



Taking AIM

Annual Survey 2011 Executive Summary

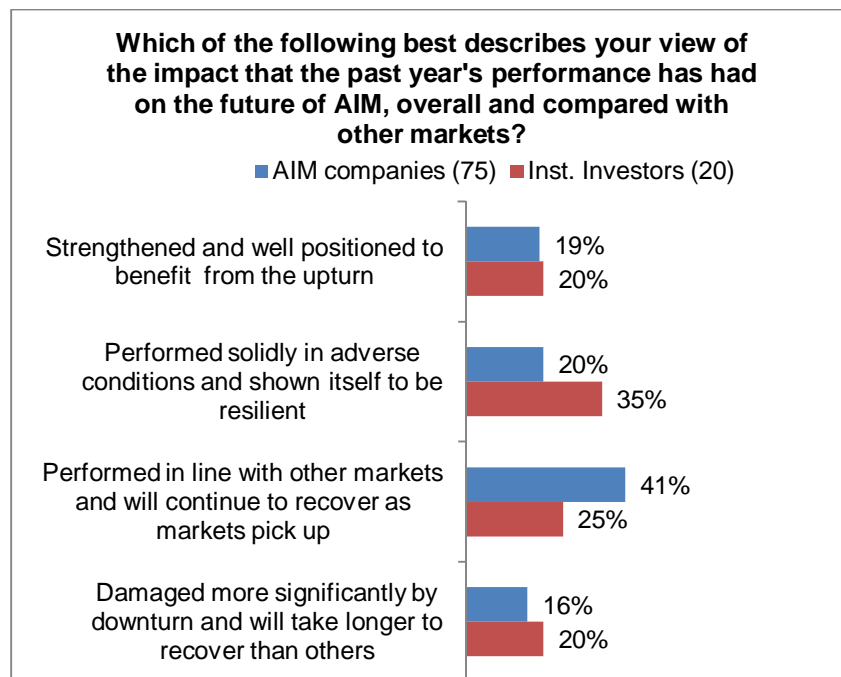
**FAEGRE BAKER
DANIELS**

TAKING AIM 2011 – KEY FINDINGS

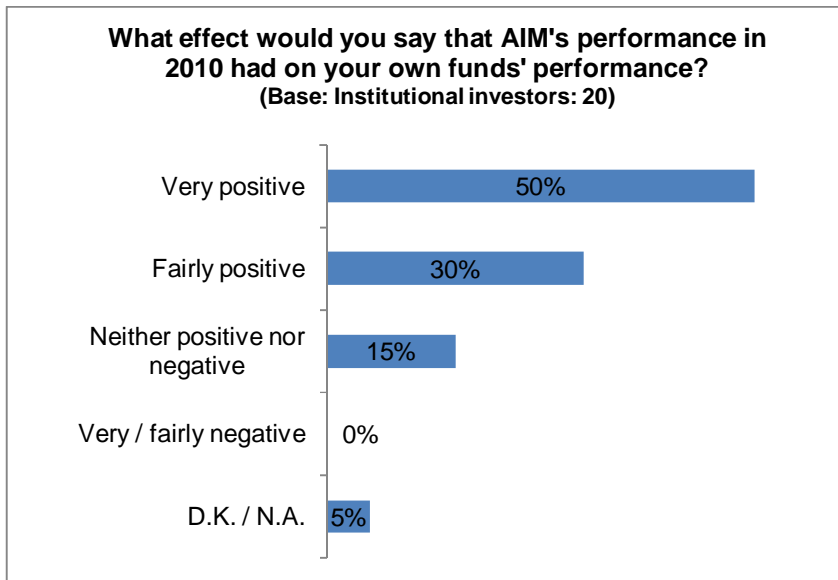
PERFORMANCE IN 2010

Last year's survey saw AIM ending 2009 'leaner and fitter' and both AIM companies and their investors faced the new year with cautious optimism. This year's survey shows that both caution and optimism were justified. It is clear that, as a market, AIM performed strongly in 2010, re-confirming its position as the leading market for growth companies. There were increases in both market activity and valuations. Although this was largely driven by a strong resources sector, many successful companies in other sectors also justified investors' faith and patience. But the economic recovery remained uncertain and some businesses continued to find it hard going.

- The year saw AIM outperform many other world markets and raise its profile and standing within the UK's business and financial communities. A majority of the investors and many of the AIM companies in our survey agreed that the market had performed solidly and shown resilience, leaving it in a stronger position to benefit from the economic upturn. Few now believe that AIM has been significantly damaged by the downturn, a view that was widely held two years ago.

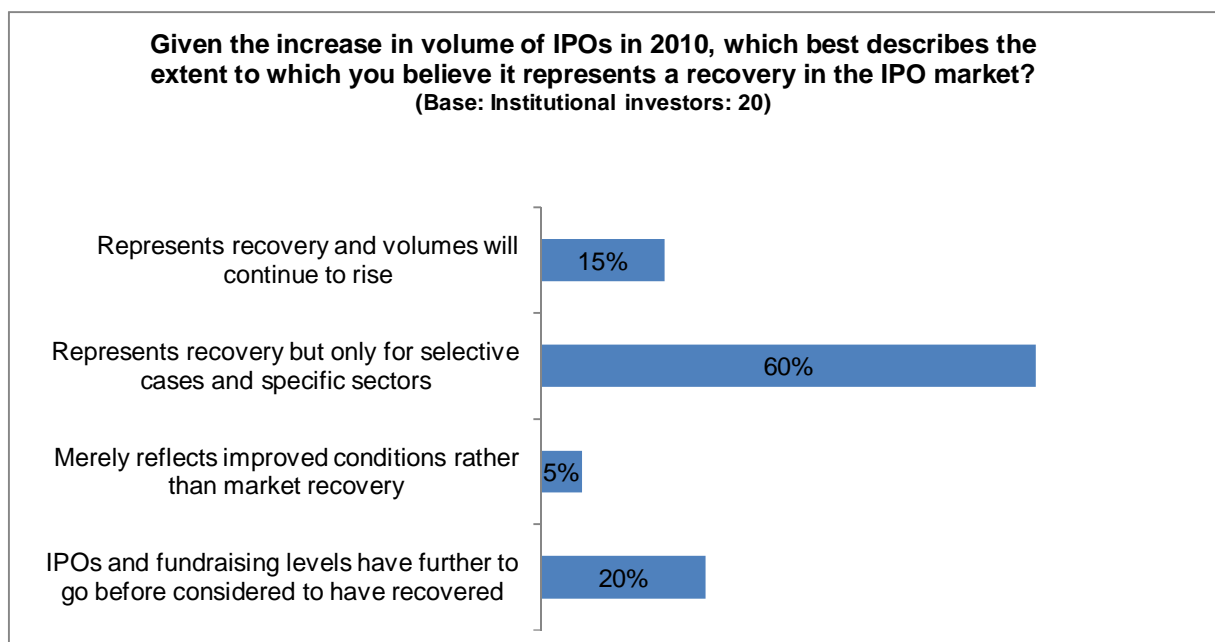


- With substantial activity in the growing resources sector and many other strongly performing businesses still undervalued, investor appetite returned. The 43% increase in the AIM Index over the year – compared with less than 10% in the FTSE 100 – signalled another good year for investors. Not surprisingly then, 80% of those in our survey said that AIM's performance during the year had a positive effect on their own funds' performance.

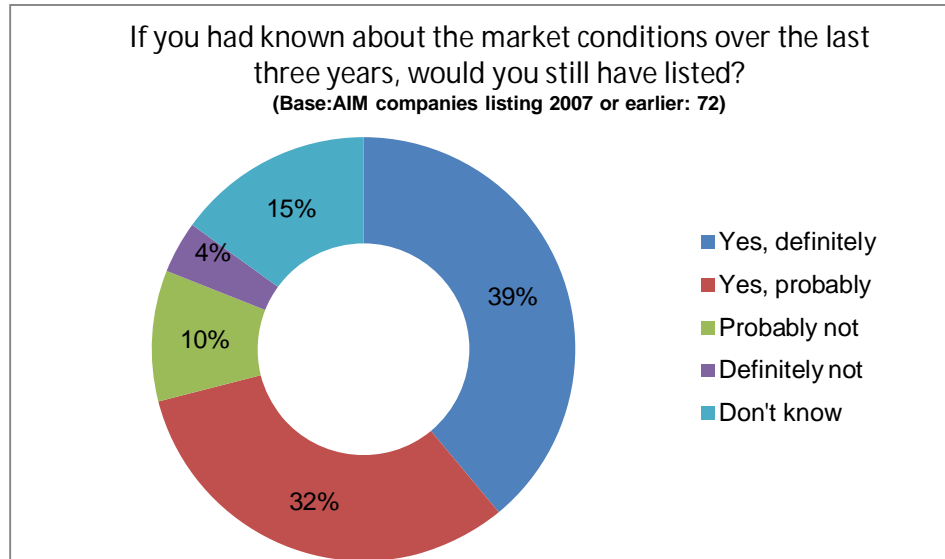


A strong resources sector was reinforced by improved performance from many other sectors towards the latter part of the year.

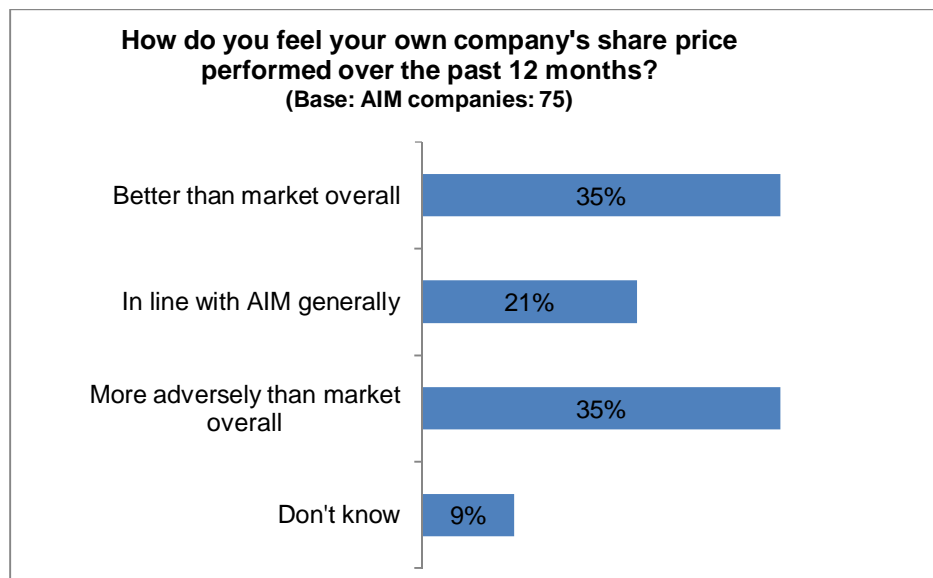
- Much of the investor interest was in secondary issues, with funds raised at their highest level since 2007, confirming investors' faith in the market and their continuing support for its companies. However, with growing confidence, there was renewed IPO activity, particularly in the last quarter of the year. The investors in our survey recognised that this represented a sustainable recovery in the IPO market, albeit only for selective cases and specific sectors, although a few were still looking for this to be built on in 2011 in order to provide real evidence of recovery.



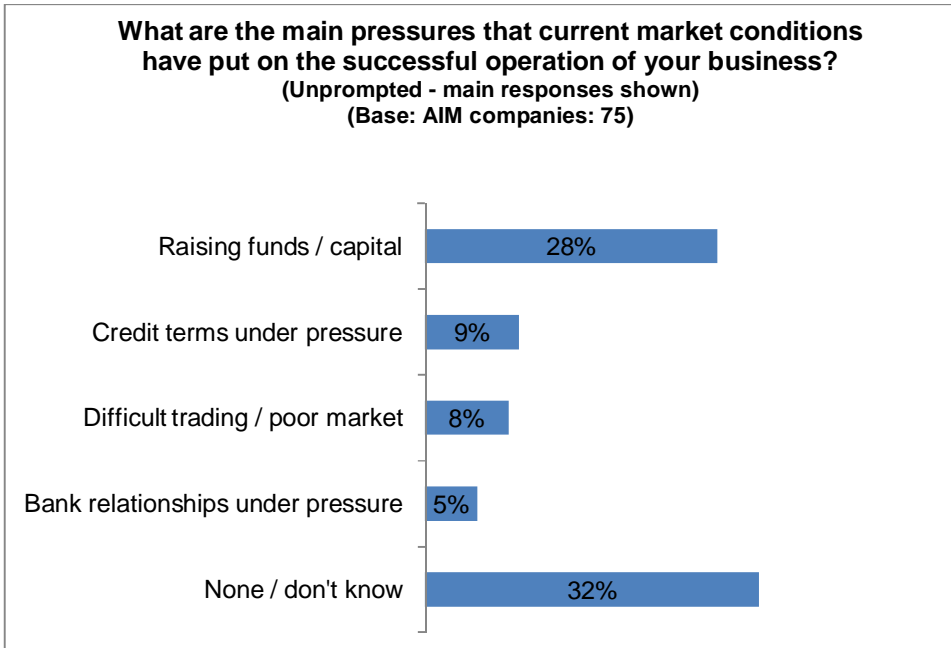
- Whilst the recession has seen a number of lower quality and smaller AIM companies delisting, the pace of departures from the market slowed in 2010. The companies that remain on AIM are, in the main, still happy with their position. Nearly three-quarters of those who listed before the downturn say that, even if they had known about it in advance, they would still have listed.



- Many AIM companies are seeing improved performance and some easing of the pressures they have faced during the downturn. However, there are signs that some of the smaller AIM companies continue to be under pressure. While half (52%) of the larger companies by market capitalisation (over £50m) said that their own company's share price had outperformed the market overall in 2010, a similar proportion of the smaller companies (market cap up to £20m) felt that they had underperformed the market.

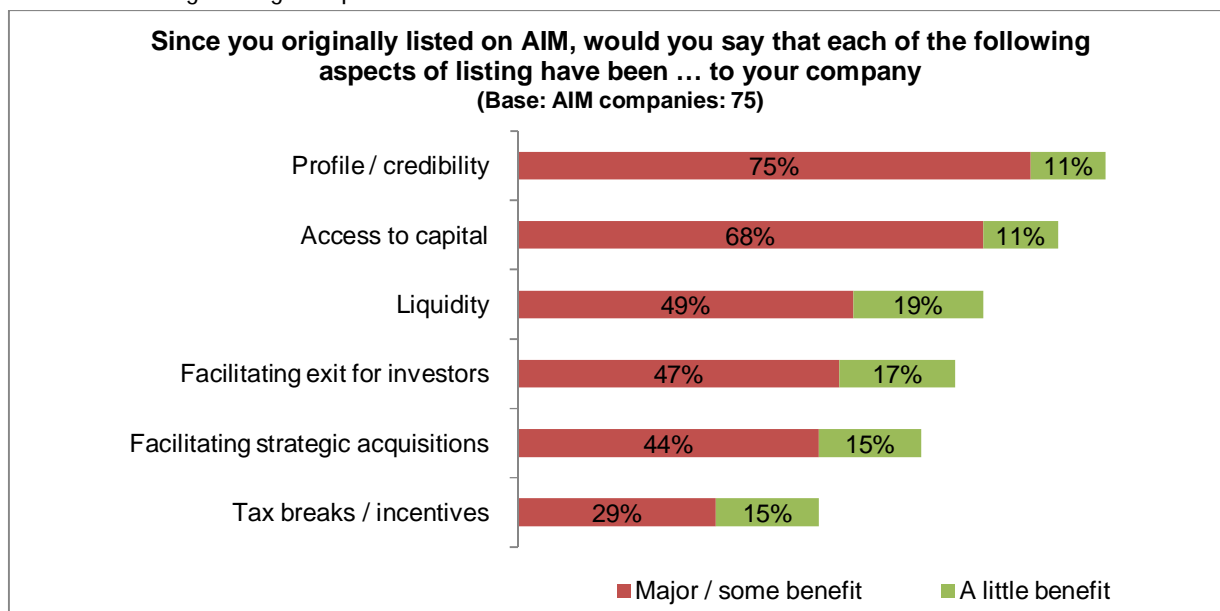


- Although raising funds remains the main pressure on the successful operation of their business, this was mentioned less frequently this year by those in our survey (28% vs. 45% in 2010).



However, it remains an issue for many of the smaller AIM companies (44% of those with market cap of up to £20m, compared with only 20% of those with higher market cap).

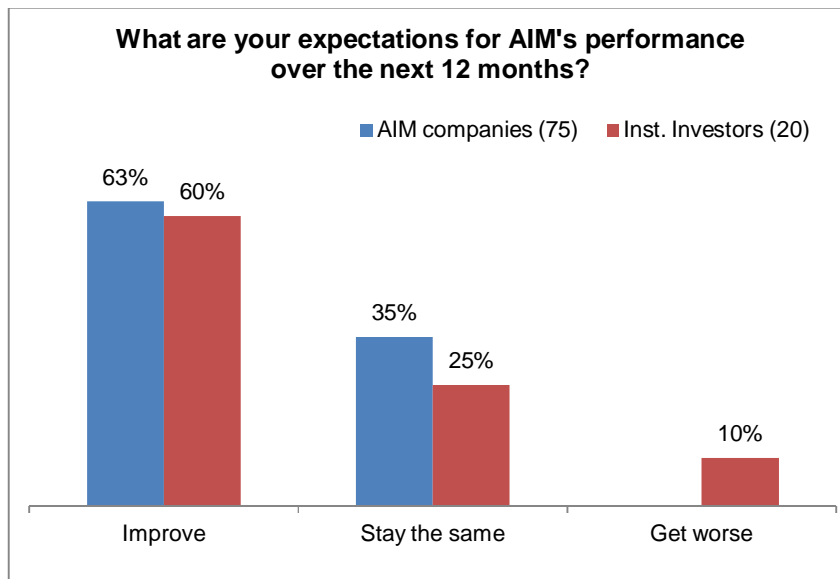
- The upturn in the market has helped to reinforce many of the benefits that AIM companies have realised. Around 80% say that they have seen some benefit from the access to capital that their listing provides, with half (48%) considering this a major benefit (up from 36% in 2010 and only 22% in 2009). The proportion considering liquidity to have been a major or some benefit has similarly increased (from 37% last year to 49% this year). Nearly 90% say that they have realised benefits in profile and credibility, two-thirds in facilitating exit for investors and more than half in facilitating strategic acquisitions.



LOOKING FORWARD

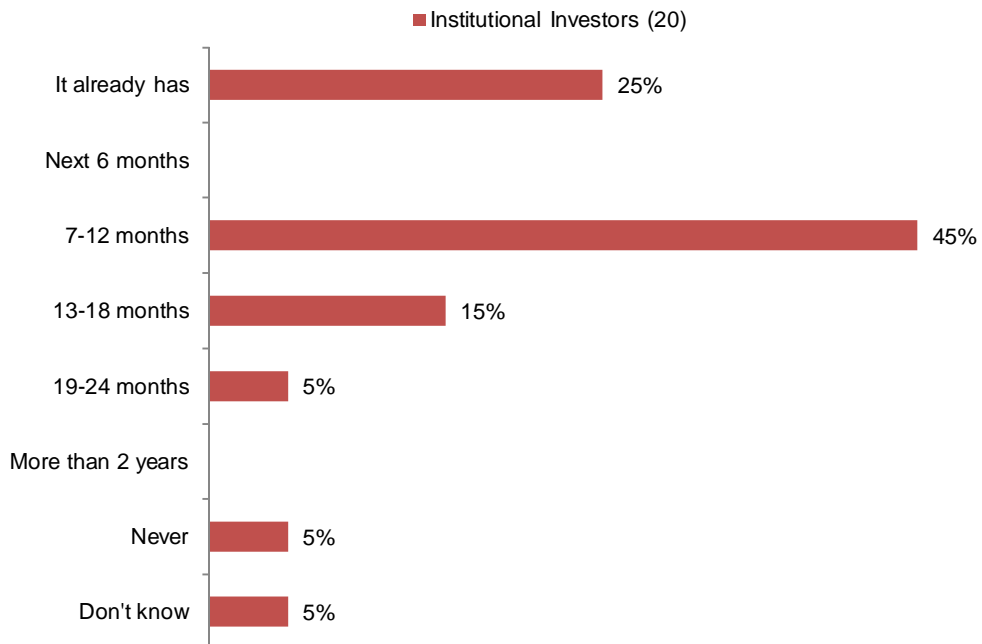
With clear signs of recovery, increased interest and activity, and an enhanced standing, both AIM companies and their investors face 2011 with growing confidence. They see AIM as an increasingly attractive prospect, with opportunities both for the companies on and coming to the market and for investment returns. Its prime position as an international market for growing companies, regulatory flexibility, low costs, active investors and opportunities for growth position it well in a recovering world economy.

- A majority of both institutional investors (60%) and AIM companies (63%) anticipate an improvement in AIM's performance over the next 12 months.



Some investors already perceive a recovery in market valuation and levels of activity, whilst most others expect full recovery to be confirmed in the latter part of 2011.

In terms of market valuation and levels of activity, how soon do you expect AIM to recover from the current downturn?

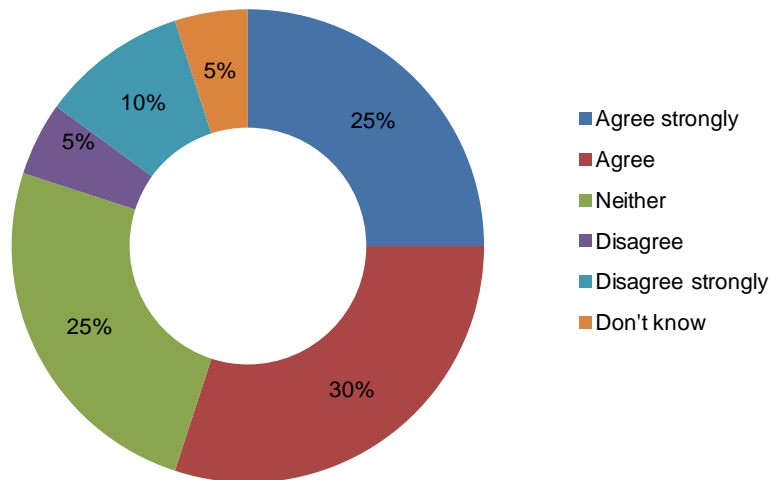


However, asked about the threats that the AIM market might face going forward, one in five investors highlight the impact that any further downturn in world markets might have.

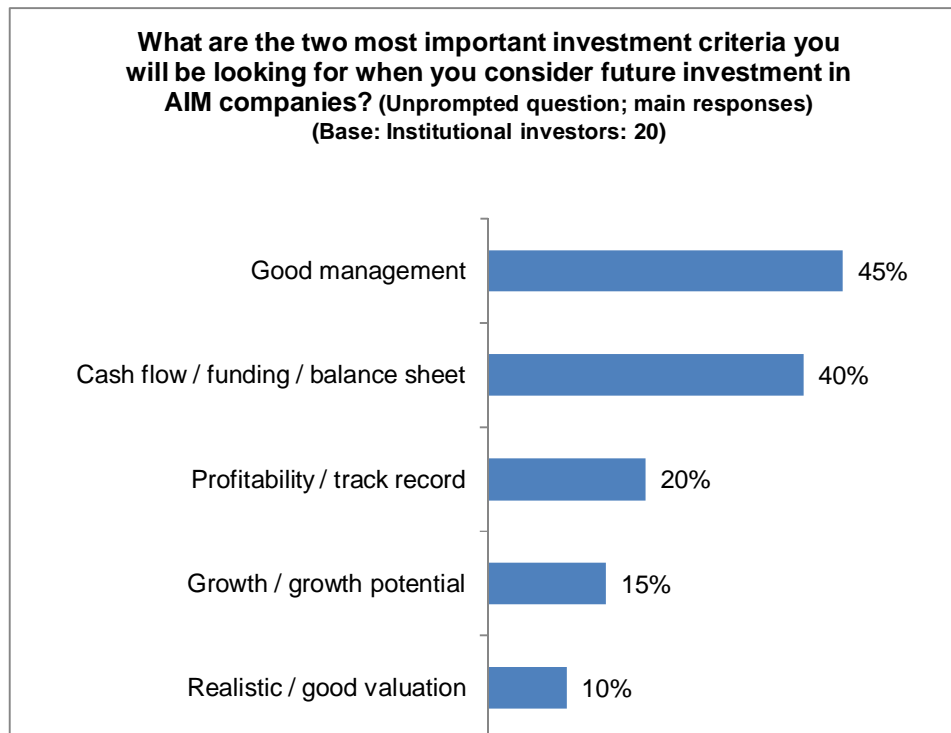
- The prospects for investment in AIM continue to look strong. A majority of investors in our survey agree that, going forward, there will be more value investing in AIM stocks than the Main Market.

To what extent do you agree or disagree that there will be more value investing in AIM stocks than the Main market going forward?

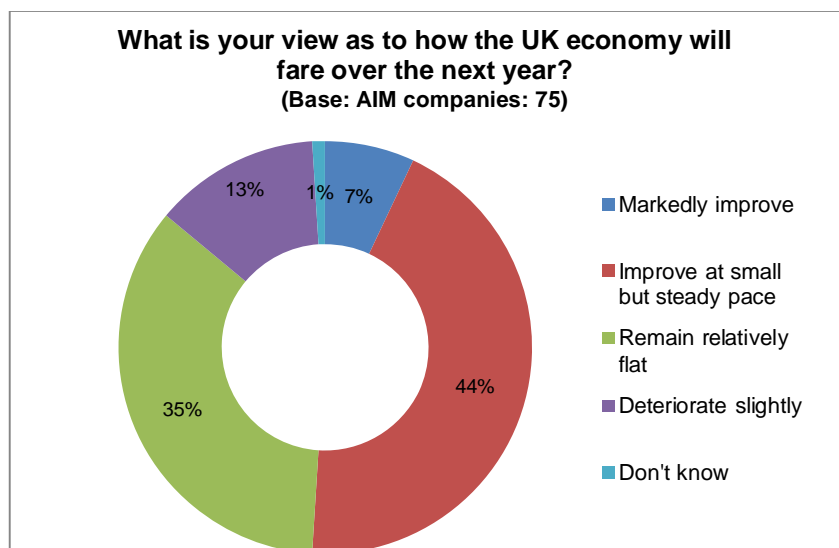
(Base: Institutional investors: 20)



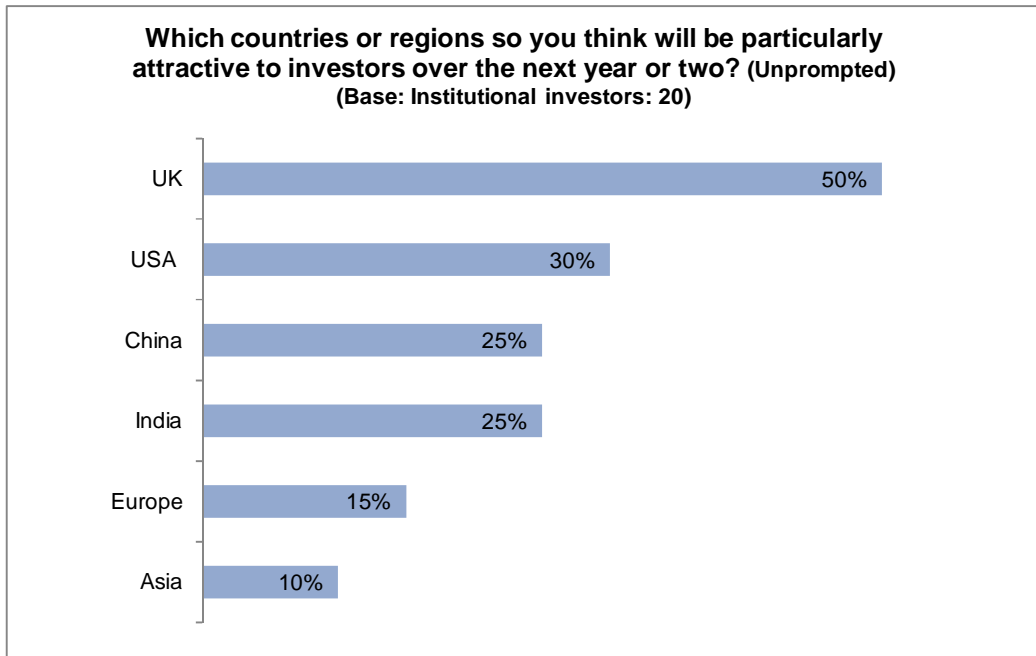
It continues to be seen as a stock-pickers market, still offering realistic prices and potential for strong returns. Institutions will be looking to invest in companies that can show good management and a sound financial position, and that have a good track record and are realistically valued.



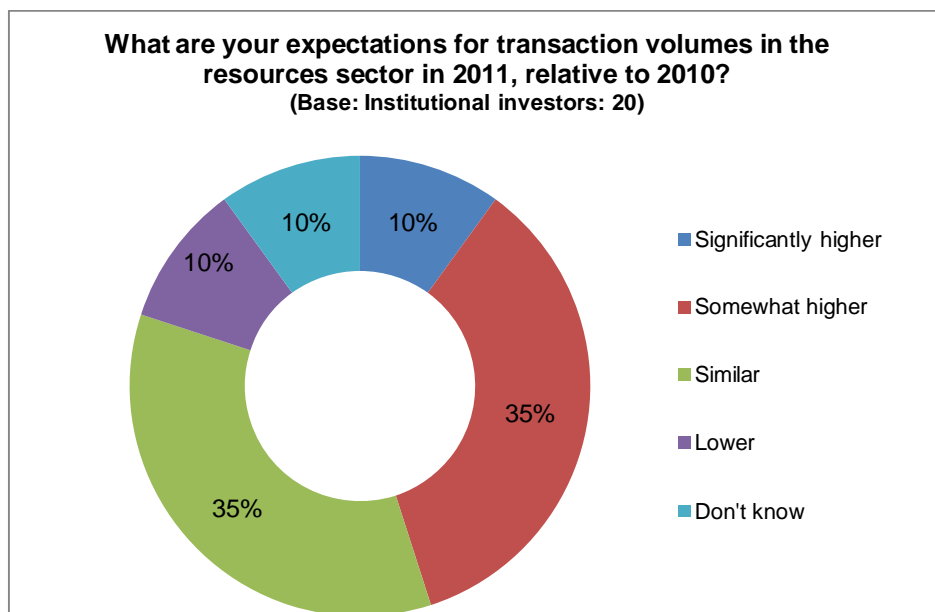
- AIM companies based in the UK are still cautious about the pace of recovery in the national economy. Most see a relatively flat economy or, at best, a slow but steady improvement during 2011.



Nevertheless, in spite of this caution, many AIM investors continue to believe that the UK market offers particularly attractive investment opportunities over the next year or two (50%). The US attracts more attention this year (30%), whilst there is still interest in the growing Asian economies, notably China (25%) and India (25%), although enthusiasm for China has perhaps waned this year.



- The sectors most favoured by investors for their prospects over the next year or two are again technology and IT (50%, up from 33% last year) and mining, resources, oil and gas (40%). The resources sector accounted for the largest proportion of funds raised in 2010, both in new issues and secondary funding, and, by the end of the year, represented 40% of the market by value. Although recovery and investor interest has spread to other sectors, the indications are that resources will continue to be a driving force in 2011. Nearly half of the investors in our survey anticipate that transaction volumes in the sector will be higher than in 2010 and few see any likely decline.

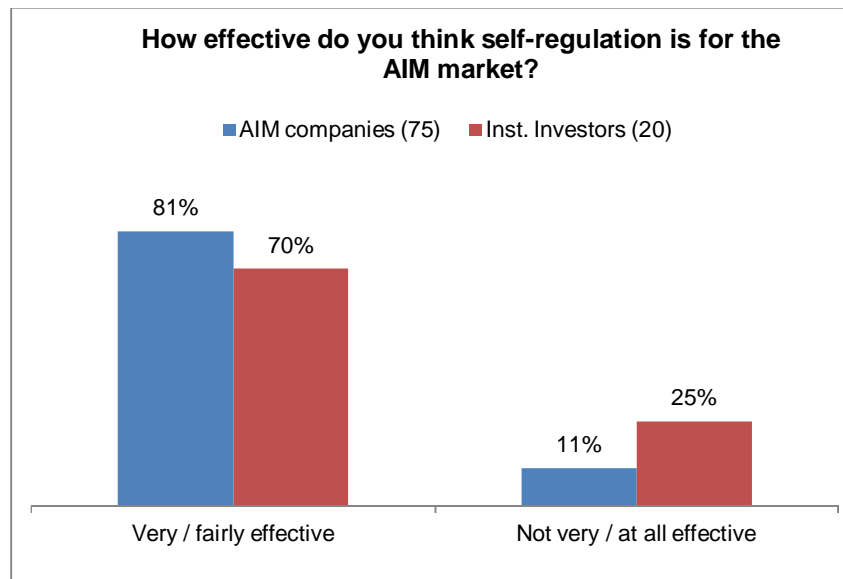


- AIM remains an active and dynamic market and the recovery in interest and activity seen in 2010 is expected to be built upon in 2011. AIM has established itself as a mature market, where investors show a high level of interest in and continuing support for their investee companies. Secondary issues will continue to be an important element of market activity. More than half (56%) of the AIM companies in our survey said that they had considered or were considering AIM for further funding in the next 12 months.
- There is expected to be little or no growth in the number of companies listed on AIM over 2011. The IPO market is anticipated to gather a little more momentum, but, although the pace has slowed, there will continue to be departures from the market. To a large extent, this is likely to represent a further consolidation of the quality of companies listed. A majority (57%) of AIM companies in our survey believe that more AIM companies like themselves should consider consolidation. An increased proportion of them (52%, up from 44% last year) see some likelihood of making one or more acquisitions in the next 12-18 months, whilst one in five see some likelihood of being acquired themselves.
- On the other hand, as AIM thrives, companies see fewer reasons for moving from the market. One in four AIM companies (27%) suggest that more companies like themselves should consider moving to other markets, with the larger companies (market cap over £50m) more likely to suggest this course of action. A broadly similar proportion (31%) believes that more should consider de-listing, but this is at half the level that suggested this course in 2009. Only 5% – particularly among the smaller cap companies – expressed any likelihood that they would go private in the next 12-18 months, most (64%) seeing loss of company profile as the principal barrier faced.

REGULATION

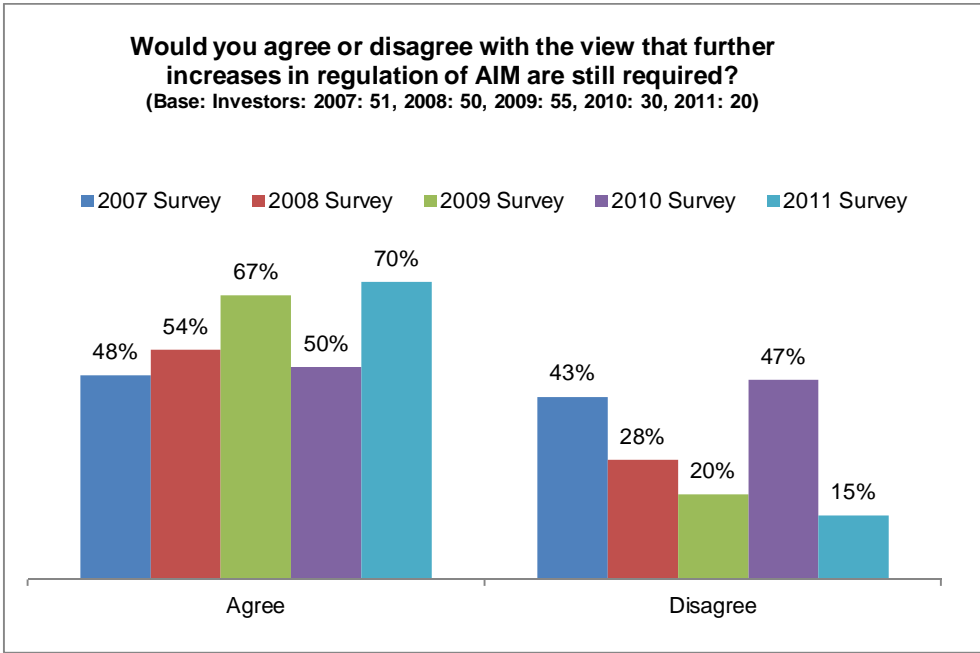
The turbulent market environment of recent years has seen AIM trying to balance its light regulatory touch – a key feature in the market’s success since its inception – with the occasionally knee-jerk demands for stricter regulation. A gradual formalisation and tightening up of the rule book over the past few years has helped to silence critics whilst also contributing to the market’s resilience during the downturn and the continued strength of its international reputation. It is generally judged to have achieved a good balance, although some investors believe that there may still be room for improvement.

- Most of the AIM companies and investors in our survey believe that AIM’s self-regulation is working well. Just over 80% of companies and 70% of investors agree that it is very or fairly effective. (16)

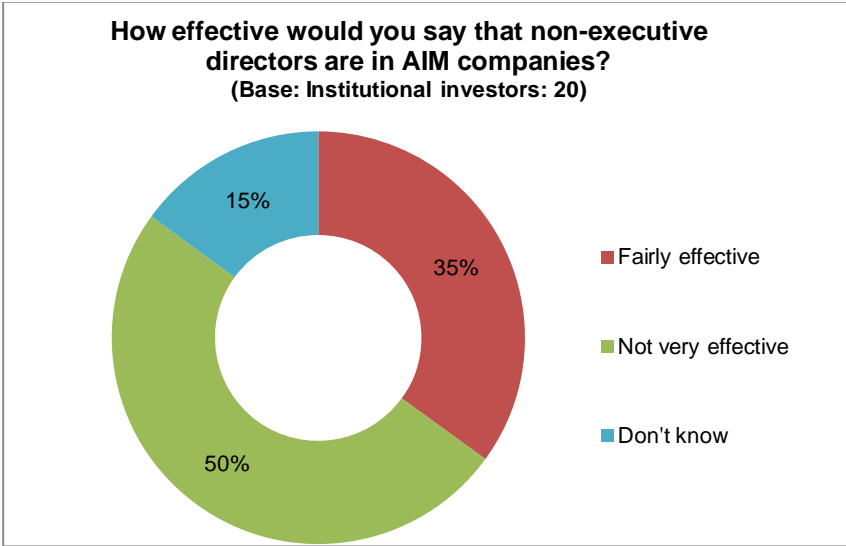


For investors, that represents an improvement in perceptions – just over half considered it not very or not at all effective in 2009, but only one in four hold that view now.

- There are signs that the steps that have been taken over the last few years are seen as appropriate by the investor community – and, asked about the threats that AIM might face going forward, a few identify danger of over-regulation. Yet, with the market stabilising and recovering, as many as 70% of the investors in our survey still believe that further increases in regulation are required, much in line with the views they expressed in 2009.

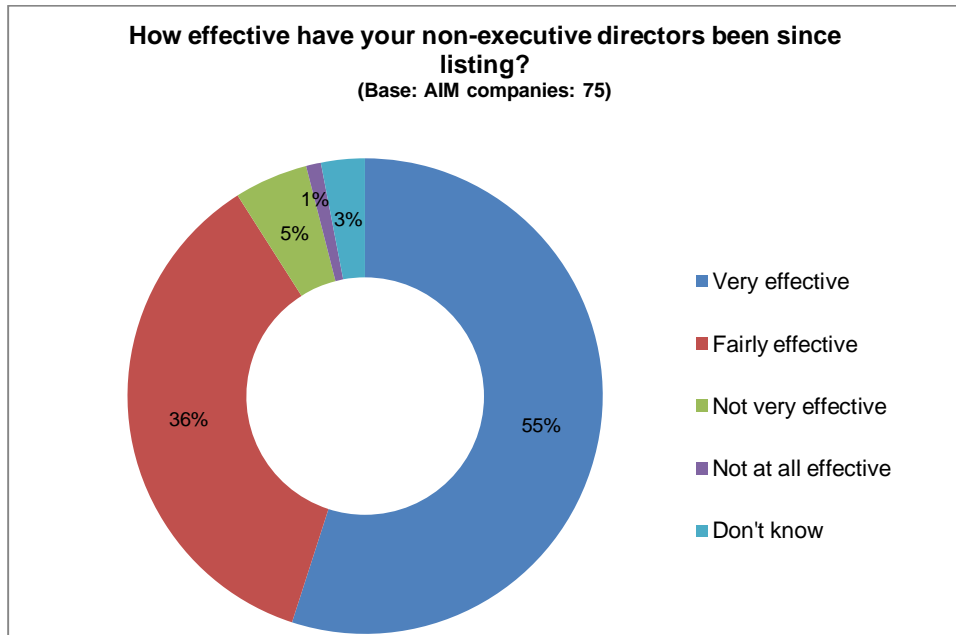


- Although there is no obligation for AIM companies to comply with the provisions of the UK Main Market's Combined Code, it may be in the area of Board composition – and, specifically, the presence and role of non-executive directors – that some investors see grounds for tightening of corporate governance requirements. Certainly, the AIM companies and investors in our survey expressed divergent views on this topic.
 - Half of the investors surveyed judge the non-executive directors in AIM companies to be 'not very effective', and only one in three rate them better than this (35% 'fairly effective'). (20)

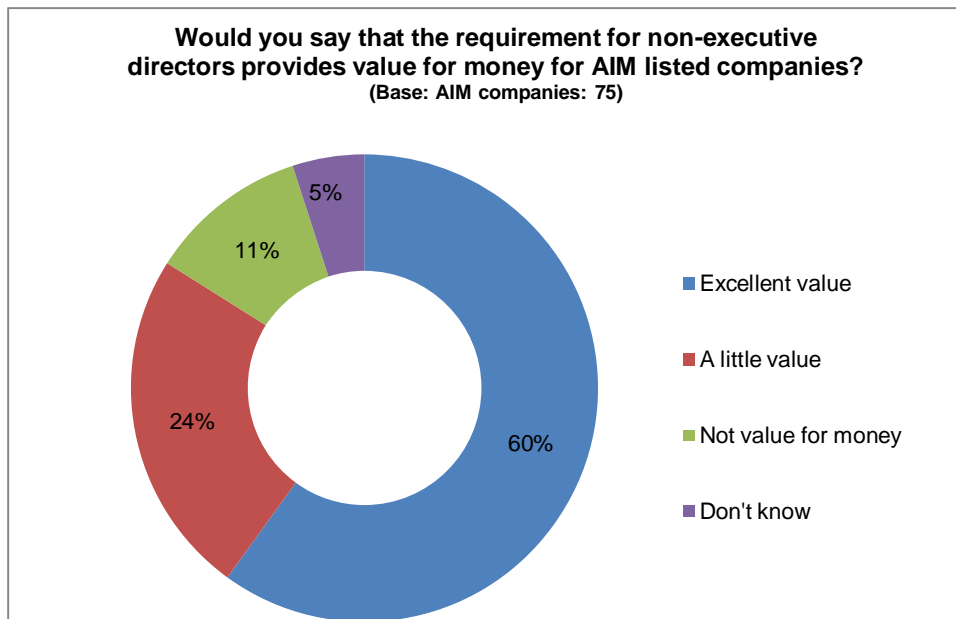


- In contrast, over 90% of those in AIM companies say that their own non-executive directors have been at least 'fairly effective' since listing, and a majority (55%) believe

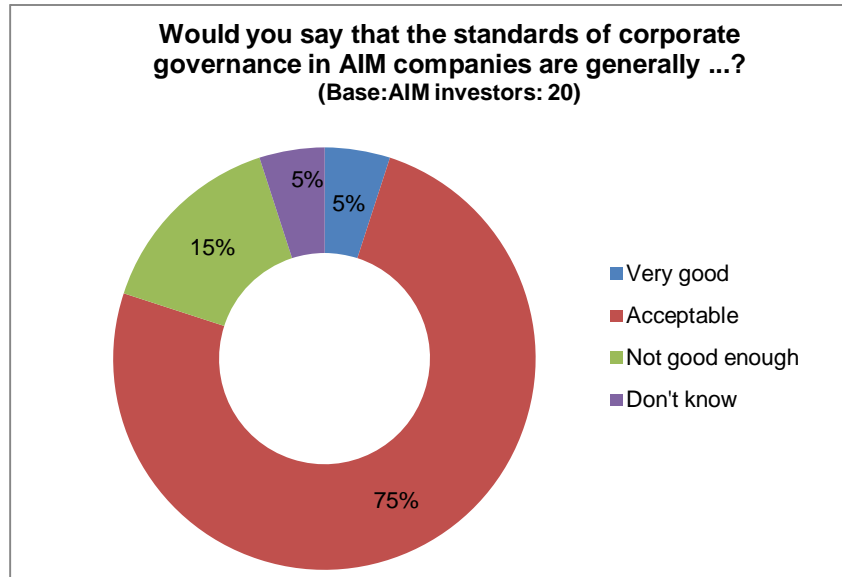
them to be 'very effective'. Nearly three-quarters (72%) of the largest companies (market cap over £50m) believe their non-execs to have been very effective, compared with a little under half of smaller companies.



- o In support of this, a majority of those in AIM companies agree that the requirement for non-executive directors provides 'excellent value for money' for AIM listed companies, with only around one in ten saying that they are not value for money. Again, it is the larger companies that believe that they provide excellent value (76% of those with market cap over £50m, compared with around half of smaller companies).



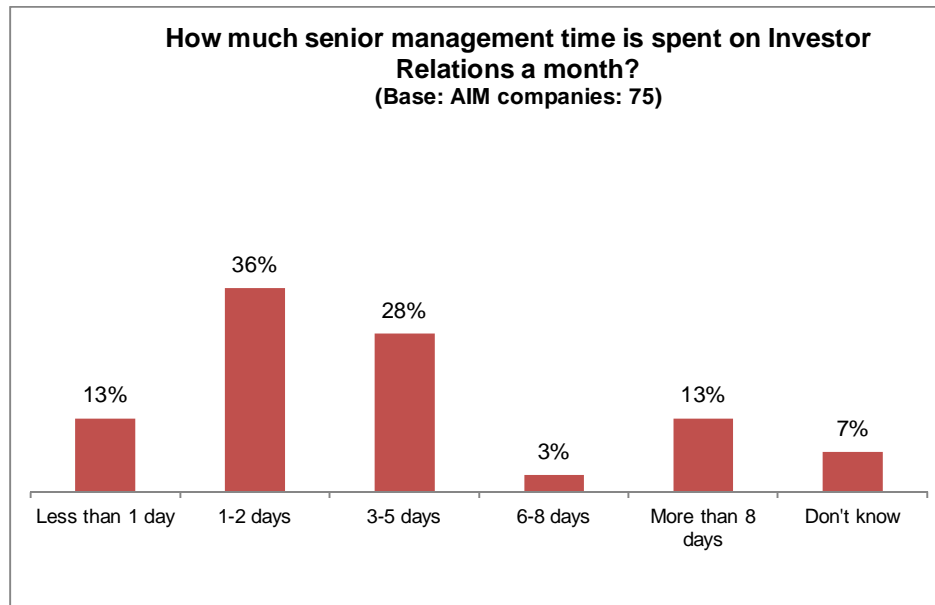
- In spite of their reservations, however, the large majority of investors in our survey generally maintain that the standards of corporate governance in AIM companies are at least 'acceptable' or better (80%, up from 60% last year). Only 15% believe them 'not good enough' (down from 37%).



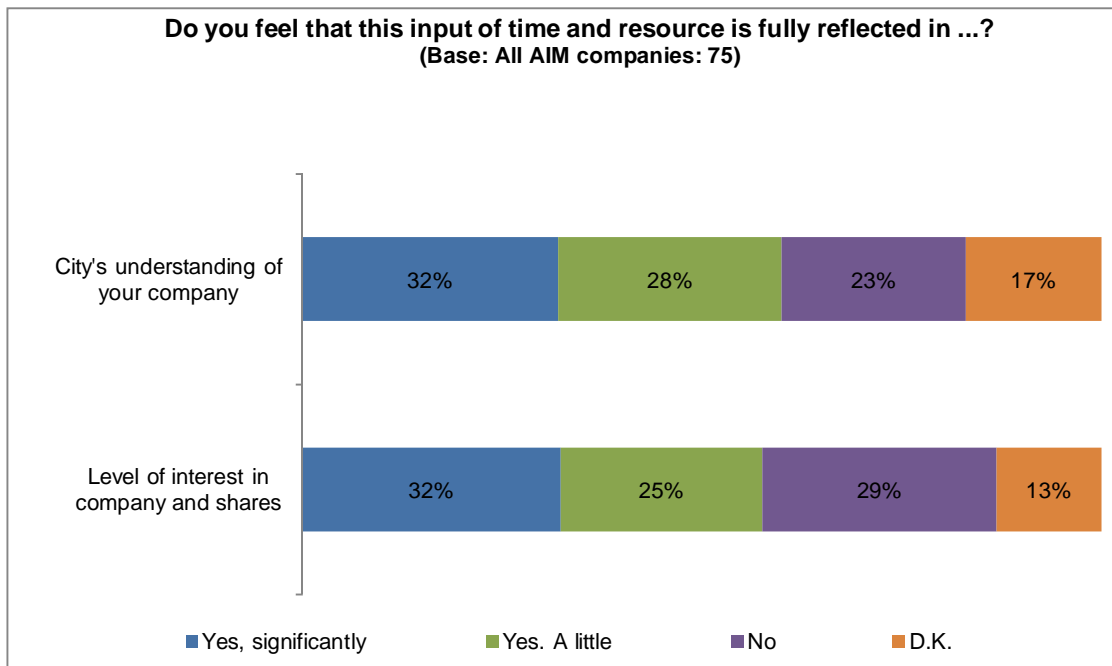
ADVISERS AND IR

While investor relations takes up valuable management time, the relationship with their investors is a key element in driving institutional support for growing companies, particularly during turbulent times.

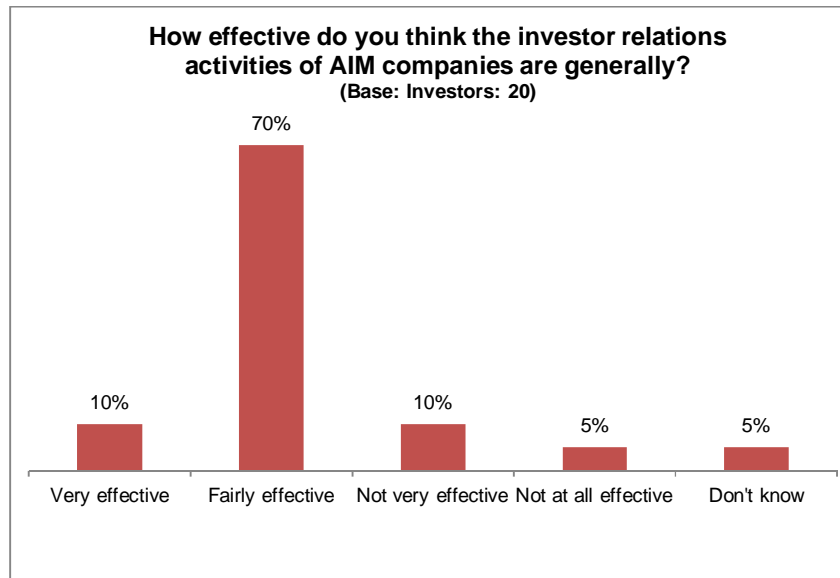
- The AIM companies in our survey say that, typically, between one and five days per month of senior management time is spent on investor relations activity, with an average of around three and a half days. One in eight say that they spend more than eight days a months. Not surprisingly, the larger companies spend longer (average 4.5 days for those with market cap over £50m, 2 days for those with market cap up to £20m).



- A majority believe that their efforts are reasonably well reflected in the City's understanding of their company (60%) and in the level of interest in their company and its shares (57%). The proportion who see a significant return on their input of time and resource has increased since last year in both respects – perhaps a reflection of the strengthening market. Again, the larger companies – who are devoting more time to IR – are seeing a stronger understanding of and interest in their company through their efforts. Half of companies with a market cap of over £50m say that their IR efforts are significantly reflected in the level of interest in their company and its shares, compared with only one in eight of companies with a market cap up to £20m.

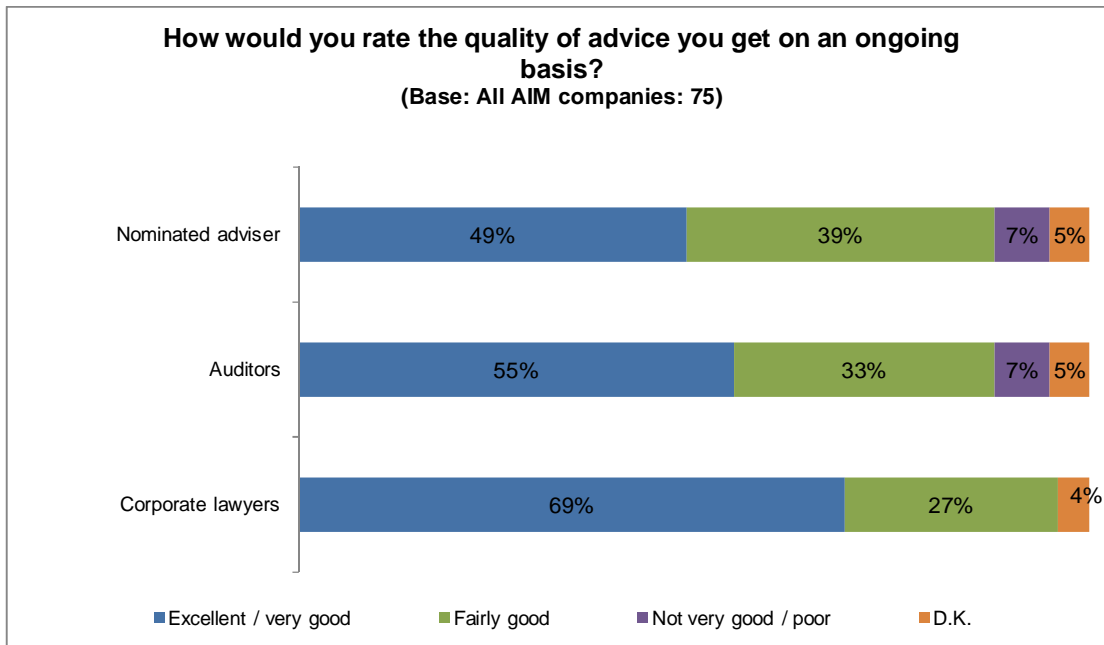


- Most investors (80%, up from 60% last year) regard AIM companies' IR activities generally as at least fairly effective.



However, within the limitations of management time, they still see some room for improvement in the quality and openness of communication, and particularly in the level of personal and face-to-face communication with management.

- The UK Stewardship Code, published by the Financial Reporting Council in July 2010, aimed to set out good practice on engagement between institutional investors and investee companies. At the time of the survey, only six months after its introduction, few investors or AIM companies believed that it had yet had much impact on their relationships and practices.
 - Only 7% of AIM companies said that it had had any impact on their relationship with their institutional shareholders, although a few did report an improvement in communications.
 - Many of the institutional investors in our survey were unaware of the Code or unaware of anything that had been done to comply with it, although a few had taken some action. Only 15% said that it had had any impact on their relationship with their investee companies, and then mainly 'very little'. Some pointed out that they already had a good relationship, so the Code is perhaps only a formalisation of current practice.
- AIM companies are broadly satisfied with the quality of advice that they get on an ongoing basis from their corporate advisers. As previously, they are most satisfied with the quality of advice from their corporate lawyers – none express dissatisfaction and two-thirds (69%) consider it to be excellent or very good. Close to 90% are broadly satisfied with the ongoing advice from their nomads and auditors. Just over half (55%) consider their auditors' advice excellent or very good, up from 44% last year.



30% of AIM companies say that their nomads have been more proactive over the past year, reporting increased involvement by their nomads and increased interest from investors.