

SMEs' Growth and Development: Financial Stock Market Perspective

Is it the Alternative Investment Market a Profitable Choice?

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Abstract

Nowadays, small and medium companies represent an important segment of the economy of a state. When SMEs decide that it is the time to go public became relevant the selection of the appropriate financial market. The paper wants discover if the Alternative Investment Market is a real better opportunities compared with the official market of the city of London. The work analyses the growth of firms listed on the Alternative Investment Market and in the main market to observe the different performances. The results coming from the analysis of the sample considered by the researcher demonstrate that for SMEs this junior market represents a better road to grow compare with the decision of enter directly in the official market of London, perhaps an objective for the future.

Keywords: SMEs, Financial Stock Market, Western Europe, Organisational Performance.

1. Introduction

Nowadays, professionals are asking for which kind of decisions a company has to evaluate when it decides to go public and in particular which market is the best? This is an important choice that a small and medium size British firm has to consider when it decides to be list in a stock market. In fact, the rules of the market will determinate the regulatory

environment within the company will operate. The selection of the appropriate market is extremely important for the first step of going public, the Initial Public Offering (IPO), that represents the first stocks' sale. Becoming a Public Limited Company (plc) is one of the most significant choices that a business can make. In fact, in return for a long-term access to capital, an increase in the visibility and credibility, the company achieves new duties and responsibilities. The work analyses and compares the growth of firms listed in the main market of the city of London, the London Stock Exchange (LSE), and in the junior segment, the Alternative Investment Market. The aim of the research is to analyse if the Alternative Investment Market is a real better opportunity for small and medium businesses or if it's better for them to enter directly in the main market of the city.

2. Background

The Alternative Investment Market (AIM) was launched the 19th June 1995, as a sub-market of the London Stock Exchange (LSE). It is an exchange regulated market design for SMEs to give them a different road to raise capital instead of borrowing. This market allows firms to float their shares in a more flexible environment compare to the official market of the city of London. It does not require a minimum size, age to enter and particular number of shares to float. It follows some of the general laws

imposed to the financial markets however it has a private regulation. One of the key elements of this innovative private regulation is the introduction of a new figure, the Nominated Adviser (Nomad). Stingham [9] describes the Nomad as the element that makes great this system of regulation. This light touch of the regulation was described by Nielson [6] as the great power of this junior market, represented by a quick, cheap and easy way to access to new capitals to grow.

3. Literature Review

Many researchers have analyzed the Alternative Investment Market with different points of view and different conclusion; hence, there is a well-established literature reviews that examine the various areas and features. Arcot et al. [2] described the AIM as a stepping-stone to be ready to move in the LSE's main market. According to Mendoza [5] the AIM is a market that covers the funding gap for firms whose characteristics deny them the opportunity of listing in senior markets. Gajewsky [4], to support this idea, argued that AIM helps firms that have sound business prospects but not necessary meet the listing criteria, usually the size, of other well established markets. Nevertheless, the US Security and Exchange Commission (SEC) described the London's junior AIM market as a "casino", with 30 per cent of listings that gone within a year [1]. Nielson [6] analysed if the AIM was a market that attract low quality firms, which for they original situations were not able to join the principal market. The work ends up with the result that one third of the firms that opt for AIM have the heavy requisites to be list on the main market but thanks to the fewer requirements they prefer stay in this new segment. Doukas [3] demonstrated with his papers that the choice of the market for some companies is a natural self-selection, as they don't have the requirement, but for others it is a simple corporate financial decision. Doukas's work showed that 577 out of 1143 of the total AIM's firms did not have the possibility to join the main market but the other 566 could do it. This is a strong message as half of the companies showed their preference for the AIM, even if most of them remain in the new market only to work into a lighter regulatory environment. Steawart et al. [8] highlight the fact that firms in the AIM raise more capital than firms in other markets with same characteristics. Finally, William [10] argued that companies in AIM are more attractive for investors as the level of debt is not too high compared with the competitors in the main market of the city of London.

4. Materials and Methods

The methodology used for this work is based on the idea developed by Saunders et al. [7] called "Research Onion"; it is a concept in order to describe the stages through which the research will be conducted. The work adopts a positive research philosophy, with an inductive strategy, in a cross-sectional design with the use of quantitative data. The research starts by collecting data to explore a phenomenon, the AIM, in order to sorts out the existence or not of casual effects over the selection of the appropriate stock market for a SMEs and the profitability or not of this new financial market. The goal of the research is to answer to the following questions:

1. Is it the AIM a real better choice for SMEs that enter for the first time in a stock exchange market?
2. Does a small or medium size British company have to join directly the main market or it has to use the AIM as a stepping-stone?
3. Does the AIM guarantee a better performances and growth?

The research uses the financial indexes, FTSE AIM All-Share and FTSE SmallCap, to collect the data and to analyze the performances of the companies. The firms listed on the financial markets of the city of London represent the population considered for the study. The target is represented by the UK's companies listed on AIM and on the main market. The target contains 642 firms in AIM and 351 in the main market. For this work the researcher selected only a sub-group from the target to create the sample; the researcher was interested to find similar entry year and similar market capitalization, for this reason he selected only 28 corporations. The work compares the performances of firms listed in two different stock market of the city of London. The analysis starts with the comparison of the two financial indexes and later with examination of the sectors' performances.

4. Results and Discussion

The comparison of the financial indexes, FTSE AIM All-share and FTSE SmallCap, (graph 5.1) shows better performances for the companies in the main

market; although the comparison, between the AIM's firms and the main market's firms, shows better trends for SMEs in the junior market. The analysis between companies in the AIM and in the principal market illustrates that in the junior market the growth is slower but no one of the firms of the sample have exhibited a decrease in share prices. All the AIM's firms have showed a small but steadily positive increase; instead, in the main market, six out of thirteen, have displayed a decrease in the share prices (Table 5.2). Furthermore, the sectors' analysis shows similar results; in the Automobiles and Parts' sector, the graph (5.2) shows a decrease in the performances for the company in the main market, compared with the index; instead the situation is opposite in the AIM. In the Construction and Materials' sector, the graph (5.3) shows a trend similar with the index for the main market's firm until 2015, when the company over performed the index; instead the companies in the AIM followed the index in the first years and later went beyond the index. In the Industrial Transportation's sector, the graph (5.4) shows a negative performance for one company in the main market and a positive trend for the other, instead in the AIM the firm under performed the index. In the Media's sector, the graph (5.5) shows positive trends for the three businesses considered in the study. In the Mining's sector, the graph (5.6) shows a negative situation for the firm in the principal market and a positive trend for the one in the junior market. In the Pharmaceuticals and Bio chemical's sector, the graph (5.7) shows negative trends for both the companies in the first three years and an increase in the last two. In the Real Estate Investment and Services' sector, the graph (5.8) shows analogous situation for both the companies with similar performances with the index in the first years and an increase in the last years. In the Software and Computer Services' sector, graph (5.9), the firm in the main market followed the index in the first two years, after it over performed the index for one year and later felt down under the value of the index; instead, the AIM's firm outperformed the index after the first year. In the Support Services' sector, the graph (5.10) shows a negative situation for the main market's firm and a very good trend for the AIM's firm. In the Technology Hardware and Equipment's service, the graph (5.11) shows positive trends for the company in the main market and for one in the AIM, even if the second firm in the AIM underperformed the index for all the five years. Finally, in the Travel and Leisure's sector, the graph (5.12) shows negative trends for the businesses in the main market and in AIM; only one of the two firms in the AIM shows better performances compared with the index. The primary objective of the research was to discover the power of the AIM for SMEs and

the data analysis has demonstrated that firms in this new market have better performances; even if the growth could be slow its guarantee profits; instead, firms in the principal market could generate higher revenues but with high risk for the shares' value that could change drastically. The secondary objective was to discover the different performances that this two markets give to firms; also in this occasion the analysis of the data has showed that for a small or medium business it is better join the AIM instead of going directly in the main market, where the risks are more elevated for firms of this size. In fact, two of the research questions were created to investigate if the AIM has to be used as a stepping-stone for business that for the first time enter in a stock market. The analysis of the sample considered by the researcher showed that AIM, thanks to the easier procedures and environment, could be a better choice to be able to understand all the mechanisms that going public request. Finally the last research question was related in particular to the AIM's profitability, to understand if this new market can guarantee a better growth for small and medium businesses compared with the main market. The sample has demonstrated that in this new market the growth of firms were slower than in the main one, but no one of the companies analysed by the researcher have showed a decrease in the share prices greater than the original value in 2011.

5. Tables and Graphs

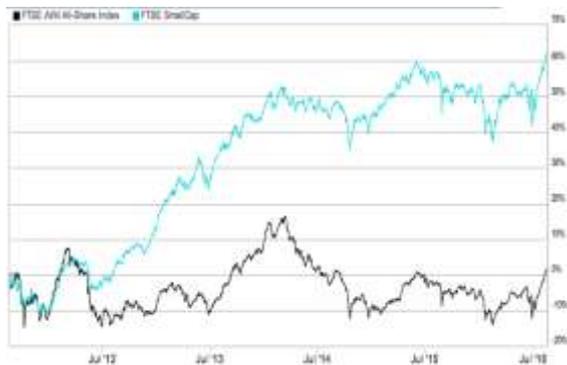
Table 5.1: Sample

Sector	Company	Market	Entry Year	Market Capitalisation (August, 2016)
Automobiles & Part	Torotrak (TRK)	MM	27/07/1998	£ 22.000,00
	Surface Trasform	AIM	24/04/2002	£ 14.000,00
Construction & Materials	Norcros	MM	16/07/2007	£ 100.000,00
	Plastic Capital	AIM	03/12/2007	£ 37.000,00
	Plant Impact	AIM	16/10/2006	£ 39.000,00
Industrial Transportation	Braeman Ship Services	MM	27/11/1997	£ 122.000,00
	UK Mail Group	MM	05/07/1993	£ 163.000,00
	Sutton Harbour Houlding	AIM	23/12/1996	£ 28.000,00
Media	Trinity Mirror	MM	02/12/1953	£ 209.000,00
	Wireless Group	MM	15/10/2007	£ 208.000,00
	Next Fifteen Communication	AIM	31/03/2005	£ 208.000,00
	YouGov	AIM	25/04/2005	£ 200.000,00
Mining	Petropavlovsk	MM	22/04/2009	£ 227.000,00
	Gemfields	AIM	06/07/2008	£ 191.000,00
Pharmaceutical & Biochemical	Oxford Biomedica	MM	17/04/2001	£ 112.000,00
	Allergy Therapeutics	AIM	11/10/2004	£ 111.000,00
Real estate Investment &	Macau Property Opportunity	MM	30/07/2010	£ 96.000,00

Services	Conygar Investment Company	AIM	27/08/2009	£ 104,000.00
Software & Computer Services	Gresham Computing	MM	27/02/1995	£ 61,000.00
	Bond International Software	AIM	30/12/1997	£ 42,000.00
Support Services	Hogg Robinson Group	MM	12/10/2006	£ 202,000.00
	Staffline Group	AIM	08/12/2004	£ 254,000.00
Technology	Sepura	MM	03/08/2007	£ 207,000.00
Hardware & Equipment	Amino	AIM	09/07/2004	£ 101,000.00
	IQE	AIM	30/09/2003	£ 171,000.00
Travel & Leisure	Flybe Group	MM	15/12/2010	£ 80,000.00
	DP Poland	AIM	28/07/2010	£ 64,000.00
	Tasty	AIM	04/07/2006	£ 86,000.00

Researcher, based on London Stock Exchange Database (2016)

Graph 5.1: Comparison between FTSE AIM All-Share and FTSE SmallCaps



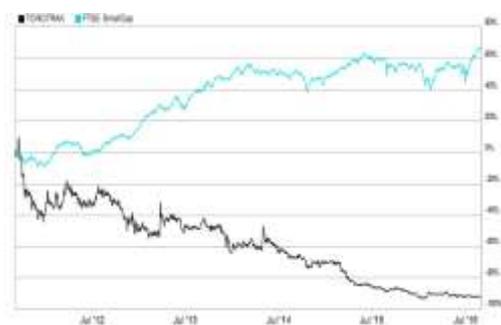
Researcher, based on interactive chart, London Stock Exchange

Next Fifteen Communication Group	80	91	88	127	194	276
YouGov	60	64	70	115	106	180
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Petropavlovsk	270	135	67	30	10	7
Gemfields	19	31	19	44	68	44
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Oxford Biomedica	6	4	2	2	10	6
Allergy Therapeutics	7	6	7	25	26	30
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Macau Property Opportunity		103	151	244	200	115
Conygar Investment Company	95	87	123	169	172	133
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Gresham Computing		59	88	117	100	99
Bond International Software		52	70	112	127	103
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Hogg Robinson Group	65	60	65	73	66	72
Staffline Group	221	232	447	884	953	1,063
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Sepura		66	125	151	159	48
Amino Technologies	43	52	86	94	139	110
IQE		24	21	22	24	20
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Flybe Group	178	75	80	144	50	41
DP Poland	85	36	18	14	22	49
Tasty			100	117	140	198

Table 5.2 Share prices

Company	Share Price					
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Torotrak		34	30	21	7	4
Surface Transform	10	13	8	8	13	17
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Norcros	11	10	16	19	21	170
Plastic Capital	87	78	88	134	102	107
Plant Impact	20	14	19	23	57	50
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Braemar Ship Services		322	425	521	495	436
UK Mail Group		222	460	599	412	312
Sutton Harbour Houlding	30	21	24	31	32	29
	lug-11	lug-12	lug-13	lug-14	lug-15	lug-16
Trinity Mirror	42	25	120	171	158	122
Wireless Group						

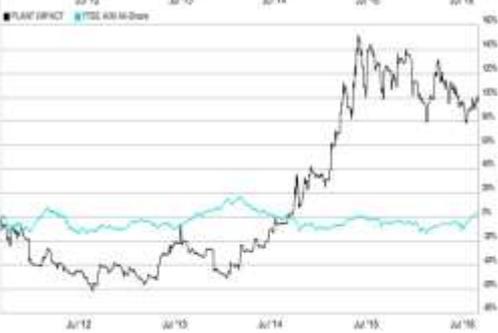
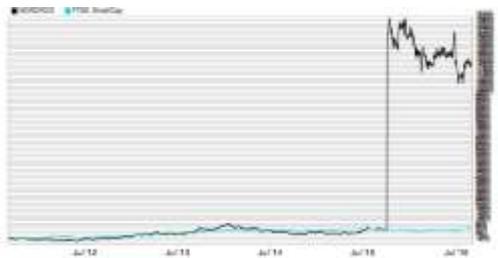
Graph 5.2: Automobiles and Parts





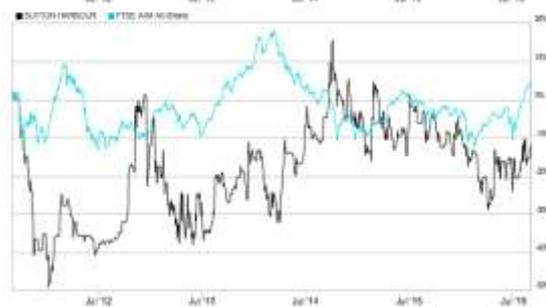
Researcher, based on interactive chart, London Stock Exchange

Graph 5.3: Construction and Materials



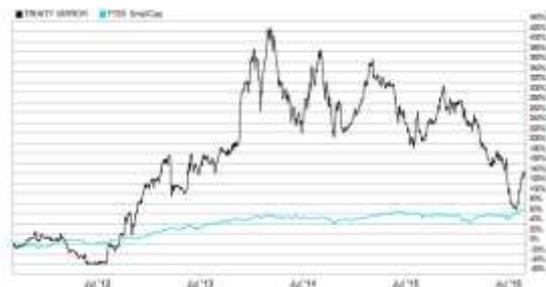
Researcher, based on interactive chart, London Stock Exchange

Graph 5.4: Industrial Transportation



Researcher, based on interactive chart, London Stock Exchange

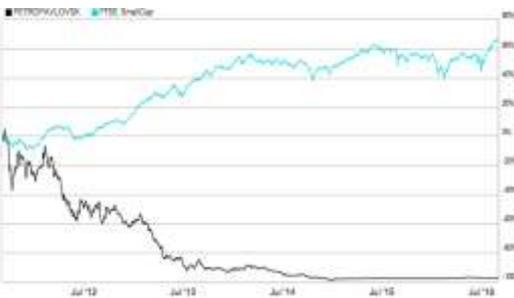
Graph 5.5: Media





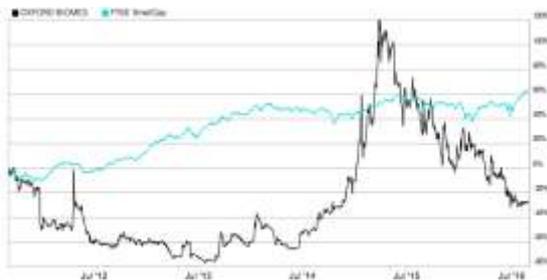
Researcher, based on interactive chart, London Stock Exchange

Graph 5.6: Mining



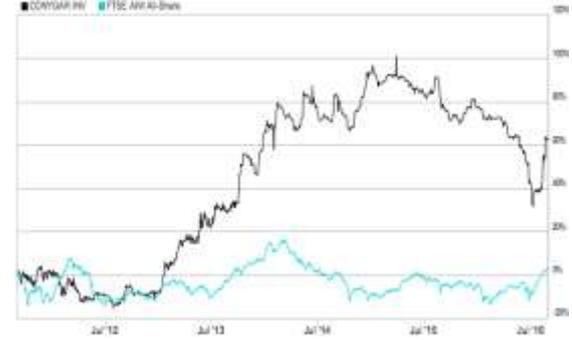
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Graph 5.7: Pharmaceuticals and Biochemical



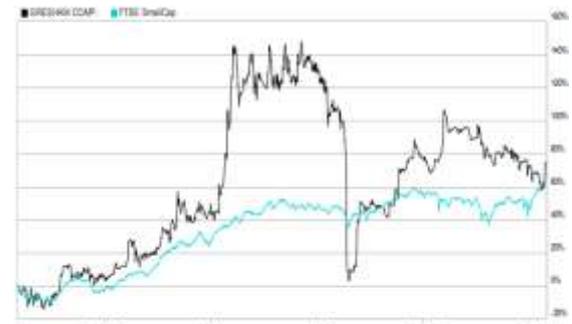
Researcher, based on interactive chart, London Stock Exchange

Graph 5.8: Real Estate Investment and Services



Researcher, based on interactive chart, London Stock Exchange

Graph 5.9: Software and Computer Services



Researcher, based on interactive chart, London Stock Exchange

Graph 5.10: Support Services



Researcher, based on interactive chart, London Stock Exchange

Graph 5.11 Technology Hardware and Equipment



Researcher, based on interactive chart, London Stock Exchange

Graph 5.12: Travel and Leisure



Researcher, based on interactive chart, London Stock Exchange

6. Conclusions

This work has examined the consequences of going public in two different stock markets in the city of London, for small and medium size British firms. The study investigated thoroughly the impact that the choice of the appropriate stock market could have in the growth of a business. The data analysed by the researcher have demonstrate that join directly the main market for a SMEs could be a dangerous choice; instead, the AIM can represent a great move to understand the operations and the mechanisms that going public in a financial market require.

7. Further Researches

The researcher with the analysis of the sample has extrapolated some information that companies and investors need to evaluate when they decide to enter or invest in a stock market. For firms, the research points out the importance of an accurate evaluation of all the aspects that going public bring and the relevance of the choice of the appropriate market.

For investors, the research shows how an analysis of the index it is not enough; investors need a deeper analysis of the components and the sectors. This work wants to be a possible base for further studies about the Alternative Investment Market to be able to amplify the knowledge of this new market and to demonstrate how much it could be important for small and medium businesses

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