Economic impact of AIM

June 2020

Contents

Foreword

AIM is 25 years old this year. It is a significant anniversary. Over the past quarter of a century AIM has provided a platform for growth companies to raise equity capital. Through this approach AIM has positioned itself as the most successful growth market in the world and has established itself as a core part of the funding ecosystem in the UK; providing confidence and certainty to early stage investors that there are a range of liquidity options available.

By providing support to ambitious and growing businesses AIM has made an extremely valuable contribution to UK PLC. This economic contribution is made through AIM's role in supporting growth, creating employment, fostering innovation and driving productivity; all underpinned by the processes and requirements for becoming and remaining a public company. These are processes that create value as they help to build and enable more resilient and sustainable businesses. They are processes that underscore AIM's attraction to a broad range of investors – from individuals to institutions-providing them with confidence to invest in growing companies and with access to growth opportunities. In this way AIM helps the wider public share in the success of a growing economy.

Over the past 25 years AIM has adapted to suit the needs of a changing economy. It has demonstrated its ability to support businesses through both times of significant economic buoyancy as well as periods of recession. With a new economic shock emerging at the time of writing as a result of the global Covid-19 pandemic, AIM's resilience will be more important than ever. In fact, evidence already suggests that AIM is providing access to much needed capital and is helping companies to shore up balance sheets.

Throughout its 25 years AIM and the companies it supports have benefited from the value of ongoing support from Government. This report underlines the growth dividend and economic contribution that has resulted and how with continued support AIM can play an even more significant role in helping companies scale and in democratising wealth creation.

Key findings

Delivering a positive economic impact on the UK economy

AIM has supported over **3,800** companies from **38 countries** over its life. **77%** of companies on AIM are UK incorporated

Over the last 25 years AIM companies have **raised £45 billion** at admission and followed this with further fund-raising amounting to **£71 billion**

AIM companies contributed **£33.5 billion** Gross Value Added (GVA)[1] to UK GDP and directly supported more than 430,000 jobs

Adding in wider economic activity through supply chains and the expenditure of employees increases the economic contribution to **£67.2 billion** in GVA and over **900,000 jobs**

Over the last five years the direct economic contribution made by AIM companies has grown by **35%**

AIM companies are more productive than the national average: **£77,700** GVA per job compared to £56,387

Aggregate turnover generated by UK AIM companies overseas has grown from **£7 billion** in 2010 to **£12.4 billion** in 2019

1 GVA measures the contribution to the economy of an individual producer, industry or sector

Creating more resilient and sustainable businesses

The result is that AIM quoted companies significantly outperform their private peers in terms of revenue growth in **five out of six** of the largest sectors listed (technology, financial, consumer (discretionary and staples) and health care)

It is this **outperformance** that highlights the benefit of an IPO, a process which provides businesses with a unique opportunity to examine all aspects of the business and invest in the governance, management and strategy of the business

Post IPO, companies can access a range of **ongoing benefits** including ongoing access to capital, attracting and retaining talent and the visibility and profile of being a publicly traded company

This revenue growth is accompanied by a strong growth in operating profit. Average profit has grown from £2 million in 2010 to **£18 million** in 2019. Across all AIM companies there is an average of **36% growth** in profit one-year post IPO and 24% four years post

The benefits of an AIM IPO are lasting. Revenue growth reported by AIM companies is above **40%** year on year for the first three years and **20%** for the fourth and fifth years following IPO. This growth is true for businesses of all sizes, with smaller companies seeing particularly strong growth in the first three years

Introduction

AIM has a vital role to play in supporting business growth and in doing so delivers significant economic value.

As London Stock Exchange's international market for smaller growing companies, AIM provides access to capital and on-going finance to ambitious and growing companies. It plays a vital role in supporting business growth enabling companies to access external finance so that they can make a step change in their development. It is through this role that AIM provides a range of investor opportunities and has made and continues to make a substantial contribution to the UK economy.

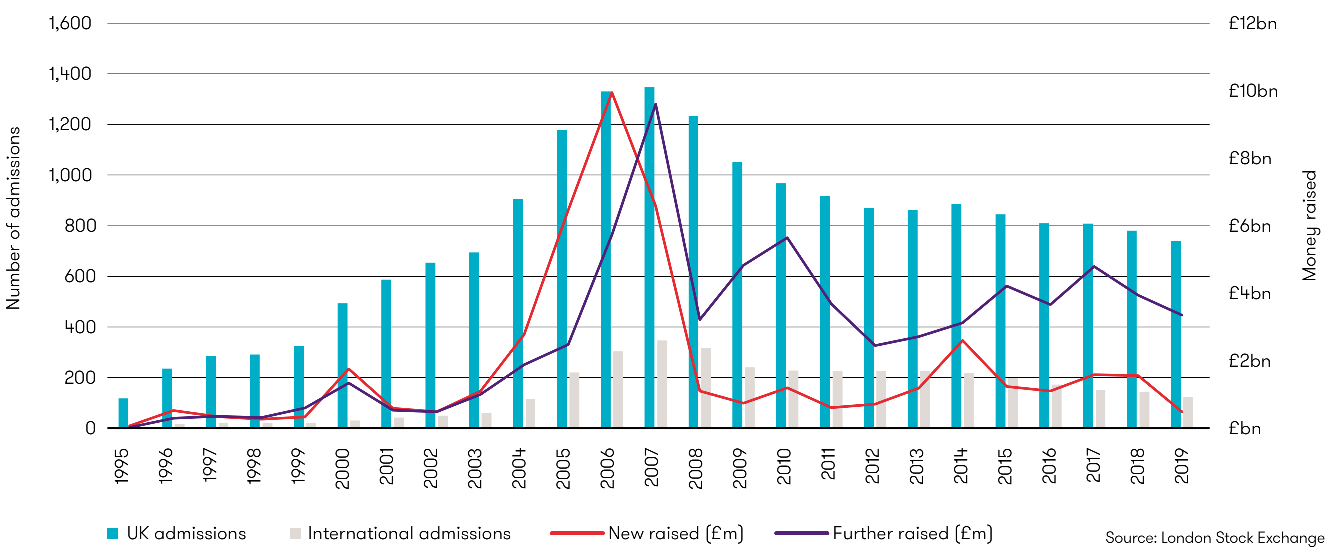
> The market has supported over 3,800 AIM companies since inception.

The purpose of this report, commissioned by London Stock Exchange, is two-fold. First it is to quantify the scale, value and nature of this economic contribution to the economy as a whole. Second it is to look in more detail at how AIM delivers value for the individual companies which make up the market.

Since its inception in 1995, **the market has supported over 3,800 AIM companies**. Over this period, the market has matured with both market cap and the size of admissions growing. Whilst AIM welcomes a broad range of companies incorporated overseas or with significant international operations, the vast majority (83% of new admissions since 2015) of these companies have been UK incorporated. Taken together, **over the last 25 years, AIM companies have raised £45 billion at admission and followed this with further fund-raising amounting to £71 billion.** Whilst in the early days of AIM a greater proportion of funds were raised from new admissions, as the market has matured, companies have placed an increased emphasis on ongoing access to capital - since 2007, 73% of all funds have been raised in secondary issues following admission (see Figure 1).

The steady increase of funds raised both on admission and through secondary issues from 2010 onwards underlines the important role that AIM played in supporting the economic recovery post the 2008 global financial crisis. While this report is focused on data up to the end of 2019, in the context of the initial impact of the Covid-19 pandemic early indications show that AIM is again providing an important source of equity funding with 158 follow on issues raising £1.9 billion (based on data for January to May 2020). This suggests that AIM will be a vital source of funding for companies during and after the Covid-19 pandemic.

Figure 1: AIM new admissions and money raised since 1995



Source: London Stock Exchange

Methodological approach

This report draws on data from a range of sources which are detailed throughout the report.

In general, for the headline company performance measures, Datastream was used to obtain all available annual revenues, employee numbers and operating profits for the period 2010 to 2019 for all companies quoted on AIM from 1995 onwards with a UK registered ISIN.

As such, the population consists of companies that are currently active on AIM and those that have cancelled their shares but have disclosed over the reporting period. At the time the analysis for this report was undertaken (April 2020), not all currently active AIM companies had filed 2019 accounts (c.60% had), therefore 2019 figures represent a hybrid combing the actuals of those companies that have filed 2019 accounts and 2018 data for those companies where this is their most recent year end.

The economic impact analysis uses an industry standard methodology to quantify three levels of impact:

- **Direct impact** which is the post-tax profit, wages and employment produced directly by AIM companies.
- **Indirect impact** or supply chain impact, that results from AIM companies buying goods and services from other businesses; and the
- **Induced impact** which relates to the wider economic benefits from employees of AIM companies and their suppliers as they spend their wages in the wider economy.

To model estimates at each of these levels, the Office for National Statistics Input-Output analytical tables were used. These tables provide detail of how different UK industries trade with one another in terms of consumption and investment. In doing so they provide a representation of national economic accounts. This data was modelled based on the sectoral nature and performance of the individual AIM companies.

Over the last 25 years, AIM companies have raised £45 billion at admission and followed this with further fund-raising amounting to £71 billion.

Delivering a positive impact on the UK Economy

Companies supported by AIM make a significant collective economic contribution to UK PLC: they create value, drive productivity and deliver export growth.

The overall economic impact is equivalent to £67.2 billion in GVA and over 900,000 jobs.

The health of an economy is measured by its scale and its growth in terms of the goods and services it produces over a specific time period, at a national level this is measured in terms of Gross Domestic Product (GDP).

In 2019, AIM companies contributed £33.5 billion Gross Value Added (GVA)[2] to UK GDP and directly supported more than 430,000 jobs. To put these numbers in context, the insurance and pension sector contributed £28.6 billion, the architectural and engineering sector contributed £26.6 billion and the motion picture, video, TV programme and broadcasting sector contributed £21.8 billion[3].

In addition, AIM companies made a significant corporation tax contribution of £3.2 billion to the Exchequer[4].

Over the last 5 years the direct economic contribution made by AIM companies has grown by 35% from £24.8 billion while employment has grown by 22%. This headline points to two important findings, that should be of particular interest to policy makers around growth and productivity, both of which are looked at in more detail in this report. It also points to the important economic development role that can be fulfilled by financial markets.

In addition to this direct contribution AIM companies support further economic activity through both their supply chains and the expenditure of employees in their local economies. Through their supply chain expenditure AIM companies support a further 294,000 jobs and £20.3 billion of GVA. This indirect impact includes a broad range of suppliers to AIM companies such as financial services (nominated advisers and stock brokers), business services (registrars, financial public relations, legal, tax, accounting and audit) as well as wider goods and services.

Both those employed directly by AIM companies as well as those employees supported through the supply chain will spend their wages on goods and services supplied by UK businesses. These so called induced effects generate further employment and GVA. The induced impact is estimated to support a further 181,000 jobs and a £13.4 billion GVA contribution to GDP.

Taken together, **the overall economic impact is equivalent to £67.2 billion in GVA and over 900,000 jobs**.

Figure 2: GVA and employment contribution of AIM 2019

	GVA	Employment
Direct	£33.5bn	430,387
Indirect	£20.3bn	294,085
Induced	£13.4bn	181,118
Total	**£67.2bn**	**905,590**

Source: Grant Thornton analysis

We examine AIM companies' contribution to productivity below, as well as a further positive impact AIM has on the UK economy which is of particular importance to policy makers: exports.

2 GVA measures the contribution to the economy of an individual producer, industry or sector

3 ONS Regional Gross Value Added by industry December 2019 release

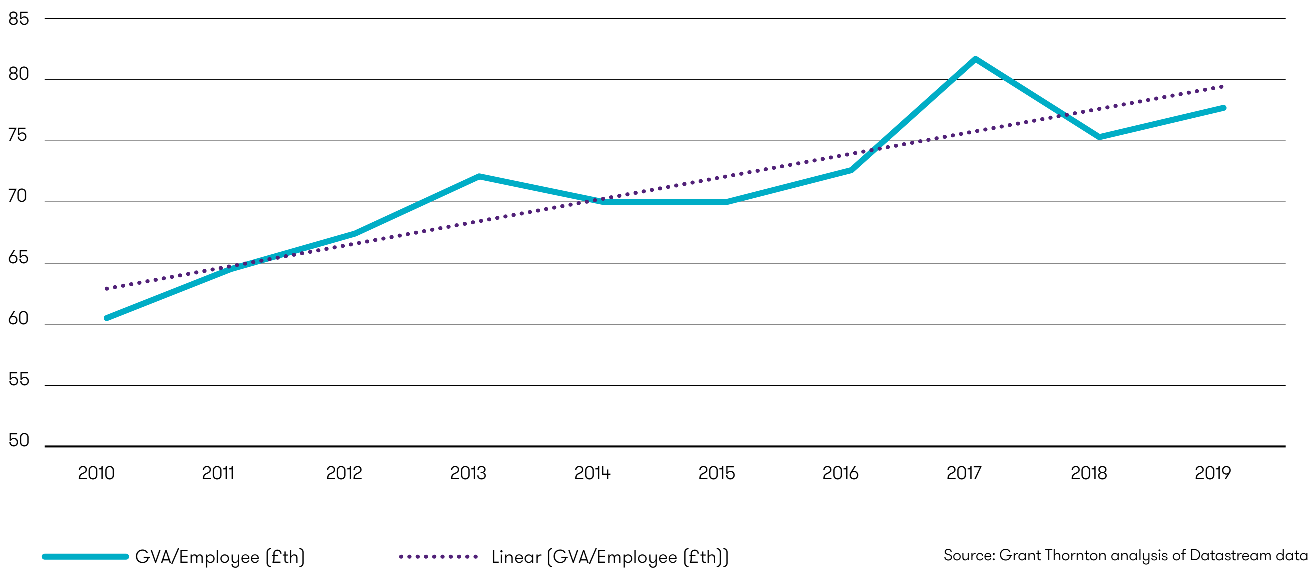
4 The estimated tax take associated with AIM companies is based on an analysis of profitability. It is calculated using data on the profitability of AIM companies and a calculation of the Corporation Tax due including rate relief for companies with profits below £300k

Improving productivity

In 2015 the UK Government set out its plan for addressing the UK's productivity challenge[5]. This document sets out two pillars for raising productivity: encouraging long-term investment and promoting a dynamic economy. By providing access to the necessary funding, AIM enables new and existing companies to make the investment needed to turn ideas and knowledge into marketable products and services.

By looking at productivity – as measured by GVA per filled job – it is clear that **AIM companies are, on average, more productive than the national average** with productivity of £77,700 GVA per employee compared to £56,387. This is only marginally below the London average of £79,586 – the most productive region in the UK[6]. Over the last 5 years, the productivity of AIM companies has improved by 11% compared to 10% nationally and 9% in London (see Figure 3).

Figure 3: AIM GVA per employee 2010-2019



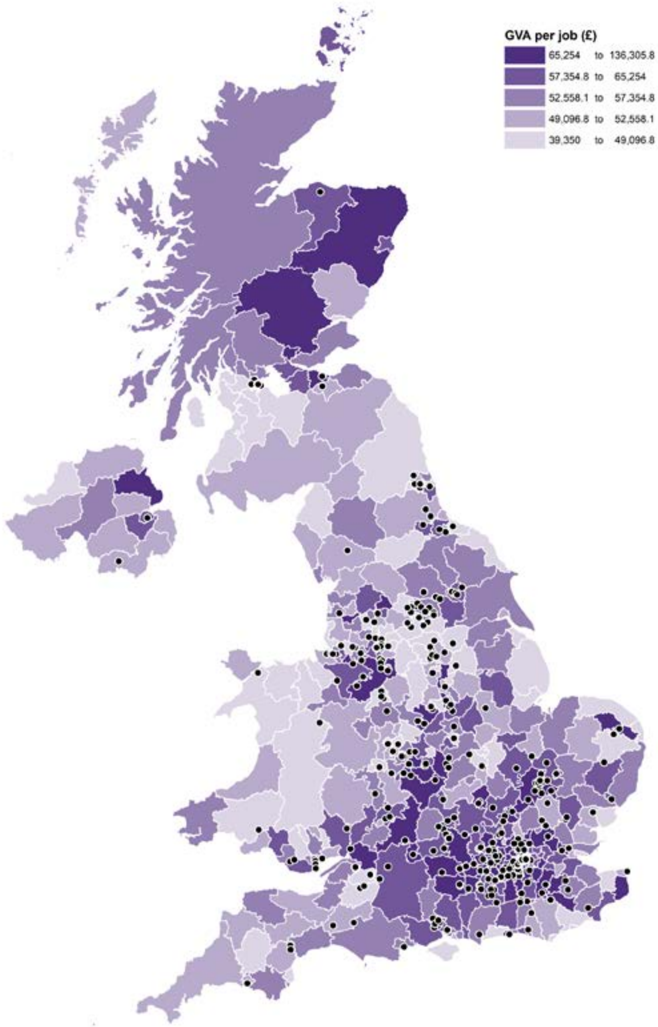
Source: Grant Thornton analysis of Datastream data

AIM companies are, on average, more productive than the national average.

5 HM Treasury (2015) Fixing the Foundations: Creating a more prosperous nation

6 ONS Sub regional productivity February 2020 release

Figure 4: Geographic location of AIM Companies and GVA per job



Source: Grant Thornton analysis of London Stock Exchange and Office for National Statistics data

The spread of AIM businesses across the UK highlights that the market is one that delivers UK wide benefits.

Regional spread

A central focus for policy makers in the UK has been around improving productivity and prosperity across all regions of the UK.

The map in Figure 4 shows the broad geographical **spread of AIM businesses across the UK and in doing so highlights that the market is one that delivers UK wide benefits**.

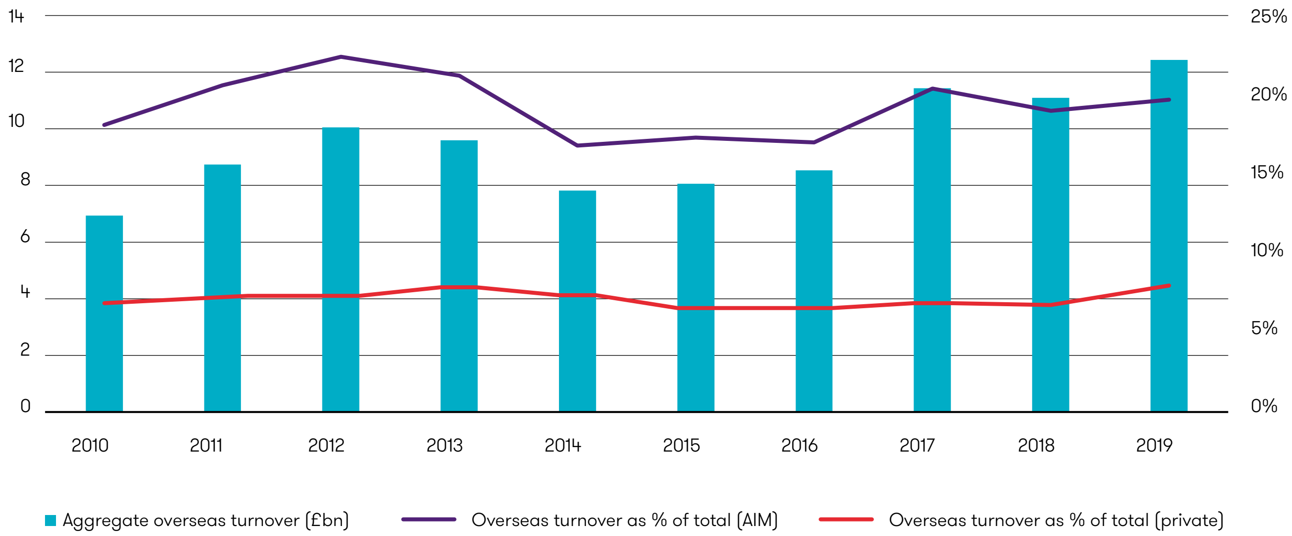
By overlaying these geographic locations on a heat map showing how productivity differs across the country (with higher productivity represented by the darker shaded areas) it is clear that AIM businesses – as generally more productive and scaling businesses – can play an important role in helping balance regional disparities. This is particularly the case where there are clusters of AIM companies in certain regions where productivity is lower such as the Midlands, Yorkshire and the North East. At that local level many of these businesses will not only be important local employers and economic contributors but they will also contribute positively to the perception of the particular 'place' and be regarded as an important economic asset by those stakeholders responsible for economic development and place-based growth: a draw for investors and an example to other businesses.

Encouraging exports

Exporting plays a vital role to the UK economy[7]. At its simplest exporting draws additional revenues into the UK from overseas. Around 20% of the turnover of UK-incorporated AIM companies comes from overseas, a proportion which has been consistent over the past decade (see Figure 5). However, over this time the **aggregate turnover generated from overseas sales has grown significantly from £7 billion in 2010 to £12.4 billion in 2019. In comparison to private peer comparators, AIM companies consistently generate around twice as much of their revenue from overseas exports**, a finding that further underlining the economic value of AIM as a platform.

In comparison to private peer comparators, AIM companies consistently generate around twice as much of their revenue from overseas exports.

Figure 5: Overseas revenues of AIM companies versus private peers 2010-2019



Source: Grant Thornton analysis of Datastream and BvD Fame data

Aggregate turnover generated from overseas sales has grown significantly from £7 billion in 2010 to £12.4 billion in 2019.

7 Department for International Trade (2018) Export Strategy: supporting and connecting businesses to grow on the world stage

Creating more resilient and sustainable businesses

AIM provides an unparalleled platform to scale a business in a sustainable way.

By providing access to long-term equity capital and on-going finance, AIM plays a key role in the funding ladder, enabling ambitious companies to raise external finance so that they can make a step change in their development. This change is evidenced in their growth trajectory underpinned by the process that individual businesses go through as they prepare to IPO, admit to trading on AIM and repeatedly access capital on the market. AIM has benefited from 25 years of evolution which has meant that it is uniquely positioned to help deliver more resilient and sustainable businesses.

Supporting growth

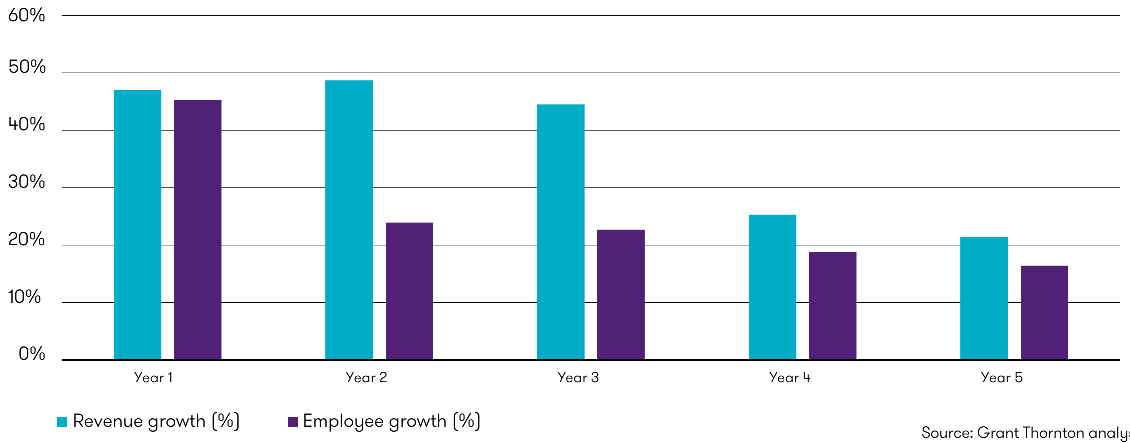
For many businesses, and in particular the people responsible for leading them, continued growth is a core aspiration. The 'scaling' of businesses also sits at the heart of UK policy with an ever increasing focus being placed on how best to support and encourage business growth which is sustainable.

This continued growth is a feature of AIM companies who not only deliver impressive growth immediately following IPO but who continue to deliver this year on year, in terms of increases in both revenue and employees. Figure 6 shows both the scale of revenue and employment growth following IPO as well as how this growth persists, with revenue growth above 40% year on year for the first three years and 20% for the fourth and fifth years following IPO. This suggests that an AIM **IPO does not just deliver immediate growth but rather enables companies to scale and grow the business over the longer term**.

This growth is true for businesses of all sizes (see Figure 7) with businesses seeing particularly strong growth in the first three years and lower but still strong growth in years four and five. This highlights how a process which has developed over 25 years can deliver for companies of all sizes.

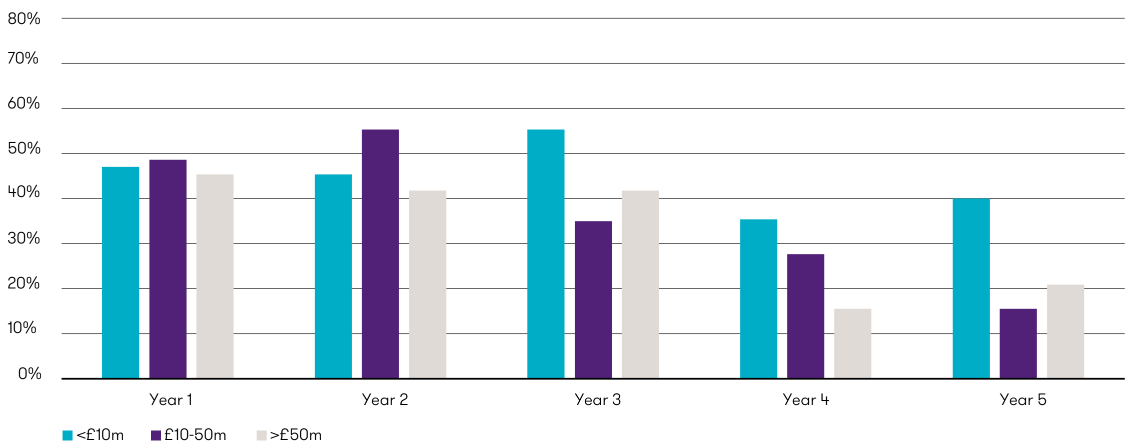
The importance of small and medium sized enterprises (SME) to the UK economy is well understood. Therefore, by allowing companies of this size to raise external finance at different stages in their lifecycle – as well as providing an exit route for early stage investors – AIM plays a key role in the UK's SME funding environment. It is this access to appropriate financing options that is so important in enabling businesses to scale.

Figure 6: Revenue growth since AIM IPO (2010 onwards)



Source: Grant Thornton analysis of Datastream data

Figure 7: Revenue growth since AIM IPO by market capitalisation at admission (2010 onwards)



Note: Year 3 excludes growth of 571% for one company in the <£10m group

Source: Grant Thornton analysis of Datastream data

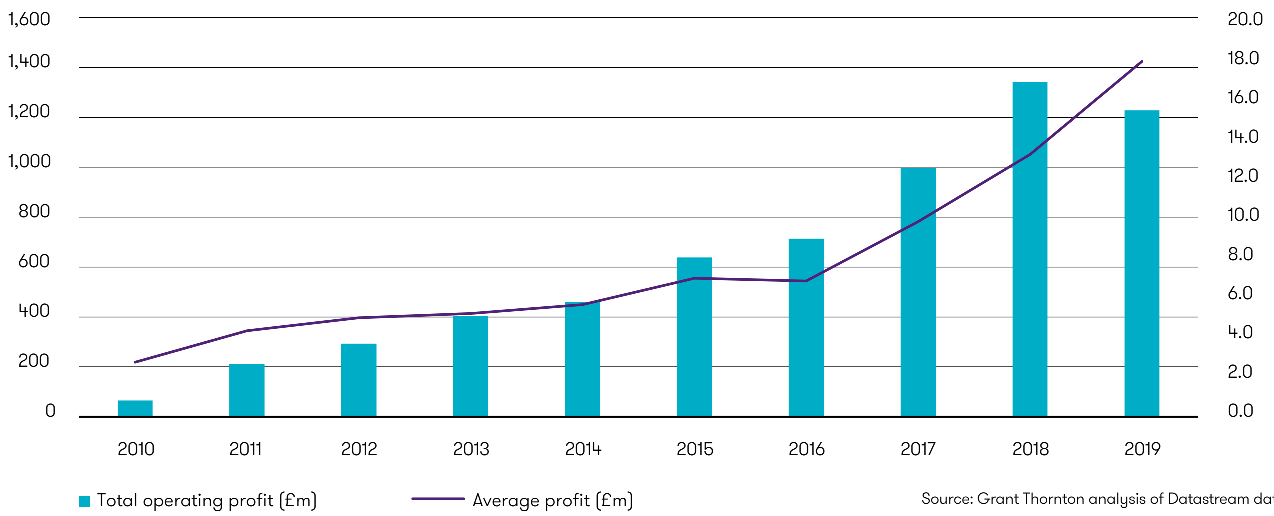
For a large number of these business, access to finance – and particularly the right form of finance – can play a central role in unlocking the barriers to and realising the opportunities for growth[8]. AIM fulfils this key enabling role, as it allows companies to raise external finance at different stages in their lifecycle, demonstrated by our earlier finding that since 2007 nearly three-quarters of all funds have been raised following admission. This support therefore enables a step change in the growth of the business, which then continues for a number of years.

It is also a level of growth that highlights how AIM is a valuable alternative for scaling businesses who are increasingly being sold too early in their lifecycle and before their growth potential has been realised. By continuing to fund and grow companies on AIM, particularly where they are innovative and rich in intellectual property, AIM ensures that UK PLC continues to realise the benefits.

Creating sustainable growth

In terms of the sustainability of this growth, data suggests that this growth in sales is also being converted into profits. Figure 8 shows that both the average profit (the total profit recorded for the year divided by the number of companies reporting a profit) as well as the total profit have grown considerably and consistently since 2010. Furthermore Figure 9 shows – particularly when read alongside Figures 6 and 7 – that AIM companies are able to sustain significant growth in their profits whilst growing revenues and employees, pointing to a shared characteristic of financial discipline. This is important as profitable businesses are better able to attract further investment, retain talent and provide motivation and incentives to owners, leaders and employees alike.

Figure 8: Total and average profits since IPO (2010 onwards)



Source: Grant Thornton analysis of Datastream data

Figure 9: Average annual percentage change growth in operating profit post-AIM IPO (2010 onwards)

Year 1 (post IPO)	Year 2	Year 3	Year 4
36.0%	28.6%	33.0%	23.9%

Source: Grant Thornton analysis of Datastream data

An AIM IPO does not just deliver immediate growth but rather enables companies to scale and grow the business over the longer term.

8 Scale Up Institute (2019) Annual Scale Up Review

How growth compares to private peers

By looking at the six largest sectors (by revenue) of AIM companies in 2019 and comparing the growth of companies in these sectors to a comparable cohort of privately owned businesses in the same sector we can further examine the key role that AIM plays in supporting growth. This comparison shows the effectiveness of AIM as a mechanism to drive growth in the UK economy, providing businesses with the best possible prospects to support growth and employment.

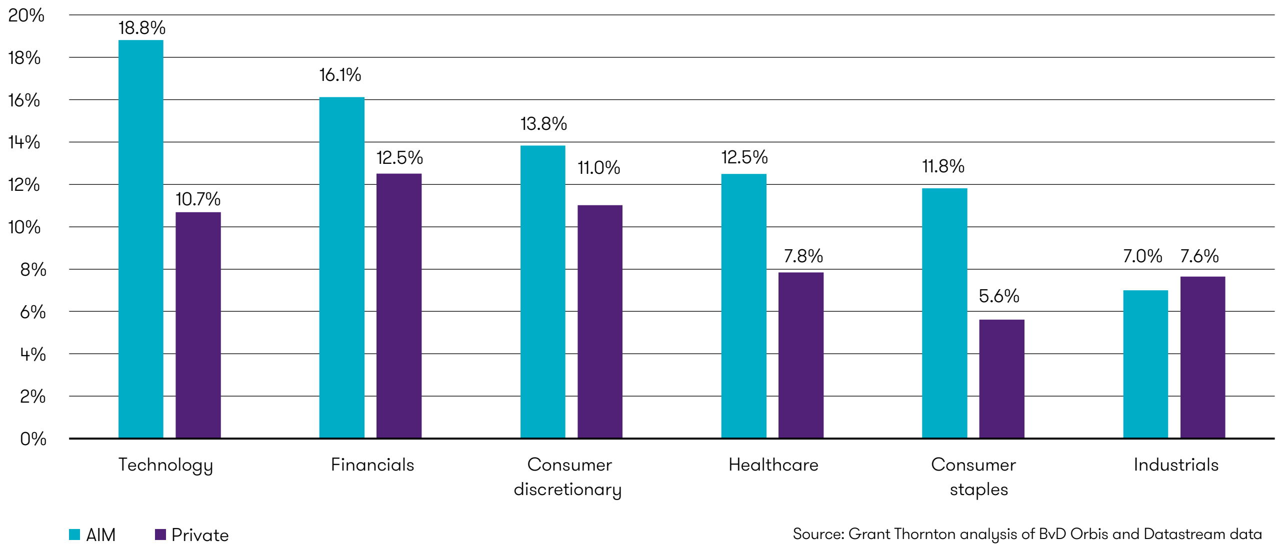
Looking at the Compound Annual Growth Rate (CAGR) of revenue over the past five years shows that AIM quoted companies significantly outperform their private peers (see Figure 10):

- Technology companies had a CAGR of 18.8% compared to 10.7% across private peers
- Financial companies had a CAGR of 16.1% compared to 12.5% across private peers
- Consumer (discretionary) companies had a CAGR of 13.8% compared to 11.0% across private peers, while Consumer (staples) had a CAGR of 11.8% compared to 5.6%;
- Healthcare had a CAGR of 12.5% compared to 7.8%.

It was only in the industrials sector where private peers slightly outperformed AIM companies with a CAGR of 7.6% compared to 7.0%.

Taken together **this analysis demonstrates the unique role that a flotation on AIM provides for companies looking to scale their business in a sustainable way**.

Figure 10: AIM company v private company revenue CAGR 2015-2019



Source: Grant Thornton analysis of BvD Orbis and Datastream data

This growth dividend is, however, not the only way in which AIM's processes create resilience and sustainability. The focused work involved in an AIM admission and the discipline of continuing obligations when on the market are compensated through this growth dividend - helping justify the time and money invested in undertaking an IPO. However, it also provides businesses with a unique opportunity to invest in the governance, management and strategy of the business, helping deliver value over the longer term both from financial and non-financial perspectives.

This analysis demonstrates the unique role that a flotation on AIM provides for companies looking to scale their business in a sustainable way.

A process which delivers value

In making the decision to IPO, the individual business is committing to a process that takes time and requires significant effort on behalf of the business, but which we have found is compensated for through superior performance over the longer term. It is **a process that enables the business to better understand its performance, its strategic position and its growth prospects**.

Optimising the business

In preparation for admission to trading on AIM, an individual business is required to work through a detailed preparation process; it is a process that helps to optimise business performance.

As part of the AIM application process the operating model of the business is scrutinised in some detail by the nominated adviser and company's advisers to better understand its current financial performance, its strategic ambitions and how it will use the investment to achieve growth. To achieve this a working capital review is undertaken. This review not only provides insight as to how much money should to be raised but it can also highlight areas where the company can improve its cash flow (eg credit control, debt collection or reduction of leverage).

Alongside this review the company's internal financial controls are also reviewed and formally documented. This process puts in place robust structures that enable a company to better monitor performance as well as provide transparency to external stakeholders.

The outcome of this financial due diligence, is a company that is confident about its future direction and that has a suitably qualified finance team, robust systems, reliable forecasts and appropriate accounting policies in place. The end result is that directors are able to give confirmations as to the working capital available to the company, as required by the AIM rules. This includes a requirement to have, as a minimum, 12 months cash in any reasonable scenario. This working capital cannot merely be enough to "keep the lights on", but it must enable the business to deliver the business plan in the way described in the AIM admission document.

While some companies do underperform or even fail, the disciplines and changes introduced through the diligence process result in companies that are better positioned to provide accurate and meaningful financial information to investors, keep the market updated as to their performance and enable them to raise additional capital from new or existing investors at a later stage. This is perhaps best demonstrated by the levels of follow on issuance seen over the life of AIM, which is in contrast to many other growth markets.

Financial discipline underpinning public company reporting

Once a company has been admitted to AIM, it is subject to reporting requirements that did not necessarily apply to it as a private company. As an AIM company these requirements include the:

- production of interim results;
- publication of an annual report and accounts;
- public announcement of certain transactions with related parties; and
- public announcement of price sensitive information

While regulatory in nature, the ongoing process of meeting these requirements means that as the business changes through organic growth or acquisitions, it needs to ensure that its processes also evolve with it. The discipline of ongoing reporting helps to ensure that the company truly understands its current position and future prospects and can convey this to the market. An AIM company must not simply publish this information in a timely manner, it must be prepared to enter into a two way dialogue, answer questions and respond to challenges from shareholders, regulators, analysts or journalists. This enhanced transparency results in wider credibility with third parties including customers, suppliers and investors.

Strong corporate governance

The purpose of corporate governance is to facilitate sound, effective and prudent management that can deliver the long-term success of the company. AIM companies are required to adopt a recognised corporate governance code, enabling companies to select the code that is most appropriate for their needs based on their stage of development or on feedback from their investors. There are broadly three options: The UK Corporate Governance Code; the QCA Corporate Governance Code; and for those incorporated and dual listed in other jurisdictions they sometimes adopt the corporate governance code that applies in that jurisdiction.

Once embedded, corporate governance provides the framework by which companies are directed and controlled. This in turn ensures that the company's strategic aims are set and that an effective management team is put in place to deliver those objectives. It also ensures that performance against these objectives is reported to shareholders.

The benefits post admission

The wider benefits of an AIM admission extend beyond the initial process and are important factors in a decision to pursue a public as opposed to private funding route.

Ongoing access to capital

Since 2007 the sums raised in the secondary market in follow on fundraisings have been significantly larger than those raised on admission. In 2019 AIM companies raised over six times as much as secondary funding than at admission.

There are a number of reasons why AIM companies enjoy ongoing support. In part, investors in AIM companies expect to support their investee companies after admission with follow on capital. For others, AIM also provides the opportunity for a business to prove its business model and to perform in line with benchmarks set at the time of admission, giving investors greater confidence in management and its ability to manage the business as a quoted company.

Most of the secondary funds raised by AIM companies are by way of placing of shares to institutional investors and certain categories of private investor. As a result, there is usually no requirement for a prospectus and investors will usually receive a presentation from management and possibly a research note from the company's broker. Both documents can be prepared within a very short timeframe with limited costs. The commission payable on funds raised in a placing would be about the same as on an AIM admission – typically in the range of 3 to 5 per cent of funds raised. Last year, London Stock Exchange announced a collaboration with PrimaryBid, which enables issuers to make secondary fundraisings, and ultimately IPO issuances, available to retail investors on the same terms as institutional investors. For a company that is planning to join AIM and raise several rounds of funding, given the costs related to secondary fundraisings are limited, the overall costs of capital averages down over successive fundraising rounds.

Ongoing strategic decisions

Ongoing access to capital also enables an AIM company to make a number of ongoing strategic decisions including acquisitions, implementing share options schemes and raising their public profile.

Financing acquisitions

For some AIM companies, acquisitions are a particularly important part of their growth strategy. The AIM regulatory framework allows for significant flexibility for a quoted company to conduct most acquisitions in a timely manner.

The support that the AIM investment community gives to already quoted companies is a major attraction for acquisition minded businesses. Indeed, there is often an expectation and desire that an AIM company will seek additional equity funding to support its ongoing growth. A further advantage AIM companies have over their unquoted peers is the ability to offer their own shares as partial or full consideration for an acquisition. This is particularly the case for companies that have already demonstrated their growth potential or with explicit buy and build strategies.

Attracting and retaining talent

One of the benefits of a public quotation is the use of share option schemes to attract and retain talent.

A well-designed and appropriately governed share option scheme provides an effective method of motivating staff and aligning their interests with those of the AIM company and its shareholders; for the further a company progresses towards its goals and the larger it becomes, the easier it should be for employees to sell their shares. Having a quoted share price means that employees will know at any time the value of their share options and can see how the progress of the company, as measured by its share price, benefits them personally.

The use of share option schemes also has the added benefit of preserving cash, which is particularly valuable for growth companies.

Visibility of being public

Up to two weeks before a company joins AIM, the London Stock Exchange will publicly issue a gazetting notice, alerting the market to the proposed admission of the company to AIM. It marks the point at which the public typically becomes aware of the company's AIM ambitions.

From the date of admission to AIM, a company is obliged to make regular announcements and to keep the market updated about its progress. It must also maintain a website with a comprehensive set of information about the company and its business. This information will be picked up by the press, analysts, commentators, investors and online media and be available to customers, suppliers and current and potential employees.

The long established reputation of London Stock Exchange, as one of the world's oldest, most prestigious and internationally diverse stock markets means that being quoted on AIM can open up business opportunities that would not have been possible as a private company.

Diverse set of institutional and retail investors

The success of AIM as a fundraising platform has been made possible by the support of a broad range of investors, including fiscally incentivised investors through risk capital schemes such as the Enterprise Investment Scheme (EIS) and of institutional investors including Venture Capital Trusts. AIM companies also benefit from Business Relief from Inheritance Tax in the same way as private companies. Eligibility for this relief helps ensure that businesses do not face unnecessary disruption as companies transition from being founder led to more widely owned, but also helps divert capital that would otherwise remain dormant into growing, productive companies. From a tax perspective AIM companies are differentiated from their listed counterparts on the Main Market, helping provide a smooth transition for companies moving from private to public markets.

At admission, most of the shares in an AIM company will typically be held by the private company owners with the addition of institutional investors, private investors and market makers. Equality of fiscal treatment helps to avoid an artificial cliff edge for companies, meaning their decisions on the best option for the long-term growth of the company and its employees are not unnecessarily clouded by individual tax considerations.

Over time, the AIM company's shareholder base naturally becomes more diverse as the company itself grows and as private and new institutional investors buy shares in the secondary market. AIM has succeeded in developing a healthy level of participation from retail investors, undoubtedly assisted through its eligibility for ISA inclusion and its exemption from Stamp Duty.

> The wider benefits of an AIM admission extend beyond the initial process and are important factors in a decision to pursue a public as opposed to private funding route.

Securing AIM's future success

As AIM reaches its 25th anniversary it is important to look back at the valuable and significant contribution it has made to the UK economy over the past quarter of a century. However, it is equally – if not more – important to look forward and to the role that AIM should continue to play in supporting economic growth, driving productivity and helping companies to bring to market new and innovative products and services.

In light of the global Covid-19 pandemic and the economic shock that has resulted, securing this future success is even more important and significant than it was just six months ago. For example, even in these early days there appears to be a shift from debt-based finance to long-term equity capital with the latter increasingly being seen as part of the solution.

At the outset it is important to recognise the value of the ongoing support from Government that has and is being provided. This report underlines the growth dividend and economic contribution that has resulted. It shows how careful calibration of policy can help smooth out the transition from private to public markets, and how the fiscal support available, such as EIS, VCT eligibility, Stamp Duty exemption, ISA eligibility and availability of Business Relief have borne fruit in creating a cohort of businesses that are delivering substantial value to the wider UK economy. It highlights how AIM acts as an effective platform providing much needed growth finance to ambitious businesses.

The role of fiscal incentives will continue to be particularly important to support scaling businesses including those on AIM. As such, continued Government support will be important in ensuring that equity investment remains at an optimal level.

AIM has proven itself to be a robust market. As this report notes its robustness helps to create more resilient and sustainable businesses. It is this robustness and resilience that helps to attract investment from those investors wanting to take a longer-term view. It provides those wanting to invest in businesses demonstrating potential with the information they need to assess the risks involved against a promise of future growth. Maintaining this dynamic requires an appropriate level of regulation: one that balances the benefits of maintaining the integrity of the market but limits the costs of regulation. In this regard, AIM has benefited from 25 years of evolution to enjoy the position of strength it enjoys today.

AIM's robustness is in part evidenced in the way in which it has navigated two major economic downturns in the dot com bubble and the global financial crisis. With a third economic shock emerging as the result of the Covid-19 pandemic, AIM is well placed to weather this further storm. As the UK moves towards economic recovery, thriving private sector businesses will be needed more than ever. A robust funding ladder with mechanisms to deliver equity capital such as AIM – that allow both institutions and individuals to participate in this recovery – will be even more important.

As a result, AIM has a critical part to play in not only supporting the economic recovery but in helping to support growth across the UK economy. AIM companies are located across the UK and are typically fast growing and innovative, outperforming their private sector peers. In many regional and sub-regional economies these companies are flagships. They provide a model and example for growth. They create local employment opportunities and economic value. They attract investment, investment that will not only help facilitate the economic recovery but will also help stimulate new growth in new industries and sectors.

Governments, practitioners and various commentators cannot be expected to predict the industries of tomorrow. Instead, successful entrepreneurs and new businesses will identify the industries and services of the 21st century. In an environment where finance is restricted, AIM plays an important role helping SMEs in these new sectors to secure finance and grow. Government should support and encourage a culture of innovation, investment and enterprise, which will be critical to delivering sustainable and high economic growth over the coming years.

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The analysis in this report has been prepared by Grant Thornton's Analytics team – specialists in socio-economic, business and place analysis for clients in the public and private sector.

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