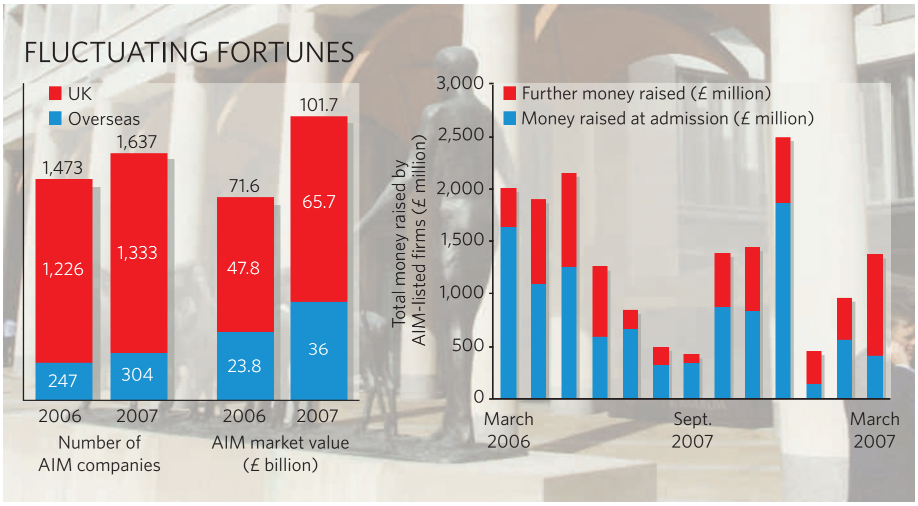
BUSINESS

London calling

Despite its critics, the Alternative Investment Market could still be attractive to America's small, innovative companies, reports **Andrea Chipman**.



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Compared with Nasdaq, the main American exchange for high-growth companies in biotechnology and similar fields, the Alternative Investment Market (AIM) of the London Stock Exchange is a bijou affair. In March, the most recent month for which data are available, the 1,637 companies listed on AIM had a combined market value of £102 billion (US$201 billion, see graph). Nasdaq, in its April report, boasted twice as many companies and almost 20 times the market capitalization: $3.8 trillion.

Yet last year AIM brought off some impressive coups. A string of American high-tech companies, including Aqua Bounty Technologies of Waltham, Massachusetts, which produces hybrid fish and vaccines for fish farms, and Entelos of Foster City, California, which concentrates on *in silico* disease models and 'virtual patients', chose the London market for their initial public offerings. It seemed that this run might continue as more small American companies, which are searching farther afield for capital, turned to the London exchange. As yet, though, there has been little activity of this sort, and AIM has come in for some serious criticism from US financial grandees.

In January, New York Stock Exchange chief executive John Thain told the World Economic Forum in Davos, Switzerland, that AIM's lax regulatory approach threatened the reputation of London as a capital market. Soon after, Roel Campos, a commissioner at the US Securities and Exchange Commission, was reported by Dow Jones Newswires as likening AIM to a casino, and billionaire investor Wilbur Ross weighed in on 18 April, telling the *Financial Times* that the AIM market was "clearly a dangerous one".

AIM's defenders attribute the attacks to the financial rivalry between New York and London. A prominent issue is the contrast between AIM's listing requirements and the more stringent ones imposed on US markets by the Sarbanes-Oxley (SOX) corporate governance legislation. SOX, which requires companies to implement detailed internal accounting and auditing structures, has made US public offerings more complex and expensive; companies say it can cost up to $3 million just to put the regime in place, and around $1 million annually to remain compliant.

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> — Scott Morrison

SOX is not the only issue. "The barriers to US public markets for biotech companies are extreme," says Scott Morrison, US biotechnology practice leader at consultants Ernst & Young. He adds that many institutional investors in America are limiting their sights to "companies that have checked all the boxes" — those already boasting an impressive list of investors, with a product in later-stage clinical trials and, increasingly, already in partnership with a larger biotech or pharmaceutical company. These thresholds are hard for early-stage life-science companies to cross.

Corporate governance complaints about AIM are aimed fairly specifically at the listing of companies from some emerging markets rather than US biotech firms. But AIM has other drawbacks that are more germane to those firms. Critics point to a shortage of market specialists and investors familiar with the life-science sector in London. AIM seemed to acknowledge such worries in February, when it issued a new rulebook for its 'nominated advisers', or Nomads: financial institutions that shepherd companies through the flotation process. The new rules specified that Nomads must have "adequate knowledge of the business and sectors in which their AIM companies act", adding that "this will particularly be in relation to technical or complex areas such as biotechnology, but could also extend to a wider range of sectors".

There are other disincentives, too. Shares listed on AIM are not as easily transferable to US investors as shares on Nasdaq, making it harder for investors in American AIM-listed companies to sell their shares. The amount of money companies can raise on AIM is generally less than would be available on US exchanges, so some companies might be able to raise more by staying privately held and appealing to venture capital. Moreover, the success of foreign companies on AIM in tapping the market for a second or third time remains mixed. With US companies no longer a novelty, some investors may have had their fill, says Bruce Jenett, a California-based partner in corporate finance at international law firm Heller Ehrman.

Despite these possible drawbacks, many smaller US companies still look positively at AIM and other foreign markets, according to Matt Gardner, president of BayBio, a biotech trade group in northern California. Listing on AIM offers them not just a way of raising money, but also of enhancing the company's profile; many AIM companies could be positioned for an eventual Nasdaq listing, company advisers and investors say.

The small size of the market is still an issue, though. It would only take problems with a few of the listed companies to lead to trouble. "There was this massive gold rush a year ago, a huge influx of companies whose fundamental business is very complicated," says Jenett. "If one of them stumbles, the entire sector may be dragged down and frozen in terms of anyone wanting to put money into it." ■