THE INSIDE TRACK

Expert view: The lawyer

Which way now?

By Melanie Wadsworth

As we teeter on the brink of a global recession (or do we?), there is much speculation about the short-term outlook for equity markets, not least AIM. At such an uncertain time, there is something to be gained from looking to the recent past for pointers about what the future may hold, and so we welcome the publication of the findings of two surveys: the twelfth annual Taking AIM survey published by Baker Tilly and Faegre & Benson and Growth Company Investor's Spotlight on AIM. While too much naval gazing is rarely a good thing, these surveys do reveal some encouraging findings and suggest that the outlook for AIM is not entirely bleak.

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Taking AIM 2008 acknowledges that the market is facing a very difficult external environment in which investors are increasingly risk averse. This is, however, a challenge which impacts markets everywhere, not just AIM. Despite a marked slowing down towards the end of the year, just over half the AIM companies participating in the survey said that the market's performance in 2007 was "as expected" and most agreed that the market was still meeting their needs. Furthermore, nearly two-thirds of the fifty growing private companies surveyed considered AIM at least a "fairly attractive" option for companies such as their own. Although the number of companies coming to the market in 2007 fell sharply from the dizzy heights of 2005 and 2006 (Spotlight on AIM 2008 notes that year-on-year growth in terms of numbers was its slowest since 1998), AIM still surpassed its previous capital-raising high, largely due to an unmatched volume of secondary issues.

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Over the past few years there has been some concern about the effectiveness of AIM's light regulatory touch and the level of quality control being exercised over new entrants to the market, particularly overseas companies. Although some of this criticism, particularly that emanating from the U.S., had about it a whiff of sour grapes, even the market's supporters accepted that the impact of such concerns on investor confidence needed to be addressed. In that context, in early 2007, AIM tightened up its rules to codify what was already best practice for most market participants, not least the nominated advisers (Nomads) to whom much of the policing of the market is effectively delegated. Regulation and legislation is one of the key themes around which Taking AIM 2008 is structured and the survey found that tighter regulation has been beneficial to both the market's reputation and investor confidence (an average of 60% and 57%, respectively). This may also explain why a majority of investors surveyed (60%) said that the standard of corporate governance among new entrants was at least "fairly good". This figure is double that of last year's Taking AIM survey.

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It is clear that AIM companies and investors are viewing the year ahead with some nervousness: nearly two-thirds (64%) of investors participating in the Taking AIM survey predicted a further drop in the number of IPOs in 2008. But, to the extent that this is coupled with an increase in the quality of the market's new entrants and brings valuations to more sustainable levels, surely this would be no bad thing? The strength of the secondary market last year is clear evidence of investors' willingness to support AIM companies with a strong story and good prospects. It is these opportunities which will ensure the future of the market and give AIM the credibility needed to maintain its position as a leading market for young, growing companies.

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