On a Different Track

For those CEOs of AIM-listed companies struggling to woo investors with their growth story, delisting remains a serious option. Criticaleye investigates how it's done

The search for additional financial firepower continues to make a number of AIM-listed companies rethink their strategy for growth. In some instances, the quest for additional investment is forcing management teams and boards to consider moving off the public markets altogether.

Since 2008, approximately 700 companies have moved off AIM. One of those companies was recruitment business OPD, delisted in 2010 when **Francesca Robinson** was CEO. "For a relatively small company, the costs of a listing are high, not just in terms of the direct costs, but also in terms of the time commitment required from the finance director and the chief executive," she says.

Since moving off AIM, Francesca led an MBO of what is now PSD Group, where she is Executive Chairman. "Once our company's board decided that acquisitions or expansion requiring additional equity were no longer part of our strategy, a listing had little business rationale."

The decision to delist is a big one. It puts a company under immense scrutiny. During the past year or so, the number of companies leaving AIM has slowed considerably, with many preferring to stay on and tap its considerable institutional investor base (£7 billion was raised in 2010).

THE NETWORK OF LEADERS
CRITICALEYE

Marcus Stuttard, Head of AIM at the London Stock Exchange, says: "When you look at the market you repeatedly find examples of excellent companies listing with a market cap of, for example, £10 million and growing the business, raising further capital and succeeding in getting their market cap up to £25 million, then £100 million and onwards."

GOODBYE TO ALL THAT

If a delisting is seen as the only way forward for a business, the mix and type of investors will be crucial. **David Whileman**, Growth Capital Partner at 3i Group, says: "If your shares are held by a relatively small number of people it will become easier to delist. Costs are important too, because the costs of doing the transaction could be quite off-putting or arrive at the wrong time for your business."

Assuming the funds are there to cover costs, the first step for any company wishing to delist is to give a minimum of 20 business days prior notice of the intended cancellation and have its Nomad (Nominated Adviser) notify the London Stock Exchange. Fundamentally, the cancellation of the company's listing must be conditional upon the consent of a minimum 75 per cent of votes cast by shareholders in the General Meeting (a company goes fully 'private' if it buys back all of its shares, whereas this option is often referred to as 'take-private lite').

Neil Matthews, Head of Equity Capital Markets at law firm Eversheds, says: "The notification commonly sets out the reasons for delisting and preferred delisting date. It may also include a description of any arrangements being proposed as to how shareholders will be able to effect transactions in the company's shares once trading of those shares on AIM has ended."

One way of providing a route for minority shareholders to exit is to make a tender offer to buy-back outstanding shares, although obviously the willingness of shareholders to engage in this process and approve will vary enormously – clearly, they didn't part with their money in the expectation of a company going private.

There are other issues that will need to be addressed too. Neil adds: "You should also consider whether there are any outstanding obligations from previous acquisitions, such as ongoing earn-outs or deferred considerations which have been committed to in the form of quoted shares. If so, you will need to reach agreement with the sellers before seeking approval to delist. Similarly, is there any impact on existing share schemes? The terms of the majority of share schemes will not be appropriate to unquoted companies."

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IS DELISTING FOR YOU?

- What is your shareholder mix?
- What equity related liabilities are there?
- Why can't Aim deliver for your business?
- Are the costs prohibitive?
- In the long term, what are the benefits?

LIGHT AT THE END OF THE TUNNEL

Delisting from AIM can be a messy, drawn out and costly affair (some estimate the cost as 10 per cent of company's market cap). However, if the business case is sound and the long-term strategy right, then coming off the market can often make perfect sense.

Francesca notes that, after all, "the key business benefit of a listing is the ability to raise equity capital, either directly from shareholders or indirectly by using quoted paper as acquisition currency". When a company can no longer tap that liquidity and expand, there's little point in hanging around.

David adds: "You have to ask, what is it that my business is seeking to do on AIM? It can be a source of capital and frequently an efficient way of rewarding staff through shares that can be traded. However, if the market dries up, which can be as much due to investors losing appetite for AIM rather than your company, your stock will become illiquid creating problems for funding future growth and motivating staff."

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