



AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

Why we're cheering the ASOS migration to the main board

It's taken long enough to happen, but finally ASOS has confirmed it is to move up to the main board of the London Stock Exchange. The company, which has a market cap not too dissimilar from that of retailers such as Dunelm or WH Smith, seems assured of a place in the FTSE-250 mid-caps. Indeed, looking at the share price less than a year ago, the company would have been knocking on the door of the FTSE-100 and if those consensus sales forecasts of comfortable double-digit growth over the next three years are met, then this may well be back on the agenda. Add to this the fact that the stock now trades at a very modest PE ratio of just over 18, something that may again prove alluring to investors if they start hunting out value in a bear market.

Should AIM's primary objective be to foster growth?

It's perhaps too easy to be drawn into the benefits of the innovative AIM Market from the perspective of issuers. Lower burdens when it comes to listing and then the subsequent reporting makes it easier to make that first foray into capital markets, but this should pave the way for companies to recognise their full potential, become accustomed to operating as a listed entity and then pave the way for greater growth.

And perhaps more attention needs to be paid to the advantageous position investors – especially at the retail end of the spectrum – find themselves in. The government is clearly keen to lend support here and whilst we can inevitably argue that there's more which can be done, two key points stand out.

Firstly, to broaden investing in these risk assets, almost a decade ago, the government allowed AIM stocks to be held in an ISA, something which provides a significant level of support given the potential for rapid gains to be seen here.

Then secondly there's inheritance tax. Dating back almost half a century is the IHT exemption which applies to the vast majority of AIM stocks. As we move into a period where we're likely to see an extended period of inflation combined with a general reluctance from government to offer many new tax concessions as they look to repay the cost of the pandemic, it's probably for the best that established multinationals aren't in a position to look as if they're exploiting such structural incentives.



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The main board effect

It seems inevitable that the ASOS migration will see many institutions being obliged to extend their economic exposure in the stock as it will fulfil many more investment criteria, most notably its expected eventual inclusion in the FTSE-250. The company has also been in the spotlight in terms of governance, but has by all accounts addressed these issues, again shoring up its corporate image for a future as a bigger player. As a result, this should point towards inflation of the underlying asset and arguably ought to free up risk capital, especially amongst those investors who have been engaged for some time. They are likely to start hunting out the next investment opportunity – most likely on AIM or another junior market – so without the catalyst of the migration, this money would more than likely remain stranded.

Improving market quality

London has an enviable array of listing venues, catering to the specific needs of companies, depending where they are in their growth cycle. The AIM market provides that hugely valuable pool of liquidity for issuers to tap into and an equally rich environment for investors to try and benefit from. However there becomes a point in time when having the very largest of firms in the smaller ponds becomes self defeating. They have an undue influence over the index's ability to be a barometer of small cap activity – eight firms currently represent around 20% of the total market cap – and that risk capital sits stranded. We applaud ASOS's migration to the main board and look forward to what fresh opportunities this will foster on AIM.

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