

APRIL 2015

Economic Impact of AIM



AIM 20

Foreword

AIM, which is 20 years old this year, has weathered several economic storms over the past two decades, but has remained true to its core purpose of providing a flexible platform for growth companies to raise equity capital. As other growth markets have come and gone, AIM has maintained its position as the most successful growth market in the world and is now an established part of the funding ecosystem in the UK, supporting innovation, driving productivity and creating employment.

The economic contribution AIM makes to UK PLC is clear. The ongoing Government support of AIM as a market for young, dynamic innovative companies is important. Recent Government measures such as the removal of stamp duty on AIM shares and the inclusion of AIM shares in ISAs have been key for the development of the market.

Key findings

As London Stock Exchange's international market for smaller growing companies, AIM has a vital role to play in supporting business growth.

By providing access to 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. It is through this role that AIM has made and continues to make a substantial contribution to the UK economy. The purpose of this report is to quantify the scale and nature of this contribution.

Grant Thornton has drawn on a range of data sources in undertaking this independent analysis. The report commissioned by London Stock Exchange provides an update on Grant Thornton's previous 2010 report. By updating that earlier analysis, this report clearly shows how the market not only withstood the global financial crisis and subsequent recession, but that its economic contribution and importance has actually increased.



To put these numbers in context the UK aerospace and automotive industries - two of the UK Government's key industrial sectors - make an economic contribution of £9.4 billion and £11.5 billion respectively, while the UK pharmaceutical sector contributed £13.3 billion.

Economic impact

Characteristics of AIM

Since its inception in 1995, the market has supported over 3,580 AIM companies. The chart in Figure 1 details the admissions of these companies since 1995, looking at both those incorporated in the UK and internationally. By the end of 2014 UK incorporated AIM companies represented 81% of all new admissions to AIM and 80% of the total stock of AIM companies. Taken together, these AIM companies have raised £39.4 billion at admission and followed this with further fund raising amounting to £50.6 billion.

Since 1995, the total turnover of UK incorporated AIM companies has increased from less than £10 billion to just over £50 billion. As can be seen from the chart in Figure 2, growth was particularly rapid from the turn of the millennium until 2007, with the financial crisis and global recession slowing this expansion between 2008 and 2010. Encouragingly, the positive growth trend returned in 2011 and has continued over the last two years.

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Figure 1: Number of admissions to AIM, 1995 to 2014

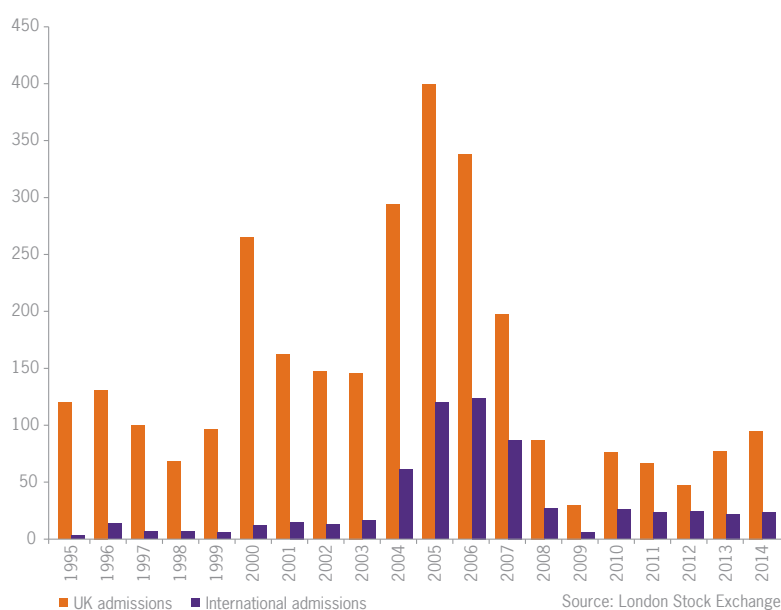
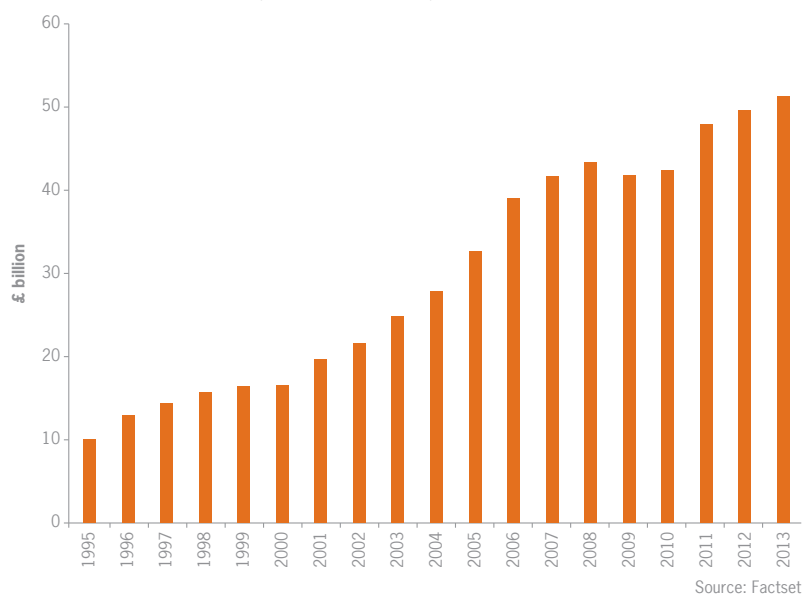


Figure 2: Turnover of (UK incorporated) AIM companies, 1995 to 2013



AIM supports growth-oriented companies

SMEs have a critical role to play in the economy, and access to appropriate financing options is key to facilitating their growth. Equity finance is essential for such companies as bank finance may often be unsuitable, for example for younger companies with no immediate revenue streams and limited cash flows. For technology firms and fast growing companies needing to make upfront investment, equity is often the most suitable form of capital.

AIM plays a key role in the UK's SME funding environment, allowing companies to raise external finance at different stages in their lifecycle and providing an exit route for early stage investors (such as for the company founder(s) or private equity investors). It also offers a regulatory framework designed specifically for smaller, growing companies, proving less prescriptive than for companies listing on the Premium segment of the London Stock Exchange's Main Market. As companies continue to grow, they also benefit from the advisory and investor support network that has developed around AIM over the last 20 years and benefit from the ease with which they can return to the market to raise further funds.

For some companies, admission to AIM is a long-term proposition, whereas for others it serves shorter-term growth plans including the aspiration to position for sale or progress to the Main Market.

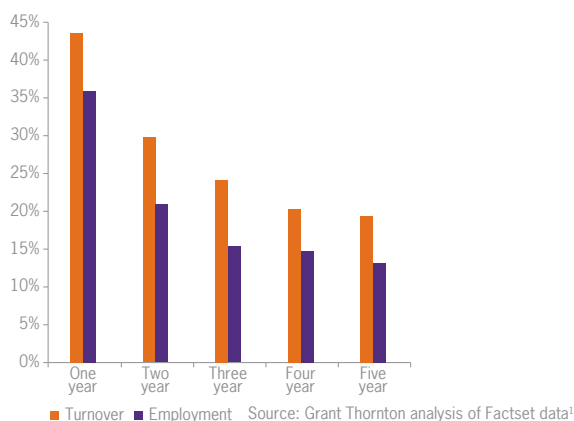
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The growth dividend from dynamic businesses

For many businesses, and in particular the people responsible for leading them, increasing the size of the business is a core aspiration. Growth also sits at the heart of UK policy making with ever increasing focus being placed on how best to support and encourage sustainable business growth that creates employment opportunities and positively contributes to UK GDP.

For a large number of these aspiring businesses, 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. AIM fulfils this key enabling role, as it allows companies to raise external finance at different stages in their lifecycle. As can be seen from the chart in Figure 3 this support enables a step change in the growth of the business, which then continues for a number of years.

Figure 3: Turnover and employment growth in AIM companies, by period since admission

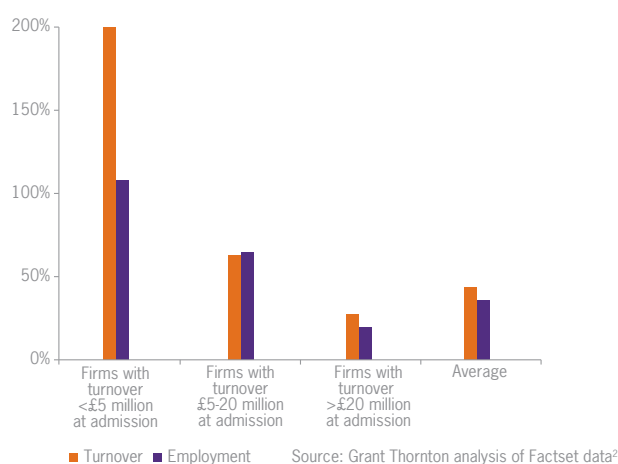


¹ These figures are compound annual growth rates

This growth dividend is especially apparent for smaller business. As can be seen from the chart in Figure 4, whilst businesses of all sizes grow both turnover and employment by more than 20% in the first year post admission, companies with turnover of less than £5 million grow by 200% in turnover and more than 100% in employment. This underlines the key role that AIM plays in the UK funding environment and highlights how it has successfully created a regulatory framework that, by being less prescriptive, works for smaller, growth aspirant businesses.

Companies with turnover of less than £5 million grow by 200% in turnover and more than 100% in employment

Figure 4: Turnover and employment growth in AIM companies, by size of company



By looking at three separate three year cycles – one pre-recession, one during the recession and one post-recession – and comparing the levels of growth achieved by AIM companies with the broader business population³ an interesting picture emerges. Pre-recession (2005-2007) it is apparent that AIM companies significantly outperformed the wider business population with turnover growth of 28% compared with just 12%. During the recession, this relative performance was reversed with AIM companies experiencing a 2% decrease in turnover between 2008 and 2010 while the wider business population experienced 4% growth. However, in the period immediately following the recession it is clear that AIM companies have recovered faster, with a growth rate of 7% over the three-year period compared with just 1% across the wider business population.

² These figures are the percentage growth rate in the first year post admission and have been weighted by the size of the company

³ The comparator population was created by analysing data from BvD fame

Acting as a spur to innovation and enterprise

Alongside growth it is also apparent that AIM plays a wider role in supporting innovation and helping create dynamic local economies across the UK.

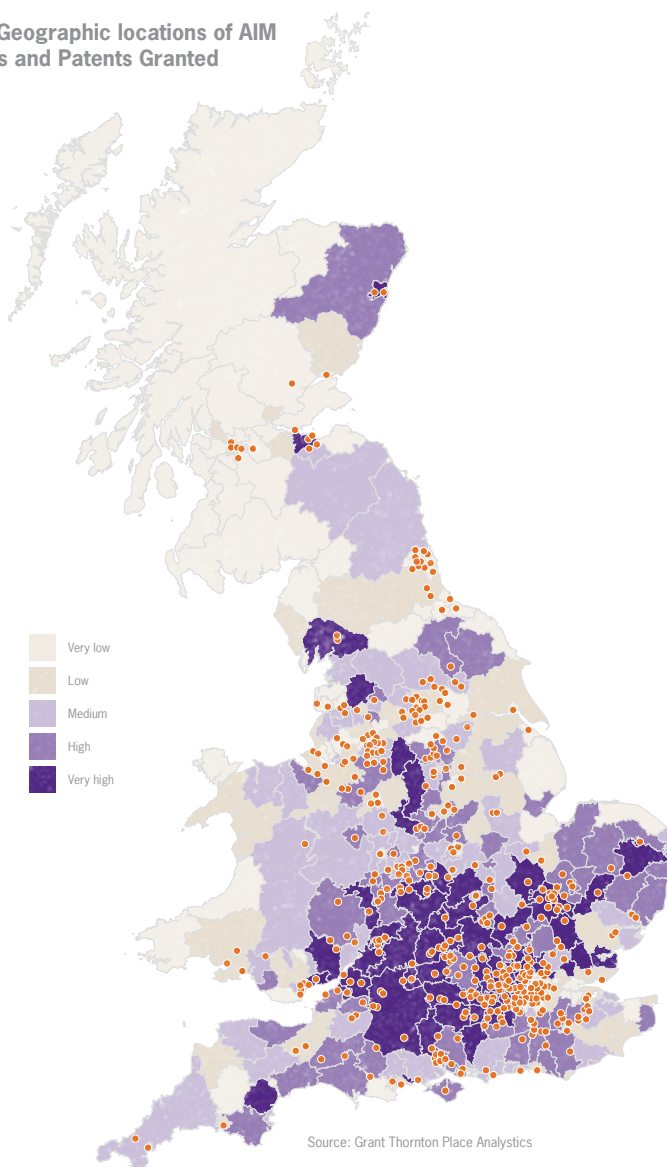
While just over half of the UK incorporated companies are based in London, the map in Figure 5 shows the broad geographical spread of businesses across the UK. By overlaying these geographic locations on a heat map showing the number of patents granted – a valuable proxy for innovation – the correlation between the location of AIM companies and areas with high levels of patents granted (represented by the darker shaded areas) is clear.

In stimulating levels of innovation and enterprise, AIM is acting as a spur to both productivity and economic growth:

- **Innovation** – SMEs and growth companies influence the level of innovation and are at the heart of technological changes
- **Enterprise** – AIM companies are typically growth and smaller businesses created by entrepreneurs. Entrepreneurship is a key driver of the economy, based on the value of knowledge and ideas being translated into new products and services
- **Productivity** – both innovation and enterprise create spill over benefits in the wider economy. Over time new products, technologies, knowledge and skills created by SMEs and entrepreneurs are transferred to other industries and sectors, raising the level of productivity.

Access to the necessary funding allows new and existing companies to make the investment needed to turn ideas, patents and knowledge into marketable products and services. Raising equity capital through AIM as a platform is particularly important to small and growth companies as it directly stimulates innovation in the economy, increasing productivity as a result.

Figure 5: Geographic locations of AIM companies and Patents Granted



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Making a substantial economic contribution

As well as supporting the growth of individual businesses, companies supported by AIM make a significant collective economic contribution to UK PLC.

In 2013, AIM companies contributed £14.7 billion to UK GDP and directly supported more than 430,000 jobs. To put these numbers in context, the UK aerospace and automotive industries – two of the UK Government's key industrial sectors – make an economic contribution of £9.4 billion⁴ and £11.5 billion⁵ respectively, while the UK pharmaceutical sector contributes £13.3 billion⁶.

In addition they made a significant tax contribution of £2.3 billion to the Exchequer⁷.

These figures are also higher than in the previous analysis in 2010, which found that in 2009 companies supported by AIM contributed £12 billion to GDP and directly employed 250,000. Therefore, despite the deep recession, which dominated the period between the two reports, the economic contribution of companies supported by AIM has actually increased. The significant increase in employment numbers should be of particular interest to policy makers, underlining the important economic development role that can be fulfilled by financial markets.

In addition to this direct contribution, the supply chain of companies supported by AIM supports a further 155,000 full time equivalent jobs and contributes £5 billion to GDP. This indirect impact includes suppliers to AIM companies, which provide financial services (nominated advisers, brokers, corporate finance), business services (registrars, financial public relations, legal, tax, accountancy) and wider goods and services.

Directly and indirectly, employees spend their wages on goods and services supplied by UK businesses, generating further employment and GDP through so called induced effects. This induced impact is estimated to support a further 146,000 full time equivalent jobs and to contribute £5 billion to GDP.

Taken together, this overall economic impact is equivalent to £25 billion in GDP and some 731,000 jobs.

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Figure 6: Total direct, indirect and induced impact of UK AIM Companies

Economic impact	GDP (£billion)	Employment
Direct	14.7	430,000
Indirect	5.3	155,000
Induced	5.0	146,000
Total	25	731,000

Source: Grant Thornton Analysis

⁴ Source: <http://www.parliament.uk/briefing-papers/SN00928.pdf>

⁵ Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/396740/bis-15-4-growth-dashboard.pdf

⁶ <http://www.ons.gov.uk/ons/rel/top/index-of-production/april-2014/sty-pharmaceuticals.html>

⁷ The estimated tax take associated with AIM companies is based on an analysis of profitability. It is calculated using data on profitability of AIM companies and a calculation of the Corporation Tax due, including rate relief for companies with profits below £300k.



Benefits for companies joining AIM

Companies join AIM for a variety of reasons. Important benefits include:

- **Access to capital** – the opportunity to raise finance for short or long-term growth and development
- **Access to on-going finance** – the ability to raise additional funds at an efficient market price
- **Access to knowledge** – external investment often plays a significant role in accelerating the improvement of systems and practices
- **Productivity improvements** – delivered through consolidation of businesses or from the introduction of more efficient practices across a group of companies
- **Attraction and retention of staff** – through the use of share options and other financial incentives
- **Increased growth** – publicly traded shares support and encourage expansion through acquisition
- **Status and credibility** – the confidence that the association with London Stock Exchange instils in business partners and key stakeholders, which also results from the impetus to strengthen corporate governance
- **Public profile** – the AIM admission and associated press coverage fulfils an important marketing role
- **Control** – greater control for the company than would be the case with some other forms of external investment
- **Ownership transition and exit strategy** – a change of ownership from early stage investors to new shareholders can often bring the impetus and opportunity a company needs to move it to the next stage
- **Expert adviser network** – access to a large and experienced community of advisers that help companies prepare for admission to AIM and continue to support them after admission.

Securing AIM's future success

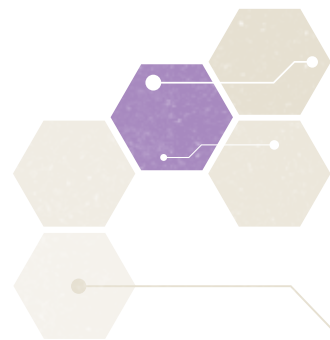
The continued importance of AIM in the funding environment and the wider UK economy is dependent on several economic, financial and wider factors that include:

- **The health of the UK economy** – a prosperous economy with strong growth increases potential returns for investors and the demand for equity in growth companies
- **Financial returns** – the absolute and relative risk and return for investments in AIM companies, compared with other asset classes
- **Investor appetite and confidence** – sentiment about the direction of the market is derived from a mixture of fundamentals and perceived factors, but is crucial to the overall health of the market
- **The supply of bank and alternative lending** – finance from banks remains limited, notwithstanding the rise of alternative lenders, placing added importance on other mechanisms such as AIM for raising capital, particularly equity
- **An appropriate level of regulation** – balancing the benefits from maintaining the integrity of the market with the direct economic and financial costs of regulation, and ensuring that the regulatory agenda is congruent with the growth agenda promulgated by Government

- **Levels of liquidity** – the ability for buyers and sellers of investments to quickly find each other and transact at low marginal costs
- **Fiscal incentives** – Government support in the form of fiscal incentives to address market failures in the provision of equity funding to growth companies.

All of these linked and overlapping factors are fundamental to the continuing success of AIM. The role of fiscal incentives continues to be particularly important for AIM and more generally for attracting investors to SMEs. Without such Government support, the level of equity investment might be considerably less than the optimal level, reducing the economic benefit to the UK.

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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.

Contacts

Philip J Secrett

T +44 (0)20 7728 2578

E philip.j.secrett@uk.gt.com

Phillip Woolley

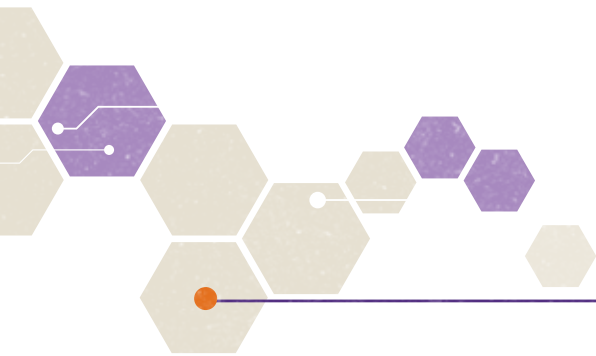
T +44 (0)161 953 6430

E philip.woolley@uk.gt.com

Rob Turner

T +44 (0)20 7728 2741

E rob.g.turner@uk.gt.com



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