BUSINESS

Capital gains

London is seeking to compete with the Nasdaq as the preferred global venue for science-based companies trying to raise cash. **Andrea Chipman** reports.

When James Karis needed to raise funds last summer for his company Entelos, based in Foster City, California, he ended up looking far afield. Entelos, which builds computer models of disease for clients in the drug industry, raised the money through an initial public offering on London's Alternative Investment Market (AIM).

For young companies around the world — including US ones wary of the increased costs of listing on the Nasdaq — it's an increasingly popular route. Clipper Windpower, a wind-turbine designer based in Carpintaria, California, and Elcom, a software company based in Norwood, Massachusetts, are among some four dozen US firms to list on the AIM since 2004.

But the approach has pitfalls. Relative to the Nasdaq, observers say, the AIM still lacks specialist investors who are interested in the details of sectors such as biotechnology, nanotechnology or clean energy.

For Entelos, however, it was the right choice, says Karis. "Although we are in California, our customers are everywhere — Unilever and Novartis, for example. We consider ourselves an international company."

Formed in 1995 as a subsidiary of the London Stock Exchange, the AIM initially struggled to compete with the Nasdaq. But after the imposition of tough regulations on companies that list on US stock exchanges in the wake of the collapse of Texas energy company Enron, the AIM has come into its own (see Chart).

Today, 300 businesses from 26 countries other than Britain are now listed on the AIM. And although American companies make up only one-sixth of these, they are seen as a key growth area: young US companies have greater affinity for public equity markets; their European counterparts traditionally opt for bank financing.

"There is a belief now that the standard is so high to go public in the United States that it is very difficult to raise capital there if you are worth less than $500 million," says Anne Moulier, head of US business development at the AIM. "AIM is an entrepreneurial market. It's very much designed for companies that want to grow."

Moulier concedes that companies debuting on the AIM may migrate back to more established markets, such as Nasdaq, once they reach valuations of $1 billion or $2 billion. Still, those interviewed said, recent US entrants to the AIM are proving to be the market's best advertisements.

Open City: the rules on London's AIM stock exchange are less onerous than those on its American counterparts.

AIM

After Enron

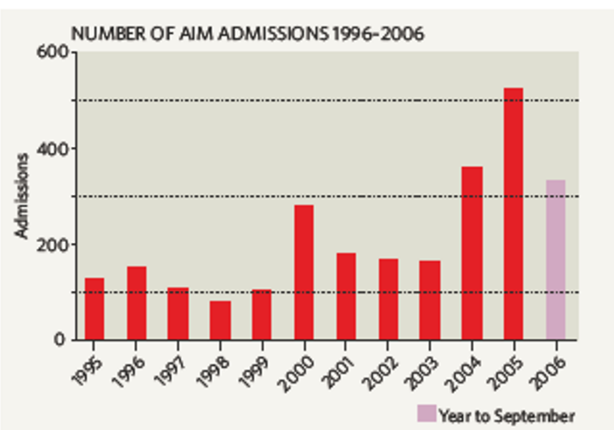
The Sarbanes–Oxley corporate governance act passed after Enron's collapse in 2001 has made US public offerings more complex and expensive. On the AIM, regulatory requirements are relatively light. Companies are required to report half-yearly, as opposed to quarterly, and they don't have to provide a trading record or ensure that a minimum amount of shares are in public hands. According to financial services company Canaccord Adams, based in Vancouver, Canada, maintaining an AIM listing costs about US$900,000 per year, compared with more than $2.3 million for Nasdaq and $1.1 million for the Toronto Stock Exchange.

"The depth of understanding of biotech in Britain is not comparable with that in the United States" — Chris Hulatt

Another important difference is the unique role of a 'nominated adviser', or Nomad. This is an investment bank, or other financial institution, that shepherds a newly listed company through the flotation process, decides on its suitability and determines when it is ready for an initial public offering. "The Nomad is taking a lot of responsibility," says Moulier. "It takes a lot of time and won't rush to bring a company to market." The Nomad must also force the company to release any information that could affect its stock price — an obligation particularly appealing to large investors, she says.

Nomads help AIM-listed companies gain access to institutional investors, who make up around 95% of the investor base on the AIM, compared with some 70% in North American markets.

Opinion is divided on whether the AIM can make deeper inroads in sectors such as clean energy and biotechnology. "The depth of coverage and understanding of biotech in general in Britain is not comparable to that in the United States," says Chris Hulatt, a director of Octopus Asset Management in London. Even so, he says, "the right type of company — with a decent pipeline, strong science and management — will be able to raise money". ■



AIM