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Research Shows AIM Misses the Mark;
One firm's analysis finds marked underperformance

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The London AIM may seem like the best route to the public markets for US technology companies that are too small for Nasdaq, but that route comes with a great deal of risk, says research by M&A boutique Innovation Advisors.

"AIM companies don't age well," says Eric Gebaide, the Innovation managing director who spearheaded the study. "Bankers tell you that the AIM welcomes small companies and that you are going to become public more easily and cheaply than on Nasdaq, but what they don't tell you is that two years after going public, your stock is likely to be worth less than half of its IPO price."

Gebaide, who says several of his clients have talked about listing on the AIM, finally took a client on a tour of the leading UK-based investment banks, known as Nomads (short for nominated advisers), that take companies public on the AIM. He held a series of discussions with them and says that while the Nomads had plenty of data about going public, none had data on post-IPO performance. So he and his team set about analyzing both AIM and Nasdaq data themselves.

The Innovation team focused on technology companies with more than GBP5 million in revenue that went public on the AIM between the start of 2001 and mid-2006, and compared those results with Nasdaq companies with more than $10 million in revenue. At the end of the first year after going public, the median absolute return for AIM IPOs was 5% versus only a 1% gain for Nasdaq deals. But after five years, AIM tech IPOs traded 60% below their issue price, while on Nasdaq they trade 19% below their IPO price.

The first-year pop is the investment banking effect, says Gebaide. But after one year, the banks and insiders begin to step aside. And that's when all bets are off, he says.

The numbers support that sentiment. After two years, AIM companies lost 57%, versus a positive 12% for Nasdaq. After the third year, returns for AIM companies fell to a negative 65% versus a negative 26% for Nasdaq. After the fourth year, AIM IPOs were down 75%, while Nasdaq ones were down 33%. At the end of the fifth year, AIM values recovered somewhat to a negative 60%, while Nasdaq companies recovered to a negative 19%.

Indeed, Nasdaq companies tend to be more richly valued than AIM ones. Analyzing tech companies with more than $20 million in revenue, Gebaide found that the median AIM software company is valued at an Ebitda multiple of 7.1 versus 13.2 on Nasdaq, and that is despite a steeper growth rate for AIM software companies (see chart).

But comparing the AIM with other markets has to be done with care, says an AIM statement in response to this study, as the AIM's broad sector base, international character and the early stage at which it admits companies makes it a unique market.

"It is misleading to judge AIM on [a] narrow range of sectors when it is a very broadly based market," says the statement. "Similarly, it is misleading to compare it [with] a market that has a much higher average market capitalization, containing companies that are at a later stage in their growth cycle."

The results also provoked skepticism at investment bank Canaccord- Adams, a UK Nomad and an active underwriter of AIM IPOs.

Russ Landon, managing director at CanaccordAdams, says the results don't seem accurate, and that it is difficult to compare the two markets. He argues that the AIM, which has been around only since 1995, is evolving and is "history in the making." A better analysis, he says, would compare the AIM as it is today to Nasdaq in its infancy, roughly 15 years ago. These days, the two serve different markets, with Nasdaq attracting larger companies while the AIM has an appetite for small, early-stage companies.

But while Landon and other bankers say that the size of companies listing on the AIM has grown over the years, an AIM spokesman says that the size increased in the market's early years, but in the past four to five years, it has been fairly constant, at about $80 million to $100 million in market cap with a "slight trend up."

The AIM has easier listing requirements and lower costs, so it may well continue to attract small companies. The AIM spokesman, citing Canaccord -Adams research, says that it costs about $922,000 to go public on the AIM, and $2.3 million on Nasdaq, while Nasdaq's admission fee is $100,000 but only $8,000 on the AIM.

Gebaide does not suggest that companies should rule out going public on the AIM, but he cautions that it should not be considered an exit, only a financing event. If such a move is right for one of his clients, he would find them an underwriter, he says.

An AIM Dual Track

M&A boutique **McNamee Lawrence** has a practical approach: It looks at the AIM as an alternative, literally, and as one more financing option for small US companies. Currently, 51 US-based companies trade on AIM, with 37 of those joining since the start of 2005. **Managing Director Glover Lawrence** says that he is helping a US client that has been around for a bit more than five years to list on the AIM with an eye to potential buyers who may end up buying the company before it goes public.

The listing and the intent to go public are real, he says. But he also recognizes that filing for an IPO is a potent attention grabber, which often invites buyers, something he used to practice in his Hambrecht & Quist days. Therefore, the company, which tried to get sold but pulled out for various reasons, will file for an AIM IPO.

It's all about options, says Lawrence. The company is not a start-up. It has a solid customer base and a little less than $40 million in revenue. For them, an AIM listing is a reasonable way to finance the company's growth. "When they do that and file a prospectus," he says, "everybody pays attention."