had to tough it out for a year."

The result? Today cloudBuy have offices globally, in the USA, Europe, Asia, Australia, and the Middle East.

"The thing with AIM is that the running costs aren't that much, and it does provide some liquidity for small shareholders," says Duncan. "But I think if we weren't on the market, the company would be five times its current value. It would be quite easy for a profitable company to improve its share price - buying back its own shares would be one way.

"If I had my time again, cloudBuy would have stayed private and our rate of growth would have been determined by the profit we

Ronald Duncan, cloudBuy

could re-invest. But we had a vision that was similar in scale to Amazon's. An American competitor spent $1billion dollars before going bust; and we had the better product.

"But our work over the last few years is poised to pay off. We've seen some recent e-procurement take up in the education sector in North America; a new online marketplace for UK social care, myCareSupermarket.com, has been launched; and an e-marketplace was showcased by the UK government during the Indian prime minister visit to London."

Creating a position which is sustainable

Ian Bowles is unusual in having taken an AIM company private, and in thinking that it should never have listed in the first place. And the chief executive of Allocate Software has been more than happy with their evolution, since his arrival, to a private equity funded business.

The company was founded in 1991 and listed on the full market in 1998, later moving to AIM. All this was before Bowles's time. "It should never have gone public, in my opinion," he says. "There was no sustainable commercial advantage in doing so. I'm not criticising the owners - I blame the advisers - but I don't think they were prepared for life on the market in terms of the suck on management time. You really need to understand the obligations and responsibilities, not just from a governance and ethical perspective but from a time perspective."

The move to the market failed to achieve results. "Every set of reports disappointed and they failed to reach one forecast," recalls Bowles. "The business went from having a turnover of £3.75million and a profit of £750,000 in the dot-com boom to, through no fault of the directors, having a turnover of £750,000 and losing £3million.

It was only thanks to the support of two fund managers who believed in what the business was doing and took a 30% stake each, that it survived, says Bowles. So when he joined in 2007, he inherited in particular two "very frustrated" major shareholders who felt there was "no way out" for them.

And having a high concentration of the shares in two sets of hands also meant liquidity issues and inevitable market volatility. Bowles expands on this. "When I joined the share price was 35p. We got it up to 55p, where it bounced around. It didn't matter if results were in line with expectations; some investors would think we had peaked so they would get out."

Such actions by individuals were able to seriously affect the share price, he says. "One sold 20,000 shares at 'any price' on a Friday just before the market closed, and even though that was less than half a per cent of the equity the share price went from 78p to 64p. Then, as the market opened on Monday, another investor dumped 60,000 shares and the share price went down to 60p."

For this reason Bowles believes retail investors make the market too volatile for a company of Allocate's size. "I would rather have professional investors, such as fund managers. I was always respectful to private investors but I never met them; my time was spent with institutional and fund managers."

With the mission of being the leading supplier of workforce optimisation and corporate governance solutions for organisations with large multi-skilled workforces, Allocate today have more than 700 public and private sector customers around the world, helping them manage their workforces in complex, fast-changing environments including healthcare, defence and maritime, and offshore. Notably they are the leading provider of their kind to the NHS.

But this success has only followed a decision following Bowles's arrival to go private. It wasn't something he could do straight away, though. "Had I tried at the time, investors might have thought I was stealing the asset at a low point," he explains. "You might well ask whether I had an exit strategy, but a public company doesn't have an exit strategy, so my objective was to build a sustainable public company. My thinking was that if we executed my ideas for growth successfully, another company would make an offer the shareholders would consider to be attractive."

The company did indeed receive a lot of

unsolicited offers, but Bowles was in no rush as the business was growing anyway, through acquisitions. "Most of the offers I fought off as I didn't think they represented value. As a CEO you have responsibilities to all stakeholders to get the maximum you can for them, and that can get forgotten when people knock on the door with a cheque book."

But one offer in particular, from private equity house HgCapital, seemed fair. "I said to them: 'Here's the deal. If you want to own the asset you have to pay the current owners a fair price. I don't own this business, I'm its custodian and driver.

"Understand my strategy and either back it or don't buy the business. Or buy it, and try to change me.' They needed to understand my strategy and that they would have to help me nurse the business through its next stage. We had a frank discussion about what the company was capable of achieving."

The upshot was that Allocate were de-listed in January 2015 through a deal with HG, with two HG members joining the board. Bowles says he never had the reservations about PE that some business managers have. "I've met many people in private equity and they're bright and intelligent people who understand the difference between financial engineering and running a company. Well, most of them," he adds as an afterthought.

This was Bowles's first CEO position, but he had previously been part of a team that took a company to NASDAQ, so he hadn't been intimidated by the prospect of running a public company.

"A lot of my friends said I should learn to be a CEO in a private company first but I felt it didn't matter what the environment was," he says. He doesn't believe there have been any disadvantages in coming off the market.

"At the time of the deal I told my teams here and overseas that they would notice no difference, there would be no change day-to-day," says Bowles. "Five months later people were asking 'who are HG?' and that's exactly how I wanted it."

But actually there have been some big differences, not least the longer-term view that's now possible. "One of my frustrations before was that if we invested cash and it didn't have a quick effect, in a listed company environment it looked like the business was going backwards. But now we're looking at a prism of three to five years rather than twelve months."

Another difference is that less time is taken up on investor relations - by the end of Allocate's time as a public company there were twelve institutional investors. "In a private company," Bowles comments, "usually there's one owner so there's a single conversation about strategy and decisions are much quicker, rather than a dozen conversations at least twice a year." Not that Bowles found that requirement particularly onerous when Allocate were a public company. "Yes, you have to explain what you're doing and why, but every CEO should be capable of doing that, and of enjoying it."

After the HG investment the business appointed a new independent chairman and the board was restructured, reducing the number of NEDs from four to one - though that could increase. Bowles says NEDs can plug knowledge gaps, and he wanted someone with a real insight into healthcare. "HG have good financial governance and audit expertise in spades, but they didn't contacts in that sector," he says. "I would walk into the boardroom and say 'this is where I think healthcare's going' and they would say 'OK', but I wanted someone who could challenge me in that area, who would say 'really?'

Although AIM was not ultimately the right place for Allocate, Bowles says that being listed can have its benefits. Notably, it helped the company gain accreditation to work for the Australian navy.

"AIM stood us in good stead," he concludes. "At one stage we had 38% compound growth rate and we got to the point of issuing dividends. Had I wanted to do what is called transformational M&A the support would have been there as we had a track record. We ended up a sustainable company and we have continued to grow." And he is complimentary about the way the market has worked to "dispel the myth that AIM companies are not quality companies".

Bowles admits he has been in the situation of "necessarily" making his own interpretation

of the AIM regulations. "During the financial crisis every man and his dog in America thought they could buy UK companies at rock bottom prices and I had thirty or forty calls about acquiring the business," he says. "But more than 25% of them were no more than a five-minute conversation so I knew they were not serious acquisition attempts but just a lot of noise. According to the rules I should have told the authorities about each one but I would have been calling AIM twice a day, so I interpreted the rules accordingly."

Another thing that Bowles would change about the market is the rule which means that would be commercially sensitive data has to be provided to potential buyers. "We had approaches from competitors who I knew just wanted our data. AIM could do more to protect companies from spurious buyers who don't have the ability to complete.

"There should be a way for regulators or NOMADs to decide that enquiries are not genuine, to protect the target company as well as the shareholders." For example, one private company with a turnover of £5million claimed to be interested in buying the business. "There was no way they were going to trump any bid, no way," says Bowles. "But I had to give them the same access to the data."

Bowles reflects on his goal when the company was public. "It was always my ambition to get to £100million turnover with margins of more than 20% and I still think we can do that as a private company. We're on a really good footing now and I want to be able to look shareholders in

Why flotation was a necessity

When Andrew Jacobs set what is now Lok'n'Store Group plc up in 1995 as an investment vehicle, there wasn't the slightest intention of taking it public. But it became a necessity.

"For various reasons, partly because of its success, we brought in other shareholders, and after a year there were four of us and four stores," recalls Jacobs. "Then our bank approached us and said we should look at a great site in Croydon. But we were screwed up to our eyeballs on the equity side. We considered a franchise operation, but friends in the City suggested an EIS issue instead.

By now there was a growing interest in self-storage as a business proposition, and Jacobs was fielding calls from potential acquirers and investors. The company decided to sell a 29% stake to Access, the American-owned market leader. Six months later though , there was a change of management back in the States and their new directors couldn't figure out why they co-owned a competitor.

But just in that short amount of time, the value of their stake had doubled. The only way out was for them was for Lok'n'Store to float on AIM. "We didn't do it to raise capital to develop the business," explains Jacobs, who didn't find the transition to being CEO of a public company to be any real challenge. "We had some serious private investors on board from the time we did the EIS issue, so we were running pretty much as a public company already in terms of governance."

The real issue for Lok'n'Store isn't raising capital; their limitation has always been the ability to find the right sites. That said, the company did come back a year after flotation and raised £10million at £1.55 a share. "Then came the dotcom blow-out," says Jacobs, "and while it's hard to imagine a business more distant from technology, nevertheless our shares went down to 55p at the end of 2003; and we hadn't spend the money." Encouraged by the investors, the company has been buying back its own stock ever since.

Andrew Jacobs, Lok'n'Store Group plc

What the company has demonstrated is its credentials as a canny operator in the property market. Acquired for £905,000, the Kingston-upon-Thames store was subsequently sold for £10million. "But if you don't run self-storage as an operating business you'll muck it up," says Jacobs. "The clever deals we can do with property come about because our efficient operating model generates the cash to enable us to buy the freeholds. If the property side dictates, then we would end up opening a store based on the potential value growth of the property rather than the successful operation of the business in that location." According to Jacobs, 90% of trade comes from within five miles of the store.

In the south of England finding sites pitches Lok'n'Store against the budget hotel, discount supermarkets, and car showroom developers. In total there are maybe 1000 self-storage locations in operation in the UK. To put that into some kind of context, there are 50,000 in the USA - more in the one city of Dallas than in the whole of Europe. But expansion across the Channel doesn't interest Jacobs. "I looked at Bracknell last year and there wasn't a major self-storage facility, so why would I want to open in Madrid or Paris?"

So, has AIM been of material benefit after facilitating the exit of the minority shareholder? "My guess is that it makes a difference to the banks that we're listed in that the terms we are offered are more competitive to some extent," says Jacobs after a few moments' thought.

The board owns a third of the shares between them, which is a positive according to Jacobs. "If I was considering an investment in an AIM company, the directors owning a decent stake is a good sign," he says.

That matters to Jacobs sufficiently that when he read the book Slow Finance by Gervais Williams, which makes the case for local investment and organic growth, he wrote to the author to say that while he agreed with his argument, why was there no mention of directors having a significant stake being a component part of sustainability. Clearly the author was persuaded - he bought a stake in Lok'n'Store.

Some twenty institutional shareholders make up 40% with private investors having the rest. "I have always run the company on the basis that I'm the founder, the chief executive, and he largest shareholder, so in a little way investors are buying into me, that because of my position, my best interests are aligned with theirs," explains Jacobs.

Not surprisingly, he wouldn't have been enamoured by the private equity route as an alternative. "They have the power of life and death over you, regardless of your experience, knowledge, and track record," he says. "I have dozens of meetings with shareholders, and they know that if they don't like the way the company is going forward, their option is to sell their shares, not change the management.

"With the government providing tax freedoms on AIM shares, private investors are taking an interest in the market, and they provide a stable shareholder base. What the government should do is enshrine tax reliefs relating to AIM in law. If you consider entrepreneur's relief - the owner-manager works all the hours for ever thinking that they'll pay 10% when they sell the business, so would it be right twenty years down the line if the government decided to scrap it?"

Jacobs certainly isn't intending to do anything differently. "We've been successful for the last twenty years. The model works, nothing has changed; it's just a question of adding to the portfolio," he explains. "We provide employment, contribute millions a year in local rates, VAT, and tax. We turn grotty old industrial sites into beautifully shiny buildings which clearly provide a useful purpose, and we make shareholders lots of money in the process. What's not to like exactly?"

Change of plan after invasion

The Russian president has a lot to answer for, says Matthew Hare, founder of Gigaclear, the supplier of ultra-fast, pure fibre broadband to rural areas. That's because Vladimir Putin was indirectly responsible for him having to drop his well-prepared plans to list on AIM.

Hare recalls how, having decided that AIM was the best place to raise funds for his growing business, and having gone through all the necessary planning and processes, everything fell apart in late 2014. "Investors had a lot of cash in their funds and an appetite for investment as interest rates were low," he says. "We did test marketing in the summer to institutions and feedback was very positive. Everything was ready for a two-week October road show, but we weren't the only ones taking to the road. Russia was moving into Crimea.

"There was an immediate impact on the stock markets," says Hare. "The screens in the City were awash with red and sentiment was very different from what it was when we had done our test marketing. Money was flowing out of small cap companies and into large ones because of perceptions of increasing volatility, and investors were particularly wary of putting money into a business that would need further funds as it grew."

And institutional investors lost interest because it became apparent that stock market volatility could have taken Gigaclear's value below the level necessary to meet their investment guidelines. Had the listing gone ahead Gigaclear would have become categorised as an under-capitalised infrastructure business, "one of the worst things to be on the market,", says Hare. So the decision was taken to backpedal and to raise more money from existing shareholders instead. "To go from 'we're going to do it' to 'no we're not 'took forty-eight hours," says Hare.

But let's go back to the beginning to put this dramatic chain of events into context, Hare founded Gigaclear in December 2010 and the following year they gained their Ofcom licence before taking a majority stake in local access pioneer Rutland Telecom, originally a partner in building their first fibre-to-the-premises network. By mid-2015 Gigaclear had nineteen rural networks live with more than twenty in construction. The company had benefited from BT's lack of interest in providing rural broadband. "If BT had already built fibre broadband to everyone's house we wouldn't be here," says Hare.

Hare explains that the decision to list on AIM was all about raising cash: "This is very much a capital intensive business. We spend £500,000 a week on new infrastructure and that will be £1million a week next year." The business model is pretty straightforward. Gigaclear put fibre in the ground and over time that generates an annuity stream. It wasn't a model that would have appealed to private equity and venture capital investors. "You won't find a VC anywhere that's willing to wait for more than three years for a return," says Hare. "It's all about what they can earn in the first year. I spoke to lots of VCs and they told me that the idea of putting capital into a business where a lot more money is definitely going to be needed subsequently was not attractive."

But it would have been to two sets of institutional investors – those willing to take a risk on the short-term performance over the next few years, and those who were interested in the "significant" revenue stream it should be generating from year ten. Hare says: "I have talked to many hundreds of investors in one form or another since I started, in group presentations, and I'm still talking to them and learning what the business needs to look like for them to put in £25million."

Their first institutional investor, fund manager Woodford, came on board in 2014. Then, the business was approached by a bank which suggested they could achieve their cash requirements on AIM. "The fact that we are doing what we are doing in a high profile industry meant there was a clear story we could present to investors," says Hare.

Going through the pre-listing process, involving "endless work with lawyers and accountants and documentation" and moving to IFRS, ensured the company had the right processes in place to meet the requirements of the big investors, not least having set up a

proper board, which meant some operational directors stepping down from the board but staying on the management team. “One of the benefits of the listing procedure was that the due diligence forced us to super-clean our processes,” says Hare, who was familiar at least with holding regular shareholder briefings because the company already had 100 on the register.

He does feel AIM is overprotective of retail shareholders, insisting that companies reveal so much financial information that ironically it makes the finances more difficult to understand for individual investors. “The IFRS (International Financial Reporting Standards) are unbelievable; they make it ten times more difficult to fathom what’s happening in a company.” And anyway, as he points out, there’s nothing to stop a retail investor from buying shares on the open market once the listing has taken place.

Gigaclear haven’t ruled out another attempt to list, and for now the company will continue to grow on the back of the demand for broadband from people who live in rural areas not served by the main providers. “In Oxfordshire,” Hare says by way of example, “maths homework is done online and is timed so I know parents who have no option but to take their children to McDonald’s to use the free wi-fi!”

Hare estimates that the compound annual growth in data volume is 30%, which means constant demand for faster broadband. The company claims to provide the fastest pipes in the business - 10,000Mb per second already on existing infrastructure – and the potential to put petabits of data down the same wires. A petabit, he explains, is a thousand million megabits.

And there’s huge demand from people who want fast broadband and are happy to pay a little more for it. “Over time pretty much every property we pass will take our service,” says Hare. “It’s either that or carry on using traditional copper wire.”

Turnover was £1.6million in 2015 and is set to be three times that in 2016. The rate of growth depends on the amount of capital deployed, which translates to the amount of cable that can be laid. “The only question is how much money we have available to put in the ground,” Hare explains. At some point, he says, the business will need not just equity investment but also debt, and he would hope to structure a project finance package that matches the unusual income profile. “Think of it as building hotels from scratch,” he suggests. “There’s a construction phase, then a period where you generate a return but it’s low as you don’t yet have repeat business. Then you get into a phase of repeat bookings and good returns.” So a lending package might involve zero capital repayment for three years, then eighteen months of interest only, then interest plus repayments.

Would potential investors - AIM or otherwise - be anxious about competition from, say, satellite communications. Explains Hare: “I say that if you are located somewhere really remote, a satellite connection could be your only option, but it’s like saying you can get to Glasgow by plane or bicycle; fibre broadband is so much faster.”

What advice then would he give to a business thinking of listing? First off, he replies, be able to answer the question ‘what are you going to do with the money’? And don’t even think about AIM if your business is unpredictable, in whatever way. “If something goes wrong or differently to the plan it’s better to have discussions with private investors than if you’re on the public market, when it becomes a public discussion.”

And he makes the point that going to the public market isn’t an exit per se. “For specific shareholders it might be an exit but that’s not the same thing,” he says. “It should be the next stage in the development of a company.” That’s assuming that listing is the right choice in the first place. “There’s no easy way of raising money; there are just different ways,” muses Hare.

Different approach to investment

"The engine room for economic success" is how Anand Sambasivan describes growing companies. And the difficulty of smaller listed companies in raising finance during the recession was the inspiration behind alternative investment fund manager Darwin Strategic which he co-founded in 2009.

"The primary market was suffering as funding became incredibly expensive. Smaller cap companies were being stifled as the institutional investors were not coming through with money," he explains.

"I argued that funding difficulties threatened the success of the incredibly diverse companies on AIM. There were all these innovative companies across all sectors that were trying to grow."

Higher market volatility and risk in smaller high growth companies make institutions reluctant to invest, but Sambasivan points out: "London has a risk-taking culture that goes back hundreds of years and the risk-taking spirit of the private investors, who provide the majority of liquidity, was undiminished. They knew that if they picked the winners they could get a good level of return."

With his investment banking background, Sambasivan says he was able to see the potential for a fund which would support the growth aspirations of smaller AIM-listed companies. The ethos was to create a structure that would allow a return from investment on AIM while mitigating some of the risk, to encourage institutional investors to take part.

Darwin's approach has also included the creation of a new online platform, PrimaryBid, which claims to be the first to give private investors – who constitute over 60% of average trading volume on AIM - access to placings which previously would have been available only to institutional investors.

The sector-agnostic platform allows the investor full control over the process by allowing them to determine the amount and price they wish to invest at.

The platform also benefits the investee companies, by giving more cost-effective funding, says Sambasivan. "Typically placings are done at huge discounts and companies had no choice, as they had nowhere else to go. The cost of trying to collect funding from multiple investors would have been prohibitive, with money laundering regulation processes for example, so it was easier to go to one institution. That meant institutions were happy as they got a great deal on the shares, but the private investor community was disenfranchised as they didn't get a look-in on the placings."

PrimaryBid takes many of the principles developed by crowd-funding for private, unlisted companies and applies them to the AIM market. "The risk-taking culture is strong in London, that's why crowd-funding works here," says Sambasivan.

"Increasing amounts are being put into unquoted companies that way and PrimaryBid is an extension of that. By engaging the crowd through an online platform and effectively utilising new technology including social media, AIM companies can raise capital more efficiently."

Not only is it a cheaper way of raising capital – the fees charged by PrimaryBid are typically less than a broker would charge, but it enables placings to get done more quickly – a deal that would normally take at least a week is now being done in hours, says Sambasivan.

He describes the new model as a "participatory eco-system", adding: "It builds a nice dynamic as the investors feel connected."

PrimaryBid is one of about seven fully FCA regulated crowd-funding platforms in the UK, though there are dozens more that aren't. It's similar to investment crowd-funding platform Crowdcube, the difference being that Crowdcube focuses on as-yet unlisted companies, whereas PrimaryBid focuses on those that have already listed.

That avoids the issues that come with unlisted companies. "With private companies there can be no governance, no non-executive directors, no NOMADs, no framework to check the quality of the company, and you can't always exit easily to get liquidity," says Sambasivan. "Listed companies have all that, and boards that abide by transparency. Importantly there's also

a secondary market for your shares, allowing an investor a venue to sell an investment if needed."

The typical investor in PrimaryBid is someone who was already investing in AIM, but, given that crowd-funding in general has proved so popular, Sambasivan thinks the platform could encourage additional small investors who are currently investing in unlisted companies.

All pretty disruptive stuff, then? "The word disruptive is great in technology," replies Sambasivan, "but it can be alarming when you say it in relation to a regulated financial market. But we mean positive disruption, where we are fixing inefficiencies to deliver value to investors and to companies."

Sambasivan thinks that though a willingness to take risks is part and parcel of the AIM investor's character, which is why AIM still needs to make sure that the governance structure is as foolproof as it can be.

"If you don't like volatility you shouldn't buy," he says. "Some thrive on this kind of risk but no investor wants to take governance risk – they don't mind the risk of 'will these guys hit oil', but no-one wants the risk of 'is this fraudulent'."

Now very much a growth market

Making the transition from being the owner-manager to answerable chief executive can almost be the equivalent of a career change," suggests Neil Tustian, partner at Moore Stephens and experienced in Initial Public Offerings, IFRS conversion, and advising AIM companies.

"While the addition of an AIM experienced CFO or COO will help greatly with the process of listing, to ensure that it is not at the expense of operational success of the business, getting the right non-exec directors is key in making this transition successfully.

"Before carrying out these interviews, I had not fully appreciated the importance of the role that NEDs play, and just how much they are valued by executives.

"This is reinforced by a recent Quoted Companies Alliance survey which shows that while 83% of quoted companies believe non-execs provide good value, only 41% of advisers believe that to be the case. The former figure has gone up and the latter has gone down since the previous year's survey.

"It could be that because the advisers, the accountants, and the lawyers are working with the executive directors, their paths don't cross so much with those of the NEDs, so they probably don't see the value non-executives are bringing over and above governance and attending board meetings."

According to Tustian, there is clear affirmation that AIM is a market in its own right. "Companies aren't floating on AIM because they see it as the step they should take before getting a full listing," he explains.

"I also think there is difference between a chief executive of an AIM company and their counterpart on the main market. The AIM company is going to be closer to a private business in temperament in that the executive directors are more likely to be rolling up their sleeves, applying the all hands to the pump principle in order to get things done."

He was expecting there to be more of a push-back against regulation. "The International Financial Reporting Standard, for example, is probably too heavy for most AIM companies, incurring extra expenditure with no real benefit in return," he points out.

"But regulation is accepted as being part and parcel of being a public company, and to gain and maintain the trust of investors. Overall, the benefits outweigh the cost.

"The credibility of AIM as a market has at least endured. It has been implied, even stated, when an AIM-listed company does wrong then the fault is somehow that of the market, not the business in question.

"But I wonder whether that is really a view from the media rather than the investment community.

"And it is clear that credibility is important to AIM companies. Being on AIM helps them to get onto tender lists and to win contracts - a listing provides them with a competitive advantage as a consequence of governance

requirements, complying with regulation, and transparency.

"Today, AIM is very much a growth rather than a risk market. Without having growth as a priority, a listed company is going to struggle to avoid share price stagnation. If a company has a strategy to expand, then AIM should serve them very well."

neil.tustian@moorestephens.com

Reference

Moore Stephens LLP merged with Chantrey Vellacott in May 2015 and are the UK's ninth largest independent accounting and consulting network. Their Capital Markets Group is composed of specialists with expertise in advising and servicing quoted companies on a range of financial matters.

Moore Stephens have assisted in bringing many clients to the market and having been involved at all stages of a quoted company's life cycle.

In addition, Moore Stephens have advised their quoted client base on a variety of transactional activities including acquisitions, restructurings, demergers and delisting as well as maximising R&D allowances and international tax advice.

Clients range from individuals and entrepreneurs, through to large and complex international businesses, both privately owned and listed. Moore Stephens are members of Moore Stephens International, one of the leading international accounting and consulting networks spanning 103 countries worldwide.

www.moorestephens.co.uk

AIM - www.londonstockexchange.com/aim
Allocate Software - www.allocatesoftware.com
cloudBuy plc - cloudbuy.com
Cohort plc - www.cohortplc.com
CSS Group plc - www.cssgplc.com
Darwin Strategic - www.darwin-strategic.com
Eagle Eye Group plc - www.eagleeye.com
Forbidden Technologies plc - www.forbidden.co.uk
Frank Lewis - www.franklewis.co.uk
Gamma Communications plc - www.gamma.co.uk
Gigaclear plc - www.gigaclear.com
Idox plc - www.idoxgroup.com
Innovise Ltd - www.innovise.com
Lok'n'Store Group plc - www.loknstore.co.uk
Mi-Pay Group plc - www.mi-pay.com
PipeHawk plc - www.pipehawk.com
Quoted Companies Alliance - www.theqca.com
Re-Neuron Group plc - www.reneuron.com
Rubicon Software Ltd - www.rubiconsoftware.com
Venture Life Group plc - www.venture-life.com

Photography:
Andy Scaysbrook, Revolution Photography
www.revolutionphotography.org

MOORE STEPHENS