



London
Stock Exchange

A Guide to AIM

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AIM includes companies
operating in more than
100 countries, 40
different sectors and
with a combined market
capitalisation of over
£70 billion

A Guide to AIM 2015

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Foreword

by Marcus Stuttard, Head of AIM,
London Stock Exchange

In the 20 years since AIM's launch in 1995, it has established itself as the leading market specifically designed to help growing companies access capital from the public market. Today AIM includes companies operating in more than 100 countries, 40 different sectors and with a combined market capitalisation of over £70 billion.

More than 3,500 companies have joined AIM in its 20-year history having raised over £90 billion through new and further issues to support their growth and development. That makes AIM undoubtedly the most successful public equity market for growth companies anywhere in the world. Central to the development and success of AIM have been:

- a network of advisers and liquidity providers who understand the needs of growing companies and are able to support them throughout their journey as a public company
- a regulatory approach that recognises the needs and capacities of growth companies, and
- a diverse and highly knowledgeable investor base that can effectively provide capital to support growing companies. AIM companies have access to a range of institutional investors, a vibrant cohort of retail investors and, thanks to London's unique status, an unparalleled pool of international capital.

London Stock Exchange continues, with the help of the AIM community, to improve AIM's contribution as a source of long-term finance for aspiring, innovative companies wishing to raise capital to realise their ambitions and potential. We also continue to work with the UK's unique market-maker community to ensure that liquidity, a vital ingredient for all growth markets, remains as deep as possible.

This publication brings together in-depth knowledge and insight from some of the key advisers experienced in bringing companies to AIM. In each chapter, a member of the AIM community discusses an important step in the admission process and the continuation of the journey once a company is on market.

I hope that this publication will provide useful insight into the process of joining AIM and the ongoing responsibilities and opportunities for you when considering an admission to AIM.

I wish you every success in the future development of your business.

AIM: the most successful growth market

London Stock Exchange

As companies grow, the initial external capital usually provided by friends and family, and angel investors, is often not sufficient to sustain their capital requirements; yet these companies are not necessarily ready for a traditional listing. AIM, therefore, plays a vital role in the funding environment by bridging this gap for growing companies as they seek to develop their business through the use of external finance from capital markets. In addition to providing companies with access to capital, London Stock Exchange is committed to supporting the growth of companies through ELITE, a community and platform that supports growing companies by providing access to the right resources and capital to scale up and achieve their aspirations.

AIM is a dedicated growth market for small and medium-sized companies, established in June 1995 as part of London Stock Exchange. From humble beginnings with only 10 companies that had a total market capitalisation of £82 million, AIM is now well-established as the leading growth market for small and medium-sized companies from across the globe looking to raise capital. By the end of 2014, over 3,500 companies had used AIM to raise more than £90 billion in funds to help them continue their exciting growth journeys.

AIM's regulatory structure, tailored to the needs of growing companies, allows businesses to cost-effectively raise capital at admission and throughout their life on AIM. Over half of all funds raised on AIM have been raised by companies already admitted to the market. This underlines AIM's credentials as a source of repeat financing for businesses from a pool of investors that acutely understand the needs and development trajectory of growth companies.

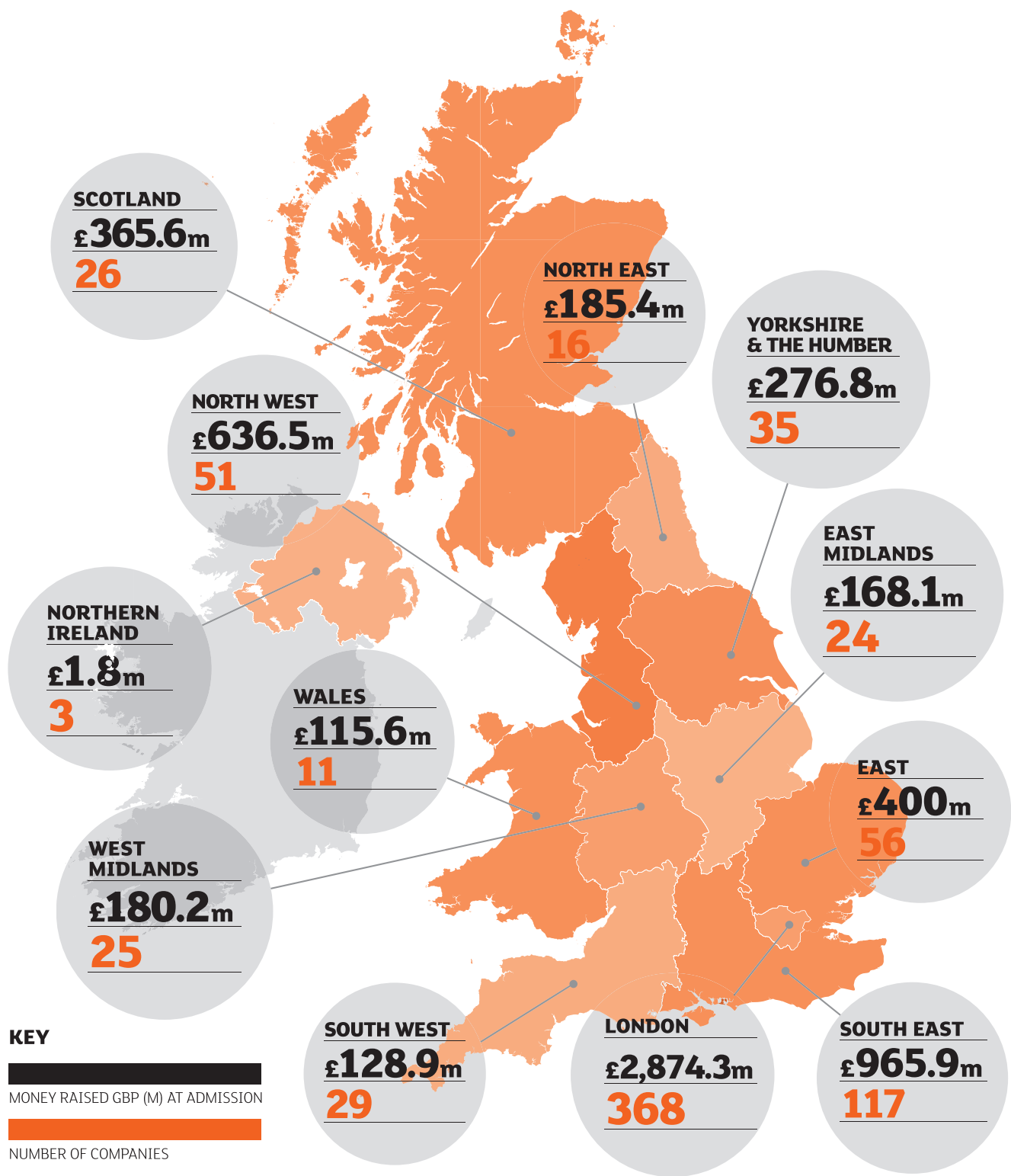
AIM is also a geographically- and sector-diverse market, with companies operating in over 100 countries, representing 40 different sectors ranging from financial services firms to healthcare and technology companies.

“With an aggregate market capitalisation of £72 billion, AIM is now well-established as the leading growth market”

AIM AT 20

UK SNAPSHOT

FIND OUT MORE ABOUT THE REGIONS THAT ARE HOME TO AIM'S CURRENT GROWTH COMPANIES



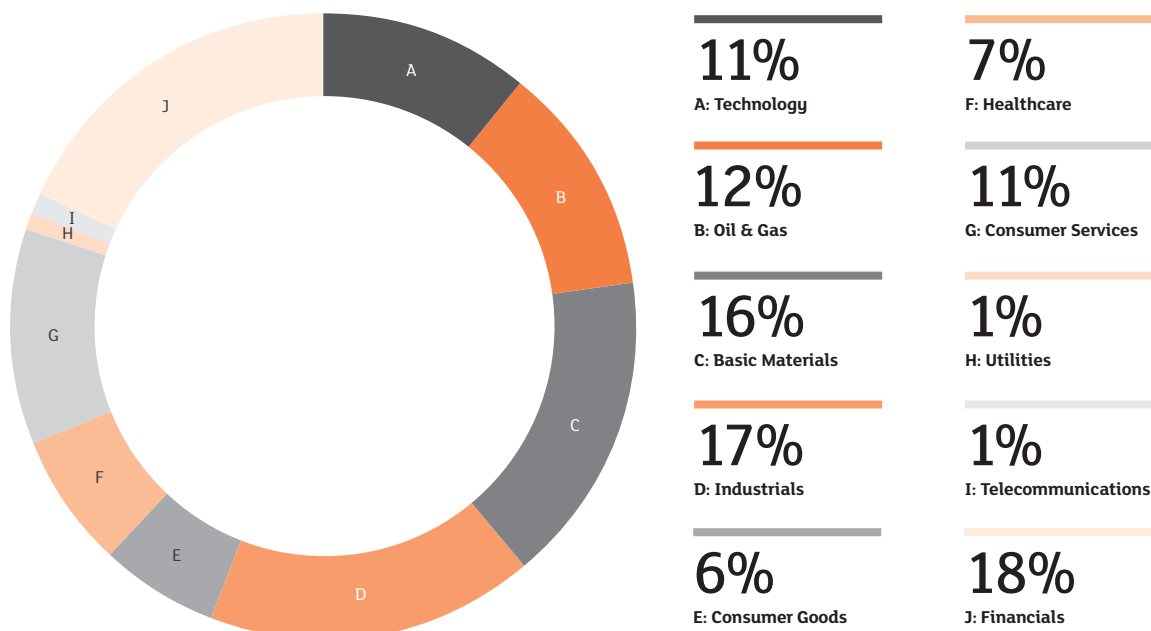
Why join the most successful growth market?

The decision to seek funding from public markets is an important step in the growth journey of a company. When considering taking this step, management teams should consider the following key benefits of an admission to a public market:

- access to capital for growth and further development at the time of admission and through further capital offerings
- opportunity for early-stage investors to realise some of their initial investment and help to broaden the shareholder base
- an objective market value on the company's business
- mechanism to encourage employees' commitment and incentivise their long-term motivation and performance through more attractive share schemes
- increased ability to make acquisitions by using quoted shares as currency
- heightened public profile of the company, stemming from increased press coverage and analysts' reports, and
- enhanced company status with customers and suppliers.

Over half of all funds raised on AIM have been raised by companies already admitted to the market

Figure 1: Industry classification of AIM companies



In addition to these benefits that impact a company's decision to join a public market, there are several additional reasons why AIM is consistently the public market of choice for growing companies.

Balanced regulatory approach

AIM's success is underpinned by its regulatory framework. This has been specifically designed with market participants to meet the needs of growing companies while offering appropriate investor protection. AIM also benefits from being an integral part of the portfolio of markets offered by London Stock Exchange.

Rather than prescriptive entry criteria, for example on minimum size, trading history or free float, companies must demonstrate their readiness and suitability to join a public market. And, once admitted to AIM, the ongoing responsibilities continue to remain straightforward and are aimed at encouraging growth. Integral to both the admission process and life on AIM is the fact that the

company must work closely with its nominated adviser ('Nomad') to ensure that its actions are fair and reasonable for shareholders.

As AIM has grown, the market's regulatory framework has continued to evolve and develop to meet the changing needs of investors and companies. London Stock Exchange has ensured that these changes balance strong investor protection principles with the needs of smaller companies, allowing them to grow.

The two rulebooks – the AIM Rules for Companies and the AIM Rules for Nomads – are underpinned by the European regulatory framework for public markets, as well as by UK company law. The AIM Rules for Companies are tailored to the needs of businesses joining AIM, and are designed to be easily understood. The development of the AIM Rules has included the creation of specific further guidance notes for particular sectors, such as oil & gas companies and investing companies.

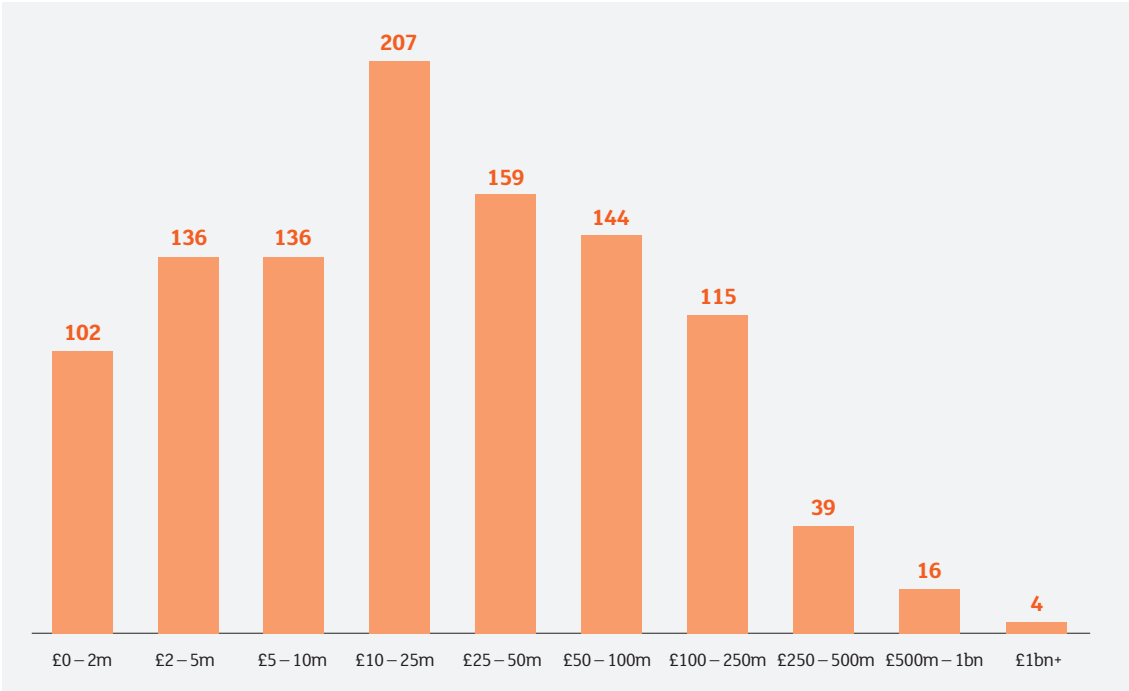


Figure 2: AIM companies by market capitalisation as of Q1 2015

A supportive investor base

In the 20 years since its inception, AIM has become the preeminent public market for small and growth companies, achieving the critical mass to provide a robust and proven market for companies seeking to raise growth capital, both at the time of admission and through further fundraisings. Part of this success has been built on the ability of AIM to provide access to a deep pool of capital, provided by highly receptive investors.

Given the range in the size of companies admitted to trading on AIM, the market appeals to a wide range of investors including retail and institutional investors. AIM attracts international investors who are domiciled in over 60 different countries, with institutional investors from the US and the rest of Europe, as well as the UK, all supporting growing companies. This underlines the deep pool of capital provided by geographically diverse investors that AIM companies can potentially access.

Profile and size of AIM

Whilst AIM was initially launched to meet the needs of UK small and growing companies, the market has become increasingly international, not just in terms of investors, but also the number of international companies on the market, which account for roughly a fifth of all AIM companies. The international nature of AIM means that companies will join a global peer group that will help to promote their visibility with stakeholders including investors, clients and suppliers.

Unlike other growth markets, AIM is not a sector-specific market. There are companies from 40 different industries reflecting the full spectrum of business activity from across the world. The increasing scope, profile, size and maturity of AIM have confirmed the validity of the underlying premise upon which AIM is built: ambitious smaller and growing companies require markets that are specifically designed for their needs.

AIM is a proven and robust market for companies seeking to raise growth capital

The AIM community

AIM is supported by a highly experienced and knowledgeable community of advisers and liquidity providers, who will support a company throughout its lifetime on AIM, from the initial admission process and thereafter on its journey as a public company. Once the decision to join AIM has been made, a company needs to appoint a nominated adviser (Nomad) who will be its key adviser during the admission process and whilst it is quoted on AIM.

In addition to the Nomad, a number of other advisers need to be appointed to support the company throughout the admission process. The key advisers and a brief description of their roles are provided in the table on page 12.

To summarise, the team of advisers that a company chooses to appoint will be integral in supporting it throughout the flotation process and once admitted to AIM. It is important that you select firms that have appropriate sector and market experience and are committed to working with you after admission. One of the key pieces of advice that existing AIM companies often provide is that it is vital to have personal chemistry with your advisers, since you will be working very closely together.

AIM Community	Role/description of role
Nomad	<ul style="list-style-type: none"> — Investment bank, corporate finance firm, or an accountancy firm approved to act as a Nomad by London Stock Exchange — Guides you throughout the flotation process and continuing obligations once admitted to AIM — Undertakes due diligence to ensure your company is suitable for AIM — Coordinates and oversees the preparation of the AIM admission document — Confirms to London Stock Exchange that you are appropriate for AIM and the directors are capable of acting as a board for a public company — Choice of Nomad is important as you are likely to have a long and close relationship with the firm — A Nomad must be retained at all times under the AIM Rules
Broker	<ul style="list-style-type: none"> — A securities house that is a member of London Stock Exchange — Supports your financing needs by assessing the level of investor interest in your company's shares at the time of admission, and in any further fundraisings — Ongoing advice on market and trading-related matters — Advises on the pricing of shares and investment opportunities — Your Nomad can also act as a broker — A broker must be retained at all times under the AIM Rules
Reporting accountant	<ul style="list-style-type: none"> — Reviews and reports on several key aspects including: <ul style="list-style-type: none"> — financial position — financial reporting procedures — working capital — tax and share incentive schemes — disclosure of historical financial information — Responsible for raising potential problems early on in the admission process so they can be addressed as soon as possible — Valuable independent perspective on the flotation process — Provides additional assurances to investors that the appropriate financial due diligence has taken place
Law firm	<ul style="list-style-type: none"> — Conducts legal due diligence on your business, including verifying ownership of assets — Advises on the drafting of the admission document — Negotiates the terms of the placing agreement between your company, the directors, the Nomad, and the broker — Advises your company's directors on their responsibilities and corporate governance in conjunction with the Nomad who also has these responsibilities in accordance with the AIM Rules — Advises generally on the legal aspects of the flotation process and the continuing obligations on AIM
Market maker	<ul style="list-style-type: none"> — Responsible for ensuring a two-way price of your security — Important role in the secondary market as providers of liquidity, ensuring investors have an efficient means for buying and selling a company's security — A broker can take on the additional role of 'market maker', and must be registered with London Stock Exchange to act in this capacity
Public relations firm	<ul style="list-style-type: none"> — Helps to craft your company's story and strategy that will be critical for a successful flotation — The PR firm will work closely with your other advisers in producing the institutional roadshow presentation, forming the basis for face-to-face meetings with investors during the roadshow — After flotation, the PR firm will continue to work on an ongoing basis to build and maintain media interest, going beyond regulatory disclosure requirements to proactively communicate with selected media organisations and investors
Registrar	<ul style="list-style-type: none"> — Although not a requirement under the AIM Rules, a company will normally appoint a registrar to maintain and keep the register of shareholders up to date — Provides information to the Nomad and your other advisers when appropriate, such as when your company needs to distribute a circular or similar shareholder publication

Growing good ideas for 20 years.

AIM has been rewarding innovation since 1995. Now the world's most successful international growth market, companies admitted to AIM have raised over £90bn in the past two decades.

AIM supports small and medium sized businesses from across the globe, giving entrepreneurs the opportunity to break through, go further and dream bigger. These ambitious companies drive economic growth and AIM has been their home for 20 years.

**Find out more about how AIM
can help grow your business at**

www/lseg.com/aim



London
Stock Exchange Group

IPO groundwork

Ivonne Cantú, Director, Corporate Finance, and Stephen Keys, Head of Growth Companies, Corporate Finance, Cenkos Securities plc

This chapter focuses on how to be ready for an IPO. If there is a secret to a successful IPO it is this: proper preparation. The pre-IPO preparation serves to ensure that a private company is ready for the demands of the public markets. This chapter sets out the key considerations and activities involved in laying the groundwork that is crucial for achieving a successful IPO.

The chapter is organised into four sections. The first three cover the three distinct phases that a company should go through ahead of committing substantial financial resources and commencing the IPO process in earnest. The fourth section covers the formal IPO process.

Figure 1 opposite illustrates the various phases. The first phase is concerned with reviewing the business and confirming that an IPO is an attractive route to achieving its long-term goals. During the second phase the company's management constructs the investment case on the basis of which investors will commit capital to the business. This investment case comprises a narrative supported by a rigorously detailed financial picture of the company. Unlike the first two phases that are internally focused, the third phase involves sounding out the market to gauge appetite for the company and to establish a preliminary valuation range. Ideally, during this phase the company will identify so-called 'cornerstone' investors whose presence will greatly de-risk the process and increase the chances of a successful IPO. The fourth stage, the formal IPO process, starts with legal and financial due diligence, followed by the preparation of the Admission Document and culminating with the marketing roadshow.

Preparatory phases

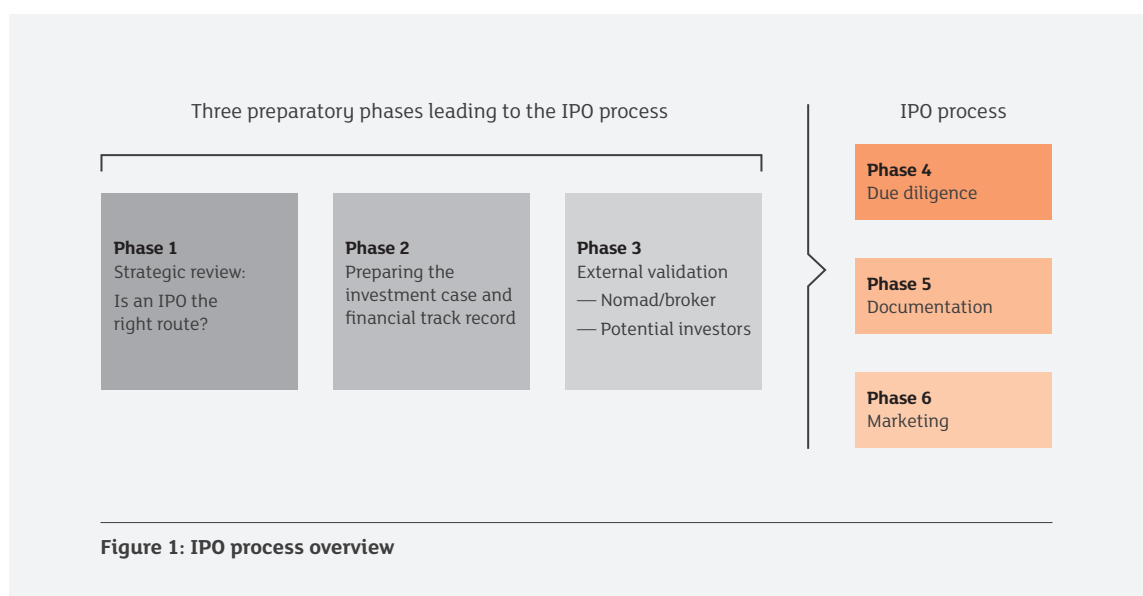
Phase 1 – Can an IPO help your company achieve its long-term goals?

A company should begin its IPO preparation with a period of reflection to answer some fundamental questions about its future. These questions should be addressed through an open, informed dialogue between the senior management team and the company's shareholders and should be supported by solid research and financial modelling. Questions to be considered would include:

- What are the company's short- and long-term ambitions? What are the goals of the company's shareholders?
- What is the potential of the company with its current infrastructure, profile and resources? Is there a gap between the company's current state and its ambitions?
- What resources are required in the short and medium term? Is it capital, talent, access to customers, scale? When will these resources be needed, in what form will they be needed and in what scale?
- Can an IPO enable the company to attract the capital, talent and other resources it needs to fulfil its vision? Conversely, is the company likely to be an attractive candidate for public market investors?
- Finally, can the company adapt easily to the expectations of the public market? What are the main changes required vis-a-vis the company's culture, structure, board, governance and/or business practices?

This type of analysis is very different from the considerations that inform the day-to-day running of the business, but should be seen as the foundation of all that is to follow. A small entrepreneurial firm can find it very difficult to set aside the time needed to undertake an internal strategic review. A high-growth company's

The pre-IPO preparation serves to ensure that a private company is ready for the demands of the public markets



priorities inevitably lie with its clients and potential clients, with execution and delivery and immediate requirements to support growth.

However, the good news is that there is an extensive network of nominated advisers (Nomads), brokers and other advisers which, together with the London Stock Exchange, represent a very valuable resource for companies seeking guidance through this process. While the roles of a Nomad and a broker are distinct, they are commonly performed by the same organisation and it is this combined role that we have in mind when we refer to a Nomad in this chapter.

Companies considering an IPO should seek to have exploratory, informal conversations and potentially identify one or more individuals who can serve as a sounding board for the initial stages of the process. There are numerous forums and events that facilitate this interaction.

Conversations with potential Nomads and other advisers should be open and transparent. The company will benefit from clearly communicating its objectives, which may include capital requirements, shareholders' desire to exit or maintain a minimum stake, and valuation aspirations. The company should also be upfront about the company's performance and opportunities as well as its risks or weaknesses. This will allow a prospective Nomad to offer an informed, balanced first opinion on the likely appetite for the company in the market and the appropriate transaction structure.

An IPO is the way. What next?

30%

Ownership of 30% or more of the shares is considered a controlling interest

The extensive network of advisers represents a valuable resource to guide companies throughout the IPO process

Phase 2 – Writing the investment case

Having established that an IPO is an attractive route and that the company wishes to proceed, the second preparatory phase begins. This second stage is focused on developing the investment case that will be presented to prospective Nomads and, at a later stage, to potential investors. Putting it simply, a strong investment case presents a compelling reason to invest. Strong investment demand is what constitutes a successful IPO. One way to think about the investment case is by imagining a conversation with a potential investor. Imagine that person is not an expert in your field, but rather a well-informed layman who understands financial concepts and is interested in understanding why investing in your company will provide a good return. Over the course of a short conversation you need to explain in simple terms what your company does, the dynamics of the sector in which your company operates and why it can be successful, what it has achieved so far, and what are the company's near-term measurable goals and its longer-term strategy. While these are things you may think about often, the challenge is putting them in terms that investors – these informed laymen – will understand and find compelling.

The investment case should be summarised in a short presentation and backed by a detailed, robust financial model. It is important to realise that from the moment you begin to communicate financial and non-financial information to external parties – from potential advisers to investors – you start to develop a record of credibility and delivery for your company and for yourself as part of a management team. Credibility in the market is crucial, and cannot be overstated. What this translates to is the need to ensure that all the information that is shared, including financial forecasts and expectations of commercial progress, is accurate and realistic.

The table on page 18 shows a presentation outline covering the investment criteria and initial information that public market investors will expect in order to assess the investment case.

Considering and preparing the investment case often identifies areas that management will need to address before the IPO. These may include:

3 years

For the purpose of the IPO, the company will need to prepare audited financial information covering the last three financial years

Financial information

For the purpose of the IPO, the company will need to prepare audited financial information covering the last three financial years (or such shorter period that the issuer has been in operation). Investors will expect the company's auditors to be a recognised firm with appropriate experience of acting for public companies. This can be time consuming and it is not unusual for this workstream to eventually dictate the timetable for an IPO. (Financial requirements are discussed in greater detail in the Financial preparation chapter from page 24.)

Board composition and corporate governance

A company admitted to AIM is expected to adhere to a recognised corporate governance code. Companies joining AIM commonly opt to adhere to the Quoted Companies Alliance (QCA) governance code for small and mid-sized companies. This code sets out, amongst other things, the minimum requirements for a suitable board, including a minimum of two independent non-executive directors and a requirement for the audit committee to be chaired by an independent director with recent relevant experience.

In addition to corporate governance code requirements, AIM regulation and Nomads place significant weight on the adequacy of a company's board in assessing the suitability of a company to join AIM.

In most cases, companies seeking an IPO are therefore required to recruit new directors to their board. This is probably one of the most significant changes for a company coming to market. A growing private company often has an entrepreneurial management with a lean executive board. The prospect of inviting independent outsiders whose role includes challenging management, vetting key decisions and setting remuneration guidelines may not seem attractive. However, at the same time, it represents an exciting opportunity to attract talented, experienced individuals who are able to make very significant contributions to the company, not only in guiding it through its new stage as a public company but also in key strategic areas such as accessing new markets, executing corporate transactions, and attracting and mentoring talent.

The ‘fit’ between the proposed directors and the executive team and the original shareholders is as important as a new director’s skills and experience. The search for the optimal candidate can take time and often companies seek to recruit two to three new directors in connection with an IPO. Therefore we recommend starting the search early on in the process. Nomads can be very helpful in identifying potential candidates.

A non-executive director who becomes involved with the company early enough in the IPO process can have a significant input into the IPO preparation. This can be by

Market opportunity	— Market size — Market trends — Market drivers
Positioning	— Products and services — Customers — Competition
Team	— Management track record — Directors — Alignment with shareholders—ownership and incentives
Strategy	— Pillars for growth — Capital requirements
Financials	— Historic audited track record — Deliverable short-term forecasts – visibility — Cashflows
Shareholders and capital structure	— Transparency and simplicity — Control and liquidity — Competition

providing technical guidance and also serve as a very positive signal for investors, particularly where there are perceived risks associated with the company against which an external validation will be valuable.

Opposite we provide a couple of case studies to illustrate the value of appointing an experienced board.

Corporate structure and shareholder structure

A company’s corporate and shareholder structures are two areas that require early attention to ensure that they are appropriate in the context of a public company.

From a corporate structure perspective, transparency and simplicity are encouraged. It is essential to ensure that at IPO the company joining AIM holds all assets, intellectual property and contractual rights necessary to carry on its business operations. Part of a company’s reorganisation pre-IPO may involve the transfer of assets or rights held by parties outside the group, which may have significant tax implications for the company and shareholders.

With regard to shareholder structure, there are two main aspects to consider: liquidity and the existence of a controlling shareholder. As an AIM company, it is important to ensure that there is sufficient liquidity in the company’s shares. This means a sufficient level of trading to facilitate the buying and selling of shares. Liquidity is

A non-executive director should become involved with the company early in the IPO process in order to have a significant input into the IPO preparation

CASE STUDY 1

XLMedia plc

Background: XLMedia is a digital marketing company focused on generating traffic for operators in the gambling and gaming space, a highly regulated sector. As a private company, the board of XLMedia consisted of executives and representatives from its private equity backer.

Requirements: XLMedia, together with Cenkos, its Nomad, identified the need to put together a board with sector expertise. The role of an independent chairman with market credibility in the sector was seen as particularly important for two reasons: one to provide investors with an independent view on the regulatory environment facing XLMedia; two, equally importantly, to provide leadership and guidance for the company's executive management in their expansion plans.

Solution: Cenkos identified Chris Bell as an ideal chairman candidate for XLMedia. Chris Bell has 20 years' experience in the gambling industry including nine years as CEO of Ladbrokes. In addition, he has substantial experience as non-executive director of UK public companies and is a member of the Responsible Gambling Strategy board that advises the UK government on gambling policy. Chris Bell's involvement in the marketing roadshow and post-IPO was instrumental in the success of the IPO and in the implementation of XLMedia's strategy since its admission to AIM.

CASE STUDY 2

Benchmark Holdings

Background: Benchmark Holdings (Benchmark) is an international leader in the supply of applied biotechnology, sustainability science and knowledge transfer to animal health, aquaculture & agriculture and the food supply chain. Benchmark's activities span multiple divisions and geographies with different financial profiles and drivers. In addition, each division has a pipeline of investment and development projects making the financial management and reporting a particularly important aspect for the company.

Requirements: In connection with its IPO, Benchmark identified a need to appoint a non-executive director who could bring substantial PLC financial experience to the group and who could mentor the company's management through its transition to a public listed company from a financial point of view. Benchmark's executive management have each more than 20 years' experience in their roles but no previous direct PLC experience. The public listed status brings with it additional responsibilities and need for know-how in a company's finance function. These include setting out market expectations, scoping out the format of the financial reporting to be presented to the market and liaising with analysts and investors.

Solution: The company undertook an extensive search for the role, interviewing a large number of candidates. Great importance was placed on ensuring that there was a good fit between the proposed director and management. Through its network of advisers, Benchmark identified and appointed Basil Brookes as independent NED and chair of its audit committee. Basil has over 20 years' experience as a finance director, 18 of which were on the boards of Main Market companies. Since the IPO, Basil's guidance has been extremely valuable for the company in setting out its reporting framework, strengthening the finance function and implementing procedures to meet public market demands.

linked, amongst other things, to the number of shareholders, the market capitalisation and the number of shares in the company. It is not uncommon for the shares in private companies to be tightly held and for selling restrictions to apply to certain shareholders at the time of the IPO. In those cases it is important to consider whether the size of the proposed fundraising will enable the company to reach a minimum level of liquidity. A Nomad can provide early guidance on this matter.

A second aspect to consider is the existence of any controlling shareholders. A controlling shareholder is typically viewed as one that controls 30% or more of a company's share capital. The market is concerned with a controlling shareholder's ability to exercise control over the company. As a mitigating action it is common practice to put in place a relationship agreement between the company and the controlling shareholder. This may represent a significant shift from historic practice for the company and should be considered early on.

It is not necessary for the issues above to be resolved in full by admission. However, identifying any roadblocks is helpful when engaging in external discussions.

Phase 3 – External validation

This third phase focuses on obtaining validation for the investment case and confirmation that the company's objectives are achievable. These confirmations will first come from a Nomad and then from potential investors.

The choice of Nomad is a crucial part of the IPO's success and, importantly, of the company's success post-IPO; several key considerations include a firm's track record and the rapport with the specific team at a Nomad firm as they will accompany the company throughout the IPO process and beyond. The IPO process can be lengthy and intense, with hurdles along the way, and therefore the personal experience and commitment of the core team are critical. A Nomad will give the company a balanced and informed view of the appetite for the company in the market, including risks and an initial view on valuation.

How is valuation set?

One of the main roles of the broker and Nomad is to establish a valuation for the company's shares which fairly values the business, generates sufficient demand to satisfy the fundraising goals and maintains momentum for the shares in the aftermarket. There are a number of quantitative methodologies and other qualitative considerations which, taken together, enable the broker to arrive at a guide price for the company's shares. This is then validated through conversations with prospective investors. Until such exchanges with prospective investors have taken place, any valuation exercise should be taken with caution and seen as theoretical.

The most widely used quantitative methodology involves reviewing publicly traded companies in the same sector and using their valuation multiples as a guide. This should be seen as a guide only because there are likely to be distinctions between companies leading to significant adjustments to trading multiples. These distinctions may include size, customer concentration, growth record and prospects.

An important factor worth highlighting is that since the company has not previously been traded on a public market, and therefore lacks an established record of delivery in the market, investors often expect an 'IPO discount' to compensate for this risk.

Qualitative elements can be as powerful as the metrics. These may include the track record of the company's management in the public markets, the strength of the brand and the scarcity value of the company in giving investors exposure to an exciting space. Market conditions also play an important role.

As an AIM company,
it is important to
ensure that there is
sufficient liquidity in
the company's shares

Figure 2 (right) shows some of the elements involved in reaching an IPO valuation.

At the end of this phase, and before it invests substantial financial resources, the company should have sufficient confidence that the IPO has a strong chance of success. This is the time to formalise engagements with other key advisers, namely the company's legal counsel and reporting accountants. At this stage the formal IPO process gains momentum.

The IPO has a number of significant legal and regulatory implications both for the company and its directors. The company's lawyers advise the company and the directors on these issues and provide guidance for the company during the process.

The reporting accountants may or may not be the same firm as the company's existing auditors but their role is somewhat different. Their principal role is to conduct an in-depth review of the company's financial position, reporting systems and working capital requirements.

The IPO process begins

The IPO process consists of three main phases: due diligence, documentation and marketing. The process typically takes four to five months, depending on the availability of the information required for the due diligence phase and the availability and access to management and its supporting team throughout the process. This timeframe assumes that there are no significant issues identified during the due diligence phase which need to be addressed pre-IPO with lead times extending beyond this timeframe. Figure 3 [overleaf] shows an indicative timetable for the IPO process.

Phase 4 – Due diligence

During the due diligence phase, lawyers and reporting accountants, together with the Nomad, conduct an in-depth review of every aspect of the business. The due diligence reports prepared as part of this phase constitute the foundation for the Admission Document. As well as being the key regulatory document, the Admission Document is the main marketing document for the IPO and the directors of the company are legally responsible for its contents.



Figure 2: Elements involved in reaching an IPO valuation

Also identified as part of the due diligence effort are the various risks associated with the company and its shares.

As legal and financial due diligence processes run in parallel, they impose substantial demands on management's time and provision must be made to enable management to commit the necessary time to the process, whilst still running the business. The provision of information to all parties is facilitated by the creation of a virtual dataroom that all advisers can access and by appointing a person within the company who has the time and knowledge to address queries efficiently.

Once the draft reports are released, the Nomad will lead a discussion of the findings with management and advisers to collectively ensure that findings are adequately addressed ahead of the IPO and appropriately disclosed in the Admission Document. Further detail on the financial and legal requirements and process is provided in the next chapters of this guide.

Phase 5 – Documentation

The main transaction document in an IPO is the Admission Document. The AIM Rules set out the specific requirements for an Admission Document. At a glance, the Admission Document covers four main areas:

- Overview of the business
- Risks associated with the company and its shares
- Historic financial information, and
- Legal disclosures including a description of the company’s material contracts, intellectual property rights, employment contracts and history of its share capital, amongst other matters.

The positioning of the investment case in the Admission Document is vital and also forms the core of the investor presentation. The positioning of the investment case should reflect the early feedback from potential investors described in Phase 3 and further guidance from the sales team at the Nomad firm.

All the information contained in the Admission Document is verified by management with the help of the advisers either through source material or, where statements of belief are concerned, through discussions with management and directors. This is a vital part of the process of completing the Admission Document.

Phase 6 – Marketing

The Nomad sets out the marketing strategy for the IPO including the preparation of IPO research, any pre-marketing, and the structure of the roadshow.

The IPO research note is delivered by the broker to prospective investors ahead of the meetings with management. It presents the broker’s view of the company and sets the scene for the roadshow. The research note is a distinct effort from the company’s marketing with investors and there is a regulatory requirement for a clear window of time between the distribution of research and the beginning of the roadshow.

The marketing roadshow can be an exhausting and stressful time with full days of presentations, followed by waiting for orders from investors to come in. It is, however, as well as being the culmination of months of hard work, the point when the company reaps the rewards of solid groundwork and enjoys the start to life as a public company.

Figure 3: Indicative timetable



Since foundation in 2005 we have raised

£13.5*
bn
for our clients
*as of May 2015

We focus on growth companies that require access to capital to fund their expansion. AIM's flexibility, with its Nominated Advisor support, provides a strong platform for finance and corporate development. We offer our clients quality advice and access to equity finance at all stages of their development, helping you to meet your corporate ambitions.

Financial preparation

**Chris Searle, Partner,
and Charles Romaine,
Director, BDO LLP**

This chapter covers the financial information prepared in connection with an AIM admission and the related financial due diligence that is usually carried out. It also sets out matters to consider when planning the AIM admission to help ensure that the financial aspects of the admission process can be addressed in an effective and timely manner.

The financial information required in an AIM admission document is specified by the AIM Rules for Companies (the 'AIM Rules'). Where an AIM company makes an offer to the public, the admission document will also have to meet the requirements of a prospectus in compliance with the UK Listing Authority's (UKLA) Prospectus Rules, although it is extremely rare for a company undertaking an initial public offering (IPO) on AIM to do so via a prospectus.

The nominated adviser (Nomad) has an overall responsibility to the London Stock Exchange regarding the suitability of a company applying for admission to AIM and for overseeing the due diligence process.

Financial due diligence is carried out by a 'reporting accountant' who will prepare various reports. These can be either:

- 'public reports', which are included in the admission document, usually only when required by regulation, or
- 'private reports', which are provided only to the company and the Nomad and are not seen by other parties.

With regard to process, the reporting accountant will usually provide drafts of its private reports to the directors for their comments and agreement and then to the Nomad once the directors' comments have been incorporated, as appropriate. Matters raised in the draft reports can be considered and addressed by the company and the Nomad and reassessed by the reporting accountant. This means

the reports can result in an iterative process in preparing the company for admission. Final, signed reports are provided at the date of the admission document.

Financial information typically prepared

The table opposite summarises the financial information typically prepared by a company seeking admission (including where a prospectus is required) and the related financial due diligence reports, distinguishing between public and private reports.

Each of the financial requirements and related due diligence undertaken is considered in more detail below. Depending on the context, references to the 'company' will also apply to its group if the company has subsidiaries.

Historical financial information

The AIM Rules require the admission document to include historical financial information on the company covering the latest three financial years (or such shorter period that the company has been in operation).

The last two years' historical financial information must be presented and prepared in a form consistent with that which will be adopted in the company's next published annual financial statements, having regard to accounting standards and policies and legislation applicable to such annual financial statements. However, in practice, in order to present a three-year track record on a consistent basis in the admission document, all three years are often presented on a consistent basis.

Type of financial information	Published in admission document?	Related report by the reporting accountant	Public / private?
Historical financial information	Yes	Accountant's report (or previously published audit reports)	Public
Working capital statement	Yes	Detailed report on working capital and opinion letter	Private
General financial and commercial matters	No	Long form report	Private
Financial position and prospects procedures	No	Detailed report on financial position and prospects procedures and opinion letter	Private
Significant change statement	Yes	Comfort letter regarding the significant change statement	Private
Tax effects of the transaction on UK shareholders	Yes	Comfort letter on tax wording	Private
Other financial disclosures in the admission document	Yes (requirements more extensive in a prospectus)	Comfort letter on other financial information	Private
Pro forma financial information	Yes – optional (It is sometimes mandatory in a prospectus)	Report on pro forma financial information	Private (if a prospectus, a public opinion is required)
Profit forecast	Yes – optional (not common)	Detailed report on profit forecast and opinion report	Private (A public opinion report is mandatory if a profit forecast is included in a prospectus)

...financial information typically prepared by a company seeking admission...

The historical financial information must be independently audited, or reported on, as to whether or not, for the purposes of the admission document, it gives a true and fair view. There are therefore two choices for the company:

- it can reproduce its last three years' audited financial statements and the respective audit reports, or
- it can publish specially prepared historical financial information covering the three-year period, with the reporting accountant issuing a new opinion on that financial information (called an 'accountant's report', see below) which provides the opinion (similar to an audit opinion) on all three years of the historical financial information.

Accounting standards and policies

The accounting standards used to prepare and present historical financial information in the admission document (and the annual accounts after admission) are determined by the company's country of incorporation:

- companies incorporated in the European Economic Area (EEA) must use International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)
- if at the end of an accounting period that company is not a parent company, it may use either IFRS as adopted by the EU, or its national generally accepted accounting principles (GAAP)
- companies incorporated outside the EEA can use any of the following:
 - IFRS as adopted by the EU
 - US GAAP
 - Canadian GAAP
 - Australian IFRS
 - Japanese GAAP.

However, when determining which accounting standards to use, the company should also take into account what investors may demand, as well as market practice. It is common for companies to use IFRS as adopted by the EU, even when they would be allowed to use alternative accounting standards.

The company may previously have prepared its accounts under its national GAAP, for example UK GAAP. That company would have to restate its financial statements

Top tip

If audits on three years' financial information are required, if possible have these undertaken in advance of the other accounting work beginning, especially if the company's finance function is resource constrained

into IFRS as adopted by the EU for the admission document. This can be a challenging process, particularly where relevant data may not have been captured at the time because accounting treatments or disclosures required by IFRS were not required by the national GAAP. For reasons of professional ethics, neither the company's auditor nor the reporting accountant are able to undertake the conversion work.

Interim financial information

If the admission document is dated more than nine months after the end of the last audited financial year, it must contain interim financial information covering at least the first six months of the current financial year. Comparative information for the equivalent period of the prior year is also required for the income statement and cash flow. Although the interim financial information does not have to be audited, an audit of this information will provide greater assurance to investors.

Irrespective of the regulatory limits on the age of financial information, the Nomad will sometimes want more up-to-date audited, or reviewed, information to be included to meet investor expectations, especially if the company is experiencing rapid growth.

Age of financial information

The last year of audited financial information may not be older than one of the following:

- 18 months from the date of the admission document, if *audited* interim financial statements are included in the admission document, or
- 15 months from the date of the admission document, if *unaudited* interim financial statements are included in the admission document.

For example, if a company included audited financial statements for the three years ended 31 December 20X1 and interim financial statements for the six months to 30 June 20X2, the latest date that the admission document could be published would be either (i) 30 June 20X3, if the interim financial statements are *audited*; or (ii) 31 March 20X3, if the interim financial statements are *unaudited*. However, in practice, for an IPO in 20X3, audited accounts for the year ended 31 December 20X2 are likely to be prepared to enable investors to see more up-to-date financial information than could technically be provided.

Accountant's report on historical financial information

An accountant's report is likely to be prepared:

- when historical financial information is required to be presented under different accounting standards, for example moving from its national GAAP to IFRS as adopted by the EU
- when there have been changes in accounting policies in the three-year period
- to enable previous audit qualifications to be removed
- to make adjustments for corrections of past errors in financial statements
- where more up-to-date historical financial information is needed than that provided by the annual financial statements
- where there have been changes in the group structure and no underlying financial statements have previously been prepared and audited (for example, where a business is carved out of an existing group but was not previously accounted for, or audited, separately)
- where a number of entities which were previously under common management and control are being brought together for the purposes of admission and the financial track record is being presented on an aggregated basis; because they did not form a legal group, consolidated financial statements would not have been prepared

- to enable the three years' historical financial information to be presented as one set of financial information (rather than three separate sets of audited accounts); although usually more expensive, this is a clearer presentation, helping investors to compare figures more easily across the whole three-year period, and taking up a considerably smaller number of pages in the admission document. This is the main reason why an accountant's report is often prepared.

Restatement or new preparation of historical financial information

In the above situations, historical financial information will need to be restated or prepared for the first time.

Where a number of different companies are to be brought together by the company for the purposes of admission, and these were not previously under common management and control, multiple sets of historical financial information may be required.

Where a company has made a substantial acquisition pre-admission, there may be a requirement to include audited historical financial information on the acquired entity for all or part of the period for which the company presents its historical financial information in the admission document.

Where entities have not previously been audited at all, which is increasingly common in the UK as a result of the audit thresholds being increased over time, audits will have to be carried out, and time allowed in the IPO process for these to be completed. This can be a challenging process if underlying accounting records and supporting documentation are not available.

Public limited company

The company undertaking the IPO must be a public company. Most companies undertaking an AIM IPO start the process as private companies. There are two routes to becoming a public company. The first is for the private company to convert to a public company using the procedures set out in sections 90 to 96 of the Companies Act 2006. However, to use this route, the company cannot have accumulated losses in its balance sheet. For this reason, many companies coming to AIM have to adopt the second route, which is to put a newly incorporated holding company on top of the existing company via a share-for-share exchange with the shareholders in the private company. This is a standard procedure that only becomes

Top tip

To avoid a last-minute revision if proceeds are lower than envisaged, prepare an alternative set of projections showing a lower fund raise in advance.

Only provide the projections to the reporting accountant once the directors have approved them; changing the projections after the reporting accountant has started work will cause delay and incur extra costs

complex when the private company has a large number of shareholders, each of whom has to be contacted to give their consent.

Working capital

A company seeking admission to AIM is required under the AIM Rules to include a working capital statement in its admission document. A typical working capital statement is:

'The directors are of the opinion, having made due and careful enquiry, that the working capital available to the group will be sufficient for its present requirements, that is for at least twelve months from the date of admission to AIM.'

Preparation of projections

In order to support the working capital statement, the reporting accountant prepares a working capital report and issues a related comfort letter. As a first step, the company will have to prepare projections which, in practice, will usually cover a period of more than one year from the date

of admission, more commonly 18 months to two years forward. This is because Nomads typically ask the reporting accountant to review beyond the required 12-month period.

The projections should comprise monthly phased, integrated profit, cash flow and balance sheet projections, together with the detailed assumptions used in their preparation. The projections model should allow all key assumptions to be flexed so that 'sensitivity analysis' can be undertaken by the directors. The projections should show a summary of headroom between projected net funds/debt and any available borrowing facilities; where the company is reliant on bank debt for funding, they should also model projected compliance with any covenants.

The directors should undertake 'sensitivity analysis' (ie modelling the effect on the projections of changing key assumptions) as a fundamental part of their work in determining that there is very little risk that the working capital statement might be brought into question. The directors are expected to assess whether there is sufficient margin or headroom to cover a 'reasonable worst-case scenario' (the worst situation that can reasonably occur). The sensitivities are agreed between the directors, the reporting accountant and the Nomad and address the key risks in the projections that will have been identified by the directors or during the course of the reporting accountant's work.

The projections should include the assumed gross fund-raising from the IPO less the costs of the IPO. However, they should not normally take into account any uncommitted sources of funding, such as a bank overdraft that is repayable on demand. If a company has such facilities and wishes to rely on them for the purposes of its working capital, it should convert them to a facility that is committed for at least 12 months from admission.

It is possible that, after the investor roadshow, there is insufficient demand for the company's shares from institutions and, as a result, the assumed placing proceeds will not be achieved. There may, however, be some demand from institutions for a lower amount. If this is the case, the directors will have to, very quickly, revise the projections using the lower placing proceeds and also alter other assumptions, for example by reducing projected expenditure. Sensitivity analysis will need to be carried out using the revised model to verify that the revised placing proceeds will be sufficient for a clean working capital statement to be given by the directors.

Work by the reporting accountant on the projections

The reporting accountant will undertake work to check that the projections have been properly compiled on the basis of the underlying assumptions and will provide a private opinion letter in respect of the directors' working capital statement. It will usually also prepare a detailed private report on the directors' working capital projections, which might typically include:

- a summary of the working capital projections
- a description of the procedures adopted by the directors in preparing the working capital projections
- a comparison of previous budgets against actual outcomes and a commentary on the historical accuracy of the company's budgeting
- a comparison of the opening balance sheet in the projections to the latest management accounts
- a commentary on the assumptions material to the working capital projections
- a summary of the available bank facilities throughout the period of projections
- a commentary on the available headroom between the projected net funds/debt and facilities
- a description of any financial covenants in the facility agreements and comments on the company's ability to comply with the covenants on the basis of the projections
- a commentary on the sensitivity of the projections to changes in key assumptions, together with any mitigating actions/factors (ie actions that the directors could take should the scenario envisaged in the sensitivities actually occur).

Long form report

The reporting accountant is usually commissioned to prepare a financial due diligence report on the company, covering other financial and commercial aspects. Referred to as the 'long form report', this is the major report prepared by the reporting accountant during the admission process. Typical contents might include:

- history and commercial activities
- organisational structure
- accounting policies and audit issues
- historical trading results
- current trading results
- assets and liabilities
- cash flows
- taxation.

The exact scope of this report is set by the Nomad and is usually tailored to the circumstances of the company, taking into account the age, complexity and nature of the business. A considerable amount of information will usually have to be collated by the company for the reporting accountant to consider.

This report will take a significant amount of time to prepare and will involve the reporting accountant analysing information prepared by the company and asking questions of the management team.

Financial position and prospects procedures

Background

A company is required, in the application for its shares to be admitted to AIM, to confirm that procedures have been established which provide a reasonable basis for the directors to make proper judgements as to the company's financial position and prospects ('FPP'). What this essentially means is that the company has accounting systems and internal financial reporting procedures appropriate for a public company.

Work usually undertaken

The directors make an assertion, in the form of a summary document to be approved by the board of directors, that procedures have been established which provide a reasonable basis for the directors to make proper judgements as to the company's FPP.

The directors support their assertion by documenting and evaluating the FPP procedures. Documentation may take the form of a board memorandum on FPP procedures, but may sometimes also be a detailed report prepared by the reporting accountant (see below).

Typical areas in which FPP procedures would be expected are:

- high-level reporting environment
- forecasting and budgeting
- management reporting framework
- significant transaction complexity, potential financial exposure or risk
- strategic projects and initiatives
- financial accounting and reporting
- IT environment.

Top tip

Undertake an early assessment of FPP procedures so that there is enough time to implement any changes; the reporting accountant may expect to see evidence of procedures being in place

The reporting accountant is usually engaged to provide an assurance opinion that procedures have been established which provide a reasonable basis for the directors to make proper judgements on the company's FPP. A detailed written commentary by the reporting accountant on FPP procedures is sometimes requested in addition to an assurance opinion. Such a commentary may either form part of a wider long form report or be presented in a stand-alone FPP procedures long form report. The scope of any commentary is a matter for agreement between the reporting accountant, the company and the Nomad. Each scope will have its own unique features and areas of emphasis.

Other comfort letters

The reporting accountant is often asked to provide other private letters (usually called 'comfort letters') on information included in the admission document, including:

- the results of specified procedures to support the statement by the directors in the admission document that there has been no significant change in the financial or trading position of the company since its last published historical financial information; this work includes reviewing board minutes and the latest management accounts available at the date of the admission document
- compliance with relevant tax legislation of disclosures in the admission document relating to the tax effects of the transaction on shareholders
- confirmation that specified financial information has been properly extracted from the source documents.

Pro forma financial information

The purpose of pro forma information is to illustrate the effects of a transaction, such as an acquisition or a fundraising, on the company's assets and liabilities and/or profit and loss.

There is no requirement under the AIM Rules to prepare pro forma financial information. However, if a prospectus is required, and the company has undertaken, or is to undertake, certain transactions over a certain size relative to that of the company, the inclusion of pro forma information is mandatory. The reporting accountant must then provide a report on the pro forma financial information for publication in the prospectus.

If the company decides to include pro forma financial information in an admission document, the reporting accountant will typically be requested to provide a private report on the pro forma financial information. An admission document usually includes pro forma information only on assets and liabilities, and not on profit and loss.

Profit forecasts

The term 'forecast' is used to cover financial information for a financial period that has not yet ended, as well as a profit 'estimate', which is financial information for a financial period that has already ended but for which financial statements have not yet been prepared. It is not usual for forecast financial information to be included in an admission document.

Where a forecast is prepared, it must be prepared on a basis comparable with the historical financial information. It must also be accompanied by a statement by the directors that it has been made after due and careful enquiry and a statement of the principal assumptions for each factor which could have a material effect on the forecast being achieved.

The Nomad is required to confirm to the company that it has satisfied itself that the forecast has been made after due and careful enquiry by the directors of the applicant.

The reporting accountant is usually instructed to prepare a detailed private report on the forecast; this should include:

- a commentary on material components of the forecast
- details of, and comments on, the assumptions made by the directors and the accounting policies adopted, and
- sensitivity of the forecast to changes in assumptions.

If the company has to prepare a prospectus, the reporting accountant must provide a report with an opinion on the forecast, for publication in the prospectus. For an admission document, this opinion report would usually be a private report to the company and the Nomad.

Profit forecasts are very rare for AIM admissions and, when they are included, are usually for the unexpired period of the current year, rather than, say, three years into the future. Instead of this, the more typical way for investors to be provided with an insight into the company's forecasts is via the broker's research note.

Preparing for the financial information requirements of an AIM admission

General

The amount of information that needs to be gathered (and the amount of time that will need to be spent by the directors and management) during the financial due diligence process should not be underestimated. On top of their normal operational roles in running the business, the finance team will also have great demands put on its time by other workstreams in the AIM admission process.

Gathering information for the due diligence work should commence as early as possible. The reporting accountant will be able to send a preliminary information request list to assist with the identification of the financial information required once the scope of its work has been agreed by the Nomad. Nowadays, information is often filed in an online 'virtual' data room.

Historical financial information

The historical financial information requirements need to be considered as early as possible because this area of work can have a significant impact on the timetable and overall costs of admission.

In many situations, as detailed above, historical financial information may need to be restated or even prepared for the first time. This can be a complex process.

In recent years, the audit thresholds for UK companies have been increased, with the result that many companies embarking on the IPO process have never been audited. If this is the case, up to three years of audits will have to be undertaken and time set aside for these to be completed. Audits will need to be commissioned where entities have not previously been audited at all or where the audited historical financial information is not sufficiently up to date. Previous audit qualifications and errors will also have to be considered and dealt with. Where historical financial information has been restated, updated opinions will be required.

Where the reporting accountant is providing an opinion on historical financial information in an accountant's report, that work will need to be planned into the timetable.

There are conventions for dealing with presentation of historical financial information in the admission document. The early involvement of the Nomad and the reporting accountant will help identify potential problems and options for solving them.

Working capital

If the company does not already have an appropriate financial model, then investing time upfront in building an effective model will save a lot of time later in the admission process. The model must be sufficiently tailored to the company's specific circumstances and flexible enough for different assumptions to be modelled and sensitivity analysis carried out.

Assessing the FPP procedures

An important part of the preparation for the IPO focuses on bridging the gap between existing FPP procedures and those that need to be established in order to meet the company's obligations after admission.

The extent of such work will vary from company to company. The company will often have been managed, controlled and operated as a private company with no external shareholders, which could result in substantial changes in procedures being needed prior to the IPO. Specific situations that would have to be addressed in the preparation pre-admission, with appropriate procedures being developed, include:

- an IPO of a newly formed company with no track record, such as investment entities or mineral companies or scientific research-based companies
- an IPO of a demerged business where the demerged entity had no independent FPP procedures
- where there is a substantial acquisition or amalgamation of businesses on admission to AIM and FPP procedures for the enlarged entity will have to be introduced.

Summary

A company has to include information relating to financial matters in its admission document arising from company law, the AIM Rules and market practice. A reporting accountant will undertake financial due diligence, the scope of which is agreed upfront with the company and the Nomad. The preparation of financial information by the company and its participation in the financial due diligence process can be challenging and time-consuming for the company. Awareness of the requirements and early planning are therefore key to the smooth execution of an AIM admission and set the company up well for future success.



TRADE ON OUR REPUTATION

IF YOU'RE PLANNING A LISTING OR NEED AN AUDITOR, YOU REALLY DON'T NEED ANYONE ELSE ON YOUR LIST.

- WE ARE THE LEADING REPORTING ACCOUNTANT ON AIM BY NUMBER OF IPOs
- WE AUDIT MORE AIM COMPANIES THAN ANY OTHER ACCOUNTANT

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Legal work and due diligence

**Clive Hopewell, Partner, and
Mark Howard, Partner,
Charles Russell Speechlys LLP**

Lawyers play a key role in the advisory team for any AIM admission. Typically, there will be at least two firms of lawyers involved in the admission process: one acting for the company and one for the Nominated Adviser (Nomad). Additional lawyers may well need to be involved, for example, if the company seeking admission is an overseas company or has significant business operations overseas. If the Nomad and broker roles are provided by different firms or the company appoints multiple brokers, those firms may also choose to appoint separate lawyers to act on their behalf.

Key legal workstreams

There are a number of workstreams which must be finalised to achieve a successful admission. These include:

- corporate restructuring (where required)
- due diligence
- drafting the admission document
- drafting and negotiating the nominated adviser and broker agreement and any placing agreement or, where the company is not raising funds on admission, introduction agreement
- review of corporate governance, and
- verification.

What is the lawyers' role?

The company's lawyers

The company's lawyers play a key role in the admission process. A substantial part of their time will be taken up performing legal due diligence on the company. Further information on due diligence is provided below. In addition to this, the company's lawyers will:

- review the terms of any engagement letters which the company may enter into with the Nomad, the broker, the reporting accountants and any expert
- negotiate the Nomad and broker agreement(s) and any placing or introduction agreement, and any other documents associated with admission (especially regarding any warranties and indemnities to be given)
- advise on any group or corporate restructuring required in preparation for admission
- advise on and be involved with the drafting of the admission document and verify its accuracy. The company's lawyers will, in conjunction with the Nomad, advise on the specific content requirements of the admission document (as required under the AIM Rules for Companies), along with providing guidance on any matters requiring disclosure under general law. The specific requirements include information about the company's business and operations, its financial and working capital position, the directors' service agreements and incentive schemes and its constitution, together with an outline of the rights attaching to the shares/securities to be admitted to trading on AIM
- advise the directors on their responsibilities for the admission document and work with the Nomad to advise on the directors' and the AIM company's ongoing compliance with the AIM Rules for Companies. The directors will be required to accept responsibility (both individually and collectively) for the admission document and will be required to acknowledge that

they understand their potential liability for inaccuracies/omissions

- prepare employment agreements/letters of engagement for members of the board, senior management and key employees
- where relevant, prepare share incentive scheme documents for management and employees, and
- prepare ancillary documents such as board minutes, a share dealing code for the company, any lock-in undertakings and terms of reference for any corporate governance committees (such as the remuneration, audit and nomination committees).

The Nomad's and broker's lawyers

The Nomad's and broker's lawyers also have an important role to play, and that is primarily to ensure that the Nomad and broker are adequately protected, both financially and in relation to their reputations. They will:

- draft and negotiate the Nomad and broker agreement (or separate broker agreements where required), and any placing or introduction agreement
- review the scope of the due diligence exercise and the requirement for any legal opinions
- review the admission document and any associated documents, including the verification notes, to ensure the accuracy of their contents
- review all ancillary documents to ensure they are adequate and comply with the relevant rules or recommendations for their preparation, and
- review any public announcements or investment communications to be issued by the company, Nomad or broker.

The Nomad's role in due diligence

The Nomad will:

- agree the scope of all due diligence and reports (including, in relation to the working capital report, assumptions and sensitivities)
- consider whether commercial, specialist (eg intellectual property) and/or technical due diligence is required and be satisfied that it is undertaken if required, and
- review and assess the due diligence findings, reports and adviser comfort letters, considering any material issues, recommended actions or adverse analysis raised, and be satisfied that appropriate actions have been undertaken to resolve such matters or otherwise be satisfied that such matters do not affect the appropriateness of the applicant for AIM.

Due diligence and corporate restructuring

Due diligence

The company's advisers will carry out business, legal and financial due diligence on the company prior to admission. Due diligence is essentially an information gathering exercise, intended to identify any risks or issues that may affect the value of the company's securities, the suitability of the company for admission, or require disclosure to potential investors. It also assists the company's advisers to prepare a comprehensive, high-quality admission document (see below).

Due diligence is essential for the Nomad to be able to fulfil its obligations to London Stock Exchange under the AIM Rules for Nominated Advisers. The Rules require the Nomad to oversee the due diligence process, satisfying itself that it is appropriate to the applicant company and the transaction and that any material issues arising from it are dealt with or otherwise do not affect the appropriateness of the applicant for AIM.

The company's lawyers will carry out a thorough investigation of the company's business, including its share structure, its ownership of assets and property

How do lawyers fit into the timetable?*

Start



Finish

PRELIMINARY PREPARATION

- Retain advisers – Engagement Letters to be put in place with the various law firms
- Consider whether the corporate structure requires amendment – re-register company as a public company/incorporate new holding company
- Legal team send out due diligence questionnaires.

WEEK 1

- Directors reply to directors' and due diligence questionnaires and the legal team begin their due diligence exercise
- Nomad and lawyers begin drafting admission document and marketing presentation.

WEEK 5

- Lawyers commence the verification process.

WEEK 6

- Company's lawyers to circulate board pack for review ahead of board meeting.

WEEK 7

- Lawyers will attend the board meeting to approve the key draft documents relating to admission, including the due diligence reports, admission document, marketing presentation, Nomad and broker agreement(s), placing agreement, directors' service agreements, verification notes, AIM checklist and working capital report, etc. At this board meeting a draft admission document (known as a 'pathfinder') will also be approved – this document is used during marketing of the placing to potential investors.

WEEK 8

- The company's lawyers and Nomad's lawyers will finalise the placing agreement so as to enable the placing letters to be sent out
- The Nomad's lawyers will work with the company's lawyers to obtain and tick-off each of the completion deliverables required under the placing agreement.

WEEK 10

- Lawyers will attend the board meeting/committee meeting to approve final form documents and completion of the fundraising ahead of submission to AIM regulation
- The Nomad's lawyers and the company's lawyers will liaise to ensure that any outstanding legal requirements are finalised prior to admission, including delivery by the company and directors of a warranty confirmation certificate on or immediately prior to the date of admission.

* Assuming a 10-12 week admission process, including a fundraising

Founder directors – are you ready for AIM?

A number of companies coming to AIM still have their founders as integral members of the board. It is therefore important that these founder directors are ready to take the company to AIM and have considered any additional obligations which may be imposed upon them.

Responsibilities as a director of an AIM company

– As well as having responsibility for the contents of the admission document, all of the directors will have ongoing obligations as directors of an AIM company. The company's lawyers will provide them with a memorandum setting out these obligations and typically the Nomad will seek to provide a briefing on the key obligations prior to admission.

Succession planning – From the company's perspective it is important that the founder shareholders have considered and are implementing a suitable succession plan, so that the success of the company can continue once they cease to have an active role in the management of the company's business.

Relationship agreement – Where the founder directors also have a substantial shareholding in the company, for example 30 per cent of the voting shares, then they will typically be expected to

enter into a relationship agreement with the company and the Nomad. A relationship agreement regulates certain aspects of the continuing relationship between the company and the relevant shareholder to ensure that the company is capable of carrying on its business independently of them at all times and to ensure that all future transactions between the company and that shareholder are on arm's length terms and on a normal commercial basis. The relationship agreement will therefore typically contain restrictions upon when a relevant shareholder may vote on transactions in which they have an interest.

Tax structuring – The founder directors may also wish to take on their own private wealth advisers to assist them in ensuring that their personal tax planning is not jeopardised by the admission process.

(intellectual property and real property), any material contracts, its employment and pension policies, regulatory compliance, and any current or threatened litigation. The due diligence exercise will highlight any irregularities, such as assets not owned by the company but which are crucial to the operation of the company's business, and/or any key trading relationships which are not supported by written contracts or which have expired.

Sector-specific due diligence may also be carried out. For example, if the company is a mineral resource company, the lawyers will review the mining licences and examine any potential environmental issues.

As part of the due diligence exercise, the company's solicitors will review the company's constitutional document (ie its Memorandum and Articles of Association or equivalent) to ensure that the securities for which admission is sought are suitable for admission, that is they are:

- freely transferable with effect from admission to trading on AIM
- eligible for electronic settlement, and
- there are no restrictions on the company's ability to offer securities to the public (if the company is incorporated in the UK, it will therefore need to be a public limited company).

Additional requirements for resources companies

The AIM Rules Guidance for Mining and Oil and Gas Companies (the 'Resources Note') sets out the additional content requirements for resources companies such as exploration, development and production companies. However, it does not apply to companies which purely invest in or provide consultancy, advice or other such services to resources companies. The key additional requirements are set out below:

- A Competent Person's Report (CPR), which is addressed to both the company and the Nomad and dated no more than six months prior to the date of the admission document, on all material assets and liabilities of the company, must be included in the admission document.
- The Competent Person (CP) producing the CPR must have relevant and appropriate qualifications, experience and technical knowledge to professionally and independently appraise the assets and liabilities being reported upon in the CPR.
- The content requirements for the CPR are set out in the Resources Note. These are fairly prescriptive and require inclusion of:
 - an overview of the region, location and assets
 - details of reserves and resources
 - details of any other assets
 - full details of the CP's qualifications and a statement of their independence
 - various standard form summary tables setting out details of the assets and reserves and resources by status
- The admission document must contain a summary of all material subsisting agreements relating to the assets and liabilities of the Company, notwithstanding when such agreements were entered into or whether they were entered into in the ordinary course of business.
- Where the resources company's assets are based outside the UK, a formal legal opinion will need to be obtained from a legal adviser in the relevant jurisdiction which should cover matters including:
 - proper incorporation and good standing, and
 - the title to or validity and enforceability of any assets, licences and/or agreements.

Where there are any such restrictions, the constitutional document will need to be amended. The process will also identify if any corporate restructuring (detailed below) is required prior to admission.

Corporate restructuring

It is not unusual for some corporate restructuring to take place prior to admission. If the company seeking admission is a private limited company, it may have to re-register as a public limited company. Alternatively, it may be preferable to create a group structure, or reorganise an existing group so that the holding company of the group is a public limited company.

Furthermore, the due diligence process may reveal that there are certain assets which are currently owned by the company that is seeking admission but which the current shareholders wish to hold outside the AIM-quoted

company. Conversely, there may be some assets which are fundamental to the operation of the business which are currently held outside the group of the company whose securities are to be admitted to trading on AIM – these may have to be transferred to the company prior to admission.

The valuation process may mean the company's share capital structure also has to be reviewed. If there is more than one class of securities in existence prior to admission to trading on AIM, the Nomad may recommend adopting a simplified structure. The company, together with its advisers, will need to carefully consider the share capital structure and whether this should be reorganised prior to admission.

The admission document

Content requirements

Under the AIM Rules for Companies, the company must produce an admission document which contains information equivalent to that which would be required by the Prospectus Rules (save for the information set out in Schedule 2(b) to the AIM Rules for Companies), as well as the information specified in Schedule 2 of the AIM Rules for Companies.

The admission document must "contain all such information as investors [and their professional advisers] would reasonably require and reasonably expect to find there, for the purposes of making an informed assessment of:

- the assets and liabilities, the financial position, profits and losses and prospects of the issuer of the securities
- the rights attaching to the securities, and
- any other matter contained in the admission document (eg material contracts/related party transactions)."

The directors will need to confirm in the admission document that:

"to the best of the knowledge and belief [of the directors] (who have taken all reasonable care to ensure that such is the case) the information contained in the admission document is in accordance with the facts and does not omit anything likely to affect the import of such information."

The lawyers will be involved in drafting the admission document, in particular the section on general corporate information about the company, as well as ensuring it meets all legal and regulatory requirements.

Risk factors

The admission document must also explain the risk factors which, if they occur, could have a material impact on the company's financial condition, results or future operations. Such risk factors should be separated into:

- risks specifically relating to the company's/group's business (eg an irregular income stream, reliance on intellectual property or reliance upon a small number of client contracts)
- risks generally relating to companies operating in the same sector/industry as the company and more generally (e.g. changes in applicable legislation/regulation, taxation or general economic conditions), and
- risks relating to admission and the company's shares (eg influence of a principal shareholder, risks associated with investments in AIM companies and price volatility).

The company and Nomad will, with the assistance of their respective lawyers, consider and agree the scope and wording of the risk factors. The due diligence process will play an important role in identifying company-specific risks and enabling the lawyers to work with the Nomad to draft the risk factors so that they contain sufficient information to allow investors to identify the source, nature and, if possible, consequences of the risk.

Example extract from verification notes

Item no.	Statement	Source	Comments
Introduction			
1	The Company was incorporated on 4 March 2013.	Confirmed by the Directors. Please refer to the Certificate of Incorporation at Tab 1 of the Verification Bundle.	
Market			
2	From a market demand perspective, it has been estimated that the market for the Company's services is currently £4 billion in the UK and projected to double to £8 billion by 2018.	Confirmed by the Directors. Please refer to page 4 the ABCD Survey 2014 at Tab 2 of the Verification Bundle.	The ABCD Survey 2014 is a marketing survey produced by EDFG Research Ltd following research carried out over a two-year period and involving 500 companies in the company's sector. The survey estimated that the aggregate current market for services such as those provided by the Company is £4 billion in the UK and that such market is expected to increase to £8 billion by 2018.

Raising funds in foreign jurisdictions

Where a company seeks to raise funds from foreign investors, it must be mindful of, and seek local advice on, the securities laws of that jurisdiction. Common jurisdictional issues arise where a company is seeking to offer shares in the United States (which is regulated by the US Securities Act of 1933 (the 'Securities Act') and other applicable laws and regulations), Canada, Australia, the Republic of Ireland or Japan. In the US, shares may not be offered or sold unless they are registered under the Securities Act, or are sold or offered pursuant to an exemption from, or form part of a transaction not subject to the registration requirements of, the Securities Act. The company will typically be expected to instruct local lawyers in the relevant jurisdictions to advise on the relevant securities laws and may need to engage a local broker/placing agent to carry out that part of the placing.

the broker for the purposes of the AIM Rules for Companies. The company does not have to appoint the same entity as both Nomad and broker. Where different firms are chosen for these roles, separate Nomad and broker agreements will be entered into.

The key terms of the Nomad and broker agreement include:

- the fees to be paid to the Nomad and broker in consideration for their services, this is typically in the form of an annual retainer payable quarterly in advance
- undertakings by the company to provide the Nomad with certain information and to consult with the Nomad prior to any material announcements or transactions, and
- an indemnity given by the company for the benefit of the Nomad in respect of, *inter alia*, compliance with all applicable regulations.

Most Nomads and brokers will have a standard form Nomad and broker agreement which they use for the majority of their clients.

Verification

Verification is the process of checking all the statements in the admission document to ensure that the information disclosed in it is true, accurate and not misleading in any way. Verification is undertaken largely for the protection of the directors who, as outlined above, will assume legal responsibility for the admission document. Verification notes are produced by the company's lawyers and comprise a series of questions and answers based on a line-by-line analysis of the admission document (see example on page 39) and require the directors to focus on the content and provide source materials to substantiate the statements made. These notes act as an enduring record that the directors have 'taken all reasonable care' to ensure that the information contained in the admission document is accurate. The verification exercise should help confirm not only the accuracy of the information provided, but that it presents the full picture and is not misleading by dint of omissions. The verification notes are not a public document.

The Nomad and broker agreement

This agreement is entered into between the company and the corporate finance firm chosen to act as the Nomad and

Placing agreement

Where, on admission, the company proposes to raise funds by way of a placing of its shares to new investors, the company will be required to enter into a placing agreement. Unless a separate broker is being appointed, the Nomad will typically take on the role of placing agent for the company and will, pursuant to the placing agreement, agree to use its reasonable endeavours to procure subscribers for the new placing shares at an agreed placing price. The obligations of the placing agent will be conditional upon admission taking place within an agreed timescale.

Unlike the Nomad and broker agreement, there is more scope for negotiation of the terms of the placing agreement. The following points are often areas for discussion between the company and the Nomad:

- **The scope of the warranties** – every placing agreement will contain warranties which relate to the admission documents, the company and its business. Such warranties will cover matters such as the accuracy of the information in the admission document, the company's financial position, any reports produced as part of the admission process, compliance, litigation and intellectual property etc. The scope of the warranties will be negotiated between the parties and be tailored to reflect the type of business carried on by the company.

- **Who gives the warranties** – where a company is being admitted to AIM (rather than carrying out a secondary fundraising), it will usually be expected that some, if not all, of the directors give and stand behind the warranties in the placing agreement alongside the company. There may be negotiations around the extent to which certain directors (eg newly appointed non-executives) share responsibility for giving warranties on the business.
- **Limitations on liability** – the company's liability in respect of a breach of warranty or other obligations under the placing agreement is typically uncapped and the company will indemnify the Nomad for any loss it may suffer as a result of carrying out the role of placing agent pursuant to the placing agreement. Where the directors have also given the warranties, their liability is typically subject to a financial limitation (eg, calculated by reference to a multiple of salary and/or by reference to the amount of the placing proceeds). The amount of this cap will be a key negotiation point between the parties.

The placing agreement will also set out the fees to be paid to the placing agent. These typically take the form of a fixed corporate finance fee and a commission calculated by reference to the amount raised pursuant to the placing. In addition, the Nomad will have the right to terminate the placing agreement prior to admission in certain limited circumstances (eg where there is a breach of warranty or a material adverse change). It may also contain special conditions and/or post-admission obligations that are recommended as a result of information discovered during the due diligence exercise or to restrict the issue of further shares for a specified period post-admission. All of these matters are up for discussion/negotiation to a greater or lesser extent, depending on the facts of the transaction.

Where the company is applying for admission without a fundraising, a separate introduction agreement is typically required and the company's directors may be required to give warranties in that agreement, although that is not always the case.

Lock-in agreements

Where the company has had, as its main activity, a business which has not been independent and earning revenue for at least two years, all "related parties and applicable employees" will be asked, pursuant to AIM Rule 7, to enter into written undertakings with the Nomad/ broker agreeing not to dispose of their shares for a period

of at least one year from the date of admission. A related party, for these purposes, will include a director of the company's group, a substantial shareholder (holding, directly or indirectly, 10 per cent or more of the shares) or an associate (including family members) of either. Even for companies which have been revenue earning for two years or more, it is common for the Nomad to seek a form of contractual lock-in to provide comfort to new investors or the market as a whole, that the key persons behind the company are committed and aligned with the process.

Regulatory / 'hard lock-in'

A lock-in pursuant to AIM Rule 7 is a 'hard lock-in', in that there is a total restriction on the disposal of shares during the relevant period and the AIM Rules only permit very limited exceptions to the lock-in, namely:

- in the event of an intervening court order
- the death of a party who is subject to the lock-in, and
- in respect of an acceptance of a takeover offer for the company which is open to all of its shareholders.

These exceptions will be set out expressly in the lock-in agreement, and whilst the specific drafting may flesh out the above, the scope of the exceptions themselves will not be negotiable.

The QCA Guidelines set out 12 essential principles which represent good practice for small and mid-sized quoted companies

Delivering growth in long-term shareholder value

1. Setting out the vision and strategy
2. Managing and communicating risk and implementing internal control
3. Articulating strategy through corporate communication and investor relations
4. Meeting the needs and objectives of your shareholders
5. Meeting shareholder and social responsibilities
6. Using cost-effective and value-added arrangements

Maintaining a flexible, efficient and effective management framework within an entrepreneurial environment

7. Developing structures and processes
8. Being responsible and accountable
9. Having balance on the board
10. Having appropriate skills and capabilities on the board
11. Evaluating board performance and development
12. Providing information and support

Considerations for overseas companies

Free transferability of shares

The AIM Rules require that there must be nothing in the constitution of the company which restricts the free transferability of its shares and the company's shares must be capable of electronic settlement. In order to comply with these requirements, a company incorporated in an overseas jurisdiction may need to amend its constitution or consider incorporating a new UK holding company.

Instructing local lawyers

Where a company is incorporated overseas or its assets are based overseas, it will likely be necessary to instruct local legal counsel to assist with the due diligence process or to provide a legal opinion on the due incorporation and good standing of the company or the overseas' operations and/or assets.

The City Code on Takeovers and Mergers (the 'City Code')

The City Code only applies to AIM companies which have their registered office in the UK, the Channel Islands and the Isle of Man. The purpose of the City Code is to ensure fairness and equality of treatment of shareholders in relevant takeover and merger situations. Overseas companies will be expected to comply with the relevant takeover legislation in their jurisdiction or to incorporate certain provisions which are equivalent to the provisions of the City Code into their constitution.

Notification of significant shareholdings

The AIM Rules require overseas-incorporated AIM companies to disclose to the market any shareholdings of 3 per cent or more in the company's securities and any relevant changes to such shareholdings. In order to ensure that such companies have this information available to them, the guidance to the AIM Rules requires that overseas-incorporated AIM companies include appropriate provisions in their constitution requiring significant shareholders (ie shareholders holding 3 per cent or more in any class of AIM security) to notify the company of any relevant changes in their shareholdings (if not already included or provided for under local laws). The admission document should also summarise the relevant provisions in the company's constitution and note that the company may not be able to comply at all times with the disclosure obligations in the AIM Rules.

Where AIM Rule 7 is not applicable, but certain parties have agreed to enter into a lock-in agreement in any event, the Nomad may be more flexible in respect of the exceptions it is willing to permit and consent to deal could be given on a case-by-case basis at the discretion of the Nomad.

Orderly market / 'Soft lock-in'

The Nomad may also require an additional 'soft lock-in' period after the initial hard lock-in period expires. During this period, the lock-in arrangements may be waived at any time at the discretion of the Nomad. The purpose of this additional lock-in period is to assist the Nomad and the company with maintaining an orderly market in the company's shares. The length of the soft lock-in period (typically around 12 months) and the exceptions which shall apply during this time will be negotiated between the company and the Nomad (via their respective lawyers).

Corporate governance

Whilst AIM companies are not required to comply with the full UK Corporate Governance Code, the Quoted Companies Alliance (QCA) has produced some corporate governance guidelines designed especially for small and mid-sized quoted companies and the Nomad will expect these to be followed.

The QCA Guidelines suggest, amongst other things, that companies have at least two independent, non-executive directors (of whom one may be the chairman if he/she was deemed 'independent' on appointment). A company seeking admission may therefore need to recruit additional non-executive directors.

On or prior to admission, the company should also establish committees of non-executive directors to deal with audit matters, executive remuneration and nominations to the board. A share dealing code will also need to be put in place to ensure no dealing occurs in certain 'close periods' (generally the period leading up to the publication of financial results or when price sensitive information exists). Details of the applicable corporate governance code/corporate governance arrangements and policies, together with all other key shareholder information about the company, as set out in Rule 26 of the AIM Rules, should be made available on the company's website at all times.

The authors would like to acknowledge the work of Jodie Dennis, Associate, Charles Russell Speechlys LLP, in helping to write this chapter.

"A formidable presence in the AIM arena..."

Chambers UK

Charles Russell Speechlys is a law firm headquartered in London with offices in the UK, Europe and the Middle East. The AIM community is at the heart of our Capital Markets work. Our advice covers IPOs and secondary financings; investments, M&A and joint ventures; constitutional and corporate governance issues, as well as regulatory matters such as compliance with the AIM Rules. In addition, we are uniquely placed to advise entrepreneurs/ founders on optimising their personal wealth through tax efficient structures in preparation for a liquidity event. Our award-winning Private Wealth group is the largest in the UK, with a key priority being to protect, manage and grow business owners' wealth for the future, ensuring our business advice is in line with personal objectives.

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Raising finance

Chris Fielding,
Head of Corporate Finance,
WH Ireland Limited

AIM is the London Stock Exchange's international market for smaller growing companies. It has been so successful, since it was founded 20 years ago in 1995, that over 3,500 smaller companies have raised approximately £40 billion on being admitted to the market for the first time.

This is largely because of the significant community of investors in smaller companies who are attracted to AIM by the risk/reward balance offered by growth companies in AIM's regulatory environment. Additionally, a number of significant tax breaks for smaller companies, including business property relief and enterprise investment schemes, have made them even more attractive investment opportunities. AIM's community of investors includes traditional institutions, hedge funds, retail investors through private client brokers, family offices and high net worth individuals.

£40^{bn}

Over 3,500 companies have raised approximately £40 billion at the time of admission to AIM

Why do companies seek admission to AIM?

While there are many reasons why companies seek admission to AIM, most AIM-quoted companies cite at least several of the following as their rationale:

- to gain access to capital for growth, both at the time of admission to trading on AIM and thereafter
- to enhance their ability to make acquisitions using quoted shares as a form of consideration
- to provide in due course, or possibly at the time of admission, a partial or full exit from the company for some of its shareholders
- to create a market for the company's shares, facilitating trading in them and so making investment more attractive to prospective investors
- to increase the benefit of employee share schemes by attributing a market value to the company's shares and providing a market for the sale of shares upon exercise of underlying options or warrants
- to increase the company's profile through greater press and analyst coverage, and
- to enhance the company's status with customers and suppliers, who may be reassured through the regulatory processes involved in an AIM quotation.

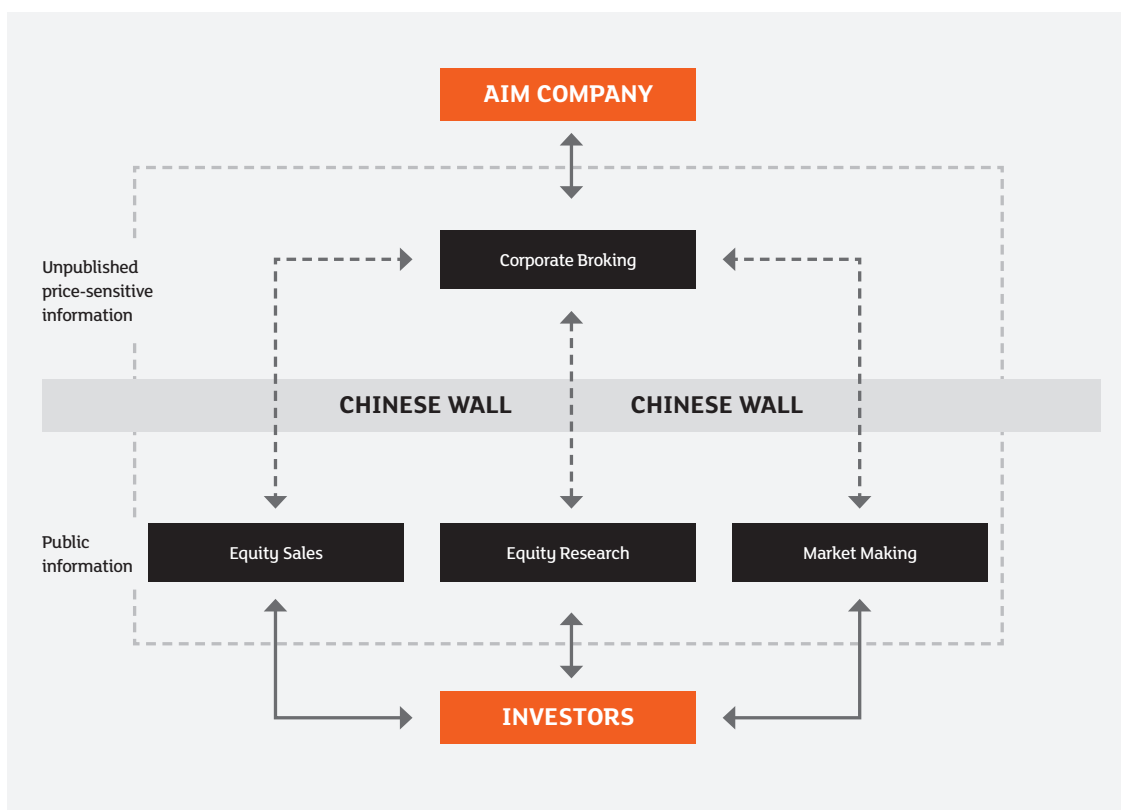


Figure 1: Typical broker structure

AIM's community of investors includes traditional institutions, hedge funds, retail investors through private client brokers, family offices and high net worth individuals

Aside from the numerous different reasons why a company might seek to be admitted to AIM, there are other factors that a company should also take into account when deciding whether or not to seek admission:

1. Any company seeking admission to AIM must be deemed 'appropriate for admission'. Appropriateness involves many aspects, not least of which are a board with an appropriate balance of skills and experience and a standard of corporate governance not necessarily considered essential for an unquoted company.
2. Companies traded on AIM have outside shareholders whose interests have to be taken into account. Such shareholders generally invest in a company on the basis of the potential future profits and cashflows the business is expected to generate. Such investors might be expected to be content if those future expectations are achieved and, conversely, if those expectations are not achieved, they might be expected to be less than satisfied. In such circumstances, investors are likely to have less confidence in the company's ability to deliver on subsequent profit and cashflow expectations.
3. The process of seeking admission to trading on AIM requires a significant time commitment from the directors of the business with no guarantee of success until relatively late in the process.
4. Admission to AIM involves disclosure 'without delay' of numerous matters, many of which do not need to be disclosed by unquoted companies. Additionally, companies traded on AIM should expect to have to keep their investors informed through potentially time-consuming investor relations activities.
5. Finally, any publicly quoted company should be prepared for its share price to be affected by factors beyond its control, including economic or political developments or changes in its sector of operations.

Any company concluding that it wishes to seek to be admitted to trading on AIM will need to appoint a team of advisers

The team of advisers in an AIM IPO

Any company concluding that it wishes to seek to be admitted to trading on AIM will need to appoint a team of advisers. This will normally include:

- a broker to advise the company on aspects of the IPO process and source demand for shares being issued or sold
- a Nomad which has various responsibilities to AIM in a regulatory capacity and generally advises the company on aspects of the IPO process and is retained to support the company whilst 'on market'
- a reporting accountant to report on the company's financial record and carry out financial due diligence investigations
- a lawyer to advise the company on legal aspects of the IPO process and carry out legal due diligence investigations, and
- a financial PR company to advise on financial PR aspects involved in the IPO process.

Although the roles of broker and Nomad are listed separately above, more than four out of five companies currently trading on AIM rely on the same firm for broker and Nomad services. However, the balance of this article focuses on the specific responsibilities of the broker in the IPO process as distinct from the responsibilities of the Nomad.

Table 1: A typical institutional investor checklist in deciding whether or not to invest in an IPO

MACRO FACTORS	HISTORY OF THE BUSINESS
<ul style="list-style-type: none"> — Economic backdrop — Political backdrop — Sector — Alternative demand for funds — Country of interest. 	<ul style="list-style-type: none"> — Financial history — Acquisition history — Litigation
THE BUSINESS	PROJECTIONS FOR THE BUSINESS
<ul style="list-style-type: none"> — Confidence in strategy — Profitable, revenue-generating or pre-operational — Proof of concept — Size of company — Inherent risk — Currency exposure. 	<ul style="list-style-type: none"> — Quality of income — Visibility of projected revenue (quantum and term) — Projected margins — Projected growth and associated risks — Projected cashflows — Operating leverage — Barriers to entry — Intellectual property — Financial gearing — Asset backing — Dividend policy
MANAGEMENT TEAM AND CORPORATE GOVERNANCE	OTHER
<ul style="list-style-type: none"> — Quality of management team — Experience of management team — Personal chemistry of management team — Tenure of stewardship of company by management team — Corporate governance standards — Separate chairman and chief executive — Balance of independent and non-executive directors — Scale of management investment in company — Scale of management remuneration — The terms of any related-party transactions — Degree of maximum dilution from management incentive schemes. 	<ul style="list-style-type: none"> — EIS/VCT qualifying — Quality and track record of the advisory team — Identity of any cornerstone investors
ISSUE STRUCTURE	
<ul style="list-style-type: none"> — Size of fund raise — Use of funds — Issue pricing — Shareholders selling into the IPO — Residual stock overhangs — Significant shareholder agreement 	

The role of the broker

The broker's primary responsibility is to advise the company in its relationship with the investor community, with the objective of assisting the company in raising funds, not just at IPO, but also afterwards. The relationship between the investors and the company is critical to the IPO's success and is therefore a fundamentally important element of the whole process.

The typical structure of the broker is illustrated in Figure 1 on page 45.

The Corporate Broking team is responsible for the day-to-day management of the relationship between the AIM company and its broker and is therefore generally the first point of contact. It is able to receive unpublished price-sensitive information from the company relating, for example, to financial performance or a corporate transaction, discuss the likely market reaction to that information and advise the company on how to release that information to the market. It also manages the dissemination of that information to colleagues within the broker.

The Equity Research team, which is generally organised on a sector basis, produces research on AIM companies and their news-flow. This normally includes the analyst's forecast of the company's future performance and a view on the value of its shares. Because these notes are typically distributed, in different forms, to colleagues within the broker and the various communities of investors on AIM, they are an important tool in the marketing of each AIM company to the market.

The Sales team speaks directly to the investment community, delivering the broker's research and stock trading ideas in order to generate demand for the broker's own client companies', and other companies', shares. The team will also have a role in arranging meetings between the AIM company and various potential investors.

The Market Making team is responsible for making a market in the shares of the broker's client, providing a platform on which investors can buy and sell shares.

Part of the skill and experience of the broker involves pairing each AIM company with the appropriate investors

What the broker and investors look for in an IPO opportunity

The broker's primary responsibility is to advise the company on its relationship with the investor community with the objective of assisting the company in raising funds. The broker is therefore looking for companies that it believes will appeal to its investor client-base.

Part of the skill and experience of the broker involves pairing each AIM company with the appropriate investors. Generally, a broker will have expertise in the sector of each of its clients, along with key contacts with appropriate managers in the financial institutions that might have an interest in the proposition. Table 1 on page 47 sets out a typical checklist of issues that may be considered by an institutional investor in deciding whether or not to invest in an IPO. The broker will consider these issues in deciding whether it is well placed to act on a proposed IPO.

Raising finance in an IPO

Raising finance in an IPO essentially involves balancing the forces of supply and demand, primarily by determining the appropriate valuation of the company. Existing shareholders, whether raising their shareholding or selling into the IPO, will want to achieve the highest valuation possible, whilst new investors subscribing for the first time will be keen to achieve the lowest valuation possible. The challenge for the broker is to bring these forces into line.

As illustrated in the timeline in Figure 2 below, most companies contemplating an IPO will be guided at the outset to a range of valuation outcomes that will typically be refined as the process evolves, hopefully through to a point where the forces of supply and demand are balanced at an agreed IPO price.

The key stages of the IPO process identified in Figure 2 are described in more detail below:

Structuring the issue

At the outset, taking into account the company's and any vendor shareholder's objectives, the broker will provide guidance on the structure of the issue and indicate a range of realistic outcomes. In addition to a range of issue prices, structuring advice might also relate to size of fundraising, what to raise funds for, whether to try to raise funds for vendor shareholders, optimal gearing levels post IPO, and dividend policy.

To firm up its views, or those of the company, the broker may choose to undertake a limited amount of test marketing. In this process, a small circle of potential investors receives a preliminary presentation to gauge their views on the attractiveness of the proposed IPO.

From the outset of the process, it is important that there is broad agreement between the company and the broker on the likely range of outcomes, particularly with regard to valuation and funds planned to be raised.

Pathfinder research

Once the company and the broker have agreed upon the structure and objectives of the issue, the broker's Equity Research team will start to prepare the pathfinder research.

Because most prospective investors will not be familiar with the company, a key part of the broker's role is to brief them on the company. The pathfinder research will

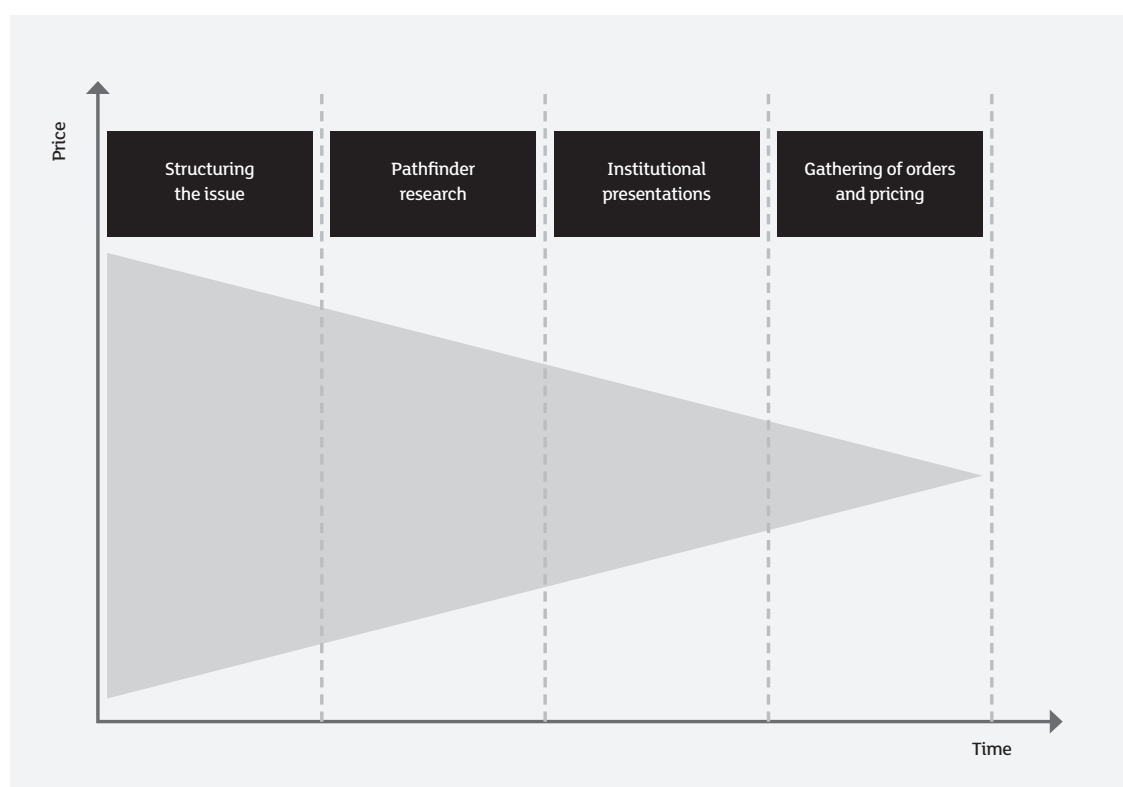


Figure 2: Key stages of the IPO process

It is important that there is broad agreement between the company and the broker on the likely range of outcomes, particularly with regard to valuation and funds planned to be raised

typically be prepared by a sector specialist analyst, and will set out in detail his or her interpretation of the company's investment case, comparing the company with its peers and setting out the analyst's projection of its future financial performance. This would normally be broadly consistent with the company's own projections. However, being the analyst's projection, it remains his or her, rather than the company's, responsibility.

The pathfinder research sets out the views of the analyst following detailed discussion with the company, including its chief executive officer (CEO) and chief financial officer (CFO). The greater the market standing of the analyst, the greater the impact that the pathfinder research will have on building demand for the IPO. The broker will then distribute the pathfinder research to investors that it believes will be interested in the IPO proposition.

At the same time, many companies will issue a so-called 'Intention to Float' announcement, which is typically the first public announcement of the proposed IPO and is often accompanied by exclusive coverage in a UK national newspaper. This will typically flush out further interest in the IPO, identifying further potential recipients of the research.

There is usually an interval of around two weeks between publication of the pathfinder research and the start of institutional presentations. The broker will use this period for its analyst to market his or her research note to the investor community and, in conjunction with the broker's Equity Sales team, to start to build the schedule of institutional presentations.

Institutional presentations

The institutional presentations represent the AIM company management team's best opportunity to sell their proposition to potential investors. The presentations will normally be delivered by the company's chairman, CEO and CFO.

Each presentation will generally take up less than an hour, including delivery of the actual presentation and a subsequent question and answer session. The presentation will have been drafted by the company in conjunction with, at the least, its brokers and it will have been verified by its lawyers as to accuracy and completeness of relevant content. It will profile the business and present the investment case, but will not generally incorporate forecasts or valuations. Potential investors receiving the presentation would normally have received a pathfinder admission document, which is a comprehensive summary of the company and its legal and financial background prepared by the company together with its team of advisors and verified by its lawyers.

The number of presentations in an IPO roadshow varies significantly and is a function of both the size of the company and the funds it is looking to raise. This is a highly time-consuming exercise, with up to six or seven presentations a day, either on a one-to-one or group basis.

The broker's Sales team and analyst will normally maintain contact with each potential investor following the presentation, ensuring that any outstanding queries can be addressed and interest in the proposed IPO maintained and cultivated through to the point when an order to participate in the IPO is received.

Gathering of orders and pricing

Although the broker's expertise is essential in managing the valuation expectations of the company and potential investors, the decision to invest can ultimately only be made by the investment professionals (and on terms that are acceptable to them).

Interest in the planned IPO becomes increasingly apparent towards the end of the investor roadshow, when 'book-building' commences. Essentially, book-building involves the broker obtaining orders from potential investors, either at a specific price or at whatever price is ultimately agreed, and managing this interest to match the number of shares available and the IPO price to meet the objectives of the company and its shareholders.

At the conclusion of the book-building process, the broker will recommend a final price and structure for the IPO for approval by the company. The objective is always to provide a sound base for long-term share price performance. This involves balancing the desire (i) to maximise the IPO price, and (ii) to deliver long-term share price performance for IPO investors. A happy shareholder is far more likely to support the company in a future cash-call than an unhappy shareholder.

Once the price has been agreed, the company and the broker will enter into a placing agreement. This sets out the terms and conditions associated with the IPO.

The broker then takes responsibility for administering the paperwork relating to the IPO and for arranging the company's registrar to register the new shareholders' interests. This process takes place together with the collection of payments from new shareholders for the IPO shares and the transfer of funds raised to the company and any vendor shareholders, customarily through CREST (an electronic shareholding settlement system).

Interest in the planned IPO becomes increasingly apparent towards the end of the investor roadshow, when 'book-building' commences

Institutional presentations represent the AIM company management team's best opportunity to sell their proposition to potential investors

Ongoing activity of the broker following the IPO

While an IPO might be regarded by some as the beginning of the end, it is better described as the end of the beginning. A company should only join AIM if it really wants to take advantage of the facilities that the market offers; the more it puts into the relationship, the more it will get out of it.

The broker should act as the point of contact between the investor community and the company, helping the company to generate investor interest in its shares and advising it on general investment conditions as well as the appropriate pricing of future share issues.

Following the company's admission to trading on AIM, the broker is generally responsible for preparing research reports on the company for distribution within the investor community, as appropriate. As companies increase in size, they may find other broking firms writing research on them. Alternatively, they may decide to pay an independent research firm to produce further research.

Another important function of the broker is to keep the company informed of any newly published results of its competitors, movements in those competitors' share prices, and any relevant sector news. The broker will maintain regular contact with the company to keep it informed of any movements in price and trading volumes in the company's shares.

A final area where the company may need to enlist the expertise of its broker is in bolstering its investor relations activities. The broker advises and supports the company in setting up and managing an effective investor relations programme, which should ease access between existing and potential investors, and the company's decision-makers. It should also serve to provide investors with a continuous flow of first-hand information about the company and complement any research published by the broker.

Finally, the broker will generally act as a market-maker for the company. In this capacity, it provides a two-way price in the company's shares to enable investors to buy and sell the company's shares as they see fit.

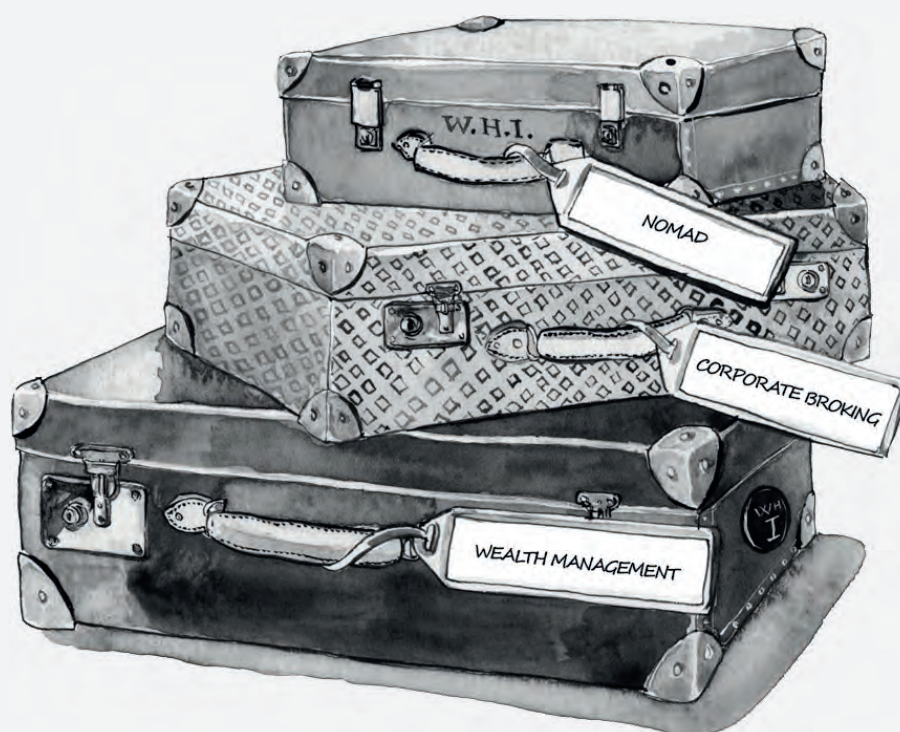
The importance of all these activities means that the company seeking admission to trading on AIM will build up a long-term relationship with its broker. Indeed, the broker will play an essential part, not only in the fund-raising at the time of the IPO, but also in providing ongoing support to the company, its shareholders and the market in general to ensure the company's continued success.

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Communicating with investors

Newgate Capital Markets

Why London? Why AIM?

Since its foundation in 1995, AIM, London Stock Exchange's growth market, has become Europe's leading platform for smaller growing companies. Specifically, tailored regulation and inherent financial savings make it an attractive venue for a diverse range of companies, from family-owned businesses to dynamic, high-growth enterprises.

With around 300 international banks represented in the City of London, 75 per cent of Fortune 500 companies with London offices, and home to the world's largest insurance market, London is the ideal place to list for any business. Additionally, London is in a time zone that spans the global business day. Within this environment, an AIM admission will provide a company with a number of significant benefits. These include access to international capital, robust, transparent and trusted markets and an enhanced profile.

Company shares can be employed as staff incentives, and, should the company decide to make an acquisition, they can be used for this purpose too.

However, taking a business public can be a long and time-consuming process for the management team. The company needs to have, or appoint, a team of brokers, lawyers, accountants and a Nominated Adviser (Nomad) to guide them through the process. The run-up to the float – also known as an initial public offering (IPO) – entails constant liaison with these financial and legal teams. Their role is to ensure that the relevant paperwork, financial information and company structure meet the eligibility requirements for admission to AIM.

There is one vital part of the IPO mix that is sometimes overlooked – a planned communications strategy

At this stage, there is one vital part of the IPO mix that is sometimes overlooked – a planned communications strategy. No matter how good the company's products or services, if these benefits are not communicated to the market in the right way and at the right time this will impinge on the company's progress.

The appointment of a financial public relations (PR) and investor relations (IR) adviser at this stage will help ensure that not only does the messaging consistently and accurately reflect the company's strengths and benefits, but also that media coverage is maximised.

The run-up to an IPO typically includes a one- to two-week 'roadshow'. This is a series of meetings where management presents the company to a variety of potential investors. Once again, preparation is the key to a successful outcome. Most of the audience will have sat through dozens, if not hundreds, of such pitches.

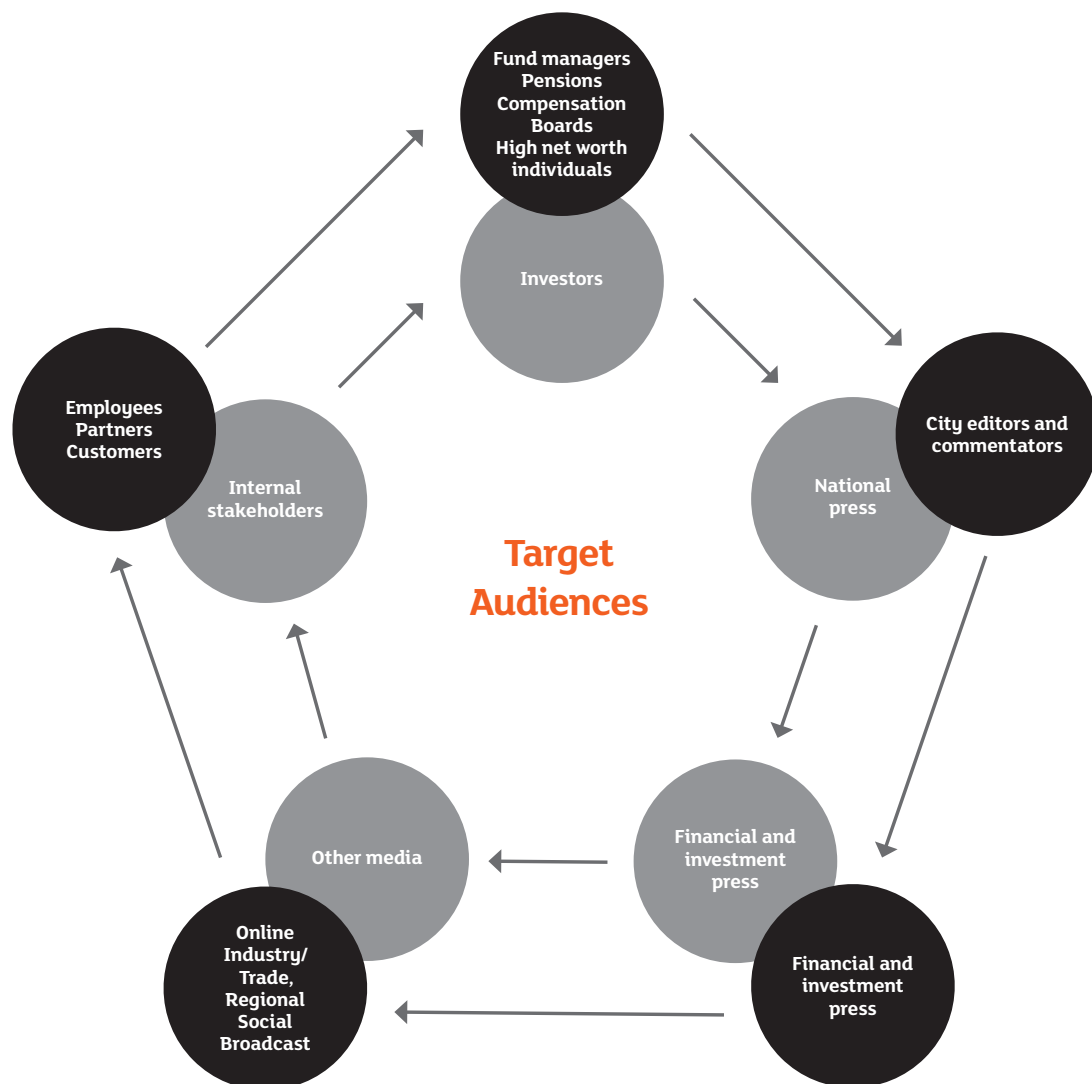


Figure1: Target audiences

A good financial PR adviser will, as part of its communications plan, ensure that the presentation and accompanying documentation is both interesting and informative. It will indicate which photographs/illustrations/diagrams will have the most impact and rehearse management in how to get the key messages across as effectively as possible.

On the day of admission, the company must publish an announcement through a Regulatory Information Service provider, which includes London Stock Exchange's Regulatory News Service (RNS). It is at this point that, if the PR adviser has done its job, maximum publicity will be obtained.

The ongoing PR activities will be based around the company's main financial events – interim figures, preliminary results, AGM, and so on. However, a structure should be in place to keep the PR team informed of any important developments, such as large orders, or product/service upgrades. This will ensure a regular flow of news to the market.

Right message, right people, right time

Along with investors, the IPO communication strategy must also encompass a number of other parties. With this in mind, your PR adviser will look to identify the key objectives of the IPO PR campaign. Is it to create a knowledge-base with the investors taking part in the marketing meetings? Or is it to further push the business proposition with customers and partners? A good adviser will identify whom to target, and with what news, depending on the stage of the IPO and the overall communications strategy.

Traditionally, printed media such as daily newspapers and the financial press are accustomed to disseminating an IPO story. Today, however, the umbrella term 'the press' increasingly encompasses more diverse channels (see Figure 1 on page 55).

These include: online publications, wires, investment columns and trades, private investor forums, social media and editorial blogs. With such a variety of information channels available to investors, it is important that the company maintains consistency in the IPO story.

Despite their importance as publicity outlets, regional and industrial trade media are often overlooked during an IPO. To local publications, an IPO of a company within their

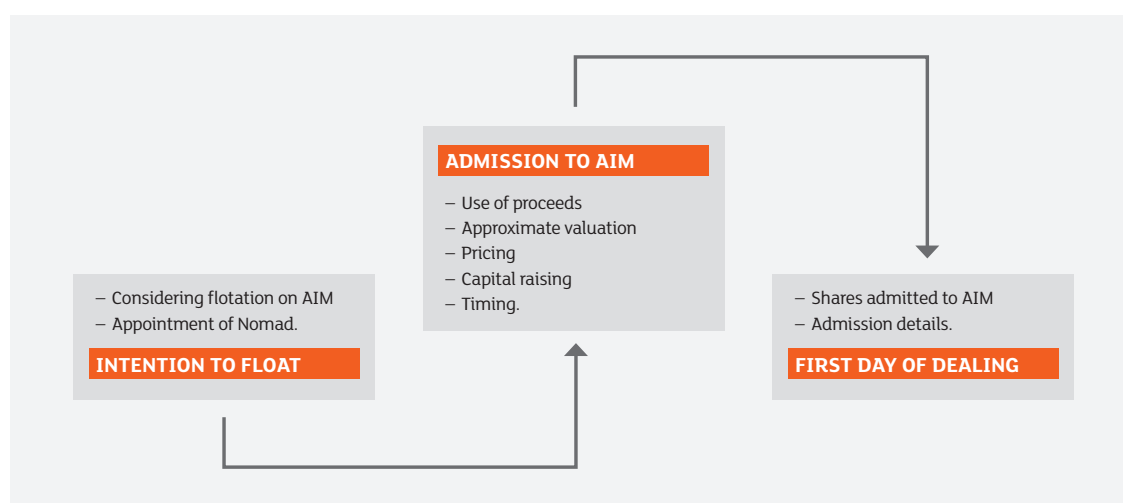


Figure 2: Newsflow throughout the IPO PR campaign

PREPARATION BEGINS		MARKETING COMMENCES	PRICING, ALLOCATION AND TRADING
<ul style="list-style-type: none"> – Develop the equity story in conjunction with advisers – Investor presentation drafting – Prepare corporate/IR website (AIM Rule 26 requirements) – Comprehensive Q&A document prepared – Admission Document design commences – Development of marketing materials. 	Draft initial press releases: <ol style="list-style-type: none"> 1. Intention to float 2. Pricing/Admission to AIM 3. First day of dealings. 	<ul style="list-style-type: none"> – Publication of research – Pathfinder distribution – Approach media comment columns. 	<ul style="list-style-type: none"> – Corporate/IR website goes live – Media briefings (print, online, broadcast) – Analyst outreach commences – Photo opportunity – Brief market reporters – Maintain momentum in aftermarket.
<ul style="list-style-type: none"> – Media and presentation training. 		<ul style="list-style-type: none"> – Investor meetings – First press interviews. 	<ul style="list-style-type: none"> – First analyst briefings – Additional press interviews.

Figure 3: IPO preparation

area can be a major news item. The potential for the listing company to bring more revenue into the area, and the possibility of increased employment, make for a good story. Newspapers such as the *Yorkshire Post* (around 30,000 readers) and *Manchester Evening News* (70,000-plus readers) have a loyal readership, among them potential investors – many of whom like the idea of investing in a local company. Such stories are also the bread-and-butter of regional radio and TV programmes. With the right approach, the CEO or other members of the senior management can appear on radio or TV, enabling the investment case to be put across in a personal way.

For magazines and online media covering the company's specific area of business, the IPO can be an event of major interest. Because these publications are read by people involved in, and knowledgeable about the sector, they are a good source of potential investors.

Just as it is important to implement a strong external communications policy, it is also essential to adopt clear internal messaging. Employees, customers and partners will need to be kept informed of the IPO plan and how it will affect them. Employees of a company looking to IPO may be wary of such a structural change. It is therefore important to reassure the workforce and explain the benefits the IPO will bring to the business. At the same time, it is crucial to ensure they are aware of the damage that can be done if information not in the public domain is leaked – whether that leak is accidental, or deliberate.

Your advisory panel

- Accountants
- Broker
- Financial PR & Investor Relations
- Lawyers
- Nominated Adviser
- Registrars.

The financial PR adviser will work closely with the rest of the company's advisory panel (see above) to ensure communications from each party are consistent and in line with the overall messaging strategy.

The PR team will have comprehensive lists of all relevant national, local and trade publications which need to be approached. They will ensure that the story is amended to appeal to these sectors, before disseminating the information at the appropriate time.

Preparation...the key to success

AIM is traditionally home to growth companies with smaller market capitalisations, though obviously there are exceptions to the rule. Companies residing in the FTSE 350 are larger, usually better known and therefore command

greater coverage in the national press. For smaller businesses, however, securing such coverage demands a more proactive and creative approach.

It is therefore important for documents such as the 'Intention to Float' (ITF) announcement (if appropriate), the 'Admission to AIM' release and the 'First Day of Dealings' to be clear and concise when explaining details of the IPO and the investment case. It is essential to illustrate the company's unique selling proposition – what it offers that its rivals do not – and how it is superior to its market peers. The equity story of the company must be structured in such a way that it interests all levels of the target audience. These include the press and other media, investors and internal stakeholders.

Three factual public announcements are formally issued in the lead-up to the IPO. These allow the company to create a base from which to maximise coverage at key times during the campaign. The ITF release breaks the news of the IPO to the market by highlighting the appointment of a Nomad.

The Admission to AIM announcement is useful to employ with both the press and potential investors to support continued interest in the company's IPO campaign. Ideally it is released in conjunction with the updated Schedule 1 (regulatory information supplied by the Nomad) once pricing, valuation and the capital raise are close to being finalised. By setting out the main investment points, estimated timing, use of proceeds and some background to the operations, this announcement adds depth to the information already provided and helps to maintain momentum of interest amongst potential investors.

Frequently asked questions

- Who are you and what do you do?
- Projected valuation and fund raise?
- Risks?
- Management calibre?
- Peers?
- Barriers to entry?
- Business model?
- Growth potential?
- Why are you floating now? Why AIM?
- Where will you be in five years?

“Before anything else, preparation is the key to success.”
Alexander Graham Bell

The First Day of Dealings is released to the market on the morning the company's shares have been admitted to AIM. This amalgamates all the information in the ITF and Admission to AIM documents and confirms how much the company was able to raise from investors and at what price, as well as how much the company as a whole is worth through the market capitalisation.

When drafting these announcements, it is important to remember the different audiences that are being addressed and elicit which information is going to be of most importance to each party. When interviewing the management, what is the journalist looking for? What facts are going to convince an investor to participate in the IPO? Your PR adviser will prepare the management team for each interview and meeting.

To prepare for investor meetings, the advisory team will provide background on the most likely questions (shown in the left-hand column) and other talking points of interest to the investors and press, and develop answers that best incorporate all elements of the key messages.

Due to AIM's international nature, and the fact that it is a market for smaller and growing businesses, the press today tend to be cautious when covering growth companies. Journalists can also be aggressive in the questioning of management to try to extract information that should not be disclosed due to regulatory reasons.

Surveys show that 85 per cent of all news stories include negative commentary – people enjoy reading bad news. It is common, therefore, for the journalist to focus on the risks of the business. These can include areas such as fragile partner or customer relationships, an overly concentrated product offering or potential market, limited revenue streams, currency risk or the wider macro environment. Other key points of interest will include the

company's corporate governance, individuals within the management team and the dividend policy. The PR adviser will guide on how best to tackle any sensitivity surrounding these issues and mitigate the risk of them being blown out of proportion and causing problems in other areas of the IPO campaign.

The use of proceeds will be examined by the investment community as a gauge of the company's financial position. The equity story is important, as it will act as a base for the overall investment case. Is the amount raised enough to sustain the business through its next phase, or will a secondary placing be needed? If so, when will that occur and to whom will it be open? Will it be used to pay exiting directors or shareholders? The question of "why are they leaving?" will arise. Once again, a prepared answer will be needed to ensure no negative connotations are drawn from their exit.

The aim of the PR adviser throughout the campaign will be to create high levels of credibility via third-party endorsement and a favourable climate of opinion surrounding the IPO story. Niche, difficult-to-reach audiences are made more accessible and complex elements of the investment case are broken down into comprehensible points.

Some additional activities

- Newsflow - RIS & RNS Reach
- Press engagement
- Forward feature participation
- Analyst engagement
- Independent analyst coverage
- Site visit
- Investor forums
- Product demonstrations
- PCB engagement, and
- Market perception audits.

Marketing tools

There are a number of marketing tools that will help tell the company's investment story. As previously discussed, the appointment of a Nomad, pricing and admission each provides PR trigger-points for securing press coverage. The PR adviser will work with the company and broker to develop an investor presentation to be used in marketing and press meetings. The content of the presentation will be

INVESTORS						
Homepage: message from the CEO/link to key areas/video/customer case study						
Stock information	Company & board	Governance	Reports & documents	Investor news	Advisers & contacts	AIM Rule 26
<ul style="list-style-type: none"> – Number of shares in issue – Major shareholders (Anyone above 3 per cent and all on the board) – Security restrictions – Share price 	<ul style="list-style-type: none"> – Description of the business – History – Strategy & vision – Board – Senior management team – Country of incorporation 	<ul style="list-style-type: none"> – Corporate governance statement – All the committees 	<ul style="list-style-type: none"> – Articles of Association – Admission Document – Annual reports (once published) – Investor presentation 	<ul style="list-style-type: none"> – Regulatory Information Service announcements (can be feed) – RNS Reach announcements (has to be manual) – Investor blog 	<ul style="list-style-type: none"> – Nomad – Solicitor – Auditor – Registrar – Financial PR – Investor contacts 	<ul style="list-style-type: none"> – List to all the locations of the required information – Date this section last updated – Wording that says: "The following information is disclosed in accordance with Rule 26 of the AIM Rules."
Key: Required Not required but can be included						

Figure 4: AIM Rule 26 website information disclosure

News flow is essential in developing and supporting the market's perception of the business

drawn from the 'Admission Document' (also known as the 'Pathfinder') that is drafted by the Nomad and verified by the lawyers. Also useful is the pre-IPO research produced by the analyst based at the appointed broking house.

From this point forward, the company's website is crucial in representing the business to investors and other stakeholders in the investment and financial arena, particularly retail investors. As a public company, it is compulsory, through regulation, to disclose certain information.

Some of this information will come from the official Admission Document as it is completed. However, much of the non-compulsory information can be developed by the PR adviser to create an informative and interactive webpage which will help investors to feel that the business is transparent and that the management team is accessible.

Admission to AIM is just the beginning...

The first day of dealings marks the end of the IPO campaign and the start of a company's life as a publicly quoted business. With this transition comes not only a change of pace, but also new demands in its corporate life. One constant, however, is the necessity of creating and maintaining a clear, proactive communications strategy. The company will now be accountable to, and under scrutiny from, official levels of interest that it has not previously experienced (these include regulatory bodies such as London Stock Exchange and the Financial Conduct Authority).

The main change the company will experience after the IPO is the level of information that it is obliged to disclose to the market. This is based around the financial calendar. However, in addition to this basic information, there are a

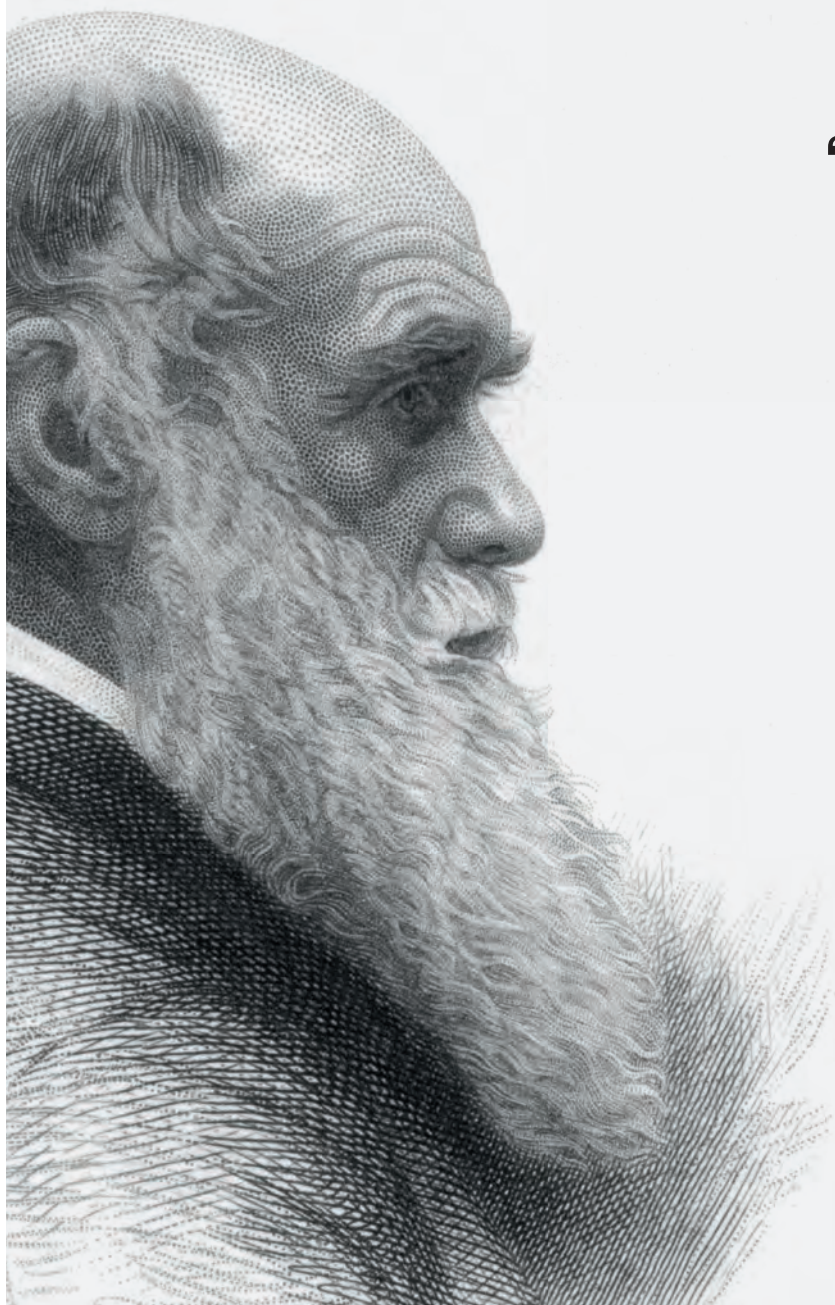
number of other methods of engaging with investors, both existing and potential, as well as the market as a whole. These range from roadshows to one-to-one meetings with high net worth individuals and interviews with selected investment-focused journalists. The combination of these activities, devised by the PR firm, will help to secure a share price representative of the company's value proposition. If done well, it will also highlight the future growth potential of the business.

The financial PR adviser will help a company settle into life as a plc. As well as maintaining the company's ongoing analyst and media coverage and investor relations, the PR firm will manage the financial reporting calendar and ensure coverage beyond the mandatory releases. News flow is essential in developing and supporting the market's perception of the business. Drafting, commenting on and timing coordination will all be managed by a company's adviser, as well as key Q&A around the subject of the regulatory announcements. Your PR adviser will also ensure that each release is distributed to the company's target audiences.

The PR firm provides a company with a source of independent feedback and a sounding-board for any or all of the management team's ideas. They will manage any issues or crises, and monitor the market commentary or peer research for any opportunities or concerns that could affect the company in the wider market.

PR...is it worth it?

The road to a successful IPO and life as a plc can present many challenges for a company – and a communications and public relations adviser can be invaluable in addressing them. A company's reputation will tangibly affect the market's opinion of its operations and revenue stream, so why risk getting it wrong or ignoring it? The effectiveness of PR cannot be measured solely through an isolated KPI such as share price or column inches in the press. These elements are affected by a number of factors outside the control or remit of the PR advisory team. However, the intangible, positive environment created and promoted by a financial PR adviser within the market can, without doubt, be a major factor in the creation and longevity of a successful plc.



“In the long
history of
humankind
those who
learned to
collaborate
and improvise
most effectively
have prevailed”

Charles Darwin

Our philosophy is based on total communications. By doing things differently and recognising that all of an organisation's audiences are now inter-linked and demand a response from one team that can engage and manage relationships with business, investors, politicians and consumers – worldwide.

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Being on AIM

**Stuart Andrews,
Head of Corporate Finance,
finnCap**

Once a company's shares have been admitted to trading on AIM, it will be subject to a number of rules and regulations. These come from London Stock Exchange itself, being the AIM Rules for Companies ('the AIM Rules'). In addition to the AIM Rules, other regulators have responsibilities for protecting the reputation and integrity of the public markets. For example, the FCA has responsibility for market abuse regulations, the Takeover Panel maintains the City Code on Takeovers and Mergers ('the Code') for those companies incorporated in the UK or Channel Islands and certain elements of the Companies Act 2006, and various accounting standards are also applicable.

This article will concentrate principally on the AIM Rules and the areas within them that are particularly relevant to how a business is managed when on AIM. It will also consider the implications of some of the other sources of rules. In reality, there is a large amount of interaction between the different rules and regulations and the potential for mistakes. In order to help avoid these, AIM has a unique system of regulation that relies on a firm acting as a nominated adviser ('Nomad').

Before getting into the detail, it is worth focusing on one of the key effects of becoming publicly traded. This is that information pertaining to the company and its trading or strategy must be kept confidential and not widely disseminated beyond those who need to know until such time as it is published. At that point it must be disseminated equally to all parties through a regulatory information service ('RIS'). The thrust of many of the rules on AIM is equality of treatment of all investors and the systems and controls a company has in place are designed to ensure that this is the case.

Ongoing eligibility for being on AIM

Retaining a Nomad

An AIM company must appoint a Nomad and retain a Nomad at all times. There is a complete list of approved Nomads on London Stock Exchange's website. The Nomad is responsible to AIM for assessing the appropriateness of an AIM company when appointed and for advising and guiding an AIM company on the AIM Rules.

Consulting the Nomad

An AIM company has an obligation to seek advice from its Nomad regarding compliance with the AIM Rules and to take that advice into account. The issues on which an AIM company should take advice include a range of scenarios from changes to the board, changes in expectations for trading, directors wishing to buy or sell shares and corporate activity, whether buying or selling companies or assets. On a practical level this involves the Nomad becoming a part of the team and for the Nomad to be the first port of call when anything that has an effect on the AIM company comes up. This can involve attendance at board meetings, looking at the management accounts and regular updates on strategy and potential activity.

The Nomad should be the first point of contact whenever a regulatory, market or corporate issue arises. The company's broker should also be involved in market-facing issues and this is quite often the same entity as the Nomad.

Systems and controls

To ensure that an AIM company is able to comply with the AIM Rules, it is required to have in place sufficient procedures, resources and controls to enable compliance. This is more than just producing management accounts to show whether trading is in line with budget, but extends to the board understanding the rules, identifying when directors or key employees want to trade the shares, and

The thrust of many of the rules on AIM is equality of treatment of all investors and the systems and controls a company has in place are designed to ensure that this is the case

>75%

A disposal, or a series of disposals over 12 months, which exceeds 75 per cent in any of the class tests, is a fundamental disposal

knowing when there are close periods (see below section on directors dealing in shares), amongst other matters. The importance of the board cannot be underestimated in setting the tone for compliance and also ensuring adherence to the rules. Nomads are responsible for ensuring that a company remains suitable for trading on AIM and therefore take a lot of care to understand the background of anyone appointed to the board. It is for this reason that potential appointees to an AIM company board are not only asked to complete a questionnaire by the Nomad, but will also frequently have their CV vetted by an independent third party.

Loss of a Nomad

If a company finds itself without a Nomad, then its shares will be suspended immediately and subsequently cancelled if a Nomad is not appointed within one month. This is a serious issue as cancellation will mean that the shares can no longer be traded by shareholders.

Reporting to the market

One of the key issues when a company joins AIM is reporting the financial performance of the business to shareholders and the investment community as a whole. The key pieces of reporting are half-yearly reports and annual accounts.

Annual accounts

Annual audited accounts must be published and sent to shareholders without delay and in any event not later than

six months after the end of the financial year to which they relate. Companies frequently now take advantage of the ability to communicate with shareholders electronically and therefore the accounts are not always physically sent.

If the company is incorporated in an EEA country, the accounts must be prepared to and presented in accordance with International Accounting Standards. If the company is not incorporated in the EEA, then it can also use US, Canadian or Japanese GAAP or Australian IFRS.

In addition to the information and format prescribed under the relevant accounting standards and company law, an AIM company also needs to include details of:

- i) any transaction with a related party where any of the class tests (see below for more detailed section) exceed 0.25 per cent, and
- ii) details of directors' remuneration earned in respect of the financial year by each director; this includes all payments whether cash, shares, pension contributions or benefits in kind.

Half-yearly reports

These are traditionally called interims and relate to the six-month period after the last audited balance sheet date. They must be released not later than three months after the relevant period end. There is no set format for the statement, although the accounting treatment and format should be consistent with that used in the audited accounts. It must include a balance sheet, an income statement, a cashflow statement and comparatives. There is no requirement for the statement to be audited but many companies have it reviewed by the auditors to ensure consistency and that there is no restatement come the final results.

Price-sensitive information

Outside of the need to report at half-yearly intervals, many companies will also provide ad hoc trading updates such as at the time of the annual general meeting, immediately after the balance sheet dates for each reporting period, or part way through each period.

The most important occasion for an announcement, however, is the need to issue an announcement without delay of any new developments that are not public knowledge and which, if made public, would be likely to lead to a significant movement in the price of its shares. By way of example, this may include matters concerning a change in its financial condition, sphere of activity, performance of the business or expectations of

performance. This is not just an area for the AIM Rules, but is also regulated by the Financial Services and Markets Act 2000 ('FSMA').

It is to identify this sort of information that the AIM-quoted company requires the robust board and internal reporting systems that are referred to above. In addition to identifying the information, an AIM company is also required to ensure that it has taken reasonable care that the announcement is not misleading, false or deceptive and does not omit anything likely to impact the relevance of this information.

The identification of price-sensitive information is an inherently difficult task involving a lot of subjective judgement and knowledge of the market's likely reaction to certain events. It is for this reason that AIM companies retain a Nomad who should be consulted on all potential areas likely to lead to a substantial movement in the share price. There is also substantial case history of areas where various regulators have held that an announcement should have been made. This includes where outperformance in one division is offset by underperformance in another, bank facility covenants have been or will be breached but a waiver or reset is being negotiated, or a substantial acquisition is in the process of being concluded. In addition, the Nomad will be able to help advise on the format of any required announcement and any required updates to it at a later date. If an announcement states that an event is scheduled to occur on a future date, and that event then either does not occur or is rescheduled, then further announcements are likely to be required.

The identification and release of price-sensitive information is the area most likely to lead to a significant breach of the AIM Rules or FSMA and the consequences for getting it wrong are severe. These range from warnings, potential public censures and fines at the hands of London Stock Exchange, to criminal prosecutions under FSMA. Needless to say, these events can significantly undermine management credibility and market reputation.

Directors dealing in shares

It is quite normal for directors to wish to buy and sell shares in the AIM companies of which they are directors. All dealings in the shares of AIM companies of which they are directors must be announced to the market.

Unfortunately, along with the release of price-sensitive information, this is the most common area for mistakes to be made with respect to the AIM Rules. It is for this reason that many AIM companies institute an employee dealing code that requires the approval of the chairman for anyone on the board to deal, or in the case of the chairman, the approval of the chief executive. AIM companies are also strongly advised to consult with the Nomad before any dealing by a director takes place.

A director's dealing under the AIM Rules covers almost any action that a director might make in relation to the shares. In this respect, AIM differs from many other markets, including the Official List of the UK Listing Authority where there are numerous exemptions. Particular care needs to be taken over transferring shares to another party, including a SIPP. Dealing also includes the grant of options and other financial products deriving value from the change of price of a share. The definition of 'director' also extends much wider than just the individual, and incorporates family, trusts and potentially other companies in which the director has an interest.

Finally, director share dealings may not occur during a close period. This period is defined as two months before reporting the interim accounts or publishing annual accounts, or the period from the relevant financial period end up to the time of publication, if this is shorter than two months. In addition, share dealings may not occur when the AIM company is in possession of unpublished

The importance of the board cannot be underestimated in setting the tone for compliance and ensuring adherence to the rules

price-sensitive information, or where it has become probable that price-sensitive information will have to be disclosed. Price-sensitive information here would include all those matters identified above.

For these reasons it is very important to consult with the Nomad prior to any dealings in the company's securities.

Miscellaneous disclosure

There are numerous other matters that are required to be disclosed to the market under the AIM Rules. These include changes to the board, the accounting reference date, registered office or company name.

Corporate actions on AIM

One of the key benefits of being a public company is the ability to raise funds or use the company's shares to acquire other companies or assets. Equally there may be times when it makes sense to dispose of a division or the whole of the business. An offer for all of the shares in a company on AIM is dealt with below. We deal here with raising further capital, acquiring companies or assets and disposing of subsidiaries.

Class tests

The disclosure requirements and necessary approvals for an acquisition or disposal vary depending on the size of the transaction relative to the AIM company. The size is determined by the application of class tests. It is important to consult with the Nomad on the application of class tests to ensure that the correct numbers are used and that any necessary adjustments are made to account for previous acquisitions from the same party; or any other abnormal features.

There are five key tests which are used and these are calculated by expressing the relevant balance in the target company as a percentage of the relevant balance in the AIM company. The tests are:

- Gross assets
- Profits
- Turnover
- Consideration, and
- Gross capital.

The calculation of the relevant balances for these tests is set out in the AIM Rules. These apply only to acquisitions and disposals and not to transactions of a revenue nature in the ordinary course of business, nor to transactions to raise finance which do not involve a change to the fixed assets of the business. They apply to transactions by the AIM company and its subsidiaries.

Substantial transaction

When a company undertakes a transaction that exceeds 10 per cent in any of the class tests, it is a substantial transaction. The AIM company must notify the transaction via a RIS as soon as the transaction has been agreed. The notification should include certain prescribed information including a description of the business, profits attributable to the transaction assets, value of the assets, full consideration and how it will be satisfied, and any other information that is required to evaluate the effect of the transaction. The same disclosure requirements relate to a reverse takeover and fundamental disposal.

Reverse takeover

When a company undertakes a transaction, or a number of transactions over a 12-month period, that exceeds 100 per cent in any of the class tests, or will result in a fundamental change of business, board or voting control, then it is a reverse takeover. A reverse takeover must be conditional on the approval of shareholders and the enlarged company will be required to be readmitted to trading on AIM with the production of an AIM Admission Document. This should be published when the transaction is announced or the shares will be suspended from trading. Likewise if details of the transaction leak before it is agreed, then the shares in the AIM company will be suspended from that point.

Fundamental disposal

A disposal, or a series of disposals over 12 months, which exceeds 75 per cent in any of the class tests, is a fundamental disposal. It must be conditional on shareholder approval and the announcement should be accompanied by the publication of a circular convening a general meeting for the vote. Following a fundamental disposal, an AIM company will generally be treated as an investing company.

Corporate governance is the way in which a board of directors manages a company's affairs to protect shareholders' interests

Related party transaction

Occasionally, an AIM company will undertake a transaction with a related party. The definition of a related party is wide on AIM and includes a company's directors, shareholders with over 10 per cent, and the families and other entities controlled by these parties. The definition of transaction is also very wide and includes all transactions, even those that are concluded in the ordinary course of business. Importantly, when a related party transaction is in contemplation, the Nomad should be consulted. If it exceeds 5 per cent in any of the class tests, it should be announced and include a statement that the directors who are independent of the related party consider, having consulted with the company's Nomad, that the terms of the transaction are fair and reasonable insofar as the shareholders are concerned.

Raising further capital

One of the key attractions of AIM is the ability to raise funds efficiently. Unlike the Official List, there is no requirement for an AIM company to issue a prospectus when it issues more than 10 per cent of its issued share capital unless, at the same time, it exceeds the number of investors to whom an offer can be made or the quantum of funds to be raised, currently set at €5 million. There is no requirement for a further AIM Admission Document. This means that a fundraising is generally subject to a minimal amount of transaction documentation, which makes the process more efficient and generally cheaper. A company does, of course, still have to comply with any statutory requirements related to shareholder approvals or pre-emption rights.

Being acquired

AIM companies are frequently approached by private equity firms or trade buyers seeking to purchase the entire company. Where these situations arise and the company is incorporated in the UK, Channel Islands or Isle of Man, then the City Code will apply to the company. The City Code regulates all takeovers and has numerous rules designed to ensure equality of treatment of all shareholders. It is very important that if, at any point, conversations with a third party incorporate reference to a potential takeover of the AIM company, the Nomad is consulted without delay.

Company website

An AIM company is required under the AIM Rules to maintain an up-to-date website, free of charge, which includes relevant information on the company including:

- description of the business
- names of directors with biographical details
- copies of most recent announcements
- copies of interim and annual accounts, and
- identity of significant shareholders.

Corporate governance

Good governance is as important for AIM companies as for those on the Official List. The rules require that the company's own website details the corporate governance code that the company has decided to apply, how it complies with that code and, if no code has been adopted, this should be stated together with its corporate governance arrangements.

Corporate governance is the way in which a board of directors manages a company's affairs to protect shareholders' interests. In the UK, the main benchmark is the UK Corporate Governance Code which is mandatory for fully-listed companies and applied by some of the larger ones on AIM. Reflecting the fact that no code is mandatory for AIM companies, the Quoted Companies Alliance has produced guidelines that are designed to help achieve good corporate governance for smaller and growing companies.

The principal areas dealt with by a code of corporate governance are:

- Directors: ensuring there are sufficient independent board members and that the remuneration of the executive directors is appropriate
- Audit: ensuring that the company's records are audited by an appropriate firm and that the performance of this firm is monitored and that appropriate controls are in place in the business
- Relationship with shareholders: ensuring that the company's owners are able to properly raise concerns and are consulted on major decisions.

These areas are generally dealt with by different committees, which will generally be made up of non-executive independent directors. These are:

- Audit committee
- Remuneration committee, and
- Nominations committee.

Trading and liquidity

After completing the process of getting a company admitted to AIM and having established the processes and controls required to be a good corporate citizen, it is clearly important to take full advantage of an AIM quotation. This will be impossible if no one knows about the company and there are no buyers or sellers of the shares. This is a trap into which many AIM companies can fall.

The more knowledge there is of the company, the more likely the shares are to trade: a factor known as 'liquidity'. And the more liquid a stock, the more likely it is to attract investors because they know that they can trade it easily. A number of factors, highlighted below, will help to raise knowledge of the company in the marketplace.

Research

A house broker will normally produce research on a company and distribute it to clients of the firm. While this is useful for ensuring that institutional and other professional investors receive information on the company, it does not mean that the distribution of these reports is particularly wide. AIM companies will often also employ a 'paid-for' research house, which can more easily distribute its research to the general public.

Financial public relations ('PR')

Retaining a PR company is a good investment for an AIM company, as it can help to obtain press coverage where this might not ordinarily be available. As well as increasing the likelihood of information on the company being picked up by investors, PR firms can also help to market the investment proposition to analysts other than those at the house broker.

Market makers and private investors

For most AIM stocks, the price of a share that is most often quoted will be the 'mid-market price'. This is the midpoint between the price at which the market maker will bid for, and offer, shares in the company. What is often not appreciated is that the prices quoted by market makers

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will be for shares in a normal market size (ie a set number of shares). The normal market size is a fraction of all the shares in issue and therefore the price for different volumes of shares can often vary. Because market makers do not have unlimited capital, they must find buyers for any shares that they buy. Quite often, institutional investors will want to buy or sell shares in much larger volumes than the normal market size, meaning that there is a gap between the number of shares that a market maker is able to sell or buy and the institutional interest.

Into this space steps the private client and it is an area that an AIM company ignores at its peril. Private client interest is created at the level of the private client broker, or in the press, or at specialised conferences. It is therefore very important to:

- 1) Incorporate as many private client brokers in roadshows as possible. Whilst this can wear down shoe leather and take up time, it is a very important investment to make.
- 2) Find out about private investors' clubs to which presentations can be made, as well as private client trade shows. Audiences at these events are often very keen to hear the story direct from the company and this can provide a great opportunity to present to multiple investors at one time, and in one place.
- 3) Target the investor publications that cater to the smaller company investor or that run columns on AIM companies.



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