Business

Beware the latest entrants on Aim – the chance of getting it wrong is too high

Questor
Inheritance Tax Portfolio

IPOs can be a good way to make a quick profit but this year's returns show it is an area fraught with risk, writes *Taha Lokhandwala*

Investing in stocks that are new to the market has always been a good way to make a quick profit. Keen stockpickers will remember the immediate boost for those lucky enough to bag Royal Mail shares at its IPO in 2013.

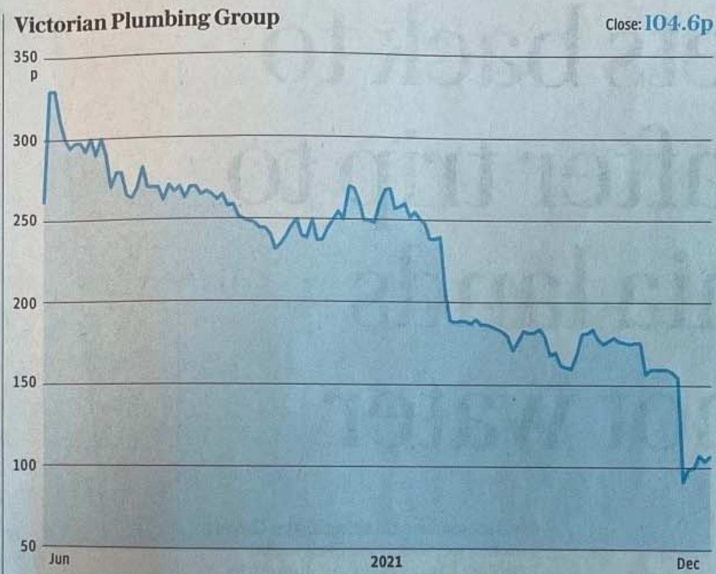
However, for investors keen on smaller, lesser-known companies, it has not been a vintage year. Those floating on the Alternative Investment Market have particularly struggled with only half of those that started life as a floated company in 2021 currently trading above the entry price.

This should be a warning for investors focused on Aim for its inheritance tax benefits.

Questor has never supported investing in IPOs. Businesses must have a track record of producing cash, being sustainably profitable and have potential to grow this over time. Of course we're partial to a value opportunity, but only if the previous criteria are sufficiently met. IPOs rarely offer this security, and while they can be beneficial for short-term gains, this year's Aim figures prove our case in point.

> **Big Technologies**
> **40pc**
> Rise in share value since July, Aim's largest IPO winner this year

Overall, Aim investors have suffered a disappointing year – returns on average are flat at just 1.5pc. The broader market as measured by the FTSE All-Share is up 14pc in comparison. However, the number of opportunities for IHT-savvy investors has increased – a first since 2014. There 75 new listings on Aim in 2021 and only 51 companies cancelled their admissions, leaving a total of 842 at the end of November. This is the first positive balance in seven years, with the number of companies having reduced dramatically. In 2014, there were some 1,100 stocks on offer, according to research from Fundamental Asset Management, an investment house.



The firm's research showed that, after accounting for businesses moving from the main market to Aim and reverse takeovers, there were 60 "true" IPOs. Only 30 now trade above list price as at the end of November.

Chris Boxall, of Fundamental, said despite the disappointing figures, investors have made decent returns from some risky companies.

He said: "It's noticeable that all the top performers are early-stage companies which are not yet revenue generating and come from either the resources or life sciences sectors.

"We are generally reluctant investors at IPO and like to see companies deliver on public markets before investing," he added. "Many companies list after enjoying a strong period of growth and this has often proved tough to sustain. We are also very wary of big insider selling at IPO, notably by founders, which we have seen on several occasions in 2021."

The largest winner of 2021 was Big Technologies, which makes remote monitoring devices used in healthcare and policing. Shares are up 40pc since listing in July, although they had risen much higher before falling back. Year-to-date, the best performer has been 4basebio UK Societas, a life sciences business, with the share price quintupling since IPO in February.

Cornish Metals, a copper and tin miner, has seen its share price more than triple, although the firm was listed in Canada prior to its entry in the UK market. The big loser was Victorian Plumbing Group, which joined Aim in June in what Mr Boxall called a "blaze of glory". However, the business only raised £11.8m for itself with the rest going to shareholders selling down, including founder and chief executive Mark Radcliffe and his brother Neil Radcliffe. The pair took out more than £260m with the business valued at more than £800m at IPO. The shares currently sit some 60pc below list price. This, as Mr Boxall pointed out, is what investors need to look for when meddling with newly listed companies. Taking money from new investors, while just rewards for entrepreneurs, does not mean gains for newcomers.

It is difficult to know, at an IPO, which companies are set for growth and which are not. With limited data available to DIY investors, particularly on Aim, it's not an area Questor feels the risk and reward balance pays off. Considering IHT investors only had a 50pc chance of getting it right this year, our stance on IPOs remains unperturbed. One should never waver from the rules of engagement, and while there have been successes this year, the difficulty in sorting the wheat from the chaff is enough to sacrifice profits in the name of certainty.

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