

The role of research for AIM companies

Presentation to:



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Gabriel Didham CFA, Director
Andy Hartwill, Research Director
www.ObjectiveCapital.com



London
STOCK EXCHANGE

Investors rely on research

“In a world of regulatory straightjackets, free thinking and speaking analysts ... are essential to the integrity of the markets. They help keep companies and their share prices honest.”

Edmond Warner, Chief Executive, IFX Group

Agenda

- **The role of research in informing investors**
- **The importance of research for a company's market value, trading and performance**
- **The changing environment for research providers**
- **The evolution of credible sponsored research**
- **What to look for in a research provider**

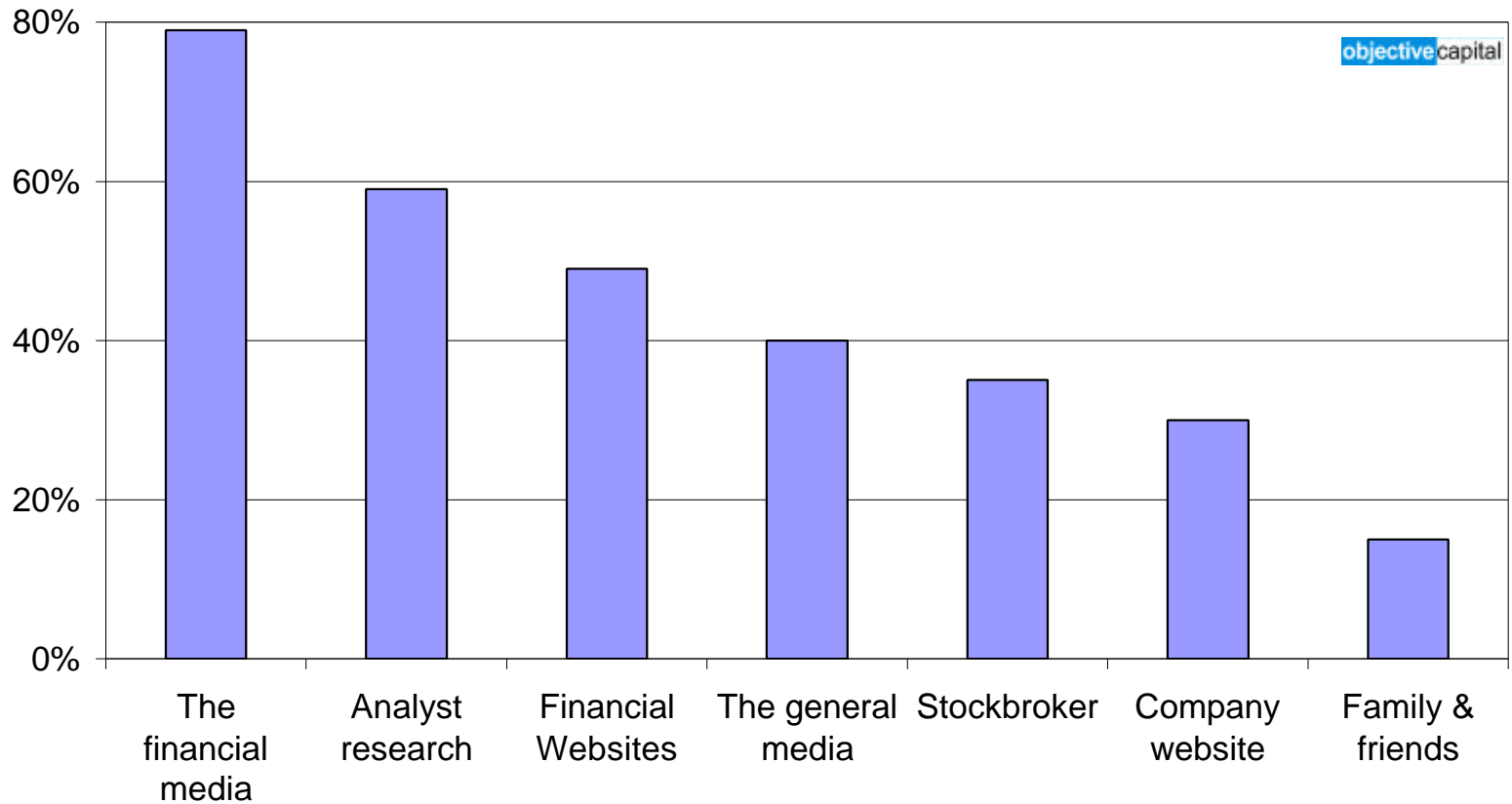
Professional Investors

- 93% read pre-IPO research
- 53% read research before meeting management
- Only 22% ranked research coverage post IPO as good or very good, with 54% ranking it as average, and 24% as poor
- **61% would like to see at least three analysts covering stocks in the after-market**

Source: Arbuthnot's AIM Investor Survey

Private Investors

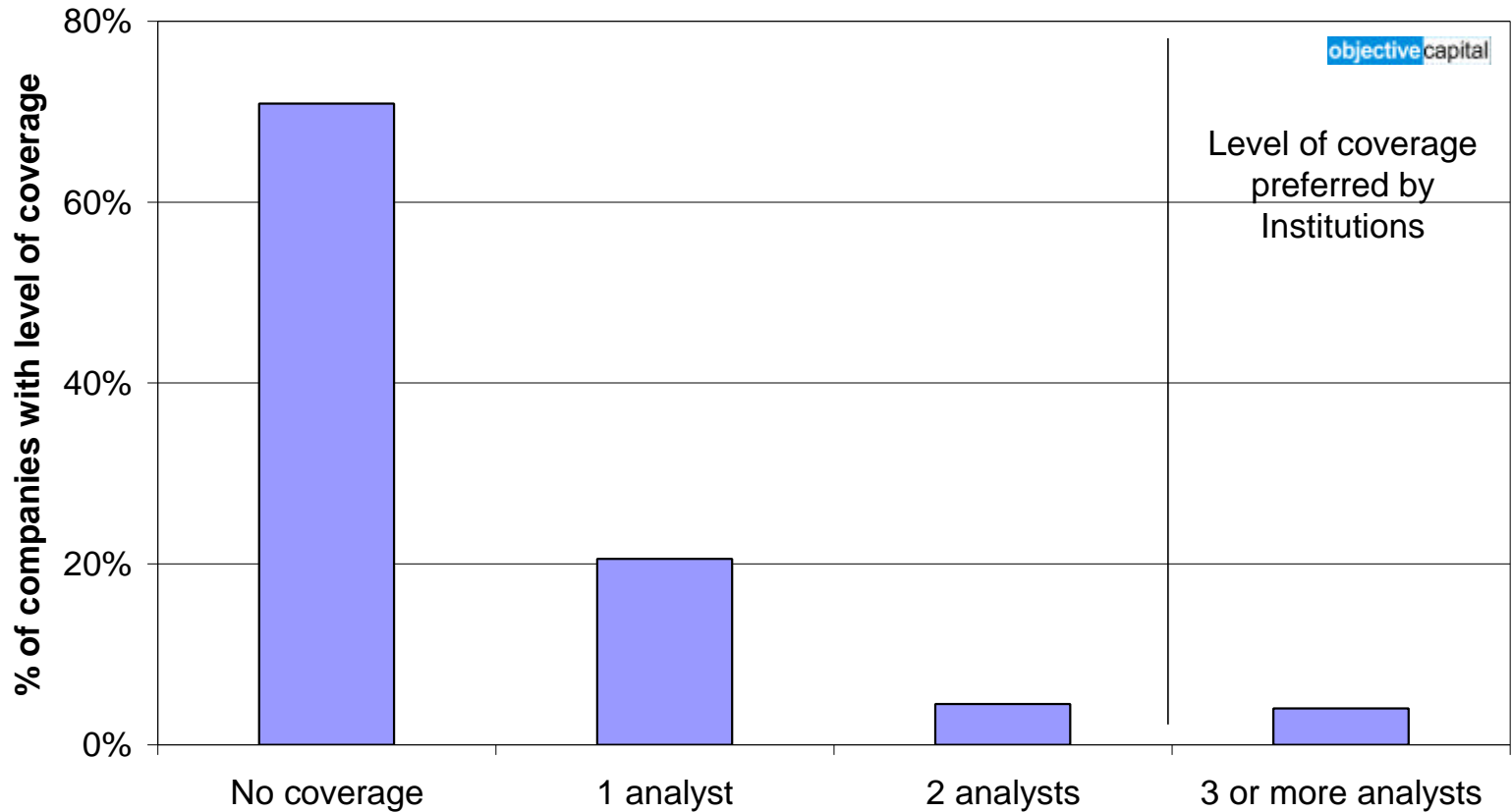
Most relied on information sources for private investors



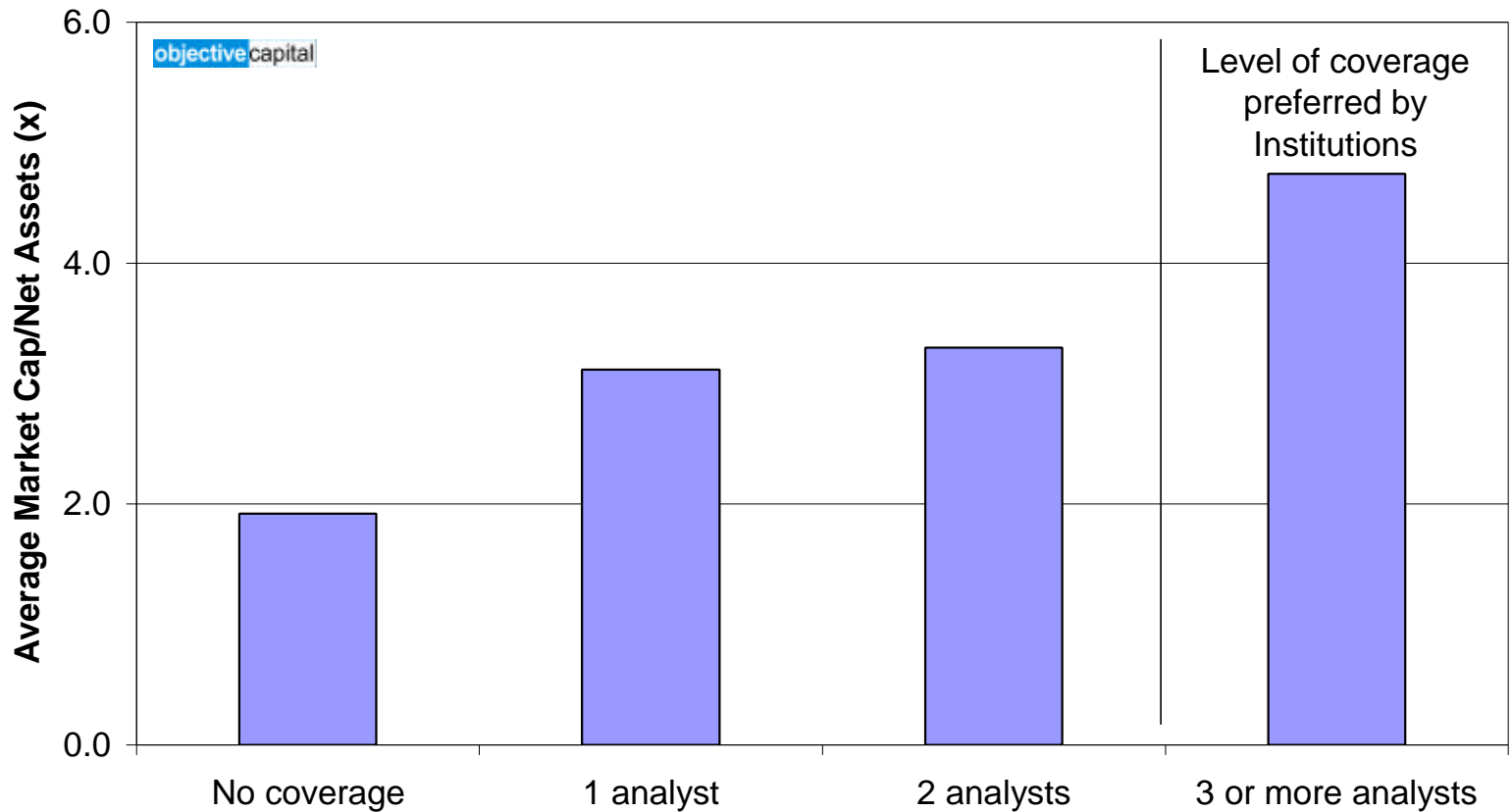
Research makes a difference ...

- **Researched companies can have up to double the market valuation of un-researched companies in the same industry**
- **Increased research coverage can double average trading volumes**
- **Trading costs can be as much as 10% of the share price on under research companies**

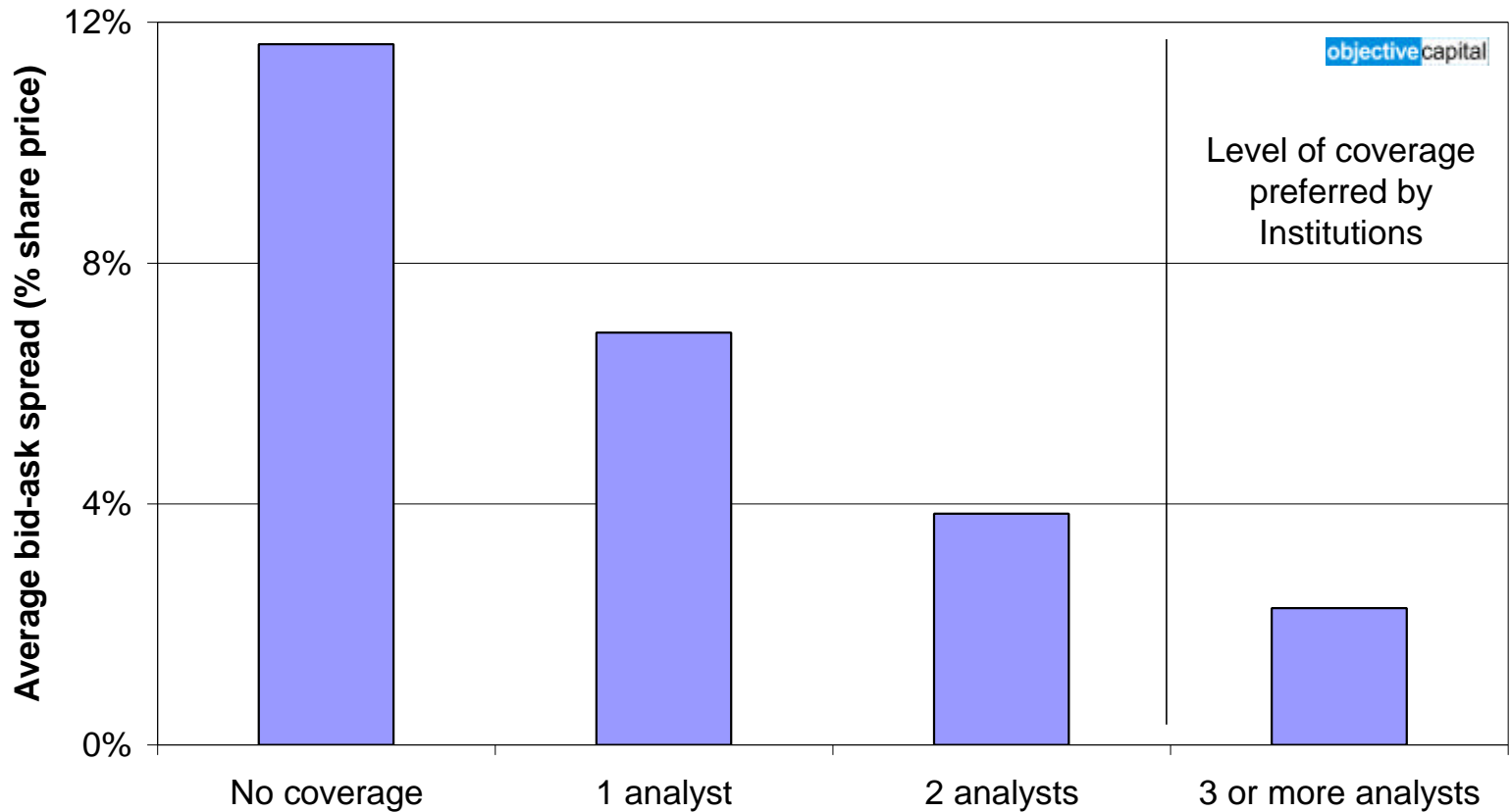
Coverage of companies in the FTSE AIM All-share



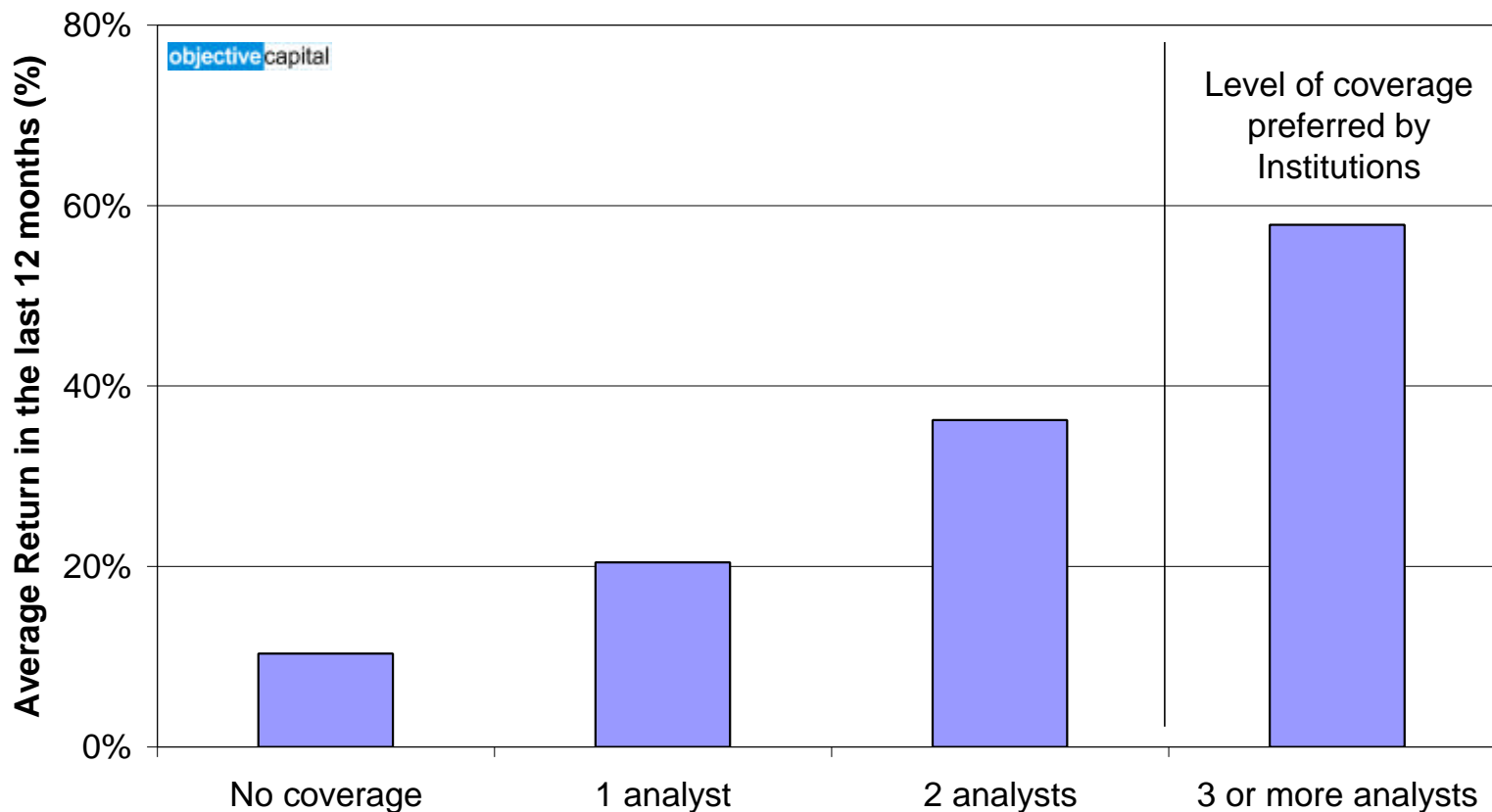
"Valuation" of companies in the FTSE AIM All-share



Trading cost for companies in the FTSE AIM All-share



Performance of companies in the FTSE AIM All-share



... for a company and its shareholders

A lack of research means:

- raising capital is more difficult and expensive**
- lack of knowledge => higher trading costs => reduced liquidity**
- lower share price**

Up to 80% of quoted companies could benefit from more research

The changing environment for research providers

- **The traditional banking and broking sources of research coverage are under increasing pressure from:**
 - the increasing number of listed companies to cover
 - increasing regulation to address the inherent conflicts in the integrated model
 - the economics of commission funded research
- ***The result is less coverage, particularly for smaller companies***

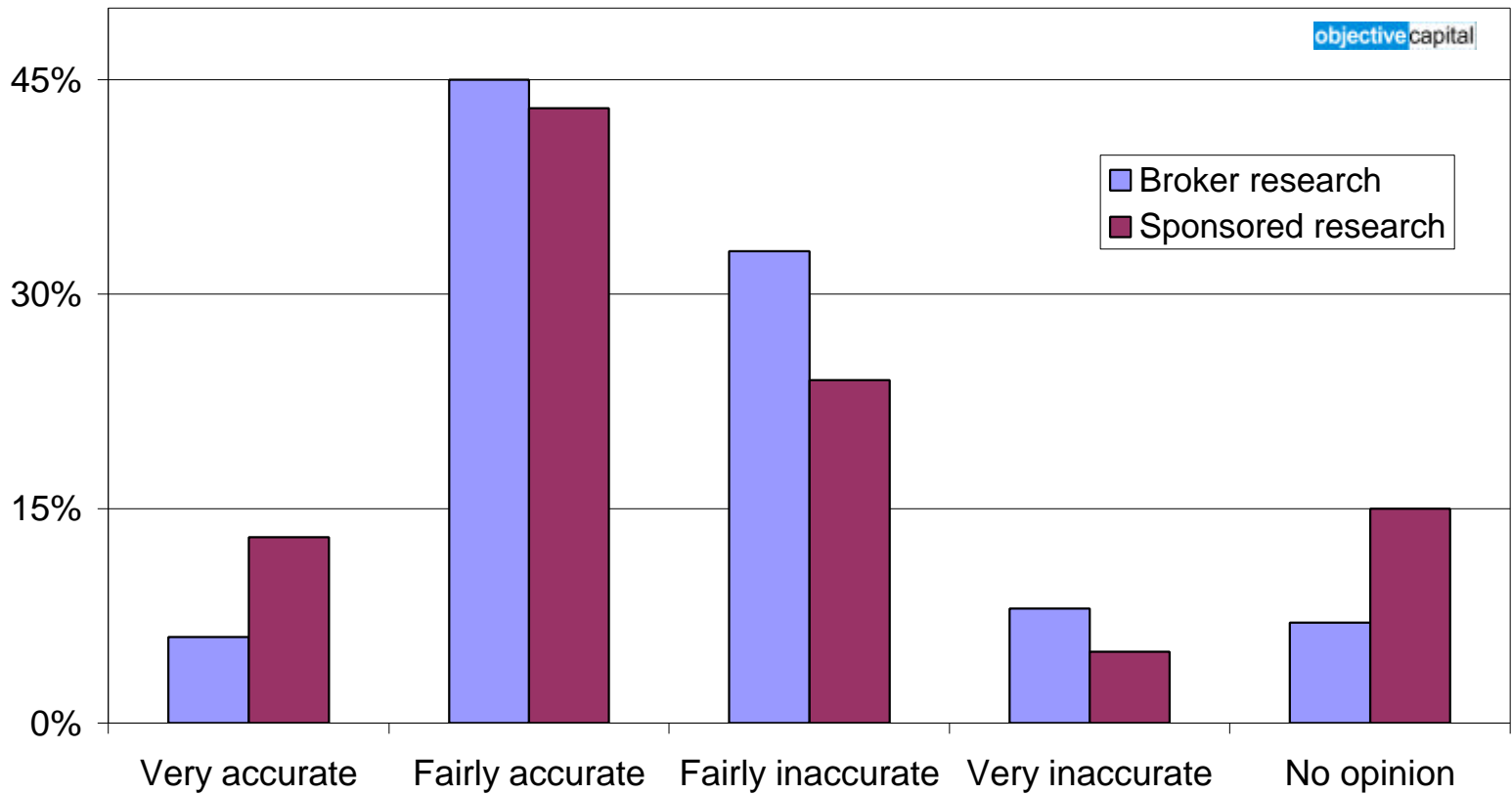
The evolution of credible sponsored research

- **Sponsored research has emerged as a credible way to increase coverage**
- **Legitimate sponsored research:**
 - is written on behalf of the shareholders and investors
 - ensures the analyst is objective
 - transparently addresses the potential conflicts of interest

Legitimate sponsored research is valued

- 88% believe “legitimate fee-based research is objective and useful” while 81% believe traditional research is “biased”
- in the US polls show 78% of active shareholders now “value research from independent firms over analysis by traditional firms with financial ties to the companies they are rating”
- and in the UK high net worth investors have more confidence in the accuracy of sponsored research

What private investors think of research



It supports the company and its shareholders

**Legitimate sponsored research strengthens
a company's:**

- credibility**
- visibility**
- liquidity**
- valuation**
- and probity**

*80% of investors believed that “a company that hires
a legitimate fee-based research firm is making a
positive statement about its investment potential”*

What to look for in a provider

- **credible handling of the conflicts:**
 - is the analyst’s objectivity genuinely “protected”?
 - are they engaged in conflicting investor relations or advisory services?
 - do they meet industry standards such as FIRST?
- **quality research:**
 - are their analysts expert?
- **“universal” distribution:**
 - do they reach a broad range of fund managers, high net worth investors and the sell side?

Objective Capital

11-12 Tokenhouse Yard
London EC2R 7AS

Corporate: www.ObjectiveCapital.com

Research: www.ObjectiveCapital.co.uk

About the Presenters:

Gabriel Didham, CFA – Managing Director

Gabriel is a Chartered Financial Analyst and former number one rated analyst. He has extensive experience of regional and pan-sector research both here in the UK and abroad. He was previously the cofounder of Investinet and ExchangeSquare.com, for a time one of the internet's most trafficked global financial websites.

Andy Hartwill – Head of Research

Andy was for many years UK & Global Strategist at SG Hambros, latterly Soc Gen Securities. Prior to this he was UK and European Strategist for Paribas, and Head of Research at Capital House and Spencer Thornton. He is a regularly guest on Bloomberg and CNBC.