

New Paths for Going Public Alternative Exchanges are Growing in Appeal

by Peter C. King, VR Business Brokers/Mergers & Acquisitions, CEO

Going public on an overseas exchange once was considered a novelty. Now, it's a viable and appealing alternative for U.S. companies. If you're considering going public, an overseas exchange could offer benefits ranging from lower costs to fewer regulations.

Scaled to Size

An overseas initial public offering (IPO) can be especially alluring for smaller companies still in the early stages of their growth cycle. The Sarbanes-Oxley Act of 2002 (SOX) introduced an array of time-intensive and expensive reporting requirements that have made it impractical for many startup and middle-market companies to go public on a domestic exchange.

At the same time, alternative exchanges have experienced enormous growth spurts. Over the past three years, London's Alternative Investment Market (AIM), which was established in 1995, has become a serious rival to NASDAQ's small-cap market exchange.

AIM once was considered a court of last resort for companies unable to meet the requirements and costs of more established exchanges, such as the NYSE or NASDAQ. Today, however, with 3,000 companies, approximately 250 of them incorporated outside the United Kingdom, it can hardly be considered an "alternative."

In 2006, AIM attracted more listings than all of its global rivals combined, according to the *Independent*. That said, the global credit crunch has hampered AIM's growth somewhat: 2007 saw the lowest number of IPOs listed on the exchange in five years. A submarket of the London Stock Exchange (LSE), AIM targets smaller companies in the \$20 million to \$200 million range, and is particularly appealing to businesses still in their early development stages. The exchange also makes sense for companies offering nontraditional types of IPOs, such as public offerings whose proceeds primarily go to existing investors, including private equity firms.

Greater Flexibility

AIM poses several advantages to U.S. companies. For starters, the exchange gives you far more flexibility to determine the terms of your IPO. For example, while NASDAQ mandates a minimum number of shares companies must offer to the public, AIM has no such requirement. And AIM doesn't specify a minimum share price. Therefore, if you need only a small chunk of investment capital, you're free to raise amounts starting at \$3 million.



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In addition to avoiding the strictures of SOX, companies listed on AIM enjoy freedom from other regulatory hurdles. The exchange is regulated by the LSE rather than the U.K.'s Financial Services Authority, so neither the British nor the U.S. government reviews nor has to approve your prospectus. Companies that list on AIM also avoid the routine regulatory filings required in the U.S.

Because AIM's regulatory demands are slight, your legal, accounting and administrative costs are typically lower than they would be in the United States. Listing fees are also less onerous.

Nomadic Guidance

One critical distinction of AIM is its use of "nominated advisors," known as Nomads, who spearhead IPOs. These advisors from British accounting and financial services companies are responsible for vetting prospective public companies, including sizing up their executive staff, analyzing their business models and tracking their earnings to date. Nomads also work with companies to write their prospectuses, which tend to be less detailed and easier to release than those required for U.S.-based IPOs.

Another benefit of the Nomad system is its continued guidance even after the IPO. Nomads generally help make markets for the newly listed company, which ensures that its shares will remain liquid and its valuation fairly stable. By contrast, some smaller companies listed on exchanges such as NASDAQ may be "orphaned" after their IPO, and their share prices can plummet.

The New Contender

AIM isn't the only name in the alternative index game. The Dubai International Financial Exchange (DIFX), which began operations in 2005, is now open to U.S. companies. It was expected to list its first U.S. company earlier this year, but the issuer pulled the deal after its owners became concerned that their filing didn't accord with Dubai laws.

Borse Dubai is the majority owner of DIFX, and the exchange is located in the financial free zone of Dubai International Financial Centre (DIFC), where all financial activities are governed by an independent regulator, the Dubai Financial Services Authority. Its appeal mainly lies in its Middle Eastern location, which is convenient for energy production and distribution companies. Also, less-established companies searching for capital may find investors with a higher tolerance for risk on the DIFX.

But because there's still no precedent of a U.S. IPO on DIFX, companies need to approach it with caution. And because the exchange is so new, it has fewer listings and investors than its competitors, which could limit trading opportunities.

An Intriguing Option

Foreign exchanges have come a long way from being last-ditch financing attempts. For smaller companies, going public on a growing exchange like AIM is simply a cheaper and less restrictive way to launch an IPO. What's more, exchange competition shows no signs of decreasing, so opportunities on foreign exchanges should continue to grow over the next few years.



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