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UNVEILING GROWTH DIVERGENCE ON LSE: FTSE100 VS. AIM LISTED COMPANIES

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Abstract

The aim of the article is to show differences in the growth process that translates into growth potential in groups of enterprises listed on the main and alternative markets of the London Stock Exchange. The study covered companies included in the Financial Times Stock Exchange 100 Index (FTSE 100), as well as companies listed on the Alternative Investment Market (AIM). Based on the results of statistical analysis including correlation and regression analysis of panel data, it was found that companies listed on the alternative exchange (AIM) were characterized by higher growth potential and faster growth than those listed on the main market (FTSE 100). The added value of the article is related to results indicating that there is a difference in the growth process between companies traded on both markets. This conclusion can be useful for investors expecting the growth of share value in the investment process.

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Introduction

The growth of enterprises is important in their valuation, where factors that influence this process are taken into account. The research problem in the presented article covers the topic of enterprises that are divided according to their level of development. Mature companies are those that are included in the FTSE100 index, while less mature, smaller firms are listed on the alternative exchange and are included in the AIM index. Smaller companies can operate in the niche, or they can grow quickly on the basis of their innovative product with the financing obtained on the alternative stock exchange. Capital supporting the commercialization process can lead to a rapid increase in assets when investment projects are implemented and, as a consequence, sales and earnings per share (EPS) growth, if the investments are efficient. Growth understood in this way should translate into an increase in the fundamental value and thus the market price, if the market is efficient. Taking into account the growth process in the group of less mature enterprises, investors expect that the capital they invest will bring higher benefits in the form of rates of return in the future, therefore, the growth potential in this group should be higher. However, the growth process may be different depending on the type of company and, consequently, the stock exchange on which it is listed. The presented research covers enterprises included in the Financial Times Stock Exchange 100 Index (FTSE100) and in the Alternative Investment Market (AIM) index. The main differences between companies included in the FTSE 100 and the AIM index on the London Stock Exchange lie in their size, stage of development, and regulations. FTSE 100 companies are large, well-established companies with a strong track record. These are typically blue-chip companies that are household names in the UK and often globally. The FTSE 100 comprises the 100 largest companies by market capitalization listed on the London Stock Exchange and are under stricter listing requirements, including financial performance benchmarks and corporate governance standards. These companies are generally considered less volatile due to their established nature. On the other hand, companies included in the AIM index are smaller, with high growth potential. These can be young, innovative companies or established firms looking to raise capital for expansion. The AIM is a much broader market with over 800 companies listed and there are less stringent listing requirements compared to the FTSE 100, making it easier for smaller companies to list. This market is generally considered more volatile due to the higher growth potential and inherent risks associated with smaller companies. The FTSE 100 is like the Premier League of UK stocks - established giants with a proven track record. The AIM is like the Championship League - smaller, ambitious companies with the potential to become future giants, but also with a higher risk of failure. Forecasting growth in both groups may have different rules due to differences in the companies and markets on which they are listed, consequently, it may influence investment decision-making.

The expected growth process is related to the growth potential that investors are interested in. Growth potential ratios are based on investors' expectations and should be related to the future growth (Danbolt et al., 2011). The correlations between the measures of growth and measures of growth potential show whether investors' expectations meet the future growth of companies. Earlier research (Pietraszewski et al., 2023) found that companies included in the AIM index are more predictable in terms of business operations (e.g., growth of assets, equity, and sales) and companies included in the FTSE100 index in terms of earnings growth. It can be concluded that growth opportunity measures are significantly related to the growth of value of companies as measured by EPS growth. The EPS growth is lower in smaller firms as measured by market value and we can conclude that mature companies with higher capitalization are value drivers on a capital market. This statement was confirmed by the results referring to the lower impact of assets growth on the FTSE100 index included companies compared to the alternative AIM market.

The article attempts to show the differences between enterprises according to the exchange upon which they are listed, which translates into the growth potential and the possibility of predicting their development. In the research part the hypothesis that there is a difference regarding the growth dynamics, potential, consistency and factors affecting the EPS growth in both groups of companies included in the FTSE100 and AIM indices is tested. The article consists of an introduction, a literature review, a description of the data and research methods, results, and conclusions.

Literature review

A company's growth is related to its value management, and therefore the expected growth should be included in every strategy (Doyle, 2009). According to Lotti et al. (2003), value is also related to its internal growth, which may be balanced and stable (e.g., in mature companies) or fast and dynamic (e.g., in younger companies). A company's growth is most often described as quantitative (Patton, 2005; Barringer et al., 2005), while its development is qualitative (Vaismoradi et al., 2016). A company's development is related to expanding its competencies (Troisi et al., 2020), and there is also a feedback loop between growth and development. Miller and Modigliani (1958) recognized

that a company's value comprises the value of assets and the flows they generate, as well as the value of the growth potential. For the company to grow, future investment projects must have a rate of return that exceeds the cost of capital (Chen 2019; Irawan et al., 2023). Long-term growth potential depends on the company's return on equity and the retained net profit rate (Brusov et al., 2021; Lucky, 2019; Rahim et al., 2021; Kamila et al., 2021). A key factor that affects growth potential and its possibilities is company size (Perdana et al., 2022), which therefore determines its growth and its stability (Baskaran et al., 2019; Holliday, 2001).

Small companies are typically characterized by greater flexibility and agility to quickly pivot their business strategies and seize new opportunities, which can lead to faster growth (Gherghina et al., 2020; Fitriasari, 2020; Saputra et al., 2022). However, as noted by Achim et al. (2022), this can also result in more chaotic and unpredictable growth patterns, as small companies which may not have established processes and structures in place to handle rapid expansion. Investors who focus on small companies are often willing to take on more risk in exchange for potentially higher rates of return (Côté et al., 2022; Fisch et al., 2021). As a result, investors can demand a higher rate of return to compensate for the additional risk (Salm et al., 2016; Baker et al., 1977; Merikas et al., 2004). Small businesses are often in the early stages of growth and may not have a proven track record or market position, increasing the risk for investors (D'Angelo, 2019). In exchange for taking on this risk, investors typically expect higher returns when investing in small businesses as they have the potential for significant growth and can provide investors with a greater return on their investment if the business is successful (Smith et al., 1994; OECD, 2010a, 2011a). As shown by Dunne and Hughes (1994), large companies tend to grow more slowly and steadily because they have already established themselves on the market and have a solid customer base. They may also have more established processes and structures in place to manage growth, which can make it easier for them to scale up in a sustainable way (Lazonick, 2017; Chesbrough, 2019).

In general, both small and mature companies are characterized by their own unique strengths and weaknesses when it comes to growth (Klein et al., 2021). Small companies may be more nimble and able to take advantage of new opportunities, but they also face greater uncertainty and risk. Large companies may grow more slowly, but they also have more stability and resources to weather market fluctuations (Weingaertner et al., 2014). Some of the factors that can influence small business growth include business strategy, financial management, market conditions, human resources and technology (Beck et al., 2006). Investors may be interested in supporting innovative ideas, contributing to job creation, or making a positive impact in their community. This can be particularly true for impact investors or those who are interested in socially responsible investing (Skalicka et al., 2023; Khanka et al., 2022). However, investors must carefully evaluate the risks and rewards before making an investment and should have a clear understanding of the business and its growth potential (Zinecker et al., 2022).

Large companies have more resources and can leverage economies of scale to maintain a competitive advantage (Nosratabadi et al., 2019). Bocken et al. (2019) presented several reasons why large companies tend to grow more slowly and more steadily while mentioning market saturation, bureaucracy, risk aversion and focus on profitability. However, mature companies can still achieve significant growth through strategic investments, mergers and acquisitions, and other initiatives that leverage their resources and market position (Alvino et al., 2021). Wennberg (2013) found that larger companies tend to grow more slowly than smaller ones. However, smaller companies had higher growth rates than larger ones. Fors Connolly et al. (2021) found that small businesses tend to have higher growth rates than large businesses in the early stages of their development. However, they also found that larger businesses tend to have more stable growth rates over the long term. Roh et al. (2022) found that larger firms tend to be less innovative than smaller firms.

These studies suggest that while large companies may grow more slowly and more linearly than small companies, they can still achieve significant growth through strategic investments, mergers and acquisitions, and other initiatives that leverage their resources and market position. However, larger companies may be more risk-averse and less innovative than smaller ones, which can affect their ability to achieve rapid growth (Di Vaio et al., 2020; Streimikiene et al., 2021).

Methodology

This paper examines companies listed on the London Stock Exchange (LSE) and included in the AIM and FTSE100 indexes. Data come from Bloomberg's database. The analysis includes data on the FTSE 100 1971–2019 and AIM 1980–2019 (up to the outbreak of COVID -19). Data for the AIM and FTSE100 indices are analyzed from the beginning of the public trading, which is due to the asymmetry of the sample. Share prices have been adjusted to reflect changes in capital from subscription rights, dividends, and divisions. The database contains 2584 observations (year-on-year) for the FTSE100 and 1794 observations for AIM.

However, due to the lack of the required data, these databases did not allow us to calculate the growth opportunity indicators for all company/year observations. In this paper, the growth of companies is represented by the growth of assets, equity, sales, and EPS. The growth rate of assets, equity, and sales for one, three, five, eight, and ten years is calculated by the following formula:

$$\Delta X_{+n} = \frac{X_n - X_0}{X_0} \quad (1)$$

Where: n = 1, 3, 5, 8, 10, accordingly, and X_n denotes the total assets, equity, or sales at the end of n years after the year in which the total earnings equal X_0.

The growth rates of earnings per share are determined as follows:

$$\Delta EPS_{+n} = \frac{EPS_n - EPS_0}{TA_0} \quad (2)$$

where: EPSn is earnings per share in n years after year 0. Earnings growth is calculated in relation to asset size (TA) since earnings can be negative and affect the results.

The descriptive statistics of the growth indicators for both groups of companies are presented in Tables 1 and 2.

Table 1: Statistical characteristics of future growth measures for the FTSE100 companies

	N	Mean	Median	SD	Min	Max	Q1	Q3
gTAS1	2356	0.071000	0.025900	0.13150	-0.171300	0.70280	0.000000	0.119000
gTAS3	2196	0.264700	0.161600	0.37740	-0.295300	2.09300	0.035700	0.370900
gTAS5	2034	0.506600	0.323000	0.66500	-0.318600	3.64840	0.096600	0.684600
gTAS8	1791	0.975400	0.593900	1.19370	-0.339400	6.20710	0.189600	1.259400
gTAS10	1634	1.372200	0.831400	1.62820	-0.304700	8.97480	0.284700	1.788000
gSA1	2372	0.066900	0.032200	0.11890	-0.228400	0.52180	0.000000	0.124200
gSA3	2210	0.229700	0.166100	0.32020	-0.360100	1.55060	0.029100	0.353100
gSA5	2049	0.418300	0.290900	0.52880	-0.422900	2.37110	0.057300	0.635300
gSA8	1807	0.786700	0.516500	0.91760	-0.378500	4.27950	0.129300	1.156400
gSA10	1650	1.084400	0.717000	1.22530	-0.394900	6.00300	0.201400	1.583200
gEQ1	2356	0.071800	0.026700	0.19810	-0.541000	1.12100	0.000000	0.133800
gEQ3	2195	0.251900	0.170600	0.49310	-0.999400	2.52830	0.000000	0.390700
gEQ5	2034	0.447600	0.302800	0.77040	-1.614700	4.34440	0.001200	0.675600
gEQ8	1791	0.831100	0.523500	1.25180	-3.754700	6.42340	0.050900	1.153000
gEQ10	1633	1.164100	0.702300	1.65470	-3.856600	7.82630	0.118600	1.630000
gEPS1	2303	0.000017	0.000001	0.00006	-0.000166	0.00032	0.000000	0.000023
gEPS3	2143	0.000057	0.000014	0.00014	-0.000320	0.00079	-0.000004	0.000077
gEPS5	1983	0.000100	0.000023	0.00022	-0.000354	0.00120	-0.000003	0.000123
gEPS8	1745	0.000183	0.000034	0.00039	-0.000317	0.00251	-0.000003	0.000203
gEPS10	1592	0.000247	0.000040	0.00053	-0.000318	0.00332	-0.000001	0.000261

Notes: The growth rates are in real numbers. They need to be multiplied by 100 to find the percentage. The more than one-year growth rates are total rates for those time horizons, not annualized

Source: Author's own work.

The data presented in Tables 1 and 2 confirm that, as expected, assets, sales, equity, and EPS grow much faster in the companies listed on the AIM than in the FTSE100 companies; both the average and median growth rates are higher for all time horizons. The variation within the sample is higher for AIM companies than for the FTSE100 companies – the standard deviation is higher, and the intervals between the minimum and maximum values are wider.

Table 2: Statistical characteristics of future growth measures for the AIM companies

	N	Mean	Median	SD	Min	Max	Q1	Q3
gTAS1	1624	0.153800	0.0424	0.2844	-0.2454	1.5922	0.000000	0.2045
gTAS3	1466	0.597300	0.2838	0.9143	-0.3945	6.5258	0.077000	0.7428
gTAS5	1229	1.588500	0.6271	2.7831	-0.4624	21.6160	0.232800	1.5819
gTAS8	1074	2.338100	0.8463	4.0930	-0.4494	29.6548	0.315000	2.2797

	N	Mean	Median	SD	Min	Max	Q1	Q3
gTAS10	936	3.126000	1.1412	5.6050	-0.3904	44.6250	0.401800	2.8920
gSA1	1566	0.142000	0.0597	0.2310	-0.2302	1.3191	0.000000	0.2116
gSA3	1413	0.504700	0.2884	0.7320	-0.4324	4.8911	0.087000	0.6320
gSA5	1263	1.010600	0.4953	1.6366	-0.4255	11.4243	0.182100	1.1202
gSA8	1043	1.777500	0.7981	2.8979	-0.4059	19.2373	0.339900	1.8821
gSA10	912	2.456200	0.9846	4.2731	-0.3996	28.7539	0.418500	2.6113
gEQ1	1624	0.160000	0.0461	0.3571	-0.5831	2.3496	0.000000	0.2107
gEQ3	1466	0.646300	0.2783	1.1209	-0.9542	7.6005	0.068900	0.7883
gEQ5	1308	1.255100	0.5338	2.2853	-1.8379	17.2332	0.149800	1.4035
gEQ8	1074	2.339900	0.9090	4.3753	-1.5143	37.9360	0.267300	2.4346
gEQ10	936	2.941100	1.1755	5.1514	-0.8459	45.1004	0.371100	2.9867
gEPS1	1521	0.000200	0.0000	0.0013	-0.0043	0.0100	0.000000	0.0003
gEPS3	1367	0.001200	0.0002	0.0044	-0.0092	0.0374	-0.000090	0.0010
gEPS5	1215	0.002300	0.0003	0.0073	-0.0075	0.0764	-0.000040	0.0015
gEPS8	1011	0.004200	0.0006	0.0124	-0.0079	0.0943	0.000005	0.0025
gEPS10	897	0.005720	0.0009	0.0163	-0.0078	0.1192	0.000040	0.0029

Note: as for Table 1

Source: Author's own work.

All growth potential measures are based on the idea that market prices reflect the companies' prospects for growth. Tobin (1969) proposed a market value index of assets and their replacement costs as a measure of growth potential.

$$TQ = \frac{MVC}{ARC} \tag{3}$$

where: TQ – Tobin's Q, MVC – market value of capital invested in the company, ARC – asset replacement cost.

Due to the problems associated with determining the level of replacement costs, it is possible to modify the Tobin's Q ratio in line with Danbolt et al. (2011):

$$TQ = \frac{TA + MVE - BVE}{TA} \tag{4}$$

where: TA – total assets, MVE – market value of equity; BVE, book value of equity.

The higher the value of this index, the greater the opportunities for growth, assuming that the difference in the market value of the shares and the book value determines the growth potential included in the share market price. Another indicator used to evaluate growth prospects is the P/E ratio. The higher the P/E value, the greater the company's growth potential. This ratio should not be used when company profits are negative. The models of Kester (1984) as well as Brealey and Myers (1981) were based on decomposing stock prices to the value of existing assets and the value of potential growth opportunities.

$$P_g KBM = \frac{P_S - EPS / k_e}{P_S} \tag{5}$$

where: Pg – value of growth potential, Ps – share price, EPS – earnings per share, ke – cost of equity.

The higher the indicator, the greater the opportunity for growth, as reflected by the market. This model should not be used when company profits are negative. The next measure of growth opportunity, proposed by Otto (2000), is related to the concept of value added. The higher the indicators, the greater the potential for growth of the company being examined.

$$P_g EVF = \frac{(MVE + BVD) - (BVE + BVD)}{MVE + BVD} \tag{6}$$

where: EVF – excess value of the company, MVE – market value of equity, BVE – book value of equity, and BVD – book value of debt.

The second model represents the value that exceeds the value (EVE – Exceeding Value to Equity):

$$P_g EVE = \frac{MVE - BVE}{MVE} \tag{7}$$

Where: EVE – excess value of equity.

These models relate to growth opportunities included in share market prices. Growth companies are expected to pay low dividends and will retain a large share of investment revenues. For example, low dividend yields (dividend-price ratio D/P) can also be a proxy for high growth opportunities; the lower the ratio, the higher the growth opportunities.

Table 3: Statistical characteristics of growth opportunity measures for the FTSE companies

	N	Mean	Median	SD	Min	Max	Q1	Q3
TQ1	2299	1.80530	1.47790	0.99710	0.79030	6.81330	1.15090	2.07880
TQ2	2292	1.86100	1.54920	0.97080	0.82280	6.50520	1.20410	2.15820
P/E	2286	19.59890	17.13200	11.63400	4.74720	87.68540	12.14560	23.33060
MV/BV	2299	3.16610	2.20160	3.11400	0.08460	21.09090	1.26320	3.75720
D/P	2098	0.00036	0.00034	0.00018	0.00001	0.00099	0.00023	0.00045
KBM	1628	0.99993	0.99994	0.00004	0.99978	0.99999	0.99991	0.99996
EVF	2299	0.32020	0.32370	0.26350	-0.26530	0.85320	0.13110	0.51860
EVE	2299	0.47060	0.57290	0.37170	-0.69640	0.99940	0.24760	0.75260

Note: P/E, D/P, and KBM are calculated only for positive earnings

Source: Author's own work.

Table 4: Statistical characteristics of growth opportunity measures for the AIM companies

	N	Mean	Median	SD	Min	Max	Q1	Q3
TQ1	1511	2.23830	1.73090	1.61270	0.59790	10.43900	1.13420	2.76920
TQ2	1533	2.14420	1.71150	1.34900	0.61300	8.14310	1.13800	2.70400
P/E	1344	27.61540	18.95220	28.54120	3.31520	181.15900	11.91960	29.92010
MV/BV	1511	3.23530	2.39670	2.87410	0.25800	17.22690	1.21380	4.27470
D/P	1033	0.00027	0.00022	0.00019	0.00001	0.00109	0.00013	0.00035
KBM	781	0.99936	0.99969	0.00088	0.99418	0.99998	0.99929	0.99985
EVF	1511	0.35030	0.42230	0.36120	-0.67260	0.90420	0.11830	0.63890
EVE	1511	0.39890	0.59440	0.54080	-1.84480	0.96030	0.20870	0.77530

Note: as in Table 3

Source: Author's own work.

Statistical analysis shows that most measures are higher in the mean and median for companies listed on the AIM compared to the FTSE100 companies (D/P is lower because smaller and younger companies do not pay dividends but reinvest earnings in growth projects). This result is accompanied by a higher variation between years (measured by standard deviation) and a wider range between the minimum and maximum ratios for companies traded on AIM market. The statistics of the surveyed sample confirm that the companies included in the FTSE100 index are larger than those included in the AIM index.

The relationship between future earnings growth and the measurement of growth opportunities is also investigated in depth using a multivariate regression model proposed by Danbolt et al. (2011). In addition to measuring growth potential, the model also includes other factors associated with revenue growth identified in the literature. In each estimated linear regression, the measurement of the growth opportunities is only one of several explanatory variables. These estimates will therefore help to investigate whether the level of growth opportunity has an incremental impact on revenue growth, taking into account other factors that may be related to that growth. The regression models are presented in the following general formula:

$$gEPS_{it} = \alpha + \beta_1 GO_{0it} + \beta_2 ROE_{-1it} + \beta_3 \Delta EPS_{0it} + \beta_4 \Delta TA_{0it} + \beta_5 \ln MV_{0it} + \varepsilon_{it} \quad (8)$$

In the above equation, gEPS refers to the one-year, two-year or three-year growth of EPS, given by formula (7).

$$ROE_{-1} = EPS_{-1} / EQ_{-1}$$

denotes a one-year-lagged return on equity,

$$\Delta EPS_0 = \frac{EPS_0 - EPS_{-1}}{TAS_{-1}}, \Delta TA_0 = \frac{TA_0 - TA_{-1}}{TA_{-1}}, \ln MV_0$$

is the natural logarithm of the market value, and GO_0 represents one of six growth potential measures included in the analysis.

According to Danbolt et al. (2011), the one-year equity return (ROE-1) was included in the regression to cover the impact of the average return on income. When the coefficient is negative and statistically significant, an average reversal is observed. The recent one-year revenue growth is added to control the persistence of the revenue growth rate (if it is positive). However, both control variables contain similar information to some extent, and depending on whether the respective regression coefficient sign is positive or negative, each variable can explain the average reverse or residual income. The recent annual growth of total assets is

slightly more arbitrary, based on its strong prediction of future abnormal profits observed in the literature. Finally, the logarithm of the current market value, lnMV, is an indicator of company size. In the next section, the results of the statistical analysis are presented. Pooled OLS model was found the most suitable.

Results

In this section, the results of statistical analysis are presented for the companies on the FTSE100 and the AIM indexes.

The FTSE100 companies

The expectation of growth should be reflected by different measures, regardless of which growth opportunity indicator is applied. The matrix of Pearson correlation coefficients between various ratios that reflect growth opportunity is presented in Table 5. A positive correlation between all measures is expected, except for the one between D/P (which should be negative due to its reverse nature) and the other measures. The statistical significance of these correlation coefficients is assessed with the t-test and its significance.

Table 5: Correlation matrix for various growth opportunity measures for the FTSE100 companies

	TQ1	TQ2	P/E	P/BV	D/P	PgKBM	PgEVF
TQ2	0.92***						
P/E	0.24***	0.21***					
P/BV	0.76***	0.69***	0.20***				
D/P	-0.32***	-0.24***	-0.31***	-0.21***			
PgKBM	0.31***	0.25***	0.56***	0.27***	-0.35***		
PgEVF	0.86***	0.81***	0.25***	0.72***	-0.36***	0.37***	
PgEVE	0.68***	0.63***	0.25***	0.66***	-0.32***	0.38***	0.92***

Note: */**/*** The coefficients are significant at the 10% / 5% / 1% level

Source: Author's own work.

All measures are significantly correlated with each other and with the predicted sign. The absolute values of the correlation coefficients range from 0.21 to 0.92. A deeper analysis reveals clear rules between these relationships. All market-to-book-based measures (P/BV, TQ, EVF, EVE) are highly correlated with each other. There is also a very strong relationship between the two measures based on the price-to-earnings concept (P/E and KBM). The correlation is weaker between the measures that represent the two distinctly different groups related to how they are calculated.

Company growth can be measured by different means, but all of them should be correlated if the growth is consistent. If the company executes profitable investment projects, the growth of assets, equity, sales, and EPS should be strongly correlated. The correlation coefficients between all the different company growth measures are presented in Table 6.

Table 6: Correlation coefficients between various future growth measures for the FTSE100 companies

	gTAS1	gSA1	gEQ1
gSA1	0.470***		
gEQ1	0.521***	0.304***	
gEPS1	0.222***	0.207***	0.221***
	gTAS3	**gSA3**	**gEQ3**
gSA3	0.634***		
gEQ3	0.602***	0.431***	
gEPS3	0.196***	0.307***	0.225***
	gTAS5	**gSA5**	**gEQ5**
gSA5	0.740***		
gEQ5	0.692***	0.535***	
gEPS5	0.230***	0.342***	0.272***
	gTAS8	**gSA8**	**gEQ8**
gSA8	0.728***		
gEQ8	0.693***	0.545***	
gEPS8	0.271***	0.381***	0.275***
	gTAS10	**gSA10**	**gEQ10**
gSA10	0.726***		
gEQ10	0.754***	0.570***	
gEPS10	0.284***	0.318***	0.278***

Note: */**/*** The coefficients are significant at the 10% / 5% / 1% level

Source: Author's own work.

All correlation signs are positive. The highest significant correlation is between total assets growth and sales growth or equity growth rate in each of the five periods considered (except for one-year growth rates, with correlation coefficients that exceed 0.6 or 0.7). Sales growth rates are also quite strongly correlated with equity growth. Earnings growth rates are more independent of size growth measures.

A relative change in EPS indicates the growth of a company's future value. The results of the regression based on equation (8) and models related to the determinants of future earnings growth are reported in Appendinx 1.

The incremental impact of the market level of growth opportunity is reported in column 8. Shaded cells indicate that the coefficient of the growth opportunity measure is significant and of the predicted sign. Almost all measures perform very well in every time horizon. The only exception is the dividend yield (D/P), which is not significant in the 3, 5, and 10-year time horizons. Furthermore, EPS growth is also strongly related to firm size (measured by lnMV0) – the correlation coefficients in all regressions are statistically significant at the 1% level. There is also evidence of persistence in earnings rather than the effect of mean reversion, which is demonstrated by the positive signs of statistically significant coefficients at and in some regressions. Additionally, the results in columns 9 and 10 demonstrate that the proportion of the variance in EPS that is predictable based on the independent variable (coefficient of determination) rises with the time horizon.

The AIM companies

In the second step, the same analysis was repeated companies traded on the alternative exchange of the LSE. The correlation coefficients between various growth opportunity measures in AIM-listed companies are presented in Table 7.

Table 7: Correlation matrix for various growth opportunity measures for the AIM companies

	TQ1	TQ2	P/E	P/BV	D/P	PgKBM	PgEVF
TQ2	0.83***						
P/E	0.28***	0.26***					
P/BV	0.87***	0.73***	0.27***				
D/P	-0.34***	-0.31***	-0.35***	-0.32***			
PgKBM	0.15***	0.11***	0.17***	0.15***	-0.11***		
PgEVF	0.78***	0.74***	0.26***	0.74***	-0.38***	0.15***	
PgEVE	0.62***	0.59***	0.23***	0.64***	-0.34***	0.14***	0.93***

Note: */**/** The coefficients are significant at the 10% / 5% / 1% level

Source: Author's own work.

For the AIM companies, all measures are significantly correlated with each other and are of the predicted sign. The absolute values of the correlation coefficients range from 0.11 to 0.87. The highest correlation is observed between all market-to-book-based measures (P/BV, TQ, EVF, EVE). There is also a relatively strong relationship between D/P and other measures.

The correlation coefficients between all the different measures of company growth are presented in Table 8.

Table 8: Correlation coefficients between various future growth measures for the AIM companies

	gTAS1	gSA1	gEQ1
gSA1	0.564***		
gEQ1	0.753***	0.414***	
gEPS1	0.212***	0.243***	0.178***
	gTAS3	**gSA3**	**gEQ3**
gSA3	0.623***		
gEQ3	0.746***	0.500***	
gEPS3	0.237***	0.228***	0.177***
	gTAS5	**gSA5**	**gEQ5**
gSA5	0.604***		
gEQ5	0.746***	0.465***	
gEPS5	0.372***	0.359***	0.258***
	gTAS8	**gSA8**	**gEQ8**
gSA8	0.666***		

	gTAS8	gSA8	gEQ8
gEQ8	0.763***	0.495***	
gEPS8	0.467***	0.498***	0.338***
	gTAS10	**gSA10**	**gEQ10**
gSA10	0.703***		
gEQ10	0.795***	0.557***	
gEPS10	0.553***	0.530***	0.430***

Note: */**/** The coefficients are significant at the 10% / 5% / 1% level

Source: Author's own work.

Once again, the structure of this correlation matrix is quite similar to that of the FTSE100 companies. As previously, the highest significant correlation is between the equity growth rates and sales growth. Similarly, earnings growth rates are more independent of size growth measures.

The determinants of future earnings growth in the pooled-OLS regressions are presented in Appendinx 2.

The results indicate that, in most cases, ROE negatively influences EPS growth, as does company size. Growth potential measures influence growth significantly and according to the predicted sign.

Conclusions

The research found that companies listed on the AIM grow faster than those on the FTSE 100. Additionally, AIM companies exhibit higher growth potential metrics and less consistent growth, evidenced by a weaker correlation between growth ratios than mature companies. Interestingly, the factors influencing EPS growth differ between the two groups. These findings support the authors' hypothesis that significant distinctions exist between companies included on the AIM and FTSE 100 indices. The conducted research complements the research presented by Pietraszewski et al. (2023).

As expected, assets, sales, equity and EPS grow much faster in the group of companies listed on the AIM than in the group of FTSE100 companies – both the average and median growth rates are higher for all time horizons. Variation within the sample is higher for AIM companies than for the FTSE100 companies – the standard deviation is higher, and the intervals between the minimum and maximum values are wider. Companies included in the AIM index are characterized by higher growth potential indicators. The correlation between growth measures in the companies included in the FTSE100 index is stronger, indicating a more uniform strategy-based growth process. However, the increase in EPS is more independent of the increase in assets, equity, and sales in both groups of companies. In both groups, the measures of growth potential have an impact on the increase in EPS, but in the case of D/E, they behave differently from the expectations in the group of FTSE 100 companies. This result may indicate that mature companies pursue a dividend policy in a more sophisticated way. Other factors, such as ROE and company size, influence the EPS negatively in both groups, and the growth potential measures significantly influence future growth.

Danbolt et al. (2011) conducted market research in the UK, and the results they obtained showed that there is no relationship between measures of growth potential and growth measured by EPS. Bolek et al. (2021) proposed to examine separately companies listed on the main and alternative markets on the Stock Exchange in Poland, as they differ from each other, which may affect the results showing the lack of market efficiency in this sense (there should be the relationship between growth opportunity and EPS growth indicating the value creation). The authors of the presented article decided to use the method proposed by Bolek et al. (2021) for a re-analysis of the UK market, analysed by Danbolt et al. (2011), but broken down into more and less mature companies. The results turned out to be surprisingly good and confirmed that measures of growth potential are related to the future growth of enterprises as measured by EPS growth. The differences between samples have confirmed these results.

The study's findings regarding growth differences between AIM and FTSE 100 companies can be valuable for investors in estimating future company value. However, it's important to acknowledge the research limitations. The COVID-19 pandemic significantly impacted business valuations, with investor assessments deviating from rational growth potential due to uncertainties. Businesses faced potential changes in revenue, costs, and profit margins, and consumer spending depletion could further affect asset levels. These pandemic effects necessitate separate investigation.

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Appendinx 1: Determinants of future earnings growth (FTSE100) – Pooled OLS

	Sample	Const.	ROE-1	ΔEPS0	ΔTA0	lnMV0	GO0	R2 %	Adj. R2 %	F-stat.	Wald F-stat.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Explained variable: One-year EPS growth											
TQ1	2059	0.005***	-7e-07	0.232	-0.0002**	-0.0007***	0.0010***	6.6	6.4	28.9***	3.23***
TQ2	2060	0.004***	-6e-07	0.534	-0.0001*	-0.0004***	-0.0010***	4.5	4.2	19.2***	3.35***
P/E	2063	0.004***	2e-06***	2.585**	-0.0001**	-0.0004***	4e-05***	3.4	3.1	14.3***	4.16***
MV/BV	2054	0.007***	-9e-07	0.799	-0.0001*	-0.0007***	0.0003***	5.5	5.2	23.7***	2.92***
D/P	1895	0.007***	4e-07	1.271	-0.0001**	-0.0005***	-1.9360**	3.2	3.0	12.6***	3.79***
KBM	1557	-0.087***	1e-06**	2.463***	-0.0001**	-0.0006***	0.0950***	5.0	4.7	16.5***	4.44***
EVF	2059	0.006***	-7e-07	0.423	-0.0002**	-0.0007***	0.0040***	6.1	5.9	26.8***	3.34***
EVE	2050	0.007***	1e-06*	2.086**	-0.0002**	-0.0008***	0.0020***	6.6	6.4	29.0***	3.81***
Variable explained: Three-year EPS growth											
TQ1	1910	0.024***	2e-05**	2.072	-0.0002	-0.0030***	0.0020***	14.4	14.2	64.2***	6.87***
TQ2	1918	0.016***	2e-05**	4.694*	-0.0001	-0.0020***	0.0030***	10.7	10.4	45.6***	7.33***
P/E	1917	0.017***	4e-05***	12.930***	-0.0002	-0.0020***	8e-05***	9.5	9.3	40.2***	8.03***
MV/BV	1906	0.027***	-9e-06	-0.711	-6e-05	-0.0030***	0.0010***	13.6	13.4	59.9	6.80***
D/P	1761	0.023***	4e-05***	5.490**	-0.0002	-0.0020***	1.2470	9.8	9.5	38.0***	7.66***
KBM	1403	-0.126**	5e-05***	17.340***	-0.0003*	-0.0030***	0.1560***	14.7	14.4	48.3***	7.78***
EVF	1910	0.027***	3e-05***	3.346	-0.0001	-0.0030***	0.0080***	13.4	13.1	58.7***	7.18***
EVE	1894	0.028***	4e-05***	7.847***	-0.0003	-0.0030***	0.0050***	14.4	14.1	63.3***	7.21***
Explained variable: Five-year EPS growth											
TQ1	1756	0.048***	6e-05***	-0.245	-0.0002	-0.0060***	0.0040***	19.3	19.0	83.6***	10.20***
TQ2	1767	0.033***	6e-05***	2.994	-0.0002	-0.0040***	0.0040***	13.7	13.4	55.7***	10.50***
P/E	1757	0.031***	7e-05***	16.360***	-0.0003	-0.0030***	0.0001**	12.3	12.1	49.2***	10.80***
MV/BV	1756	0.051***	-7e-07	-3.745	-7e-05	-0.0050***	0.0010***	17.7	17.4	75.3***	9.14***
D/P	1611	0.038***	-7e-07***	-2.025	-0.0002	-0.0040***	6.9760**	12.5	12.2	45.9***	9.97***
KBM	1253	-0.110	8e-05***	12.860***	-0.0003	-0.0050***	0.1640**	15.8	15.4	46.7***	10.72***
EVF	1756	0.052***	8e-05***	1.205	-0.0002	-0.0060***	0.0100***	18.2	17.9	78.0***	10.67***
EVE	1733	0.053***	6e-05***	4.106	-0.0003	-0.0060***	0.0050***	17.4	17.1	72.5***	9.96***
Variable explained: Ten-year EPS growth											
TQ1	1378	0.115***	0.0001***	24.760**	-0.0008	-0.0140***	0.0110***	24.8	24.5	90.5***	12.54***
TQ2	1390	0.076***	0.0001***	32.400***	-0.0006	-0.0100***	0.0110***	18.4	18.1	62.5***	12.14***
P/E	1389	0.077***	0.0002***	57.370***	-0.0009	-0.0080***	0.0002*	16.9	16.6	56.2***	12.57***

(1)	Sample (2)	Const. (3)	ROE-1 (4)	ΔEPS0 (5)	ΔTA0 (6)	lnMV0 (7)	GO0 (8)	R2 % (9)	Adj. R2 % (10)	F-stat. (11)	Wald F-stat. (12)
Variable explained: Ten-year EPS growth											
MV/BV	1382	0.121***	-1e-05	18.620**	-0.0003	-0.0130***	0.0030***	21.1	20.8	73.4***	10.64***
D/P	1246	0.092***	0.0002***	30.190***	-0.0007	-0.0090***	5.3850	15.8	15.5	46.6***	12.38***
KBM	901	-0.236	0.0002***	69.630***	-0.0009	-0.0120***	0.3570*	19.2	18.8	42.6***	24.25***
EVF	1378	0.127***	0.0002***	26.040***	-0.0007	-0.0140***	0.0370***	24.2	23.9	87.6***	13.20***
EVE	1357	0.129***	0.0001***	33.170***	-0.0009	-0.0150***	0.0200***	23.9	23.6	84.7***	11.38***

Note: */**/** The coefficients or F-statistic are significant at the 10% / 5% / 1% level

Source: Author's own work.

Appendinx 2: Determinants of future earnings growth (AIM) – Pooled OLS

	Sample	Const.	ROE-1	ΔEPS0	ΔTA0	lnMV0	GO0	R2 %	Adj. R2 %	F-stat.	Wald
Explained variable: One-year EPS growth											
TQ1	1311	0.077***	-0.0001	0.016	-6e-05	-0.018***	0.0180***	5.2	4.9	14.400***	2.02***
TQ2	1328	0.068***	8e-05	0.012	-3e-05	-0.016***	0.0150***	3.0	2.7	8.240***	2.14***
P/E	1216	0.082***	0.0002	-0.066	0.0030	-0.015***	0.0005***	2.3	1.9	5.800***	2.60***
MV/BV	1322	0.088***	-0.0002*	0.020	-7e-05	-0.019***	0.0110***	5.6	5.2	15.500***	1.98***
D/P	950	0.133***	0.0001	-3.395**	0.0100**	-0.018***	-84.2400***	3.3	2.8	6.490***	2.48***
KBM	1368	0.099***	-3e-05	0.007	-3e-05	-0.018**	0.0530***	3.7	3.3	10.400**	2.14***
EVF	1311	0.096***	-0.0002	0.016	-6e-05	-0.019***	0.0760***	4.4	4.0	11.900***	2.13***
EVE	1321	0.104***	-0.0002*	0.017	-6e-05	-0.018***	0.0410***	3.4	3.0	9.240***	2.07***
Explained variable: Three-year EPS growth											
TQ1	1172	0.336***	-0.0020***	1.095***	-0.0030***	-0.073***	0.0540***	12.2	11.8	32.400***	4.09***
TQ2	1190	0.303***	-0.0020***	1.025***	-0.0030***	-0.071***	0.0720***	12.4	12.0	33.500***	3.72***
P/E	1086	0.314***	0.0005	-0.001	-0.0040	-0.061***	0.0020***	5.8	5.4	13.300***	4.34***
MV/BV	1181	0.386***	-0.0020***	1.041***	-0.0030***	-0.081***	0.0350***	14.0	13.7	38.340***	4.19***
D/P	841	0.509***	0.0003	3.582	-0.0100	-0.081***	-192.9000***	7.3	6.7	13.170***	4.57***
KBM	1220	0.432**	-0.0020	1.017	-0.0030***	-0.079***	0.1790**	12.2	11.9	33.900***	4.01***
EVF	1172	0.407***	-0.0020***	1.058***	-0.0030***	-0.082***	0.2750***	13.8	13.5	37.400***	4.42***
EVE	1175	0.456***	0.0020***	0.990***	-0.0030***	-0.085***	0.1570***	13.2	12.8	35.400***	4.32***
Variable explained: Five-year EPS growth											
TQ1	1028	0.668***	-0.0020***	0.025	-0.0002	-0.166***	0.1310***	15.0	14.6	36.100***	4.65***
TQ2	1045	0.504***	-0.0020***	0.120	-0.0004	-0.144***	0.1600***	16.4	16.0	40.700***	4.77***
P/E	960	0.567***	0.0020***	0.028	-0.0020	-0.118***	0.0030***	7.5	7.1	15.600***	5.67***
MV/BV	1034	0.718***	-0.0030***	0.007	-0.0001	-0.158***	0.0650***	13.6	13.2	32.300***	5.00***
D/P	741	0.872***	0.0007	18.090**	-0.0530**	-0.141***	-404.5000***	10.3	9.7	16.900***	5.06***
KBM	1067	0.831***	-0.0020***	-0.016	-8e-05	-0.166***	0.3810***	12.7	12.3	30.800***	5.39***
EVF	1028	0.833***	-0.0020***	0.004	-0.0001	-0.179***	0.5330***	14.7	14.2	35.100***	4.91***
EVE	1026	0.896***	-0.0020***	-0.070	6e-05	-0.177***	0.2800***	12.8	12.4	29.900***	5.20***
Explained variable: Ten-year EPS growth											
TQ1	753	1.356***	-0.0002	2.249	-0.0070	-0.373***	0.3070***	16.0	15.4	28.400***	5.66***
TQ2	766	1.339***	-0.0020	2.115	-0.0060	-0.407***	0.4170***	19.3	18.8	36.300***	7.13***
P/E	699	1.050***	0.0040**	2.510	-0.0600	-0.214***	0.0060***	4.8	4.1	7.025***	6.86***
MV/BV	759	1.576***	-0.0030**	1.389	-0.0040	-0.382***	0.1620***	17.2	16.6	31.200***	5.99***
D/P	524	1.957***	0.0010	-50.150***	0.1460***	-0.324***	-978.3000***	11.4	10.5	13.270***	6.66***
KBM	782	1.972***	-0.0020	1.802	-0.0005	-0.425***	0.9520***	14.0	13.4	25.180***	7.10***
EVF	753	1.817***	-0.0010	1.888	-0.0060	-0.414***	1.1550***	14.4	13.8	25.070***	6.31***
EVE	752	2.161***	-0.0030*	1.392	-0.0040	-0.455***	0.6190***	13.9	13.3	24.100***	6.92***

Note: */**/*** The coefficients or F-statistic are significant at the 10% / 5% / 1% level

Source: Author's own work.