A Guide to Listing on AIM

Considering the AIM market? **Chris Searle**, Corporate Finance Partner for professional services firm BDO, uncovers what you need to know

"Floating on AIM is an intense process for the management team of a company and one that should not be commenced lightly," says **Chris Searle**, Corporate Finance Partner for professional services firm BDO.

Here, he gives a short summary of what a floatation on London Stock Exchange's AIM Market entails:

Appointing Advisors

First, a company must appoint the following advisors:

- **A nominated advisor** (or nomad), usually a smaller merchant bank or stockbroker. The role of nomad is similar to that of a sponsor on the main market of the London Stock Exchange, in that they are responsible for project managing the flotation process.

  However, because a company being floated on AIM is not pre-vetted in the same way as being floated on the main market, the onus falls on the nomad to ensure that it is suitable for admission to AIM. Furthermore, the company must retain a nominated advisor at all times subsequent to the flotation. If an AIM company's nomad resigns, the shares are suspended. If it has not replaced the nomad within 30 days, the shares are delisted.

- **A broker** will be responsible for raising money from new investors and will subsequently act as a conduit for the company's relations with its shareholders. It is usual for the same firm to be both nominated advisor and broker, although there are still some independent nomads. >

- **A reporting accountant** will be responsible for the accountancy work on the flotation. This will include the preparation of a long form report on the company (this reviews all aspects of the company's business and financial history), an accountant's report that is included in the admission document (basically a summary of the audited accounts for up to the last three years) and a working capital report on the company's projections that support the directors' statement on the sufficiency of working capital in the admission document.

  This statement is designed to reassure investors that the company will not run out of funds in the year to 18 months following the flotation. If a company has not been subject to an audit, time must be allocated in the process for the audit of up to three years' accounts.

- **Lawyers** for the company will be responsible for undertaking legal due diligence on the business and for drafting the statutory part of the admission document, while lawyers for the nomad will draft the placing agreement.

- Companies also appoint **public relations advisors** to provide publicity for the flotation – for example, by placing stories on the company in newspapers.

The Next Steps

The flotation process starts with the reporting accountant and the company's lawyers commencing their due diligence. Throughout the flotation process, weekly progress meetings or conference calls are held between the company and its various advisors to discuss any issues. These meetings are also used to draft the admission document.

Towards the end of the process, the broker starts to market the company to fund managers to assess whether they would be interested in buying shares in the flotation. To the extent that they are, shares are 'placed' with them.

Most AIM flotations tend to be placings rather than offers to the public at large, and hence the company should know by the date of completion how much money has been raised. At the end of this process, which typically takes about three months, a completion meeting would be held at which all the documents would be signed off. The suitability of the company for AIM is the responsibility of the nomad, and so the actual admission to AIM is usually a foregone conclusion.

The broker will give an indicative valuation of the company floating during the course of the process and will issue a research note to its institutional clients several weeks in advance of completion of the admission document. However, in the end, the valuation of the company will be the price at which investors are prepared to invest. This is likely to be affected by factors such as demand for the company's shares and general market conditions at the time of the fund raising.

Companies need to be aware that their flotation can fail at the last minute, usually because of general market conditions. These cannot be foreseen three to four months in advance which means the investor roadshow can be undertaken in turbulent market conditions.

Shareholders and directors may then have a difficult decision to make as to whether to accept a lower valuation of their company, and possibly a lower fund raising, or even whether to abandon the flotation altogether. If the latter decision is taken, another attempt at flotation is unlikely to be feasible for several months.

Typically, the cost involved in a successful AIM flotation could be eight to 12 per cent of the proceeds raised. If the flotation is unsuccessful, the cost will fall because the broker's and part of the nomad's fee will only be payable if the flotation is successful.

A company should budget to pay the costs of the other advisors in the event of an unsuccessful flotation. If the flotation is successful, all the advisors' fees will be met from the funds raised. If it is not, the company will have to pay the other advisors from its existing resources. ■

Want to know the pros and cons of an IPO? See Chris Searle's article here

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