Journal of International Money and Finance 60 (2016) 378–404

Contents lists available at ScienceDirect

Journal of International Money and Finance

journal homepage: www.elsevier.com/locate/jimf

Why firms favour the AIM when they can list on main market? ☆

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A R T I C L E I N F O

Article history:
Available online 22 October 2015

JEL Classification:
G15
G30

Keywords:
AIM
London MM
IPOs
M&As
SEOs
Dividends

A B S T R A C T

It is often argued that the popularity of Alternative Investment Market (AIM) in terms of higher number of listings relative to the Main Market (MM) is mainly due to the strict listing requirements in the MM. During the 1995 to 2014 period, 577 out of 1143 AIM listed firms did not qualify for MM listing, but the rest (566) that raised equity in AIM could have joined the MM. This raises the question why firms that meet the heavier regulatory environment of the MM choose the AIM, a lighter regulatory environment. This paper subjects this question to a comprehensive investigation and finds that the market choice is a self-selection decision. The two markets attract companies with different characteristics, and dissimilar post-listing investment and financing priorities. The evidence also shows that smaller and younger companies choose to be listed on the AIM due to lower listing and on-going costs. Heckman Selection models addressing the important question of what would have been the operating performance if AIM companies joined MM indicate that AIM companies would not perform better had they selected to go public in the MM.

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☆ We would like to thank an anonymous referee, Jay R. Ritter and Tarun R-amadorai for useful comments.
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http://dx.doi.org/10.1016/j.jimonfin.2015.10.001
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1. Introduction

Why do firms that meet the heavier regulatory environment of the Main Market choose the Alternative Investment Market (AIM), a lighter regulatory environment? This question motivates the undertaking of this study in an attempt to gain an understanding of the forces of its success that have sparked similar market developments in other countries.

Undoubtedly, the facts regarding AIM show that it is a growing market and has become very popular among corporations and investors despite the contentious views of stock exchange officials.[1] Between 1995 and December 2014, 3578 new and relatively small companies (2942 UK and 636 foreign) were listed on the AIM.[2] During the same period, only 1001 new companies listed on the Main Market (MM). The enormous growth of the lightly regulated AIM segment in London motivated other stock exchanges starting similar segments such as the Alternext market launched by NYSE-Euronext, and First North, part of the NASDAQ-OMX group of exchanges, which serves the Nordic and Baltic regions. The natural question that emerges from the growing number of companies listing their shares on the AIM is what motives and characteristics influence their decision to join AIM rather than the MM even when they meet the listing requirements of the latter. The main objective of this study is to address this question.

While a number of previous studies investigate different aspects of the second and prime security markets, they do not examine the listing choice of firms. For example, Affleck-Graves et al. (1993) study whether IPOs on different exchanges (NYSE, AMEX, NASDAQ/NMS, and NASDAQ/non-NMS IPOs) display similar underpricing.[3] They find evidence supporting the view that initial and continuing listing standards provide reliable information to investors about new issues and reduce uncertainty about firm prospects, thus lower underpricing. In a more related paper, Corwin and Harris (2001) analyse why IPOs choose NASDAQ or the NYSE and find that the two venues differ in listing fees and other market operations. They also report that small firms tend to join NASDAQ and less risky firms join NYSE, but they find little differences in terms of subsequent seasoned offerings.[4] A key difference with our study is that Corwin and Harris (2001) explore only the listing choice between NASDAQ and NYSE, but they do not model the IPO listing as a self-selection decision, like other corporate finance decisions, which makes it difficult to gain a comprehensive understanding of the reasons behind the market listing choice.[5] In addition, these studies examine IPO listings, either during the period of a growing US IPO market or in the course of stock exchange regulatory changes.[6] Our study is addressing the timely issue of exchange listing choice as a self-selection choice, like other corporate finance decisions when the AIM is growing while the US market for similar company listings is losing its competitive advantage.

In more recent studies, Mendoza (2008) argues that AIM covers a funding gap for companies whose characteristics deny them the opportunity of listing in senior markets such as LSE, NASDAQ and the NYSE. Vismara et al. (2012) analyse long-run share price performance, liquidity and survival rates of companies listed in Europe's second markets, and Gerakos et al. (2011) examine the same issues for AIM, LSE, NASDAQ and OTC Bulletin Board. A common theme in all these papers is that they compare markets across countries. Country-specific factors like taxes, regulation and market sentiment, however,

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[1] For example, Roel Campos, a Commissioner at the US Securities and Exchange Commission, in 2007 was quoted saying "I'm concerned that 30% of issuers that list on AIM are gone in a year. That feels like a casino to me and I believe that investors will treat it as such." Treanor, Jill "City hits out over US 'casino' jibe at AIM." *The Guardian*, 10 March 2007. Similarly, John Thain, chief executive of the New York Stock Exchange (NYSE), criticised AIM for its lack of regulation and corporate governance standards. Mr. Thain, speaking at the World Economic Forum in Davos, Switzerland, stated that AIM "did not have any standards at all and anyone could list." James Quinn, NYSE Chief attacks AIM, *The Telegraph*, 27 January 2007.

[2] AIM companies raised £39.39 billion in IPOs and £50.57 billion in SEOs. In contrast, MM companies raised £171.57 billion in IPOs and £365.12 in SEOs.

[3] They report significant levels of underpricing for all four trading systems, with the average levels being 4.82%, 2.16%, 5.56%, and 10.41% for the NYSE, AMEX, NASDAQ/NMS, and NASDAQ/non-NMS IPOs, respectively.

[4] Their analysis suffers from a look ahead bias, as in the probit regression they use the SEOs as an explanatory variable. At the time of IPO, however, the information on SEOs is not known; thus, their analysis is suffering from a look ahead bias.

[5] Corwin and Harris (2001) consider only SEOs after the IPO, while we consider SEOs, M&As, dividend payments and capital changes.

[6] In 1983, NYSE developed special listing procedures, making it is possible for some large IPOs to directly list on NYSE.

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