

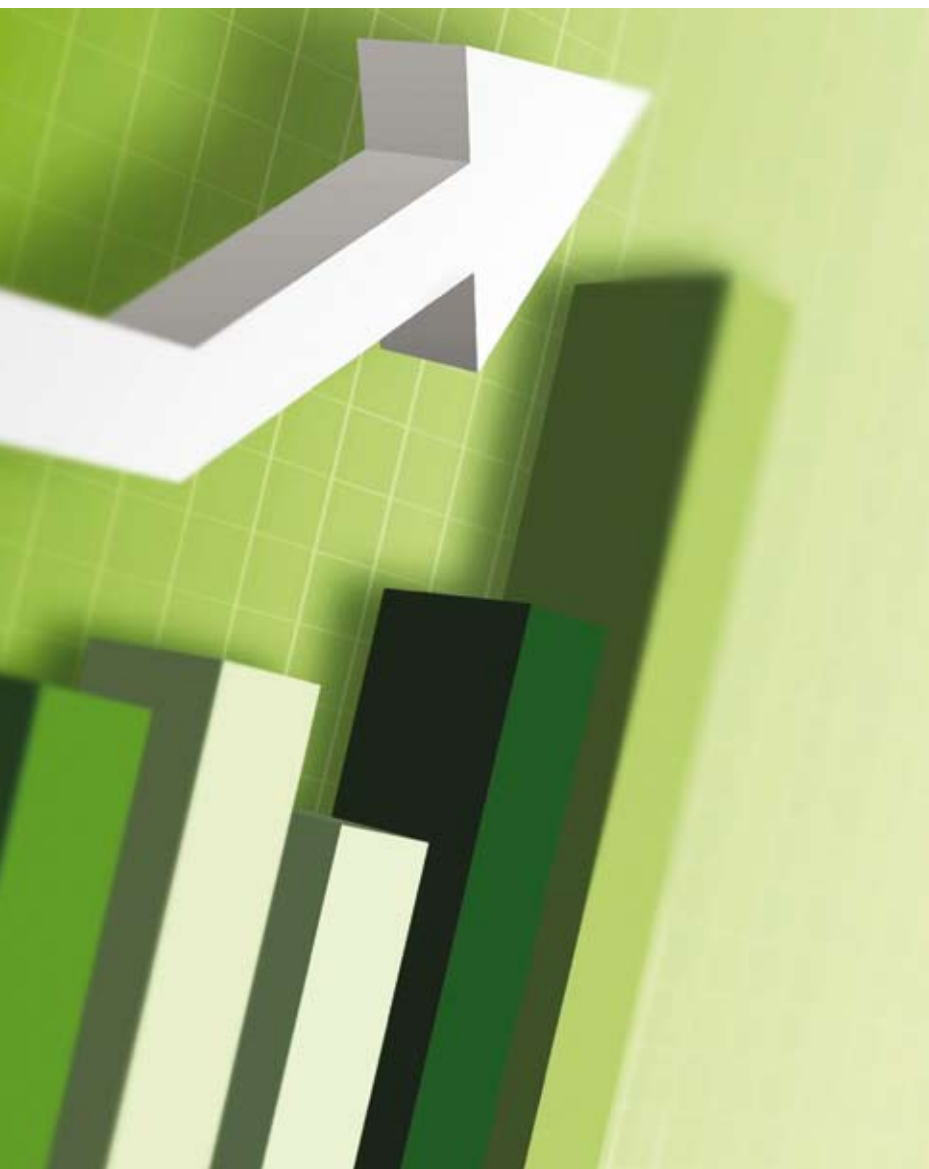
Maximising the benefit from your AIM advisors

In the second of our series focusing on AIM advisors, **Barry Gamble** shines the spotlight on the Nomad

From the day the Alternative Investment Market was established in 1995, the approach has been for light touch regulation. AIM is an exchange-regulated market – AIM companies are not listed as for the main market; rather, the London Stock Exchange is the market which provides the regulation. To achieve this for the 1500-plus companies which currently comprise AIM, the regulation is, in effect, outsourced through the 70 or so nominated advisors (Nomads). These organisations range from major international investment banks such as Goldman Sachs, accounting firms such as Grant Thornton (which claims to have the longest list of Nomad client companies), to brokers such as Numis and small specialist boutique investment houses. These firms have the necessary skills and experience to ensure that the corporate clients for whom they act comply with the AIM rules; their role being to act

as the regulatory and best practice interface between the company and the market. They bring with them their reputation, which should ensure that best practice prevails and corners are not cut.

The LSE recognises that the success of AIM is “largely due to the dedication and professionalism of Nomads”. Recent public censure included substantial fines by the LSE of the acts or omissions of Nomads. This emphasises that the reputational risk is real and the climate is moving without doubt to more prescription, following the publication in early 2007 of the AIM rules for nominated advisors and AIM disciplinary procedures. The LSE is in a serious process of raising standards, particularly as AIM becomes more international in outlook. Improved governance is welcome and in the opinion of leading Nomads may need further development. David Snell, AIM Market leader for PricewaterhouseCoopers



comments: “Our analysis shows that the governance procedures adopted by AIM companies are very patchy. Further, if you segment AIM between the top AIM companies – mid cap, small cap and overseas – there is little to distinguish them in terms of good governance practices. Therefore, it is hard to argue that the bigger the company on AIM, the better the governance.

“To my mind, this leads you to the conclusion that unless the AIM team introduce appropriate governance regulation (perhaps a cut down Combined Code), then I don't think we will see much of an improvement amongst AIM companies in terms of good governance.”

Although the role of the Nomad is often combined with that of the broker, this is not always the case, and the distinction between the roles is not always widely appreciated. The responsibility of the broker is to ensure, as far as possible, an orderly

market in the shares of the company. While the broker would ensure that this is done professionally, the role does not extend to include the wider compliance responsibility of the Nomad – an important distinction. For smaller companies, the roles will often be successfully combined, but if

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there is a need for the Nomad to more proactively manage the broker, then the Chinese walls will be tested. For this, Philip Prince, AIM specialist partner of accountants BDO Stoy Hayward, observes that, “industry sector skills can be particularly valuable”.

AIM has been seen as an international success story, but has not been without its critics. New York particularly has seen its position as a conduit for new issues to be challenged following the effects of the burdensome Sarbane Oxley approach to market regulation. However, the success of AIM has been to achieve the balance between lighter regulation and the recognition that good governance and transparency underpin share valuations and trading liquidity. Peter Elliott, partner of lawyers Charles Russell, who specialise in advising AIM companies, sees AIM as “an important international market for smaller growing companies, to whom I consider the simplified regulations well suited”.

So to maximise the benefit from your Nomad, it is important to recognise that they have a job to do which adds value to your work as a board director. At the one extreme, if your Nomad were to resign and no replacement firm is willing to act, your company would not be able to remain on AIM. At the other, working with your Nomad to continuously raise the level of best practice corporate governance and disclosure will demonstrate the hallmark of a very well-run business and one likely to attract a strong following from the investment community. The value of this approach is often overlooked by inexperienced boards.

At the core of the AIM company/Nomad relationship is trust and openness. A Nomad has little chance of advising properly if the full facts are not made known to them. Make sure they fully understand the business model, strategy, performance drivers and risk factors which apply to your company. If situations are likely to develop, tell your Nomad early so they can start to form an understanding of the consequences for the company in meeting obligations to the market. This is especially important if issues are likely to be particularly challenging to the company or could result in significant change. Transparency in all dealings with your Nomad will underpin

the process of being transparent with the market. If this philosophy is adopted, then the board will be well on the way to maximising the benefits of the relationship.

The overriding obligation is, of course, to keep the market informed about matters which if in the public domain

might affect share prices. Setting aside the ever-present risk of insider trading, there is now the wider 'catch all' of the market abuse regulations which are designed to ensure that orderly markets are maintained. Provided they are fully briefed, your Nomad can ensure disclosure and announcements are timely and complete so as to minimise adverse market reaction. Where there is a need to correct a market view, then again, best practice should ensure that nettles are grasped firmly and early. Be prepared for some short term adverse market reaction, and look through to the substantial long term benefit as investors come to appreciate that nothing has been held back from them. This approach does not always prevail, as the pressure to maintain short term share price is so often omnipresent.

Although the obligations under the AIM rules are deliberately intended to be much less onerous than the main market regulations, there is significant benefit to be gained by raising your game to the best in class level.

If investors develop a sense that the company is disclosing more than the minimum, then trust increases. Equally, if minimal disclosure is the practice, investors can so easily become mistrustful and suspicious of a poor culture within the company. The tenets of this follow those in other aspects of best business practice.

So there may be real value in, for example, raising disclosure in the directors,

the direct communication. Preferably a standard agenda will be followed, including an update on trading, risk issues and significant company developments. The approach should always be forward-looking and anticipatory.

Recognise that the Nomad has a pivotal role in working with other company advisors, so that all are kept fully informed and so that legal, accounting and public relations consequences are kept under review. For example, the Nomad, in consultation with the brokers, will want to ensure the make-up of shareholdings is understood and ensure timely announcements, having been informed of changes in notifiable interests.

For companies on AIM, all costs will rightly warrant careful scrutiny, and this is very much the case for retainers and fees for Nomads. A base retainer fee of £20,000 to £25,000 per annum will often be the norm, though be prepared for more substantial one-off fees for handling a secondary fundraising, or the required Rule 3 advice should the company receive an approach from a potential bidder. If advice is top quality and delivered in a way with which directors are able to fully connect, then value will be seen. Equally, if advice is not clear or timely, then like any other supplier the Nomad should expect challenge.

It can take time to build a sustained relationship with your Nomad. Even where this has been forged through the rigour of the IPO process, it will probably need to be rebased for the practical requirements

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corporate governance and remuneration reports. Lifting the veil on how the board operates, the balance of the board, and how the skill sets and personalities combine to ensure shareholders' interests are all paramount. As an example, if there are unusual aspects to the terms of employment of a director, such as time available for outside activities, rate of pay or performance incentives, disclose early and fully so that investors have the information and can form their own view on their significance.

The habit of routine meetings with the Nomad is a good one. Although normally the chief executive and finance director would provide the interface between the company and the Nomad, periodically the chairman and non-executive directors should also be part of

of continuing market obligations. For the client company, so much will be gained if the relationship is approached proactively; recognising that maximum benefit requires strong engagement. The tangible and intangible benefits are likely to be well worth the effort involved.

Barry Gamble qualified as a Chartered Accountant with Pricewaterhouse Coopers after graduating from the University of Reading. He has wide experience as a speaker, writer, author and broadcaster on finance, investment, tax and business strategy. He is now pursuing a portfolio career and has a number of advisory and non-executive roles; he has also been a member of the International Advisory Board for the Anglo Australian Fund of Funds, Stafford. ■

AIM Nominated advisor – Nomad:

1. Transparency
2. Good governance
3. Trust and openness
4. Timely, full facts regularly to agreed agenda
5. Best practice disclosure; go beyond the minimum
6. Be forward looking and anticipatory
7. Connect NEDs to Nomad
8. Connect Nomad with other advisors
9. Recognise fee value added but be prepared to challenge
10. Be proactive