The essential

# Guide to a Standard Listing

*Achieving new highs*

WISE GUIDES

HollandBendelow
FLOTATION CONSULTANTS

# Contents

## For some businesses looking to accelerate their growth and enhance their profile, a listing on The London Stock Exchanges Main Market appears, on the face of it, to be a step too far.

Many are discouraged from considering joining because of the incorrect perception that it is more expensive or time consuming than joining a growth market such as AIM. Others may feel that their business would be too small to be eligible to join the Main Market. In this guide we focus on The Standard Listing, which is a segment of the Main Market and is becoming increasingly popular as an alternative destination to AIM or other international junior stock markets.

**There are four segments to the Main Market:**

- The Premium Segment - Designed for companies that meet the UK's highest standards of regulation and corporate governance
- The Standard Segment - Has a more flexible regulatory structure than the Premium Segment and is therefore more appropriate for smaller and mid-sized companies
- The High Growth Segment - For mid-sized UK & European companies that can demonstrate strong growth and are looking to step up to the Premium Sector at some stage in the future
- Specialist Fund Segment - This segment is designed specifically for highly specialist investment companies, which provide access to instituitional and experienced investors

A Standard Listing can be an efficient way for companies to access capital to fund their growth, whilst benefiting from the enhanced profile and liquidity within a well governed and regulated market structure.

The Standard Segment of The Main Market was established to offer companies a greater choice of listing destination. Prior to its launch many UK companies were unable to comply with the eligibility requirements of the Main Market. Whilst not intended to represent a threat to AIM, in some circumstances companies have chosen a Standard Listing over AIM, and importantly it's available to both UK and overseas companies.

One of the key benefits is that it provides companies with access to The Main Market without having to comply with the 'super-equivalent' provisions that apply over and above the EU minimum standards, such as the combined code for corporate governance.

> In this new guide we focus on Standard Listings from the company's perspective. I wish to thank those who have contributed their considerable knowledge and experience to this guide, which we believe is the most comprehensive independent guide to undertaking a Standard Listing. Our consultants are happy to answer further questions that you may have.

**John Holland**

Managing Director, Holland Bendelow

# Standard Listing Overview

## What is a Standard Listing?

The Standard Segment is a sector of the London Stock Exchange's Main Market, and a Standard Listing is a listing thereon. The Main Market can trace its roots back as far as 1698, and is one of the world's largest and most respected stock markets. The market is home to nearly 1,000 companies with a combined market value of nearly £4 trillion. The 4 segments of the Main Market are:

### The Main Market - The Standard Segment (or Standard List)

The Standard Segment is open to equity shares, Global Depositary Receipts (GDRs), debt securities, and securitised derivatives that are required to comply with EU minimum requirements.

### The Main Market - The Premium Segment (or Premium List)

The Premium Segment of the Main Market is open to equity shares issued by trading companies and also close-ended investment vehicles. Importantly, Premium Listed companies must meet the UK's super equivalent rules which are higher than the EU minimum requirements.

### High Growth Segment (EU Regulated Market)

Companies joining the High Growth Segment (HGS) are subject to the EU minimum standards and also the London Stock Exchanges own Admission and Disclosure Standards. The segment is designed specifically for high growth companies that are already generating revenues and are incorporated within the EU. The segment is regarded as a stepping stone for high growth companies to the Premium Segment. The HGS allows companies incorporated in the EEA to raise funds with a minimum 10% free float.

### Specialist Fund Segment (EU Regulated Market)

This segment is designed for investment companies that are looking to target institutional and highly knowledgeable investors or are professionally advised investors. The segment is designed for specialist funds and specialist property funds targeting sophisticated investors. Types of funds may include private equity funds, hedge funds, and geographical funds with sophisticated structures or security types.

## Standard Listing comparison with AIM

A Standard Listing may be an option for smaller or mid-sized companies who would previously have only considered AIM. New applicants are required to publish a prospectus rather than an Admission document (which is the case with AIM). Arguably, the AIM rules impose a greater levels of regulation on certain aspects of a listing than for a the Standard List. For example, there is no requirement to appoint a Nominated Advisor (Nomad) for a Standard Listing as is the case for AIM.

| | AIM | Main Market Standard List | Main Market Premium List |
|---|---|---|---|
| **Owned and operated by** | LSE | LSE | LSE |
| **Eligibility requirements** | No trading record required<br>No minimum fee float (although market expects 20% plus) | No trading record required<br>25% | 75% of business must have at least 3 years financial information<br>25% |
| **Sponsor required** | No | No | Yes |
| **Nomad required** | Yes | No | No |
| **Admission documents** | Admission doc not vetted by UKLA<br>Approved by LSE for listing | Prospectus vetted by UKLA | Prospectus vetted by UKLA |
| **Prospectus required** | Usually just an Admission document unless a public offering | Yes | Yes |
| **Financial reporting** | Publish annual updated within 6 months of end of the year | Half yearly reports required | Half yearly reports required |
| **Shareholder approval of transactions** | Approval required from shareholders for large transactions such as reverse takeover | Approval not required from shareholders for large transactions such as reverse takeover | Class test rules apply |
| **Profile of companies** | Small and medium caps | Small and medium caps | Mid and large caps |
| **Tax reliefs** | EIS and VCT tax relief for qualifying co's | EIS and VCT tax relief not available | EIS and VCT tax relief not available |
| **FTSE Indices** | FTSE AIM series<br>AIM 100 etc | n/a | FTSE UK Series<br>FTSE 100 etc |
| **Model code** | No | Comply or explain | Yes |

### The legal basis of the market

The Standard segment of the Main Market is governed by EU Law, UK Law and regulations that come under the FSA (Financial Services Authority) and the London Stock Exchange rules.

EU law states the minimum standards that apply and the UK has then applied its regulations through the Financial Services Markets Act 2000 and through the Listing Rules, Transparency Rules and Prospectus Rules. The power to approve or to remove listings falls under the UK Listing Authority (UKLA).

From a legal perspective, access to the Standard Segment is a two stage process, Firstly the UKLA is required to admit a company's shares to the 'Official List', and then the London Stock Exchange admits the shares for trading.

### The UKLA listing requirements

The UKLA listing requirements differ for a Standard Listing and a Premium Listing. One of the key rules governing a Premium Listing is that a company requires a 'Sponsor' to advise on the Listing Rules and provide the necessary reassurances to the UKLA. This is not a requirement for a Standard Listing.

## Standard listing process

**Pre-IPO Preparation 4-6 months +**

**Company preparation**
- Feasibility study
- Develop business proposal and strategy
- Financials
- Capital structure/ dividend policy
- Corporate structure/ governance
- Internal systems

**IPO Process**
- Appoint advisors
- Develop equity story
- Offer structure
- Initial assessment of demand

**Preparation of the offering 2-3 months**

**Preparation of the listing**
- Due diligence
- Prepare offering prosepectus and other legal documents

**Preliminary valuation**
- Set valuation range
- Shareholder's & management's issues

**Analyst presentation**
- Analysts' meeting/ presentation
- Analysts draft research reports
- Accuracy review

**IPO Execution phase 1 month**

**Investor education**
- Publication of research
- Public 'launch' of IPO
- Investor targeting
- Monitor market
- Analyse feedback
- Refine offer size, valuation

**Management Roadshow, Bookbuilding**
- Publish preliminary prospectus
- Management roadshow
- Analyse feedback
- Sign placing agreement
- Pricing and allocation

**Aftermarket**
- Market-making
- Ongoing research
- Investor relations
- Ongoing obligations

# The Benefits of a Standard Listing

**Companies choose to join the Standard segment because it can provide access to long-term equity capital and a platform to greatly enhance the profile of a business.**

In recent years Standard Listed companies have benefited from liquidity and exposure to institutional investors, with companies joining the market from both the UK and overseas.

The cost of a stock market listing ranks high on the list of key issues for prospective listed companies. The Standard Segment offers a cost effect route to market, mainly because companies are not required to appoint or retain the services of a sponsor as is the case for a Premium Listing, or Nominated Advisor (Nomad) as is the case for AIM. In addition, when compared with a Premium Listing and AIM, the ongoing compliance obligations for a Standard Listing are considerably more flexible and therefore less costly. For example, the Standard Listing rules do not stipulate that companies should be subject to the provisions relating to significant and related party transactions, therefore companies are not obliged to offer shareholders pre-emption rights over new issues of shares.

### Access to investment capital to support growth on a globally recognised stock market –

The majority of companies join the Standard Segment to raise equity capital to support their growth, whether organic, acquisitive or a combination of the two.

### A lower cost option –

There are a number of factors that make a Standard Listing a lower cost option than either AIM or a Premium Listing, these include:

- No requirement for a sponsor
- No requirement for a Nominated Adviser
- No requirement to comply with the UK Corporate Governance Code

### Access to additional tranches of funding post listing –

A Standard Listing enables companies to access deep pools of additional investment capital though the further issue of shares once they are listed on the market.

### A platform from which companies are able to broaden their shareholder base –

A Standard Listing enables companies to have their shares traded on one of the world's most respected stock markets. International investors are drawn to the market because of its highly valued levels of integrity and robust trading platform.

### Introducing employee share schemes –

Companies joining the Standard Segment are able to introduce share based incentive schemes which can help to recruit, motivate and reward staff, enhancing employee performance.

### Acquisition currency –

A Standard Listing enables companies to use their shares as currency, in full or part consideration for future acquisitions.

### Enhanced credibility and profile –

Standard Listed companies benefit from the considerably enhanced profile which being listed on a segment of The Main Market brings. This can lead to improved status with new and existing customers and suppliers.

### A mechanism for existing shareholders to exit the business –

A Standard Listing can provide founder or existing shareholders in a company with a partial or full exit strategy over a period of time and in a way that benefits them.

### Retaining control of the business –

Whilst a listing will involve the introduction of new shareholders in a company, members of the senior management team will retain control of the business and be able to continue to steer the future direction of the company.

# Joining the Standard Segment of the Main Market

### What makes a successful Standard Listing?

The success of a Standard Listing often relies on the planning and preparation undertaken ahead of admission. Harvard Business School undertook research into the non-financial factors which are critical to the success of newly public companies. The study remains the largest and most in-depth analysis of the issue and took over 10 years to complete. The key conclusion of the research was that pre-IPO preparation is the primary reason for the success of any IPO. Regardless of size or business sector of a company it is the pre-float planning and preparation which is the single most important reason for the success of a stock market listing.

### First steps

Companies without in-house stock market expertise should engage the services of a stock market consultant who will undertake a feasibility exercise on behalf of a company. As part of the study they may decide to test market a company's business proposition with market participants and assess both the positive and negative impact of the listing on the business.

### Admission criteria

The Standard Listing rules stipulate four key entrance criteria:

- The market capitalisation of a company joining the market must be at least £700,000 at admission
- The shares traded must be freely transferable
- There must be a working capital statement for 12 months following admission
- There must be at least 25% free float (shares in public hands)

| Summary of eligibility requirements | |
|---|---|
| **Listing Rules** | • Minimum 25% shares in public hands in one or more EEA states<br>• Minimum market capitalisation GBP 700,000<br>• Free transferability of securities<br>• Eligible for electronic settlement<br>• 12 month working capital statement |
| **Accounts** | • 3 years of audited financial information (or such shorter period that the issuer has been in operation<br>• Latest accounts no more than 18 months old (if audited interims included) or 15 months old (if unaudited interims included). If accounts are older than 9 months, interims must be included<br>• EU IFRS or equivalent |
| **Corporate Governance** | • Domestic corporate governance code applies |
| **Prospectus** | • Prospectus approved by UKLA |
| **Admission & Disclosure Standards** | • Compliance with the London Stock Exchange's Admission and Disclosure Standards |

# Stage 1 The feasibility stage

The most important part in the process involves analysing the pros and cons of a Standard Listing for a company and its unique set of circumstances. A Standard Listing is a significant event for any company and it's therefore advisable to undertake a feasibility exercise first, to establish if how and when the company could be admitted to the market.

Also it's important to carefully consider the benefits and drawbacks of a listing and weigh up against other funding options. Where the driving force behind a listing is an exit strategy for existing shareholders, the benefits of a Standard Listing and potential returns for shareholders can be weighed up against a trade sale.

### Business proposition –

It's useful to prepare a business plan that communicates the business and its growth strategy. A flotation consultant can help in the preparation of this document. Key areas of the plan will focus on the company markets, services and potential for growth.

### Ascertaining the amount of funding required –

If undertaking a fundraising then it's helpful to have an indication of the amount of funding required, and how the proceeds will be used at the outset. When considering the amount of funding required, careful consideration should be given to the costs of undertaking a Standard Listing and allowing sufficient capital to pay appropriate dividends.

### Subsequent fundraisings post admission –

Will the company require subsequent fundraisings post the listing if so, roughly when is this likely to happen, and approximately how much funding will be required?

### Assessment of existing shareholders –

It's useful to know the founder/existing shareholders exit plans and consider if these shareholders wish to sell some or all of their shares to other shareholders or employees in the company or to partially/wholly exit at the time of listing.

### Financial projections –

It's advisable to prepare financial projections which show the company's growth in coming years both with and without the proposed fundraising. The objective of this exercise is to demonstrate how the proceeds of the fundraising will be allocated and the impact on the future revenues and profitability of the company.

### Board of Directors –

The perceived strength of a company's board may be one of the key criteria that investors use to decide if they will invest in the company. It's advisable to discuss the existing and proposed listed company board with a flotation consultant and to assess both executive and non-executive roles. If it is decided that new appointments are required, the consultant will work with the company to undertake a search assignment to identify potential candidates.

### Financial controls –

Stock market investors will expect that a company has adequate financial control systems in place. The nature and responsibility of the financial control of the company may vary depending on the size and complexity of the company's operations.

### Corporate reorganisation –

The amount of reorganisation required will vary considerably from company to company. In some cases no reorganisation will be required. For non-UK companies the jurisdiction of the company will need to be considered. Another area to be considered will be to ensure that the proposed listed 'group' holds the assets and intellectual property.

### Pay and incentive schemes –

A Standard Listing provides an opportunity for a company to review the incentive schemes for senior executives and employees. This may include the introduction of save as you earn schemes for employees and may include the allocation of additional equity options that may be granted.

Pay structures in public companies can differ from those in private companies and therefore consideration should be given to:

- Salary benchmarking to ensure a company's remuneration is broadly in line with companies that are comparable on the Standard List or other stock markets
- Clear performance targets that are measurable and are set
- Tax advice, which is often important to ensure that remuneration and incentives are tax-efficient for the company and individual
- Any lock- in requirements for management who are shareholders are clearly communicated to the individuals concerned

# Stage 2 | The decision stage

### Making informed decisions –

Having undertaken a feasibility assessment of the benefits and drawbacks both for the company and its existing shareholders, the Board will either decide to move onto the IPO process stage, or consider pursuing other options.

In certain circumstances, the flotation consultant may recommend further qualitative feasibility work, or even meetings with stock market participants to help formulate a decision as to the most appropriate route for a company.

# Stage 3 | IPO process

Once a fully informed decision about the Standard Listing has been reached, the consultant will work with the company to produce a timetable for the transaction that ensures there is little disruption to the business during the process of listing.

The investment case will be shaped into a cohesive document to communicate the company's key strengths and growth strategy to stock market participants. The key objective at this stage is to present a proposal which accurately reflects current and future prospects of the company and ensures that market participants can quickly grasp the fundamentals of the business.

Other areas that the consultant may review include:

- Current and proposed Corporate Governance in a company
- Advise on board composition
- Advise and in some cases, undertake a search assignment to identify the relevant Executive and Non-Executive Directors
- The selection of broker and advisor teams required to undertake the transaction.
- Accounts and reporting procedures within the company.
- Optimum use of new funding

### Appoint advisor and broker teams –

In order to commence the formal process of a Standard Listing, advisor teams will be required to prepare the necessary documentation and support the company with the financial and legal aspects of the process. It is generally regarded as best practice to hold 'beauty parades' of a small number of relevant lawyers, accountants and brokers ahead of appointing the most appropriate firms.

### Timing and approval –

It's advisable to commence preparatory work as soon as it is practical to do so. Prior to the anticipated listing date the company's advisors will commence consultation with the UKLA and the prospectus will be submitted to the UKLA for their feedback and approval. Usually the UKLA will provide comments back to the advisor about the document. In order to prevent delays it's advisable to submit the first draft to the UKLA 6-8 weeks in advance of the proposed listing date.

### Prospectus –

Prior to the introduction of the Standard Segment, the production of a prospectus was regarded by many as a potential hurdle to admission to the Main Market, and AIM's system of producing an admission document was generally regarded as less daunting. One of the attractive aspects of the Standard Listed sector is that companies come to the market with a prospectus in many cases at a more competitive price than if they had produced an AIM admission document. A prospectus is also required for companies that are already listed on AIM and wish to transfer across to the Standard List.

From a company's perspective, the prospectus has some benefits over an AIM admission document which is produced by AIM companies. Principally it provides the company with the ability to offer shares to a greater number of people than an admission document. In addition, companies can 'passport' the prospectus which enables them to make a public offer of shares in other countries.

The prospectus can be prepared as one document or three parts. Another benefit is that the main core document is valid for up to 12 months and can therefore be used for additional offers of shares during that period. This is not the case with an AIM admission document.

### Working capital requirement –

Companies are required to provide confirmation that the working capital available to the company will be sufficient for at least 12 months from the date of listing. This can be challenging for a high growth company but the Standard Sector permits companies to make a qualified statement regarding working capital. In practise the qualified statement enables the company to state that although they do not have sufficient working capital available for a 12 month period, they can identify the likely shortfall and put in place a plan to address the issue.

### Free float –

Under the listing rules, Standard Listed companies must put at least 25% of shares into public hands when they list. Shares are not considered to be in public hands if they are:

- Subject to a lock in agreement
- Held directly or indirectly by a director of the company or a person connected with a director
- Held by a person in the same company or acting in concert with an interest in 5% or more of the shares

In certain circumstances the FCA may permit free float requirements to be reduced to 20%.

### Financial Information –

For companies from the EU the financial information must be prepared in accordance with the International Financial Reporting Standards (IFRS). For companies outside the EU their accounts need to be prepared in accordance with IFRS or in accordance with their countries national accounting standards, providing that these are accepted as equivalent standards to IFRS. If a country's standards are not equivalent to IFRS the accounts must be restated. If a prospectus is dated more than nine months after the end of the last financial year, it must contain interim financial information, covering at least the first six months of the year.

### Experts report –

Companies that are part of specialist sectors such as property or mining, or if they are start-ups, may be required to provide additional information about their businesses over and above the basic information in the prospectus. For companies involved in mineral extraction a 'Competent Persons Report or CPR will be required. The CPR will need to be prepared in accordance with the appropriate reporting standards such as JORC.

### Lock-ins –

The Standard Listing rules do not stipulate a mandatory lock-in period for new companies.

### Timetable –

An IPO can generally be completed within 15 to 20 weeks. The exact timetable will vary depending on market conditions, the scope and complexity of the transaction and a range of other factors.

### Due diligence –

The purpose of undertaking the due diligence exercise is to ensure that the contents of the prospectus are accurate. Depending on the degree of due diligence undertaken, the exercise may include a review of a company's operations, management, and future financial prospects.

### Corporate restructuring –

The advisor teams work collectively to ensure that any corporate restructuring that may be required ahead of the listing is achieved in a manner that investors and the UKLA will find appropriate given the company's particular circumstances.

### Analyst presentations –

It is good practice for senior management from the company to meet with the research analysts employed by the broker before the IPO. The analysts usually publish research on the company before the start of the roadshow. Ahead of the formal investor roadshow, rehearsals with senior management that will be involved are usually required.

### Announcement of Intention to Float –

In most cases leaks about the IPO from the company to the media are discouraged because these can dilute the impact of the formal announcement of intention to float. Instead, the first time that a company provides confirmation of its intention to list should be via a public announcement. Once this announcement is made, the marketing process can begin.

### Pathfinder document –

A draft prospectus or pathfinder prospectus is often made available to potential investors. This is usually a comprehensive document but not the finished version of the prospectus. Missing from the document will be details of the size of the IPO and the price of the new shares.

### Investor roadshow presentation –

The investor roadshow involves a number of meetings with potential investors. In most cases it will be the CEO, Chairman and/or Finance Director that will attend the meetings and present to prospective investors. The Broker will support the company in the preparation of the presentation material and may organise and participate in rehearsals.

### Pricing –

Following on from the investor roadshow, a completion meeting usually takes place where documents are finalised and processing of the shares is completed.  During this three-day period, the shares in the company may be traded, however these are not fully settled until the company is officially admitted to the Standard List.

### Impact Day –

On the impact day the prospectus is advertised and the company's listing is officially announced to the Stock Market.

### Final approval –

The prospectus must be submitted to the UKLA in its completed form for final approval.

### Admission date –

The company's shares are 'admitted' to listing and the shares are traded publicly on the Standard Segment of the Main Market. For this to happen, the listing must be approved by the UKLA. In addition, the London Stock Exchange will need to approve trading in the company's shares.

## Indicative Standard Listing Timetable

| Summary of key tasks | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Feasibility study | ■ | ■ | ■ | ■ | | | | | | | | | | | | | | | | |
| Appoint advisors | | | | | ■ | ■ | ■ | | | | | | | | | | | | | |
| Due diligence | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| Long form/short form report | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| Audited figures | | | ■ | ■ | ■ | ■ | ■ | | | | | | | | | | | | | |
| Working capital report | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | | |
| Capital structure review | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | | | | | |
| Agree size of fundraising | | | | ■ | ■ | ■ | ■ | | | | | | | | ■ | ■ | ■ | ■ | | |
| Draft prospectus | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| File prospectus with UKLA | | | | | | | | | | | ■ | | | | | | | | | |
| UKLA reviews prospectus | | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| Pathfinder prospectus | | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Final prospectus | | | | | | | | | | | | | | | | | | | ■ | ■ |
| Placing agreement | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | |
| Audit comfort letters | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| Presentation prepared | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | |
| Research note | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | |
| Investor roadshow prep | | | | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | | |
| Publish research | | | | | | | | | | | | | | | | ■ | | | | |
| Pre-marketing | | | | | | | | | | | | | | | | ■ | ■ | | | |
| Investor roadshow | | | | | | | | | | | | | | | | | | ■ | | |
| Book building | | | | | | | | | | | | | | | | | | ■ | ■ | ■ |
| Allocation of shares | | | | | | | | | | | | | | | | | | ■ | ■ | ■ |

# Types of Listing

There are a number of different ways of gaining a Standard Listing, choosing a particular route will depend on the reasons for a company joining the market and their funding requirements:

### Introduction

An introduction is the route whereby a company joins the Standard Segment of the Main Market, but does not raise funds at the time of admission. This is often the most cost effective method of joining the market and the most straightforward. Joining via an introduction enables a company to access the market and to have an independent valuation of the business, whilst the listed status helps to raise the profile of the business to a wider audience. An introduction would not however involve a significant fundraising and therefore is not chosen by companies who require an immediate tranche of investment capital in the short term.

### Placement

The most popular route to a Standard Listing for companies looking to raise funds at the time of admission is via a placement. This is often the most cost effective route to join the market and raise funds at that time. Shares are taken by a selected audience of investors, rather than offered to the public at large.

### Initial Public Offering (IPO)

An IPO is when companies offer shares to a wide potential investor audience, i.e. a public offering. In an Initial Public Offering (IPO), a company's Broker offers shares to private and/or institutional investors. In some cases the offer is underwritten. The benefit of an IPO is that it attracts a broad range of investors. This can be helpful in achieving satisfactory levels of liquidity of a company's shares post admission.

### Reversing into a cash shell

Access to a Standard Listing via a reverse transaction into an existing cash shell offers some benefits over other routes. In particular, there is a readymade shareholder base and a transparent amount of cash available in the shell which means large scale investor roadshows are not required.

# Raising Funding via a Standard Listing

### How funds could be used:

- To reduce the dependency on bank finance
- To reduce pressure on working capital
- To pay down significant creditors
- To buy out founder shareholders
- To fund strategic acquisitions
- To accelerate organic growth

### Raising funding at IPO –

A successful fundraising at IPO will depend on matching the expectations that the company has regarding the valuation of the company with what price the new investors are willing to buy shares at. The key challenge is to ensure that both sides feel that the result is fair and satisfactory. The final value of a company and its shares is borne out of the fundraising process and will, to some extent, depend on demand for the company's shares amongst investors, and therefore the strength of the overall business proposition.

### Who are the investors? –

Companies with a Standard Listing attract investors from both the UK and around the world. International investors are drawn to the London Stock Exchange market because of its exceptional global reputation for providing well-regulated stock markets, high quality and robust trading platforms and strong liquidity. The major investors in Standard Listed companies are institutional investors, experienced retail investors, hedge funds, and family offices.

### Raising further funding post the IPO –

Following the listing, companies are able to use the market to undertake repeat fundraisings post admission. This could be allocated to undertaking an acquisition or to accelerate organic growth or a combination of the two. In most cases repeat fundraisings are undertaken quickly and without the need to produce a new prospectus.

# Securing a Satisfactory Valuation

## Competing sides

Valuation is often one of the primary issues for companies considering a listing on a public market. The existing shareholders in the company will be seeking what they consider to be a suitable valuation which reflects the current and future growth and profitability of the company. New shareholders will be seeking what they consider to be fair value for their investment. In the majority of cases the two sides meet in the middle and a valuation for the company and its shares is reached which is acceptable to each side.

## Early valuation ranges

Early in the process, perhaps at feasibility stage, it's helpful for companies to discuss their valuation expectations with a stock market consultant and this should certainly be done prior to commencing the flotation process. If possible it's also helpful at an early stage to understand what valuation ranges stock market investors may find acceptable.

### How does pricing work?

It's important that prospective investors understand and believe in a company's investment case before deciding how much they may be willing to pay for shares in a company. Because there will be no tangible market value for a company pre-admission, the task of setting a price which is agreeable to the company, its advisor teams and investors can be challenging, however compromise usually prevails.

The company's shareholders will be looking to maximise the valuation of the company and in so doing, minimise their dilution. They will also be looking to maximise the value generated by the sale of any shares they sell. Whilst these are understandable goals, the pricing of the company's shares must be considered not solely in the short term, and certainly not purely based on the price achieved at the time of admission. It's important to ensure that following admission, the company has a satisfactory share price performance in the medium and longer term. This means shares should be neither under nor overpriced.

## What is the process involved in pricing

The process of pricing the company's shares can involve a number of different parties. These may include the broker's sales team who will discuss the valuation range contained in the research note with investors. Whilst early in the process it's unlikely that investors will have met the senior management team of the company, they will quickly become in tune with the business model. The Broker will discuss feedback from investors with the company and agree a price range within which the offering of shares will be marketed.

In most cases the company's price range is set before the management team begin their roadshow, however in a number of circumstances the broker may decide to delay the setting of the range by a few days, particularly if feedback from the investors is very positive.

The broker will build a book of demand for the company's shares which will demonstrate clearly how much interest there is for the shares. The book building exercise lasts for the duration of the investor roadshow.

## Allocation of shares

At the end of the book building period the price of the shares is agreed following a meeting between the broker and the company. Hopefully demand for the company's shares will be such that the book will be many times covered by subscribed investors and at the higher end of the pricing range.

## How is a company valuation set?

Stock market analysts are experienced at assessing companies from a broad range of business sectors. Many have specialist knowledge which enables them to accurately assess an appropriate valuation rage for a company. In most cases they will look to bench mark companies against those from the same or similar sectors that are already listed on a stock market and in so doing arrive at  comparative valuation ranges which stand up to scrutiny.

# What are Standard Listing Investors Looking for?

## Who are the investors?

### UK Institutions –

Long only institutions are those who focus on investing in companies which generate a return to them if the share price in the company increases. These tend to be traditional institutions that are seeking a return on their investments over a relatively longer period of time.

### International investors –

A number of international investment institutions have a presence in London; some of these only invest in UK businesses. In addition, there are also international investors that operate out of offices overseas, the majority are based in the US and Europe.

### Specialist investors –

Some investors only invest in companies from certain business sectors, for example, real estate, financials and technology.

### Other investors –

Companies with a standard listing also attract a broad range of investor groups, from private retail investors to family offices. Each investor has their own particular criteria for investing although, unlike AIM, their decision to invest will not be based on the attractiveness of tax reliefs on their investment because companies listed on the market do not qualify for these.

## What are investors looking for?

### Management team –

This is possibly the most important factor which determines if and to what degree investors are willing to invest. The 'investment roadshow' involves face to face meetings between potential investors and the company. Investors will value the expertise of the board and senior management team and the appropriateness of the Chairman. Consideration will also be given to Non-Executive directors and also the willingness of senior management to invest into the company.

### Macro-economic factors –

The expected economic outlook and how this may have a bearing on a company. Also political or government initiatives that may have a positive or detrimental impact on a business.

### Geography –

The location of a company will be considered and a company's target markets, and customers and also currency issues.

### Proof of concept –

Has a company achieved proof through acceptance by its customers that its products and/or services work and those customers are willing to purchase them?

### Controlling risks –

Has the company assessed the risks involved in growing the business, and what measures are in place to mitigate risks?

### Customer base –

Does the company already have a customer base which does not have over reliance on one or a small number of customers?

### Trading history of the business –

It's helpful if the company can point to a historic trading record and if possible revenue growth or technical innovation over a period of time.

### Forward projections –

Companies will be expected to prepare achievable forward projections which demonstrate how funding will be used and the impact of the funding on revenue generation and profitability.

### Visibility of future revenues –

Companies that are able to predict with confidence, through a forward order book and /or recurring revenues, are often highly valued by investors.

### Cash flow –

Cash flow forecasts which look forward 12 months or more and demonstrate that the company can prosper without running out of cash are extremely important.

### Competition –

Investors will want to be comfortable that the company has certain competitive advantages over others in its business sector. Companies involved in developing technology, software and biotechnology that invariably benefit from high barriers to entry for products and services are particularly well received.

### Dividend policy –

Generally investors in high growth businesses are willing to forego dividends, at least in the short term, however if the business is cash generative and has the resources available to pay dividends this will be viewed positively.

## How to make a company more attractive to investors?

### Story –

Develop a simple story about the business, its history, its achievements, and its future prospects that can be quickly and easily understood

### The importance of a strong management team –

Investors may be more inclined to invest in a company if the management team is experienced and already have a track record. The selection of appropriate Non- Executive Directors can underpin an existing management team and create a highly competent board which investors can have confidence in.

### Use of funds –

Investors will be more inclined to invest in companies where it's clear that additional investment in the business will add additional revenues and profitability. The more transparent this is, the more attracted the company will be to a potential investor audience.

# Standard Listing Rules and the Role of the UKLA

**The UK Listing Authority ('UKLA') is the name used by the Financial Services Authority ('FSA') that acts as competent authority for listing in the UK.**

## Listing categories

The term 'listed' is used in a number of different contexts, but in the UK this technically means a company admitted to the Official List of the UKLA. The UKLA has created a number of different listing categories which determine the eligibility criteria and continuing obligations that apply to the company and its shares.

The UKLA introduced these listing categories to help clarify that listing refers to admission to the Official List of the UKLA, and does not relate to the market to which a security is admitted to trading. Listing categories are also intended to clarify the regulatory standards that apply to different types of listing. A Standard Listing requires compliance only with EU minimum standards, whilst a Premium Listing also requires compliance with the more stringent super-equivalent standards.

During the process of joining the Standard Segment of The Main Market, the UKLA has no preference as to whom the main point of contact should be with them, although it should be someone that is reasonably knowledgeable about the UKLA and its processes, in most cases this will be the appointed lawyer.

To begin the eligibility process, the UKLA generally expects that a letter is submitted detailing the companies compliance with the applicable eligibility requirements. The UKLA suggests that these letters are sent in as early as possible in the IPO process and that they are as detailed as possible, if possible they should include relevant background information on the nature of the company's business.This is because unnecessary delay can be caused to the timetable where significant eligibility concerns arise late in the IPO process.

## Prospectus review and approval

An admission of shares onto the Official List and the Standard Sector of the Main Market of the London Stock Exchange requires the production of an approved prospectus. It is the role of The UKLA as the UK's competent authority for the purposes of the Prospectus Directive to approve this.

Although final confirmation from the UKLA can only be given once prospectus has been approved, the UKLA will generally try to resolve any major eligibility issues prior to starting its review of a company's prospectus. This review involves a process of commenting on drafts of the prospectus until the UKLA is satisfied that all appropriate rules have been complied with. The number of drafts necessary to reach this point depends on the complexity of the issues involved and the quality of the submissions by the company's lawyers or others tasked with preparing the prospectus.

## Eligibility requirements that apply to Standard Listings:

### Incorporation –

A company must be incorporated, and operating in conformity with its constitution and its shares must comply with the laws of the company's place of incorporation.

### Recognised Investment Exchange –

The shares must also be admitted to trading on a recognised investment exchange, such as the London Stock Exchange and be freely transferable, fully paid and free restrictions on the right of transfer.

### Value of the company –

All the shares of the same class as the listed shares must be listed and the shares must have a minimum market capitalisation of £700,000. Finally, a prospectus relating to the shares must be approved by the FSA (or by another EEA state competent authority and passported into the UK) and published.

### Free-float requirement –

At least 25 per cent of the entire class of shares must be held by 'the public' in one or more EEA states. The amount of share capital held by the public is also known as the 'free-float'. Shares are considered to be held by the public unless they are held by one or more of the following:

- directors of the company or group members
- persons connected with directors of the company or group members
- trustees of any group employee share scheme or pension fund:
- a person who has the right to nominate a director; and/or
- persons who individually or acting in concert have a 5 per cent or greater interest in the share capital.

This rule ensures that there are sufficient smaller and non-company-related shareholders for the market in the shares to deliver sufficient liquidity. The UKLA does sometimes allow a smaller free-float than 25 per cent for instance, where there are shares held outside the EEA that would be capable of being traded, or where the company's market capitalisation is very large and that a smaller percentage might still allow for a sufficiently liquid market in the stock.

## Continuing obligations:

### Disclosure of inside information –

Companies are required to publish any information which may be considered to be inside information on a Regulatory Information Service as soon as possible. Inside information is that, which made public, would have a significant effect on the share price of the company. In certain circumstances such as ongoing transactions that may be subject to ongoing negotiation, delays in publishing the information may be permitted if it could prejudice the outcome of the transaction. Companies are also required to maintain lists of persons who have access to inside information.

### Disclosure of dealings and shareholders –

Persons Discharging Managerial Responsibility (PDMR'S) are required to notify the company of transactions in its shares. Those that have voting rights or rights to voting rights (convertibles) must notify the company if they either reach or fall below 3 per cent, or any 1 per cent threshold in excess of 3 percent, of the company's voting rights. It is the responsibility of the company to notify the market via a RIS of these instances.

### Directors share dealings –

The directors must announce to the market if they buy or sell shares in the company. Directors are not permitted to buy or sell their company shares during the close period. Close periods are usually two months before reporting the interim accounts or publishing annual accounts.

# The Role of Standard Listing Advisors

### Stock market flotation consultant

The consultant works closely with the company thought the process. Initially their role is to provide the necessary information required to assess the feasibility for a listing. Their tasks may include:

- Ascertaining the fundraising capacity of the company
- Shaping the business proposal to maximise the valuation of the company
- Securing initial interest
- Advising and instigating searches for new Executive and Non-Executive board members
- Arranging for advisor team 'beauty parades'
- Providing a timetable of events
- Providing a project plan with key action points
- Undertaking benchmarking exercises with peer group companies
- Preparing initial proposition documentation
- Arranging presentations with interested parties
- Managing the information flow to and from the company with interested parties
- Minimising the direct and indirect cost involved in the process

### The Broker

The Broker's role is to:

- Provide on-going advice on market and trading related matters
- Advise on the pricing of shares and investment opportunities

The broker will often have 3 teams each with their own specialist function:

- **The Equity Research team** has an important role in producing research on a company. This will invariably include a company analyst forecast of the company's future performance. It will also provide the reader with guidance on the value of the current share price. Alternatively, analyst research can be written by a firm independent of the broker but paid for by the company. Analyst research is a valuable tool in raising investor awareness and can be published at admission and on an on-going basis.
- **The sales team** will deliver key messages about the company to investors and potential investors. It is their role to create demand for a company's shares. They may also take on a practical role of organising meetings between company and investors.
- **The market making team** - Some brokers have their own market making team responsible for making a market in a company's shares, and ensuring there is sufficient liquidity in your company's shares for investors to be able to buy and sell shares.

## The Reporting Accountant

The reporting accountant's role will include reviewing and reporting on key aspects of the company including its financial position, reporting procedures, and the disclosure of historical financial information. Their key tasks are:

**Tax structuring –**

Companies seeking admission to the Standard List should consider their tax structure prior to listing, and in particular the location of key management. A structure should be implemented that closely aligns with the commercial and operational management structure of the group to be listed, so it can be effectively managed in the future. It is essential that management understands the effect of the decisions taken about the IPO on future tax rates and the tax position of existing investors.

**Long form report –**

Although not always required for a Standard Listing, the long form report is a due diligence report covering the significant areas of the company. The precise scope of the long form report will depend upon the circumstances of the business.

**Accountants report –**

The report will cover the historical financial details that are contained in the prospectus. In some circumstances this can be achieved by audit options provided for each of the financial statements that are included in the prospectus.

**Working capital report –**

Working capital reports are required for admission to all of the London Stock Exchanges equity markets.
This report covers the working capital statement which is included in the prospectus. The report will cover the company's approach to financial forecasting, the company's projections underpinning the working capital statement, and also the potential impact in any changes in key assumptions.

**Additional accounting reports –**

Should prospectuses include profit forecasts or pro-forma financial information, an accountants report on the compilation of information must be included in the prospectus.

**Comfort letters –**

The reporting accountant will issue a 'comfort letter' to the directors and sponsor to assist with the verification of other financial information in the Standard Listing prospectus.

### The Lawyers

During the flotation process, the lawyers will advise on the structuring of the company and its subsidiaries, and undertake the following key tasks:

- Legal due diligence on the business
- Verification of the ownership of assets
- Drafting of the prospectus
- Preparing employment agreements for directors and other key staff
- Advise the company's directors on their responsibilities in accordance with the the Standard List rules
- Provide advice on the legal aspects of the flotation process and the continuing obligations
- Advise on corporate restructuring, if required
- Liasing with the UKLA

### The Financial PR firm

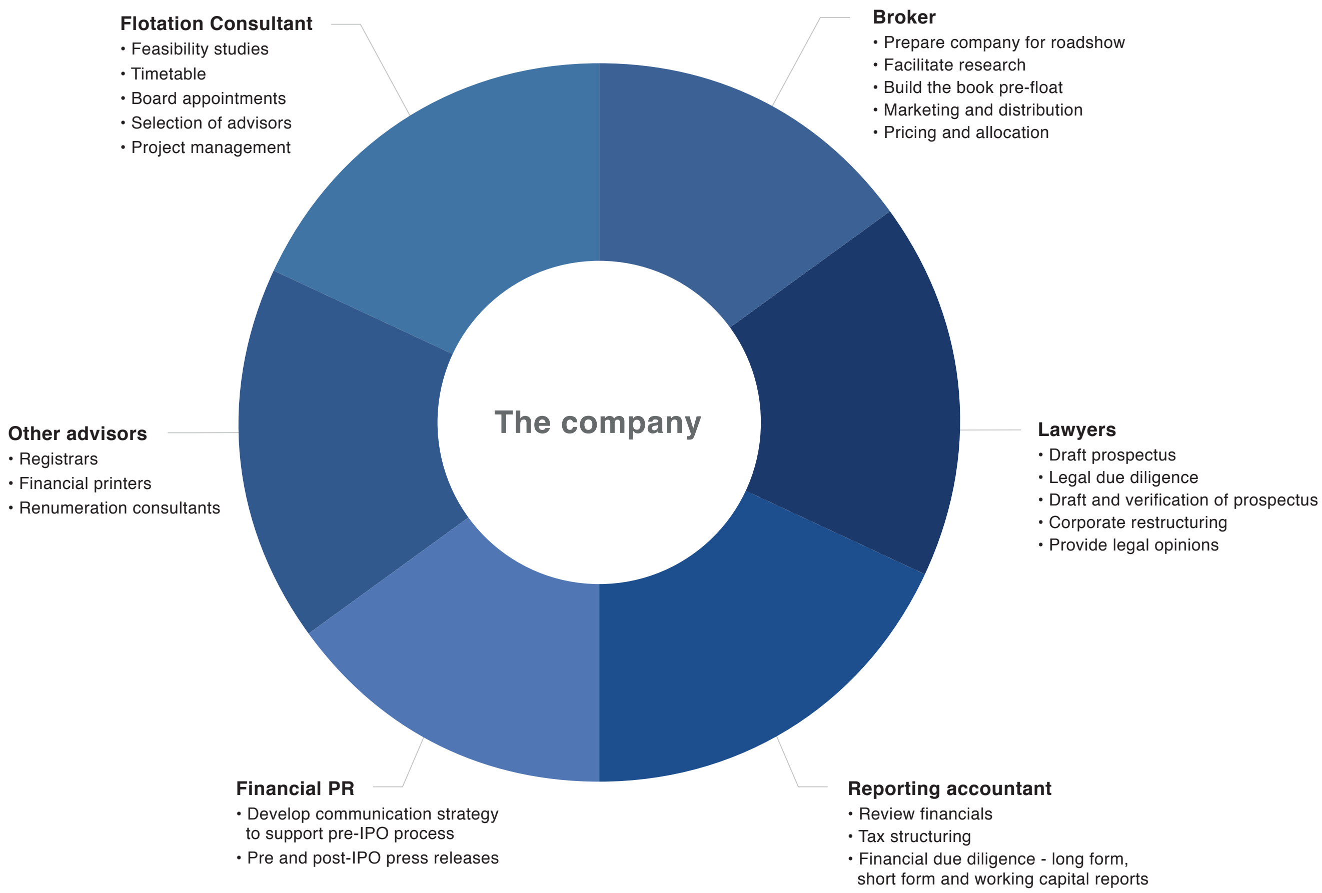
Financial PR firms provide companies with support in designing and implementing a communications strategy. This ensures that companies leverage a variety of opportunities for communication with investor audiences.

Following admission to the Market, most of the PR activities will be based around the main financial events such as interim figures, AGM's and financial results. The Financial PR firm will utilise a broad range of communication channels to communicate key messages about the company and its strategy.

### Registrar

Companies appoint a registrar in order to maintain an up to date register of shareholders.

## Advisor's roles and responsibilites



# The Costs of a Standard Listing

## Factors affecting costs

The costs associated with a Standard Listing may vary from company to company depending on a number of factors including:

- A company's preferred route to market (introduction, placement, IPO or reverse into a cash sell)
- The amount of funding raised by the company
- How prepared the management team are to commence the flotation process
- Negotiation of the advisor fees
- The indirect costs associated with recruiting additional Executive, and Non-Executives to a company's board (if required)
- The size of the company

## How the costs can be managed

Raising additional funding to cover costs –
In most cases companies raise additional funding over and above that required for their business growth to pay some or all of the costs of the listing.

Back end loading fees –
Companies often agree with their advisor/broker teams to back end load a proportion of fees until the fundraising is completed so as not to have a detrimental impact on the company's working capital ahead of a listing.

Contingency fees –
Some companies engage with certain advisors or brokers on a contingency basis, whereby their fees, or a proportion of fees, become due only following a successful IPO and after funds have been raised.

## London Stock Exchange Standard Listing joining fees

Fees are calculated on market capitalisation of the company (a). This is then multiplied by any additional amount over the 'greater than' figure by the corresponding figure in column (b).

| Market Cap (£m) | | Increment (£m) | Maximum fee (£) |
|---|---|---|---|
| Greater than (A) | Equal or less than | (B) | (C) |
| 0 | 5 | Minimum fee | 10,000 |
| 5 | 50 | 1,320 | 69,400 |
| 50 | 250 | 495 | 168,400 |
| 250 | 500 | 165 | 209,650 |
| 500 | and over | 150 | 575,000 |
| | | Maximum fee | 575,000 |

## London Stock Exchange Standard List joining fees

| Minimum fee (£m) | Increment (per £m) | Maximum fee (£) |
|---|---|---|
| (A) | (B) | (C) |
| 7,400 | 30 | 100,000 |
| | | (For existing issuers) |

Note: The fees shown above are those payable to the London Stock Exchange only

# Life after Gaining a Standard Listing

**The rules governing the market are clear on what is required from companies in terms of disclosure and communications once listed.**

Its important to keep in mind that to achieve and retain an optimum valuation in the company's shares, investors will make a judgement as to the company's performance and appropriateness for being on a public market based largely on the frequency, transparency and accuracy of communication with the market.

### Further fundraisings

Standard List companies are able to undertake further fundraisings post admission. In most cases these fundraisings will be considerably quicker and more cost effective than the initial IPO. Should funding be required to capitalise on acquisition opportunities these can usually be processed in a few weeks.

### Communicating with investors and influencers

As with any public market listing, communication with their existing and potential investor base is important and should be regarded as an ongoing exercise. Having a clear communications strategy in place post admission is therefore key to ensure that a company receives the optimum profile. Specialist Financial PR firms are helpful in this regard and they will fine tune the information and news generated by the company into clear messages that can be quickly and effectively understood by investors and potential investors.

### Annual information update

Companies are required to file with the UKLA and make available to the public a document that contains all the information to the public over the past 12 months.

### Annual financial report

Must be published within a specified period following the end of each financial period.

### Half-yearly financial report

Must be published within a specified period following the end of the period to which the report relates. Accounting standard used must be consistent with that used for the annual financial report.

### Interim management statements

Interim management statements are required during the first and second six month periods of each financial year.

# Overseas Companies

### Passporting onto the Standard List

Overseas companies may seek to passport to the Standard List, using a prospectus that has been approved by another country's competent authority for listing. However, whilst the UKLA will rely upon the passport to satisfy the requirement for an approved prospectus, it will still want to assess the company against the relevant eligibility requirements.

As part of this process, the UKLA will review the Company's proposed prospectus to help in its assessment of eligibility. The UKLA recommends that an issuer makes contact sufficiently early in the process, and certainly before the prospectus has been approved by the home competent authority.

### Incorporation outside the UK

Being incorporated outside the UK is typically not a barrier to joining the Standard List. From a brokers perspective it may be that they broaden the regions in which the investor roadshow are carried out to reflect potential investment interest from the company's home country.

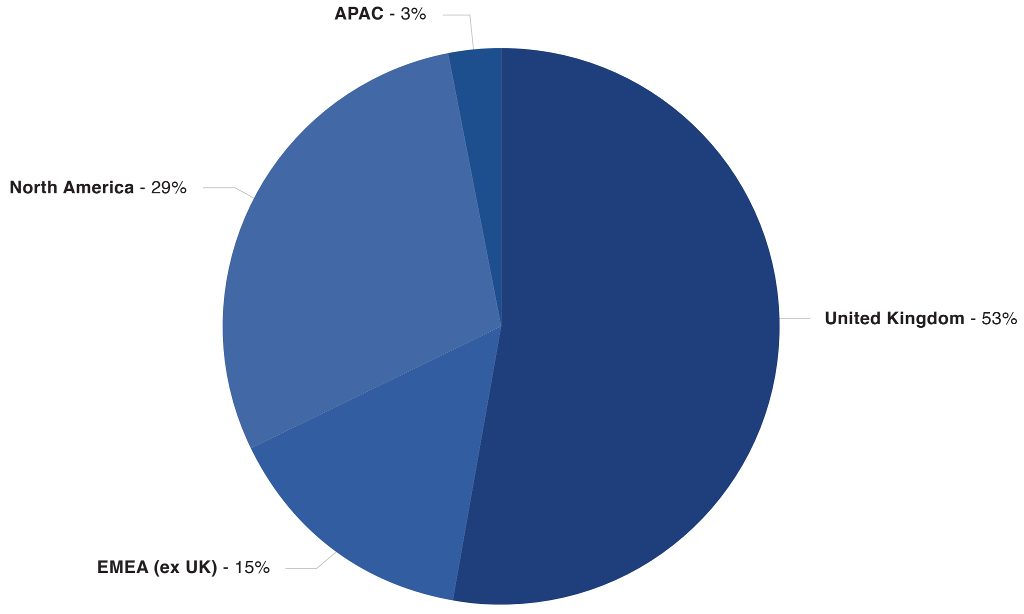
### The benefits of listing in London

London remains one of the key financial centres in the world. The London Stock markets are regarded amongst the most efficiently regulated and well run stock markets, providing companies with a listing destination with access to some of the deepest pools of investment capital in the world. In addition, a listing on the London Stock Markets provides companies with enhanced credibility and profile.

## London Stock Markets continue to attract global investors

Domicile of investors by country

London remains the World's Equity Market, with more international assets under management than any other global financial centre. Companies listing in London are able to access overseas investors through capital raising routes. London has a large investor community, in addition, companies raising capital can also access a global investor base.



# Frequently Asked Questions

**Will my company be required to undertake a fundraising as part of a standard listing?**

This is not a requirement of the market, however most entrants raise at least a modest amount of funding, if only to pay the costs associated with the listing process.

**How long will it take to achieve a Standard Listing?**

Typically companies are able to join the market within six months of deciding to proceed with a flotation following undertaking the feasibility stage.

**How can a company assess if a Standard Listing is more appropriate than AIM?**

A company should undertake a degree of research and if possible conduct a feasibility study ahead of deciding which stock market to choose. Flotation experts can assist with this.

**Will joining the market change the way we are able to manage the company?**

Becoming a Standard Listed company does not impact on the way a business is managed. Whilst companies joining the market must be mindful of the levels of Corporate Governance requirements expected and their regulatory responsibilities, most companies do not consider these restrict the way in which the business is managed.

**Will the company require a Nominated Advisor at the time of listing or thereafter?**

The practice of appointing and retaining a nominated advisor is limited to AIM companies. Whilst there is no requirement for a nominated advisor to be appointed for a Standard Listing, other advisor teams such as lawyers, accountants and a broker will be required to secure a Standard Listing.

# Glossary of Stock Market Terms

**Admission -** The admission of securities to trading on a stock market.

**Admission and Disclosure Standards -** The London Stock Exchange's Admission and Disclosure Standards for securities admitted or seeking to be admitted to trading, as set out in this document, as amended from time to time.

**Admission Document -** The disclosure document which a company applying for admission to AIM must produce. The document contains information set out in schedule two to the AIM Rules for Companies. Unlike a Prospectus, an Admission Document does not need the approval of the FSA.

**AIM -** Originally called the Alternative Investment Market. The London Stock Exchanges market for smaller growing companies. Regarded as the most successful growth stock market in the world.

**AIM Cash Shell -** A cash shell is a company that does not quite meet the definition of a shell company, but whose main value nonetheless lies in its listing rather than its assets or its business.

**AIM Rules for Companies -** The rules for companies admitted to trading on AIM or which are applying for admission to AIM published by the London Stock Exchange.

**Approved prospectus -** The document produced by the company and its advisors to be approved by the Competent Authority of the company's home country, and published in relation to the admission of securities to a regulated stock market, or an offer of securities to the public.

**Capital structure -** The capital structure of a company is the particular combination of debt, equity and other sources of finance that it uses to fund long term financing.

**Chinese wall -** A system designed to prevent confidential information leaking from one department of a financial institution to another.

**Combined Code -** The benchmark for best practice corporate governance.

**Corporate Governance -** Used to describe the systems used to control corporations. There are corporate governance codes and recommendations that are not compulsory.

**Covered warrant -** A listed security issued by a party other than the issuer or originator of the underlying asset that gives the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price during, or at the end of, a specified time period.

**City Code -** Rules, administered by the Panel, governing offers for public companies.

**Class tests -** Tests set out in the London Stock Exchanges AIM Rules for Companies which are used to establish what type of transaction involving a company is taking place. These could be a substantial transaction, a related party transaction, a reverse takeover or a disposal resulting in a fundamental change of business.

**Close Period -** A period of time in which an AIM company must ensure that its directors and applicable employees do not deal in any of its own shares. This is a period of two months before the publication of a company's annual results and the period of two months immediately preceding the announcement of its interim results. In addition, a company will also be in a close period if it is in possession of unpublished price sensitive information.

**Continuing obligations -** The rules applicable to AIM companies on a continuing basis following admission to the AIM Stock Market.

**CPR -** A competent person's report. The rules and requirements of which are contained in the Guidance Note for Mining, Oil and Gas companies published by the London Stock Exchange. These are specific guidelines that relate only to resource companies.

**CREST -** The system for the paperless settlement of trades in securities and the holding of certificated securities operated by Euroclear UK & Ireland Limited (previously CRESTCo Limited).

**Depositary receipt (DR) -** A transferable certificate that represents shares in a company and confers certain rights in respect of those shares, issued by a depository bank for the purposes of admission to trading.

**Dividend -** The part of a company's profits after tax which is distributed to shareholders, usually expressed in pence per share.

**DTR -** The Disclosure and Transparency Rules published by the FSA.

**Dual listing -** A dual listing of a company is a way for a company to have two equal listings (neither being a secondary listing) in different markets.

**Due diligence -** The process of obtaining all information about a company to ensure that the company is appropriate to be admitted to the AIM stock market.

**EPS -** Earnings per share (EPS) is the profit attributable to shareholders (after interest, tax, minority interests and everything else) divided by the number of shares in issue.

**Equity** - The stake its owners have in the company. This is the risk sharing part of a company's capital, usually made up of ordinary shares.

**FSA -** The Financial Services Authority, who act as the competent authority in the UK.

**FSMA -** The Financial Services and Markets Act 2000.

**FTSE Indices -** Maintained by FTSE International which demonstrate the performance of various sectors of the UK and European markets. These include indices for the Main Market, such as the FTSE 100 the largest 100 companies by market capitalisation on the market. Also indices for AIM, such as the AIM 50.

**Flotation -** When a company's shares are admitted to trading on a Stock Exchange.

**Free float -** The amount of shares in a company which are in 'public hands' i.e. not owned by a director of the company or its subsidiaries, or individuals connected with the company and any person holding five per cent or more of the shares.

**Gearing -** Often known as leverage, measures the extent to which a company is funded in debt. A common definition is debt divided by shareholders funds.

**Insider dealing -** The purchase or sale of securities by someone who possesses 'inside' information affecting securities which has not yet been made available to the market and which, if made available, would significantly affect the share price. In the UK this is regarded as a criminal offence.

**Introduction -** A method of obtaining admission to AIM without an offering of shares.

**IPO -** An Initial Public Offer is the sale of shares to the public as a precursor to the shares trading on an exchange for the first time. Issuer - an entity with a class of securities admitted to trading on a stock market.

**Issuer -** An entity with a class of securities admitted to trading on a stock market.

**Listed company -** Acompany is said to be listed or quoted or having a listing of its shares. It is the company's shares, not the company that is listed.

**Listed/Listing -** The admission of securities to a listing by a competent authority under the law or regulation of a member state implementing EU directive 2001/34/EC.

**Listing Particulars -** A document in such form containing such information as may be prescribed by the Listing rules of the FSA.

**Long form report -** A financial due diligence report prepared by accountants on the company and its subsidiaries. In contrast to the short form report, this document is not disclosed to the public.

**LSE -** London Stock Exchange plc. The LSE operates AIM and the Main Market.

**Listing Rules -** The Listing Rules of the United Kingdom Listing Authority.

**Liquidity -** The ease with which a security can be traded without influencing the price.

**Lock-in -** An agreement that means a shareholder will not dispose of any shares in the company for a specified period after admission to AIM. This can be subject to exceptions.

**Market capitalisation (Market Cap) -** The total value of the shares of a company, sector or market.

**Market Maker -** A securities firm which is obliged to offer to buy and sell securities in which it is registered to the market for the first time or issues of extra shares.

**MIFID -** The European Parliament and Council Directive on markets in financial instruments

**New issue -** An issue of shares when the company comes to the market for the first time or issues extra shares.

**Nominated Advisor -** A firm approved by the London Stock Exchange to support flotation's on AIM, and to be retained by the company for the duration of its time on the market.

**Prospectus Regulation -** Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements. The Prospectus Regulation contains the detailed contents requirements for a prospectus.

**Prospectus Rules -** The prospectus rules published by the FSA. These now form part of the FSA Handbook.

**Offer price -** The selling price for securities in the market.

**Offer for subscription -** A method of bringing a company to market. The public can apply for shares in the company directly at a fixed price.

**Official List -** The list maintained by the FSA of those securities which have been admitted to listing.

**Order book -** A facility operated by the London Stock Exchange for the electronic submission and automatic execution of orders in any order.

**Ordinary Shares -** The most common form of share. Holders may receive dividends in line with the company's profitability and on the recommendation of its directors.

**Panel -** The Panel on Takeovers and Mergers. The Panel is an independent body whose main functions are to issue and administer the City Code and to supervise and regulate takeovers and other matters to which the City Code applies in accordance with the rules set out in the City Code.

**Placing -** An issue of shares to institutional and other selected persons rather than to the general public.

**Preference Shares (prefs) -** These are legally shares, but they are different from ordinary shares. The economic effect of prefs is more like that of bonds. Like convertibles, they are regarded as hybrids of debt and equity.

- Dividends on preference shares have to be paid before dividends in ordinary shares
- Preference Shareholders have a higher priority if a company is liquidated than ordinary shareholders, although a lower priority than debt holders
- Dividends on ordinary may not be paid unless the fixed dividends on preference shares is paid first
- In the case of cumulative prefs, if the dividend is not paid in full, the unpaid amount is added to the next dividend due.
- Preference dividends are fixed, so they do not participate in increases in profits as ordinary shareholders do

**Price/earnings ratio (P/E ratio) -** The P/E ratio is a measure of the level of confidence investors have in a company. Generally, the higher the figure the higher the confidence. It is calculated by dividing the current share price by the last published earnings per share – where earnings per share is net profit divided by the number of ordinary shares.

**Primary market -** The function of a stock exchange in bringing securities to the market for the first time. Money is raised either for the company at admission or through further issues to fund future growth.

**Prospectus -** When a company applies for a listing of its securities which are to be offered to the public in the UK, a prospectus is required in accordance with the UKLA's rules, detailing information on the company, its accounts, directors and its securities listed. Most AIM fundraisings are structured as Placings to avoid this requirement. The threshold for fundraisings which require a prospectus is €5 million. Offers of shares made to less than 150 persons per member state also not require a prospectus.

**Private company -** A company which is not a public company and which is not allowed to offer its shares to the general public.

**Professional Securities Market (PSM) -** The London Exchange's market for debt securities or depositary receipts of any denomination, aimed at a professional investor audience.

**Public Limited Company (plc) -** A company whose shares may be purchased by the public and whose share capital is not less than a statutory minimum. Not all plcs are listed companies.

**Recognised Investment Exchange (RIE) -** An organisation that is recognised by FSA as complying with the recognition requirements laid down in the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001.

**Registrar -** An organisation responsible for maintaining a company's share register.

**Related Party -** Any director of the company or any other group company, any substantial shareholder who holds 10% or more of the company's shares or any associate of any director or any substantial shareholder.

**Reporting Accountants -** The accountants appointed by the company to, among other things, prepare the long form report and the short form report.

**Reverse takeover -** A reverse takeover is one in which control goes to the shareholders of the company that is legally the one that is bought. The term is used to describe the purchase of a listed company by an unlisted company.

**Rights issue -** A rights issue is a way in which a company can sell new shares in order to raise capital. Shares are offered to existing shareholders in proportion to their current shareholding. Rights issues are common because shareholders have the right of first refusal (pre-emption rights) on the new issue of shares.

**Scrip dividend -** The distribution of cash to shareholders with option to elect to receive shares in the company instead of the cash payment.

**Secondary listing -** A security may be listed in more than one market. It is common for such listing to be a primary listing with others secondary listings.

**Settlement -** The process of transforming stock from buyer to seller to buyer and arranging the corresponding movement of money between the two parties.

**Share Capital -** Share capital is an accounting number that is part of the breakdown of shareholders equity on the balance sheet.

**Shareholders' Funds -** Shareholders' funds is the balance sheet value of the shareholders interest in a company.

**Shell Company -** A shell company is a company that exists but does not actually do any business or have any assets. Given that it take time and money to obtain a listing on any stock market, a listed shell has significant value even if does not have any assets. Listed shells are therefore often targets for reverse takeovers.

**Short form report -** The accountants' report on historical financial information which is reproduced in the Admission Document.

**Standard list -** A segment of the London Stock Exchanges Main Market.

**Stock -** When referred to as a security is the security not divided into units, as shares and corporate bonds usually are.

**TradElect -** A system operated by the London Stock Exchange which supports the trading services, facilitates quote and order entry, automatic execution of orders, receipts and publication of trade reports, and which is a reporting system.

**UK Corporate Governance Code -** This sets out best practice in relation to issues such as board composition and development, remuneration, accountability and audit and relations with shareholders.

**UKLA -** The Financial Services Authority acting in its capacity as the United Kingdom's Listing Authority.

**Underwriting -** An arrangement by which a company is guaranteed that the issue of shares will raise a given amount of cash. Underwriters undertake to subscribe for any of the issue not taken up by the public. They charge a commission for this service.

**Verification -** The process, based on written questions and answers, which is designed to ensure the accuracy of the information (other than financial information) contained in the Admission Document.

**Warrants -** Securities giving the holder a right to subscribe for a share or a bond at a given price and from a certain date.

**Working capital statement -** A statement by the directors of an AIM company in the Admission Document that in their opinion the working capital available to the company is sufficient for at least 12 months from Admission to AIM.

**Yield -** The return earned on an investment taking into account the annual income and its present capital value. There are a number of different types of yield, and in some cases different methods of calculating each type.

# Contact details

**Holland Bendelow are the UK's longest established stock market consultants, with a successful track record of advising UK and International companies about stock market flotation.**

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