AIM for PRIVATE INVESTORS?

October 2015

This presentation

- Which companies join AIM
- AIM returns
- Positives
- Real Benefits
- Negatives
- What to look for
- What to be wary of
- AIM regulation
- How ShareSoc can help
- Summary

What Companies Join AIM?

- Early stage companies
- Small established companies
- Former main market companies

Can AIM investing produce returns?

ShareSoc

Positives

- Low priority for institutional investors
  - PI’s are relatively more important/influential
- Often under-researched by analysts.
  - Mispriced ‘bargain stocks’.
- Management accessible to private investors.
- Easier to understand :
  - shorter annual reports
  - fewer ‘moving parts’,
  - Less use of complex financial instruments etc.
- Greater potential to be a ‘multi-bagger’ Eg:
  - ASOS, Accesso, Dominos Pizza, Abcam….
- More likely to be acquired

Real Benefits

- No stamp duty on transactions
- Many now qualify for ISAs.
  - No Income or CG Tax
- Many avoid IHT
  - Must hold for min 2 years
- EIS opportunities

Negatives

- Higher risk
  - Unproven business models
  - Over-reliance on few products/markets/customers
  - More likely to become bankrupt
- Larger bid/offer spreads.
- Lack of liquidity
  - Wild swings in share prices
  - Quick exits can be difficult
- Some are “lifestyle” businesses
- Very limited regulatory oversight (see later)
- Low priority for institutional investors
  - Less price stability
  - Good stewardship depends on PI’s

What to look for

- Track record of growing profitability
  - (or recovery from temporary problems)
- Sound balance sheet (not overly indebted)
- Good cash conversion (do profits turn into cash?)
- Growing dividends
- A good “moat”
  - Usually demonstrated by strong operating margins
- A reasonable price:
  - PEG <1, P/E <20
- Credible management
  - Consistent over time
  - “skin in the game”

What to be wary of

- Speculative companies, far from commercialisation
  - very few achieve their ambitions. Aka "story stocks".
- Companies paying excessive director remuneration:
  - are directors' interests really aligned with shareholders?
- Non-UK registered companies:
  - is there any recourse against fraudulent behaviour?
- Companies with poor cashflow, with a track record of frequent, substantial share issuance:
  - your share will be diluted over time.
- Poor Corporate Governance
  - Lack of independent NED's
- Dominant shareholder/s (>50%)

AIM Regulation

- Very different to the Main Market
- AIM is NOT a “regulated market”
  - Companies are not FCA regulated
- AIM is a “Multilateral Trading Facility”
  - Market abuse regime does apply.
- Primary regulator is the NOMAD.
  - AIM regulation team SHOULD step in where rules have been broken
  - but this is a COST for the LSE, which is itself a public company.
- Some Companies Act provisions only apply to fully listed companies on the Main Market

How ShareSoc can help

- Campaigning for shareholders and advising when problems arise.
- AIM Company Scorecard: http://www.sharesoc.org/scorecard.html
- Highlighting interesting AIM companies,
  - in our monthly newsletter and
  - through our regular seminars
- Join, and help us fight for better regulation on AIM!

Summary

- AIM comes with risks
- But there can also be excellent rewards
- Judicious stock selection essential
- Beware the traps!
- Join ShareSoc to learn more and fight for fairer treatment of individual investors