

DO SMES LISTED ON THE ALTERNATIVE INVESTMENT MARKET OUTPERFORM SMES LISTED ON EURONEXT?

Imanou Akala, University of Mons
Laetitia Pozniak, University of Mons

ABSTRACT

This paper examines the performance of small and medium enterprises (SMEs) listed on the Alternative Investment Market (AIM) with that of Euronext. The analysis compares SMEs in both markets using index prices for a period of 10 years Jan. 2010 to Dec. 2019 from Euronext (Paris and Brussels) and AIM, as well as SMEs own financial reports. CAPM and Fama and French three factor were applied using OLS regression analysis to capture the risks and returns of the two stock markets. The interpretation of Alphas and betas revealed that the Alphas, betas, and adjusted R square ranges in the CAPM model are less significant than those in Fama and French 3 factor model; the two models are more consistent with the Euronext than AIM. However, it is important to highlight that AIM SMEs overall performance in terms of risk and return is higher than those of Euronext.

JEL: M130, G1, C120, C220

KEYWORDS: Small and Medium Enterprises, Stock Markets, Index Prices, Financial Risk and Return, Unregulated Markets

INTRODUCTION

Access to finance remains one of the top challenges for small and medium enterprises (SMEs) in Europe (Beck & Demirguc-Kunt 2006; Bongini et al 2019). Thus, the goal behind the creation of unregulated stock markets is to overcome the existing financial gap by enabling SMEs access to financial resources (Carpentier and Suret 2010). However, in recent years the European SMEs initial public offering (IPO) is in constant decline. Additionally, it must be noted that pan-European unregulated stock markets such as Euronext Growth (formerly known as Alternext) or Euronext Access (formerly known as the Free Market) do not meet the same craze as their British counterparts (AIM: Alternative Investment Market) (Zachariadis, 2019). Prior studies compared the AIM London performances to its American, Japanese, and other counterparts in terms of listing conditions (Kashefi-Pour and Lasfer, 2011; Gerakos et al., 2013); economic performance (Vismara et al., 2012) functions (Granier et al. 2019) and financial disclosure (Pozniak et al. 2016) etc. Few studies have focused on comparing AIM London with other European unregulated markets dedicated to SMEs. Lagneau-Ymonet et al., (2014) in their comparison of AIM London and Alternext concluded that Alternext's performances are not as bad as critics have led to believe, and the organizational characteristics of AIM do not allow it to be a model for benchmark to unregulated stock markets dedicated to SMEs.

Risk and return are essential indicators in the evaluation of stock markets performance; higher risk is generally associated with a higher return, and lower risk is in parallel associated with a lower return. Thus, because of the uncertainty surrounding future market behaviors, enterprises willing to go public and investors looking for investment opportunities pay cautious attention to these trade-off factors between return and risk before taking any significant decision towards IPOs or shares acquisition. In this paper, we compare SMEs performance on AIM London which is the LSE's market for small and medium size growth

companies to its Euronext peer. Indeed, the AIM London is recognized in the literature for being the biggest in Europe, a benchmark and reference for the creation of other unregulated stock markets both at the local and global levels; markets such as First North in 2005; AIM Italia and AIM Japan in 2009 (Lagneau-Ymonet et al., 2014) The main contribution of our research is to assess AIM London's SMEs performance compared to its European counterparts in terms of risk and return. Subsequently, comparing the performance of AIM London SMEs to that of similar pan-European markets could provide a better understanding of the attractiveness and predominance of AIM London in European unregulated stock markets. We hypothesize that if it is true that AIM is the main European unregulated stock market, SMEs listed on AIM should overperform their European counterparts in terms of risk and return. The remainder of the paper is organized as follows. The first section reviews the literature. We present the characteristics of unregulated markets (their companies' profiles, the number of IPOs, the admission criteria, and operating rules) and the controversy about performance. Then we introduce the data and the methodology. The fourth section presents the analysis and results. And finally, the last section summarizes the most important findings.

LITERATURE REVIEW

SMEs makeup to 99% of the total number of businesses in the EU non-financial business sector, contributing to approximately 66.6% of employment and a value-added of 56.4 %. Yet, unlike large companies, SMEs face increasing challenges in accessing finance, hence limiting their ability to raise capital for their development and positively enable economic growth (Annual Report on European SMEs 2018/2019). Banks are traditionally known as businesses and much particularly SMEs' primary source of finance; with bank credits accounting for 53% while stock markets represent only 12 % (AFME, 2017). Making SMEs inextricably highly reliant on bank credits, to the extent that the 2008 financial crisis shrunk down the world economy, causing financial distress in the banking sector has also consequently dragged many SMEs into the same fate. Since then, SMEs access to finance has dramatically deteriorated with the new cautious regulations in the banking sector through Basel III and austerity policies (Wehinger, 2013; Udell, 2015; Colombo et al., 2016). Therefore, SMEs should significantly look for alternative sources of financing. Besides leasing, trade credit, loans from other companies, crowdfunding venture capital or business angels, and informal lending; stock markets aim to provide businesses with a platform to raise funds (Kraemer-Eis et al, 2019). For instance, to raise capital by issuing equity or debt securities which involves stringent listing requirements, high average transaction costs, and very complex regulatory frameworks, there are several regulated stock markets in Europe (London Stock Exchange: LSE, Euronext N.V, SIX Swiss Exchange, Frankfurt Stock Exchange, etc.). In their effort to develop and expand their activities, ambitious SMEs that are looking for financial means through stock markets must deal with operators who tend to focus on maintaining their market share by listing larger companies. Nevertheless, with fewer restrictions and easier listing rules, unregulated stock markets are more attractive to SMEs than regulated markets (Gupta & Saini, 2016; Eberhart, and Eesley, 2018). Therefore, the LSE created in 1995 AIM London with much less restricted admission criteria and listing rules. The success of the AIM in terms of organization and its resilience to the dot-com bubble have inspired the creation of junior markets such as First North in 2005; AIM Italia and AIM Japan in 2009 (Lagneau-Ymonet et al., 2014). Table 1 summarize the listing criteria of London Stock Exchange and AIM.

Table 1: The LSE and the AIM Listing Criteria

Conditions for admission	AIM	LSE Main List
Floating capital	No minimum	Minimum of 25% shares owned by the public
Financial information	No history required	3years history
% of entity activities supported by income	No	75%
Control over the majority of assets of the entity (3 years)	No	Yes
Sufficient working capital	Yes	Yes
Market capitalization	No minimum	£700 000 (€793 013)
Profitability	No	No
Role of the advisors	Nomad required during the IPO and after	A sponsor
Admission documents	Under the responsibility of the Nomad	Reviewed by the UKLA

Table 1 compares the listing criteria on the main market: London Stock Exchange and on the unregulated market: AIM. To go public on the LSE companies are required to have a minimum capitalization of €793013, disclosure of 3 years financial information, 75% of activities supported by income and a minimum of 25% shares owned by the public. However, for an IPO on AIM there is no mandatory requirements except from appointing a nominated advisor and prepare admission document in compliance with the AIM rules.

Inspired by the AIM success story, European stock exchanges also created junior markets dedicated to SMEs. Indeed, given the contribution of SMEs to European economic growth and the existing financial gap, in their effort to enable SMEs to raise capital in the stock market (previously difficult to access), the European Commission has promoted the creation of Pan-European unregulated stock markets such as, Euronext Access and Euronext Growth. Table 2 summarizes the listing requirements on those three markets.

Notwithstanding, several controversies have arisen over AIM London’s capacity in supporting SMEs (Revest and Sapio, 2012; Campbell & Tabner, 2014). Gerakos et al. (2013) in their investigation of the experience of firms listing and capital raising on AIM London compared to similar firms’ IPO on the Nasdaq and OTC Bulletin Board (OTCBB) concluded that the failure rate of companies listed on AIM London appears to be higher than that of its US counterparts. Espenlaub et al. (2012) studied SMEs IPO on AIM from 1995 to 2004 and found that 10.7% of companies are delisted from the AIM within five years of the IPO. An analysis by Kashefi-Pour and Lasfer (2011) on the characteristics of delisted firms from AIM London between 1995 and 2009 revealed that delisted firms have significantly higher leverage and are unable to issue securities or raise additional capital, which represents the major factor in their exit decision. In the same perspective, others evaluated AIM London’s economic performance; AIM London economic performance turns out to be negative and lower compared to Nasdaq, and OTCBB in the five years following the IPO, while it is positive for the main regulated market (LSE) (Gerakos et al., 2013; Vismara et al., 2012). Moreover, Cassia et al., (2009) demonstrated that AIM London is not a springboard for young innovative companies; and does not provide specific support to technology firms.

In the past decades, despite all the enthusiasm and promises surrounding the creation of those junior stock markets in Europe, SMEs IPO have been in constant decline. Before the 2008 financial crisis, from 2005 to 2007 the European Commission reported an average of €11 billion raised per year, up to an average of €2.8 billion raised annually from 2008 to 2015 with a considerable decline in the number of SMEs going public (300 from 2005 to 2007 versus 172 in 2016) (AEFM, 2017). This negative trend in European SMEs IPO is further unbalanced by the predominance of AIM London’s market share to that of the other Pan-European unregulated stock markets in terms of the number of IPO (AIM London represents 70% of total SMEs IPO in Europe) (Zachariadis, 2019). The drivers behind this downturn phenomenon are from SMEs side (the cost of going public continues to be high) and the investors’ side (junior markets are qualified as risky, volatile, and less liquid) (Lopez de Silanes, F et al; 2015).

Table 2: Euronext Listing Requirements

	Euronext European Regulated Markets	Euronext Growth (Prior Alternext)	Euronext Access (Prior Free Market)
Free float	Minimum of 25% of share capital or 5% if this represents at least EUR 5 million	EUR 2.5 million (public offer)	Not Applicable (N/A)
Track record	Three years financial statements	EUR 2.5 million (private placement within one year with a minimum of three investors) EUR 2.5 million (on another market) At least two years financial statements	Two years of financial statements recommended
Accounting standards	IFRS or equivalent accounting standards (including US, Canada, China and Japan)	EEA Company: IFRS or national GAAP	Optional IFRS or national accounting standards
Prospectus / Information Document	Prospectus approved by Competent Authority	Non-EEA Company: IFRS or equivalent accounting standards (in case of public offer) and IFRS, equivalent accounting standards (including US, Canada, China and Japan) or national accounting standards with reconciliation table (in case of private placement or direct listing)	Prospectus approved by the Regulator in case of a public offer
Financial Reporting	Audited annual and semiannual financial statements Price sensitive information	Limited number of threshold declarations: 25, 30, 50, 75 and 95% of voting rights	No reporting of periodic obligations Price sensitive information
Declaration	Multiple threshold declarations: Multiples of 5% of voting rights		No reporting of major holdings
Insider List	Yes	Yes	Yes
Declaration of Manager Transactions	Yes	Yes	Yes

Table 2 compares the listing requirements on Euronext markets: the regulated market called Euronext and the two unregulated markets : Euronext Access and Euronext Growth. Access to the regulated Market requires a minimum floating of 25% of share capital, disclosure of 3 years financial information, and compliance with the IFRS accounting standards. The requirements for Euronext growth are a EUR 2.5 million minimum floating, disclosure of 2 years financial information, and a compliance with IFRS accounting standards. However, for Euronext Access there is no floating minimum requirement nor a financial

To meet the specific needs and requirements of investors or SMEs, unregulated stock markets rules and regulations differ among EU markets, which consequently influence not only their development but also their performances. The European markets become diversified with stock markets competing with and with large banks and investment firms. With the success and all the controversies surrounding AIM London, this paper instead seeks the answer of whether AIM overperforms other pan-European unregulated stock markets in terms of risks and returns. In modern times, performance evaluation of stocks through the estimation of portfolio risk and return was introduced by Harry Markowitz in 1952. The objective of the model that he developed is to reduce the risk as much as possible for a given level of return. Hence in the 1960s, the Capital Asset Pricing Model was independently studied by Treynor Sharp, Linter and Mossin in 1960. Their motivation was based on a criticism to the Markowitz model since the model provides global prediction while disregarding the information present on the market at equilibrium. Therefore, the CAPM is a slightly less ambitious theory which allows prediction at a local level, consistent with the market equilibrium of stocks supply and demand. Empirical tests of CAPM often found factors that influenced a portfolio performance that were not explained by the model. As a solution to that anomaly, the Fama and French model was initially introduced in 1996 adding size risk and value risk factors to the CAPM market risk factors. This model considers the fact that SMEs stocks regularly outperform the market. Yet, there is

a lot of debate about whether the Fama and French 3-factor model outperformance tendency is due to market efficiency or market inefficiency.

In recent years, scholars have included other factors to the original 3-factor model of Fama and French. For instance, giving a small improvement in the explanatory power compared to the three-factor model. As the name suggests, the Cahart four-factor model proposed by Mark Carhart adds a fourth factor WML, which stands for Winners Minus Losers, factor to the Fama and French 3-factor model. This fourth factor is the momentum is defined as the tendency for assets to fluctuate: rising or falling (Cahart, 1997). In 2015, Fama and French adapted their model to include five factors by adding two new factors to their classic 3-factor model and found out that it performs better than their previous model. Those two additional factors are profitability (stocks with a high operating profitability perform better) and an investment factor (stocks of companies with the high total asset growth have below average returns). However, their five-factor model's main problem is its failure to capture the low average returns on small stocks whose returns behave like those of firms that invest a lot despite low profitability (Fama & French, 2015). For this study, we will focus on CAPM and Fama and French 3-factor model to conduct our analysis.

DATA AND METHODOLOGY

To carry out our empirical study, we collected monthly historical index prices of SMEs constituents for a period of 10 years Jan. 2010 to Dec. 2019 from Euronext (Paris and Brussels) and LSE available on the Bureau van Dijk database, 120 observations. We obtained the Fama French factors from the monthly data available on Fama & French website (Fama/French European, 3; 4; momentum) which includes the risk-free rate and the market premium. Companies' own financial reports (monthly stock prices, book-value, market capitalization and shares outstanding) and index prices have been gathered from Oribis Bureau van Dijk's flagship company database. The selection of SMEs constituents of each stock market is based on the EU definition of SME (total employees of fewer than 250, a turnover of fewer than € 50 million and a total balance sheet of fewer than € 43 million). Based on our selection criteria, we found 215 SMEs listed on Euronext (Paris: 200, Brussels: 15) and 334 on LSE (AIM London). Unfortunately, the index prices and financial reports of all the selected companies are not available on the database. Therefore, our dataset consists of 30 companies from each stock market.

The companies are sorted into groups. Size factor with two groups (Small and Big). BE/ME factor with three groups (Low, Medium, and High). Portfolios average returns are used to create the SMB (small minus big), HML (high minus low) factors. OLS time regression analysis is used to estimate the alpha and beta values for $R_m - R_f$, SMB, HML for the 4 models. We used Excel to calculate the return, and standard deviation of each individual index. Afterwards, we construct a monthly market cap-weighted portfolio for both constituents, calculate the portfolio's return (used to create SMB and HML factor), excess return, and apply CAPM and F&F 3 factors (1993 using OLS regression. Then, report the alphas of each model and interpret all the betas. We constructed SMB and HML by dividing our data into two (0 to 50% and 50 to 100%) and BE/ME ratio (Low: 0-30%, Medium: 40-70% and High: 70-100%). The SMB and HML sort produced 6 value weighed portfolios. The WML is the companies' monthly average returns (Loser: 0-30%, Medium: 40-70% and Winner: 70-100%).

$$SMB = 1/3 (Small Value + Small Neutral + Small Growth) - 1/3 (Big Value + Big Neutral + Big Growth). \quad (1)$$

it is the difference between the expected return of a portfolio of small capitalization and that of a portfolio with big/large capitalization.

$$HML = \frac{1}{2} (Small Value + Big Value) - \frac{1}{2} (Small Growth + Big Growth) \quad (2)$$

It is the difference between the expected return of a portfolio with a high book value / market value ratio and a portfolio with a low book value / market value ratio.

Capital Asset Pricing Model (CAPM)

Even with the “don’t put all your eggs in the same basket” concept, investors always bear some level of risks no matter how they diversify their investment. William Sharpe, John Lintner, Jan Mossin and Jack Treynor introduced in the early 60s the CAPM which helps to calculate investment risk and what return on investment an investor should expect.

The CAPM function:

$$E(R_i) = R_f + \beta_i [E(R_m) - R_f]. \quad (3)$$

where:

$E(R_i)$: expected return of investment

R_f : risk-free rate

R_m : Return of the market portfolio.

β_i : beta of the investment

$[E(R_m) - R_f]$: market risk premium

The regression function:

$$R_i - R_f = \alpha + \beta_1 (R_m - R_f) + \varepsilon_i \quad (4)$$

where:

R_i : return on asset i

R_f : risk-free rate

R_m : Return of the market portfolio

α : intercept of the regression line

β_1 : Beta value of the independent variable $(R_m - R_f)$

ε_i : residuals of the regression model

Due to its simplicity and utility, the CAPM still remains popular despite its failing numerous empirical tests and its problematic assumptions (Graham and Campbell, 2001; Fama & French, 2004). For example, the model cannot explain all the returns for a portfolio consisting of various stocks. Since 1992 Fama and French developed models which are more modern approaches that improved the explanatory power for portfolio returns in comparison to the CAPM. They found two anomalies “*If asset prices are priced rationally, our results suggest that stock risks are multidimensional. One dimension of risk is proxied by size (ME). Another dimension of risk is proxied by BE/ME*”. (Fama & French 1992: 2).

Fama-French Three-factor Model

The Fama and French 3-factor model expanded the original CAPM model by adding size risk and value risk factors to the CAPM market risk factors. Which means, the three factors used are SMB, HML and the portfolio's return minus the risk-free rate of return.

Regression function:

$$R_i - R_f = \alpha + \beta_{1i} (R_m - R_f) + \beta_{2i} (SMB) + \beta_{3i} (HML) + \varepsilon_i \quad (5)$$

where:

R_i : return on asset i

R_f : risk-free rate

R_m : Return of the market portfolio.

α : intercept of the regression line

β_1 - β_3 : Beta value of $(R_m - R_f)$, (SMB) and (HML)

(SMB): Return of the size factor (small minus big)

(HML): Return of the BE/ME factor (high minus low).

ϵ_i : residuals of the regression model

Yet, there is a lot of debate about whether the Fama and French 3-factor model outperformance tendency is due to market efficiency or market inefficiency.

RESULTS

Capital Asset Pricing Model (CAPM)

In this section yearly and the whole period's (2010-2019) returns, excess returns, of portfolios A and B will be presented (see Table 3). The Beta and Alpha coefficients will be interpreted.

Table 3: Yearly Return and Excess Return of Portfolio A and Portfolio B

	Return		Excess Return	
	Portfolio A EURONEXT (Unregulated)	Portfolio B LSE / AIM London	Portfolio A EURONEXT	Portfolio B LSE / AIM London
31/12/2010	2.680%	1.983%	2.671%	3.374%
31/12/2011	0.501%	-6.996%	0.497%	-2.543%
31/12/2012	2.268%	9.370%	2.268%	5.016%
31/12/2013	2.268%	9.809%	2.268%	10.869%
31/12/2014	1.084%	-3.453%	1.084%	-3.459%
31/12/2015	1.710%	6.027%	1.709%	1.341%
31/12/2016	2.101%	12.243%	2.084%	12.611%
31/12/2017	2.577%	6.380%	2.511%	7.615%
31/12/2018	-1.992%	18.966%	-2.141%	15.828%
31/12/2019	1.803%	-12.251%	1.626%	-11.117%
2010-2019	1.50%	4.20%	1.45%	3.90%

Table 3 shows yearly returns and excess returns of portfolio A and B from 2010 to 2019. We constructed monthly market cap-weighted portfolio with SMEs listed on both Euronext (portfolio A) and AIM London/LSE and (portfolio B) and calculated the return and excess return of both portfolios on a yearly basis. Although the returns and excess of portfolio A are poor compared to portfolio B, portfolio A stocks a less risky than that of portfolio B.

As we can see in figure 1 and figure 2 below, almost all annual returns and excess returns of portfolio A are inferior to portfolio B's annual returns and excess returns. Likewise, Portfolio B's returns, and excess returns are higher than those of portfolio B. However, portfolio A' values are closer to their mean than

those of portfolio B with monthly returns standard deviation of portfolio A = 4.42% and portfolio B = 44.24.

Figure 1: Yearly Return of Portfolio A and Portfolio B

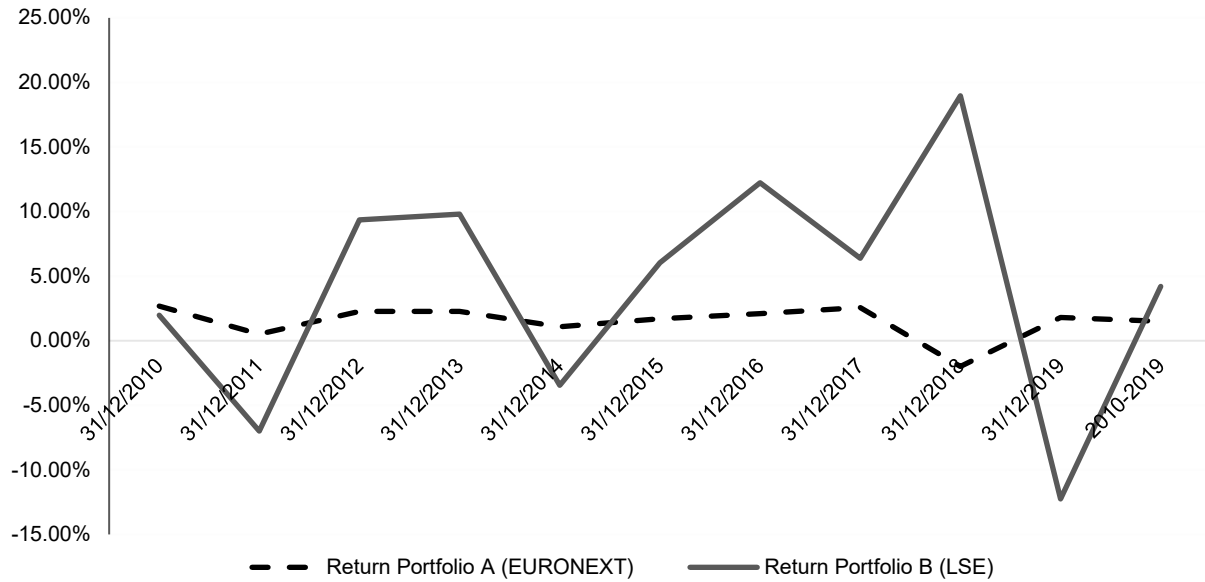


Figure 1 shows yearly returns of portfolio A and B from 2010 to 2019. Almost all annual returns of portfolio A are inferior to portfolio B's annual returns. However, in terms of risk, Portfolio A's is less risky than portfolio B. Hence, Risk averse investor would prefer investing in Portfolio A stocks than in portfolio B.

Figure 2: Excess Return of Portfolio A and Portfolio B

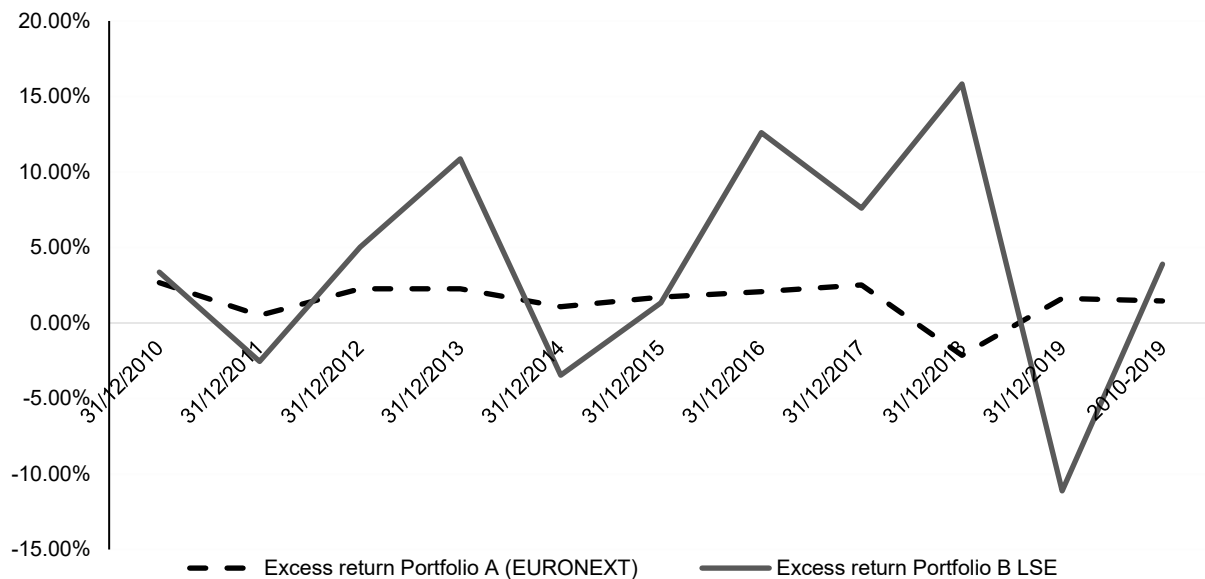


Figure 2 shows excess returns of portfolio A and B from 2010 to 2019. Almost all excess returns of portfolio A are inferior to portfolio B's excess returns. However, in terms of risk, Portfolio A's is less risky than portfolio B. Hence, Risk tolerant investor would prefer investing in Portfolio B stocks than in portfolio A.

The OLS regressions (see Table 4) output show that the portfolio A' β is positive and < 1 with an intercept $\alpha = 0.011$; this implies that portfolio A is less volatile and performed poorly compared to the market. Portfolio B' β which is also positive but > 1 has an $\alpha = 0.029$, which means that portfolio B is more volatile and outperforms the market, therefore, more exposed to economic fluctuations. Contrary to portfolio B, The P-values of portfolio A are $< 5\%$ which means significant. The CAPM therefore failed to explain the returns of portfolio B which has significant P-values $> 5\%$. Moreover, considering the range of adjusted R squares for both portfolios, the CAPM model does not efficiently capture the excess returns variations and the associated risks.

Table 4: CAPM Regression Result

	β	α	P-value (X Variable)	P-value (Intercept)	R Square	Adjusted R Square	Observations
Portfolio A	0.5227	0.0110	0,0000712***	0.0016	0,30554862	0.2996	120
Portfolio B	16.167	0.0295	0.0608	0.4652	0,034319365	0.0214	

Table 4 shows the regression results of monthly excess returns with the market premium from 2010 to 2019 for portfolio A and B. The results of our linear regression display a positive β and α for both portfolio with Portfolio A' $\beta < 1$ and portfolio B' $\beta > 1$, however, Portfolio A' α is inferior to Portfolio B' α . The P value of portfolio A is far less than 5% compared to that of portfolio B.

The Fama and French 3-factor regression (see Table 5) show a decreasing β range between 0.45 and 0.10 and an average R Square of 0.434 which is more significant compared to the CAPM adjusted R Squares. The β range implies that SMB companies with a small market cap generate higher returns than the HMB. This result is consistent with the Fama and French 3-factor (1993).

Table 5: Euronext Constituents Fama and French 3-Factor Regression

	β	α	P-value	Adjusted R Square	R Square
SL	0.5527	0.0018	0.0018	0.4342	0.4431
SM	0.6473	-0.0568	0,0007	0.2936	0.3260
SH	0.4083	-0.0384	0.0162	0.5537	0.5473
BL	0.1231	-0.0573	0.3849	0.4987	0.5227
BM	0.2520	0.0384	0.3473	0.4421	0.4212
BH	0.2053	-0.0034	0.0464	0.4213	0.3473

Table 5 displays the regression results from 2010-2019 for the six portfolios constructed from Euronext constituents of the dataset. After constructing a monthly market cap-weighted portfolio Euronext constituents, we calculated the portfolio's return (used to create SMB and HML factor), excess return, and applied CAPM and found that Portfolio A β range between 0,45 and 0,10 with an average R Square of 0,434

The Fama and French 3-factor regression (see Table 6) show an increasing β range between 0.71 and 1.97 and an average R Square of 0.513. Contrary to the Euronext constituents β range, LSE displays abnormal excess returns which are not consistent with the Fama and French 3-factor. This implies that although Euronext constituents' portfolios earn less returns compared to LSE, it allows small cap companies to outperform value portfolios with high book to market ratios.

Table 6: LSE Constituents Fama and French 3-factor Regression

	β	α	P-value	Adjusted R Square	R Square
SL	1,9799	-0,0115	0,0019	0,5689	0.5768
SM	0,7004	0,0053	0,01317	0,4571	0.5571
SH	1,7295	-0,0384	0,0017	0,6112	0.5879
BL	0,8212	0,0104	0,0666	0,5227	0.6243
BM	0,82	-0,0384	0,0501	0,4074	0.5633
BH	0,7112	0,0011	0,0464	0,5111	0.5121

Table 6 displays the regression results from 2010-2019 for the six portfolios constructed from LSE constituents of the dataset. After constructing a monthly market cap-weighted portfolio AIM London constituents, we calculated the portfolio's return (used to create SMB and HML factor), excess return, and applied CAPM and found that Portfolio A β range between 0,71 and 1,97 with an average R Square of 0,513.

CONCLUSION

Since AIM London has been a reference for the creation of many other junior markets in Europe and elsewhere, unregulated stock markets are gaining more attention as a possible alternative for SMEs to access financial resources for their development and reduce their banks' dependence. We assessed the performance of SMEs enterprises listed on the AIM London and Euronext. The goal was to investigate which of both markets is more profitable to SMEs in terms of risks and return for a period of 10 years, from 2010 to 2019. Different portfolios were constructed from each market's SMEs constituent, and we applied CAPM and Fama & French 3 factor model using OLS regression analysis. We discovered that AIM SMEs overall performance in terms of risk and return is higher than those of Euronext.

The empirical results also revealed that the Alphas, betas, and adjusted R square ranges in the CAPM model are less significant than those in Fama and French 3 factor model. Additionally, the two models are more consistent with the Euronext than the AIM. It is also important to highlight that despite scholars and academics recommendation to make use of the Fama and French Model to estimate portfolio risk and return, portioners are in favour of the CAPM. As a limitation, it is important to highlight that this study does not include all the SMEs listed in both markets, likewise the sector of activity of the companies has not been taken into consideration. Besides the comparison of SMEs performance in both stock markets, further investigations need to be conducted to understand the reason behind SMEs choice of going public on AIM London Instead of Euronext. From the above results, although there is clear evidence that SMEs Listed on the AIM outperform those on Euronext in terms of risk and return, this may not be the main factor that explains attractivity and predominance of AIM London in European unregulated stock markets. The listing conditions of unregulated stock markets (AIM London, Euronext Growth and Euronext Access) are less stringent compared to the primary stock markets (LSE and Euronext). Furthermore, it must be noted that in comparison to Euronext Growth and Euronext Access, AIM London IPO requirements are more attractive. For instance, where a EUR 2.5 million floating capital and two years of financial statements are request from SMEs to go public on Euronext unregulated market, such requirements are not imposed on SMEs IPO on AIM London. Thus, Policy makers and market regulators in Europe should take decisions to set adequate regulatory actions aiming to facilitate IPOs and alleviate burden on listed SMEs. This will motivate SME managers to choose Euronext in their decisions to go public instead of AIM London. Furthermore, to easy SMEs capital raising, regulators should commit to reducing SMEs dependency on bank loans by diversifying their source of financing.

REFERENCES

- AFME, The shortage of Risk Capital for Europe's High Growth Businesses, 2017.
<https://www.afme.eu/portals/0/globalassets/downloads/publications/afme-highgrowth-2017.pdf>
- Annual Report on European SMEs 2018/2019 Research & Development and Innovation by SMEs Background Document
- Beck, T., and Demirguc-Kunt, A. (2006) "Small and medium-size enterprises: Access to finance as a growth constraint", *Journal of Banking & Finance*, vol.30, p. 2931-2943.
- Bongini, P., Ferrando, A., Rossi, E., and Rossolini, M., (2019) "SME Access to Market-based Finance across Eurozone Countries." *Small Business Economics* 56.4 1667. Web.
- Campbell, K. and Tabner, I. (2014) "Bonding and the agency risk premium: An analysis of migrations between the AIM and the Official List of the London Stock Exchange", *Journal of International Financial Markets, Institutions and Money*, 30 (1), pp. 1-20
- Carhart, Mark M. (1997) "On Persistence in Mutual Fund Performance." *The Journal of Finance (New York)*, vol. 52(1), p. 57-82.
- Carpentier, C., and Suret, J. M. (2010) "Entrepreneurial equity financing and securities regulation: An empirical analysis." *International Small Business Journal*, vol. 30, p. 41-64.
- Colombo, M. G., Cumming, D. J., and Vismara, S. (2016) "Governmental Venture Capital for Innovative Young Firms", *The Journal of Technology Transfer*, vol. 41(1), p. 10-24.
- Eberhart, R. and Eesley, C. (2018) "The Dark Side of Institutional Intermediaries: Junior Stock Exchanges and Entrepreneurship", *Strategic Management Journal*, July 19, 2018.
- Espenlaub, S.; Khurshed, A., and Mohamed, A., (2012), "IPO Survival in a Reputational Market", *Journal of Business Finance & Accounting*, 39, (3-4), 427-463
- Fama, E. F. and French, K. R. (1992) "The Cross-Section of Expected Stock Returns." *Journal of Finance*, vol. 47(2), p. 427-465
- Fama, E. F. and French, K. R. (2004) "The Capital Asset Pricing Model: Theory and Evidence". *Journal of Economic Perspectives*, vol. 18 (3), p. 25-46.
- Fama, E. F. and French, K. R. (2015) "A Five-Factor Asset Pricing Model", *Journal of Financial Economics*, vol.116, p. 1-22.
- Gerakos, J., Lang, M. and Maffett, M. (2013) "Post Listing Performance and Private Sector Regulation: The Experience of London's Alternative Investment Market", *Journal of Accounting and Economics*, vol. 56, p. 189-215.
- Graham, J. and Campbell, H. (2001) "The theory and practice of corporate finance: evidence from the field.", *Journal of Financial Economics*, vol. 60, p. 187-243.
- Gupta, V., and Saini, J.S. (2016) "IPO Financing: An alternative source of financing for SMEs in current era" *Journal of Business and Management*, vol.18(7), p. 119-125.

- Kashefi-Pour, E., & Lasfer, M. (2011) “The Impact of Leverage on the Delisting Decision of AIM Companies” SSRN Electronic Journal, 1–60.
- Kraemer-Eis, Helmut; Botsari, Antonia; Gvetadze, Salome; Lang, Frank; and Torfs, Wouter (2019) “European Small Business Finance Outlook”, *EIF Working Paper*, No. 2019/61.
- Lagneau-Ymonet, P., REZAEI, A., and RIVA, A. (2014) “Is the Proof of the Pudding in the Eating?”, *Revue d'économie financière*, vol. 114(2), p. 189-206
- Lopez de Silanes, F, McCahery, J., Schoenmaker, D. and Stanistic, D. (2015) “The European Capital Markets Study: The Estimation of the Financing Gap of SMEs”, *Duisenberg School of Finance, Amsterdam*.
- Pozniak, L., Bellanca, S., and Vullo, F. (2016) “Determiners of internet financial communication: Evidence from AIM Italia”, *International Advances in Economic Research*, vol. 22, p. 111–112. <https://doi.org/10.1007/s11294-015-9555-7>
- Revest V. and Sapio A. (2013) “Does the Alternative Investment Market Nurture Firm Growth? A Comparison between Listed and Private Firms”, *Industrial and Corporate Change*, vol. 22(4), p. 953-979.
- Granier, C., Revest, V. and Sapio, A. (2019) “SMEs and Junior Stock Markets: A Comparison between European and Japanese Markets” *Journal of Innovation Economics & Management*, 29(2), p. 43-67. <https://doi.org/10.3917/jie.029.0043>
- Udell Gregory F. (2015) “Issues in SME Access to Finance Issues in SME Access to Finance” Retrieved from <http://european-economy.eu/leading-articles/issues-in-sme-access-to-finance-by-gregory-f-udell/>
- Vismara, S., Paleari, S. and Ritter, J.R. (2012) "Europe's Second Markets for Small Companies." *European Financial Management: The Journal of the European Financial Management Association*, vol.18(3), p. 352-88.
- Wehinger, G. (2013) “SMEs and the credit crunch: Current financing difficulties, policy measures and a review of literature OECD” *Journal: Financial Market Trends*, vol.2
- Zachariadis, L. (2019) “Enabling SMEs' access to capital markets” *European Parliamentary Research Service, Members' Research Service*, PE 630.311.

BIOGRAPHY

Imanou Akala is PhD student in Business Management at Warocqué School of Business and Economics, University of Mons. He studies unregulated markets among Europe and SME performance. Besides his doctoral research, he works as a senior analyst in a commercial bank.

Laetitia Pozniak is Associate Professor in Finance at Warocqué School of Business and Economics, University of Mons. She teaches finance at both bachelor and master level. Her doctoral thesis was about unregulated market in Belgium. Her research interests are SME performance, CSR, investor behavior and grounded theory.