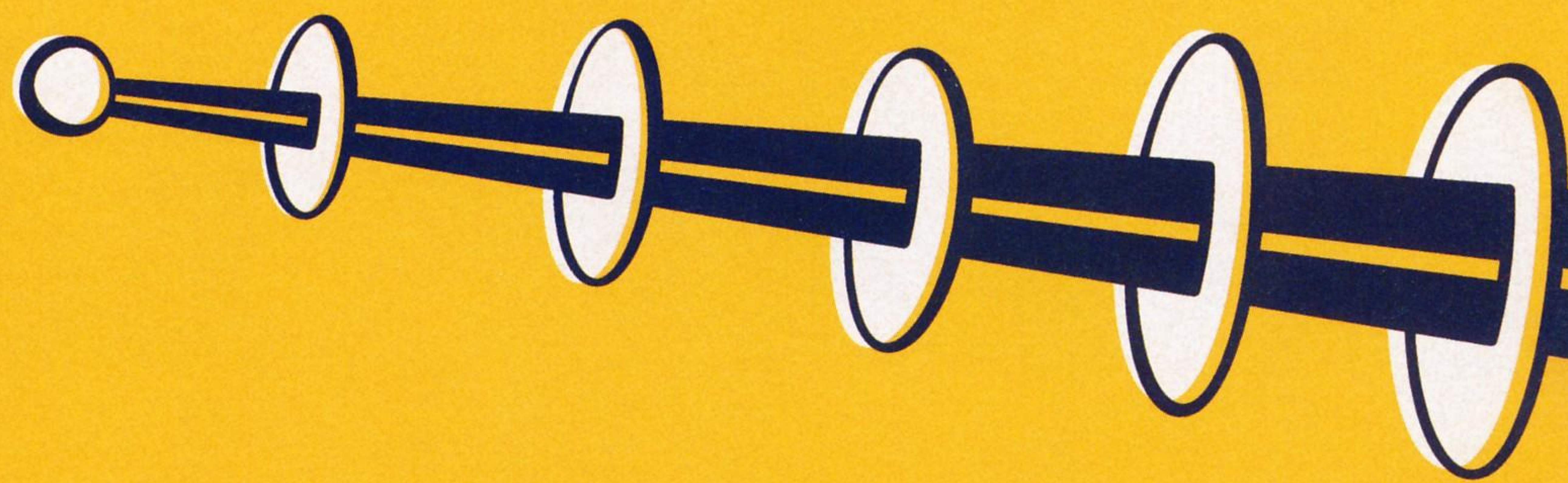
FUNDING THE FUTURE

It's been another year of über-growth for the AIM, and with a second technology boom now on the horizon, the world's next-generation high-tech companies are flocking to the exchange.



Established in 1995 to provide a more flexible regulatory system to smaller companies looking to raise capital quickly and cheaply, the London AIM (Alternative Investment Market) has since attracted over 2,000 companies and raised a total of almost £37bn (€56bn). At time of going to press, AIM had 1,638 quoted companies and a market value of over £80bn (€120bn). The average daily value of shares traded in 2006 was around £230m (€346m), up nearly 40 per cent on the average for 2005, and interestingly, 250 of the companies were from overseas.

Smaller-company floatations are strongly back in fashion, as institutions regain their appetite for entrepreneurial firms, and last year 400 businesses completed IPOs on AIM, raising a total of over £8bn (€12bn). AIM is attracting those at the cutting edge of high-tech research and development: the top global innovators in alternative energy research and nanotechnology have favoured the London exchange over its more high-profile rivals in the United States.

So what is the secret of AIM's appeal? There can be no doubt it has earned a reputation as a lightly regulated market. In 2006, AIM hosted a record 115 IPOs by overseas firms looking to sidestep the Sarbanes-Oxley Act, which has tightened US corporate governance laws after the Enron scandal. Provided US companies listed on AIM comply with Regulation S re-sale restrictions, Securities and Exchange Commission (SEC) filings can also be avoided.

It's no wonder, then, that the exchange is attracting so many technology start-ups from overseas, particularly the US. While the renowned American entrepreneurial spirit and world-famous Silicon Valley may provide the ideal conditions for getting a business off the ground, a listing on London's AIM exchange is now viewed as a logical next step in the growth process. It has attracted the likes of solar power specialist Solar Integrated Technologies, a Delaware firm whose photovoltaic roofing systems raked in revenue of £7m (€10m) in the first six months of 2006. It has orders worth over £50m (€75m), including a project to equip school roofs in San Diego.

Another success story is PolyFuel, a Californian firm that has developed a methanol fuel-cell membrane for mobile phones which should enable greatly extended battery life. Mobile experts say that the expected transformation of the mobile phone into a fully converged 'mobile computer' is hugely dependent upon the resolution of the battery life issue, and that PolyFuel's idea could advance the industry by several years.

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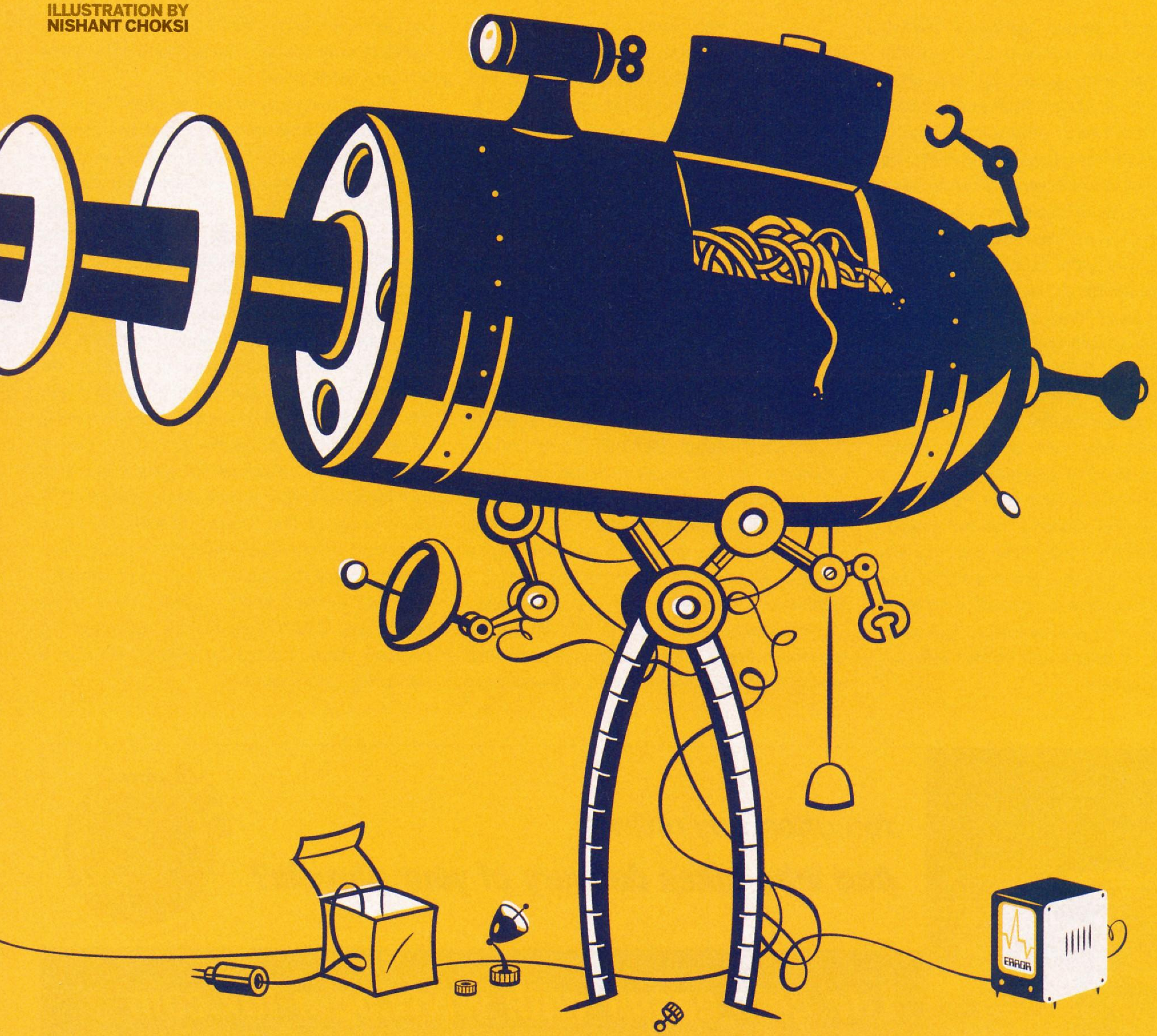
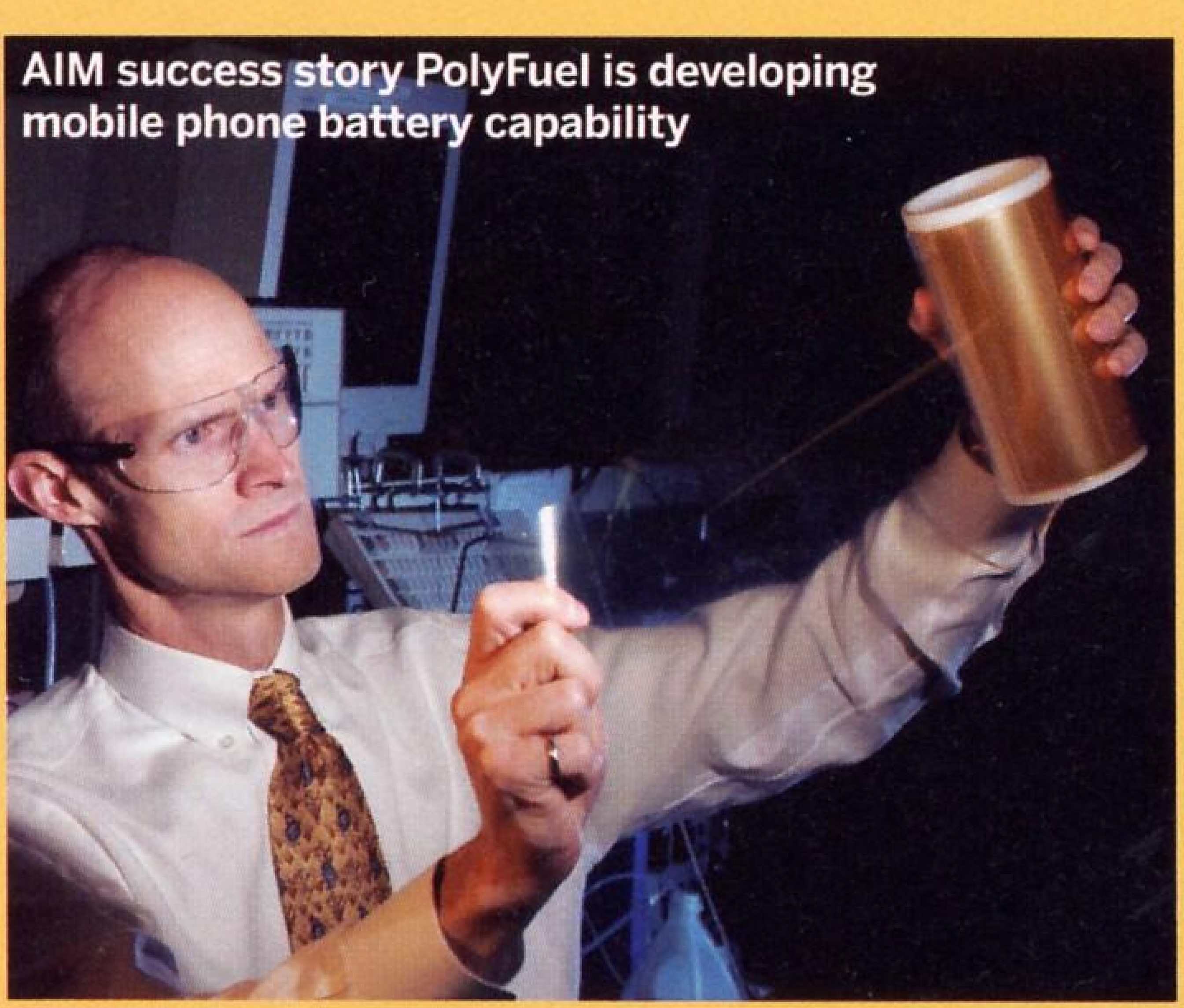
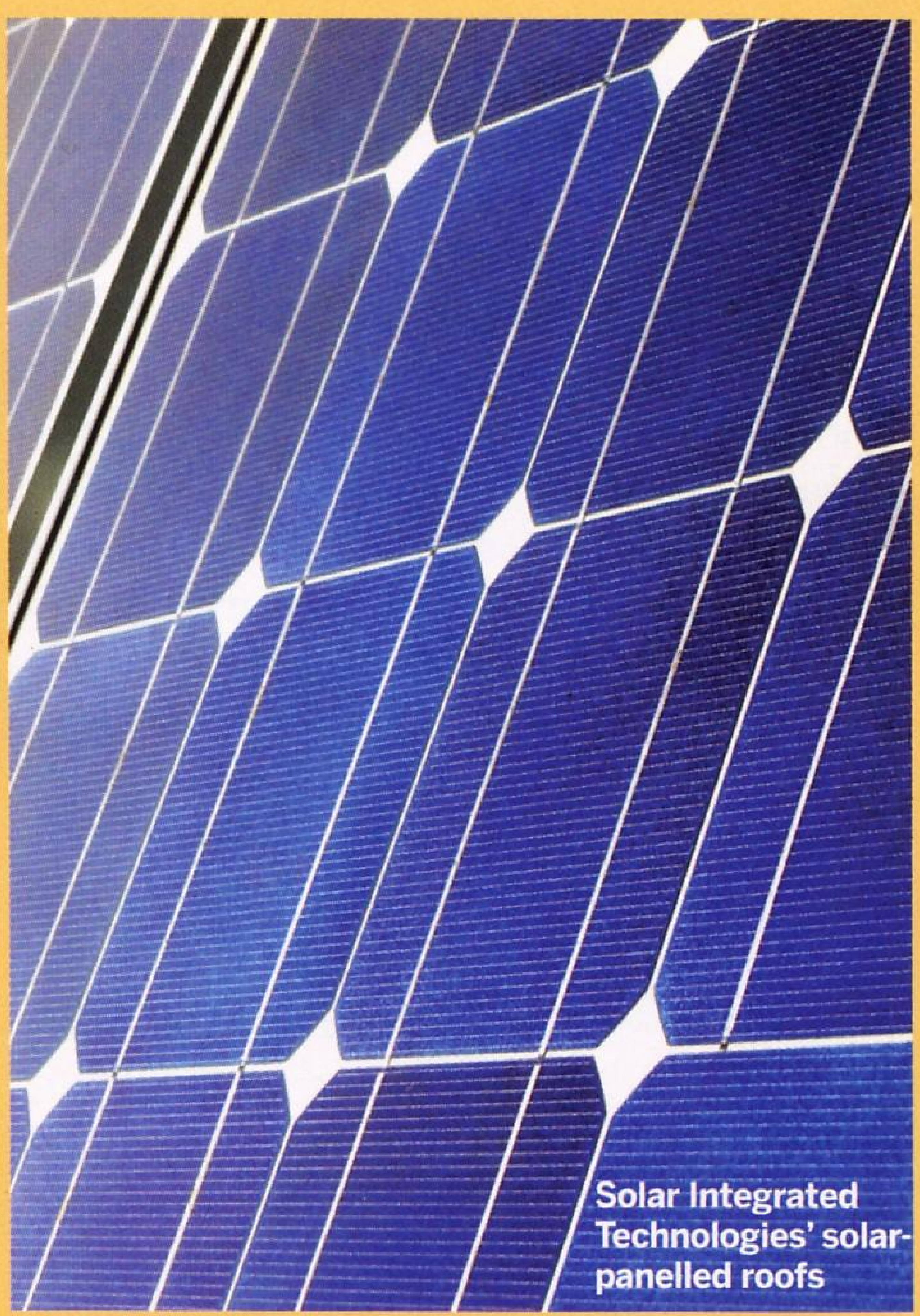


Despite the obviously groundbreaking nature of their work, however, investors cannot value young companies like PolyFuel by conventional yardsticks such as yield or price-earnings ratio. AIM has provided them with a platform for growth where venture capital investors may have baulked – and this at a time when the fundamentals for the alternative energy industry have never been stronger.

Renewable power is an industry that fires the imagination with its innovative wind, wave, solar, bio-fuel and fuel cell technologies. Concern about global warming is mounting and the European carbon dioxide emission trading scheme has provided utilities with financial incentives to generate power by renewable energy. One of the leading British-based funds, Merrill Lynch New Energy Technology, saw its share price fall 90% from November 2000 to the beginning of 2003, since when it has rebounded 270%. Robin Batchelor, fund manager of the Merrill Lynch trust, said: "We launched our fund in 2000. There was some exuberance then, at the end of the tech boom, but now people are realising that a lot of those companies are still around, and have actually improved."


AIM success story PolyFuel is developing mobile phone battery capability


Solar Integrated Technologies' solar-panelled roofs

"WHILE THE RENOWNED AMERICAN ENTREPRENEURIAL SPIRIT AND WORLD-FAMOUS SILICON VALLEY MAY PROVIDE THE IDEAL CONDITIONS FOR GETTING A BUSINESS OFF THE GROUND, A LISTING ON LONDON'S AIM EXCHANGE IS NOW VIEWED AS A LOGICAL NEXT STEP IN THE GROWTH PROCESS."

The sharp rise in IPOs, then, is being driven by entrepreneurs who are looking for a quick, clean route to growth capital instead of a long and complicated deal with a private equity house. Could it be that business-owners are becoming weary of hawking their PowerPoint presentations for the chance to hand over 40% of their company? Are they tired with endless questions about 100-day plans and 10-year forecasts? Perhaps venture capital, or "pain in the ass money" as it also occasionally known, takes too long to secure and comes with too many strings attached?

AIM's approach means that preparing an admissions document is now a simpler task than satisfying the increasingly onerous due diligence demands of private equity firms. In the not-so-distant past, investment houses simply ran an eye over the books in a brief attempt to uncover nasty surprises. Now advisers spend months weighing up problems and identifying financial opportunities.

"Lots of private equity buyers will spend huge amounts of time on due diligence and it can be painful," admits Tom Troubridge, PwC's head of capital markets. "These guys can be brutal and they can be aggressive." In fact, the relative speed and ease of fundraising depends on many factors. If several private equity houses are pursuing a deal then it's not entirely unheard of for due diligence to be completed over a weekend. But if a company's nominated adviser is particularly thorough, then drawing up the admissions document can be a lengthy process. By contrast, the timing of an IPO – while not always quick – is at least predictable.

AIM may be a soft touch for firms looking for quick cash, but according to Troubridge, the real reason for its popularity is that entrepreneurs can get more cash for their equity: "The return on capital is lower than for private equity, so in theory you get a better price."

One remaining question is whether the much talked-about potential takeover of the London Stock Exchange by NASDAQ, if realised, would be likely to result in regulatory or structural changes that might negatively affect AIM's current advantage. Philip Secrett, a partner at Grant Thornton Corporate Finance, believes that AIM's strong showing in its current form means the exchange is effectively untouchable: "You have to remember that the LSE, and hence AIM, has been bedevilled by takeover speculation for some years and this had done little to dampen the activity of AIM," he says. "The NASDAQ position has been public for some time. During this period AIM posted record results, with new companies raising more new money during 2006 than during the first 10 years of AIM's existence combined. There would be very little justification in altering the regulatory structure of a market that has enjoyed such success. There is no reason why NASDAQ would wish to damage the inherent value of a market largely driven by a lighter regulatory touch."