

AIM – THE NEXT 20 YEARS

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Preparing for the new challenge

Many business owners who take their companies onto AIM are unprepared for the challenges of their new status, according to Frank Lewis, serial AIM company director and chairman. “I don’t believe they really understand how long the process is going to take, how much of their time it takes and the impact of managing the process on the existing business,” he says. “A lot of them don’t know what’s hit them.

“The problem is that they used to exercising control. They want the benefits of being listed but want to still behave like it’s still their private company. They think they can have the best of both worlds, the advantages of being listed but still being able to run it as a private company. Well that’s not going to work. To be successful they need to apply and then comply with good corporate governance and look after the interests of all the stakeholders.

“The main incentives for listing should be fund raising (though it’s not as significant a reason as it used to be as there are alternatives such as private equity), realising personal capital growth, obtaining an objective market value, incentivising management through share options and, if all goes

well, the chance to take the step up to the main FTSE. Without a disciplined approach, there will be compliance and governance issues, and a failure to manage or achieve profit expectations.”

But there are the extra costs of being of AIM which need to be factored in. “NEDs, NOMAD’s, PR people, it all adds up,” says Lewis. “If you’re not growing exponentially, that all becomes a burden and investors get disillusioned. A business best suited for a listing isn’t just showing growth or the potential for it, but is able to demonstrate a sound strategy and business plan, a stable structure and robust management team. It should also have good financial reporting and forecasting, and be able to scale up for more growth – and it must be prepared for greater disclosure.”

And disclosure can be an issue for some, he says, with a business leader’s attitude depending on how comfortable they feel about an enhanced level of accountability and having to “undress themselves in a public arena.”

Lewis says AIM is regarded as a good place to be by foreign companies, the Chinese in particular. But, he points out, there can be issues brought

about by cultural differences: “They don’t always understand that they not only have to sign up to the rules but they have to comply with them.” Important because looking ahead he thinks it’s inevitable there will be even more processes and compliance. That said, he believes AIM needs to go back to its roots and help entrepreneurs without having layers of regulation. “Otherwise some entrepreneurs are going to choose private equity instead – or even in some cases crowd-funding - instead of coming to market.”

Lewis has been involved with the listing of “several” AIM companies, and has also served as a non-exec and as chairman for companies involved in natural resources, technology, distribution, and infrastructure. He refers to a quote which once described NEDs as being like bidets: ‘no-one’s quite sure what they’re for but they add a bit of class’. “But that isn’t their purpose at all,” he says. “The NED is the independent voice providing business-critical input and commercial reality to a technically based management team and shareholders. The NED should be able to advise on everything from acquisition strategy to international trading matters, reporting and accounting procedures to risk, governance, debtors and City issues. They need to have the ability to step into sensitive management/shareholder situations to support the leadership and underpin or help improve management skills and business understanding. They provide commercial clarity, acumen and common sense to situations where management teams cannot always see the way ahead and should help to develop realistic and sustainable operational plans. Their communication skills need to be excellent and they have to be comfortable operating and interacting with senior business figures, investors, professional advisers, brokers and other stakeholders. Their role is to ensure the company is well run, but not to run the company.”

In short, the NED should be able to add real value to the business. But Lewis knows not all of them can cut it. “There are still appointments made on the jobs for pals basis, and they don’t have

the relevant experience or won’t challenge the executive. Although this still happens, companies are realising they need directors with experience and independence.”

In that context Lewis recalls walking away from a Russian telecoms company. “Basically they were doing things without telling me, so I voted with my feet.” He makes the point that the NED has to feel comfortable with the management of the company, just as they do with the NED. “There has to be chemistry,” he says, “and there has to be trust.”

There’s a similar challenge for businesses in choosing the right NOMAD - the advisory firm required to manage the admission of a company to AIM and subsequently to ensure compliance with the AIM rules. “The requirement to have NOMADs can be a great benefit to companies,” believes Lewis, “but like all professionals, whether doctors, lawyers or accountants, their qualities and specialisms differ.”

“Remember,” says Lewis, “that the listing is a beginning of the process not the end. Appointing NEDs as soon as possible in that process will mean that their experience and expertise can be put to immediate use. And don’t over promise and under deliver. A failure to meet your first-year forecast is likely to lead to a rapid deterioration in the company’s share price as well as impacting on the credibility of the company’s management with investors.”