How to access the world’s most successful growth market

A GUIDE FOR ENTREPRENEURS
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**FOREWORD**

AIM is a tremendous success story for Britain. It provides access to vital growth finance for thousands of ambitious businesses and their entrepreneurial founders from a broad range of global markets and sectors. It provides access for investors to companies at an earlier stage in their growth journey.

In June 1995, AIM was launched with just ten companies and an aggregate value of £38bn. More than two decades on, AIM, with the support of a remarkable community of companies, advisers, investors and brokers, is the world’s most successful and established market for dynamic high-growth companies, ultimately allowing founders and entrepreneurs to fulfil their growth ambitions and potential.

Over its 22-year history, AIM has supported more than 3,700 companies to raise international growth capital and has reached a significant milestone, surpassing £100bn of capital raised through new and further issues. And much of this capital has supported founders and entrepreneurs in their pivotal role of delivering growth in their companies.

The market continues to evolve and mature too. Today, AIM boasts companies from more than 90 countries, 40 different sectors and with a combined market capitalisation of more than £95bn. Over the last decade, the average value of new entrants has grown from £5m to £30m, while average capital raised at admission has increased from £34m to £55m.

What’s more, approximately 60% of all the money ever raised on AIM has been through secondary issues, demonstrating the long-term relationships that exist between companies and investors on AIM.

But not only does AIM play a central role in the growth story of thousands of founders and entrepreneurs, it also has a significant impact on the wider economy. Big established firms create net new jobs at a slower rate than scaling businesses. Independent research highlights that a 1% increase in high-growth companies could add 238,000 new jobs within three years and add an extra £38bn to the economy.

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**AIM: powering potential**

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**Your IPO journey**

**04** A guide to the key stages on the journey from private company to IPO, including the key questions you need to consider at each stage and the major logistical milestones along the way.

**Growing your business**

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**Preparing your IPO**

**06** Russ Cummings is the CEO of Touchstone Innovations, which invests in cutting edge science and medicine companies. He’s worked in venture capital and run companies that have floated on AIM. He shares his advice on how to give a company the best chance of succeeding.

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AIM: POWERING POTENTIAL

AIM IS THE WORLD’S LEADING GROWTH MARKET – THE NATURAL HOME FOR AMBITIOUS COMPANIES THAT ARE ACTIVELY LOOKING TO RAISE LONG-TERM, PUBLIC EQUITY FINANCE TO FUND FURTHER GROWTH. HERE’S WHY

3,700+

SINCE ITS LAUNCH IN 1995, AIM HAS PROVIDED CAPITAL AND LIQUIDITY TO MORE THAN 3,700 COMPANIES

£104bn

AVERAGE MARKET CAPITALISATION OF AIM COMPANIES

£104bn

NUMBER OF INTERNATIONAL COMPANIES THAT HAVE JOINED AIM OVER THE LAST 5 YEARS*

95

AVERAGE MONEY RAISED AT IPO BY AIM COMPANIES

A PLATFORM FOR GROWTH

54% OF COMPANIES WHO HAVE IPO'D HAVE DONE FOLLOW-ON FUNDRAISING**

800+

150+

950+

INTERNATIONAL COMPANIES’ AVERAGE REVENUE

INTERNATIONAL COMPANIES: AVERAGE REVENUE

UK INCORPORATED COMPANIES: AVERAGE REVENUE

AVERAGE Y-O-Y REVENUE GROWTH: UK INCORPORATED COMPANIES

90 AIM ISSUERS COME FROM ALMOST 90 DIFFERENT LOCATIONS ACROSS THE WORLD

“Growing companies are the lifeblood of our economy. AIM is the platform that supports exceptional growth, creates jobs and drives productivity”

Marcus Stuttard, London Stock Exchange Group

INDUSTRIES REPRESENTED

FINANCIALS

170

TECHNOLOGY

121

CONSUMER GOODS

86

UTILITIES

11

CASE STUDY: HOTEL CHOCOLAT

CASE STUDY: TOUCHSTONE INNOVATIONS

YOUR IPO JOURNEY

THE IPO PROCESS

PREPARING YOUR IPO

GROWING YOUR BUSINESS

ABOUT AIM

FURTHER READING
YOUR IPO JOURNEY

TO SHOW YOU WHAT’S INVOLVED IN RAISING GROWTH FINANCE ON AIM, WE’VE MAPPED OUT THE KEY STAGES ON THE JOURNEY AND THE QUESTIONS YOU NEED TO BE ASKING YOURSELF AT EACH POINT

APPROXIMATE TIMESCALE OF EACH STAGE. Every company journey is different, but this can be used as a helpful guide

GROWING YOUR BUSINESS: 3–6 MONTHS

- Full business review with key advisers
- Negotiation of agreements for the engagement of Nominated Adviser, law firm, broker, reporting accountant and registrars
- Informal discussions and fact-finding*
- What would we (the company, employees, management team, wider value chain and existing shareholder(s) gain from an IPO?
- Are we the type of business and management that suits public markets?
- What support do we have access to?
- Engage with London Stock Exchange to discuss the possibilities
- What is our corporate structure, governance, financials and controls fit for due diligence?
- Who’s involved, and when? How do we select the right advisers?
- What are our objectives and vision? Have we got a well-defined business plan?
- Are we the right timing to come to market?
- Are we the type of business and management that suits public markets?
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- What support do we have access to?

PREPARATION AND PLANNING: 6–12 MONTHS

- Test marketing or pilot fishing (optional)
- Initial decision point
- Agree deal timetable and structure
- Are our corporate structure, governance, financials and controls fit for due diligence?
- How is test marketing being received? What investors do we want to keep/and/or attract?
- Legal due diligence report produced and verified
- Have we got the right internal and external teams and resources?
- Financial due diligence report and reports: long-form report, historical financial information, working capital
- Senior executive employment arrangements and terms of appointment of non-executive directors
- Are we the type of business and management that suits public markets?
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THE IPO PROCESS: 1–2 MONTHS

- Placing list finalised
- Is the process running to time and cost expectations?
-Roadshow meetings with institutional investors
- How is the deal structured? How do we agree on valuation and pricing?
- Drafting of AIM admission document
- Verification of admission document
- Negotiation of placing agreement
- Are the required processes, communications and documents in production?
- Are we the type of business and management that suits public markets?
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ON MARKET: ONGOING

- Pricing
- Final documents and final admission submitted to AIM three days before admission
- Admission to AIM and dealings commence
- Are the required processes, communications and documents in production?
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* CASINO INNOVATIONS

TOUCHSTONE CASE STUDY:

CASE STUDY: CHOCOLAT

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GROWING YOUR BUSINESS

TO FIND OUT HOW COMPANIES CAN GROW THEIR BUSINESS TO THE POINT WHERE THEY'RE READY FOR AN IPO, AND HOW THEY CAN CONTINUE TO GROW AFTERWARDS, WE SPOKE TO PETER BRODNICKI OF MORTGAGE ADVICE BUREAU, LOUIS HALL OF CERILLION AND ALASTAIR BATHGATE OF BLUE PRISM

Having the right strategy for growth is essential to ensure that your business continues to be a scaling success. A key ingredient needed to execute that growth, is having the right access to long-term patient capital in the form of equity. In this section, we look at how founding entrepreneurs took the decision to float their businesses, why an IPO – rather than other forms of transaction – was right for them, and what led to the conclusion that AIM is the right growth market to support their personal and corporate ambitions.

Braving the markets when others turn back
As one of the best-known figures in the mortgage industry, Peter Brodnicki is not a man to keep his head below the parapet. He had held a number of senior jobs in the mortgage and property industry, latterly as head of Legal & General’s estate agency network, when he decided to go into business on his own account.

He and two others, who operated a small mortgage advisory business in Derby, put together the seed money and created Mortgage Advice Bureau (MAB) with the aim of building a national chain of mortgage advisers.

20%

Mortgage Advice Bureau has grown by at least 20% every year since 2008

“What we never intended to compete on price – we wanted to differentiate ourselves on quality,” he explains. “We picked specialist sectors and, rather than being a jack of all trades, we created bespoke support for specific sectors. So we began attracting the best firms trading in each sector.”

Instead of hiring mortgage advisers direct, MAB operates as a franchise operation, giving advisers access to mortgage and insurance panels, a regulatory compliance framework, and supervision, and back-office and marketing support. Many advisers choose to operate under the MAB name. It is now the largest independent mortgage adviser in the country, and the sector itself has ballooned; three-quarters of people in the UK now use an adviser to navigate the mortgage process.

In growing his business, and then coming to AIM, Brodnicki has run into testing times. In both cases, he proved that being willing to stand out and think differently can pay off. In both cases, he proved that being willing to stand out and think differently can pay off.

Top tips for entrepreneurs:

- Understand your motivation and your timescale. It is a long-term commitment, and you have to understand the time and cost implications.
- Consider the strength of the team you are taking to market. My COO and FD are of immensely high quality. You have to be aware of the liabilities and risks and you need to share the burden internally.
- Carefully choose the advisers you will be working with – don’t rush into it. Be careful how you negotiate and make sure you like them, because you will be spending a lot of time with them.
- Speak to people who have gone through the process.
The business test came in 2007, when fast-growing MAB had attracted interest from a number of potential buyers and offers were on the table.

“Then, at 12 o’clock on a Friday afternoon, the recession hit,” Brodnicki recalls. “The remortgage market fell off a cliff overnight. Business fell by 50%. Those offers, just melted away.” Faced with a collapsing market and having geared up in anticipation of substantial growth, Brodnicki and his team had to reassess their options, fast.

“We had to decide if we would cut back, and let go some of the great people we had just hired, or create a significant business to justify the levels of overhead,” he explains. “In the past we had grown steadily, and the previous year had been a good one. We had some money in the bank. So we said, ‘We’re prepared to lose money this year, we’re going to put our foot down and create some business.’”

The strategy – to push hard as everyone else was retrenching – paid off. “Our industry needed a firm like ours at that time, because we offer a lot of support to advisers in our model. It gave us an edge in the market. We helped advisers to grow market share.”

Even in the dire days of 2008, MAB managed to turn a small profit. “Since then, we have grown at a minimum of 20% a year and have grabbed market share,” says Brodnicki.

This success meant that, by 2013, the business had once again reached the point where buyers were interested and the management team needed to decide what to do. Another significant shareholder who had merged his business into MAB the previous year also wanted to realise his shareholding.

“We were attracting interest from buyers – better offers than in 2007 – but we felt there was still a huge opportunity for the business, and being sold would send the wrong message. A sale looks like an exit. A flotation is very positive on many fronts.”

In the end, the rumours of a possible sale began to unsettle potential new business opportunities, and the company made a decision: “An AIM listing would give us autonomy, which was what we wanted. For our staff, it would be seen as positive. And our adviser networks and partners would be encouraged and see it as a platform for the next stage of growth.”

Once the business pushed the button on the float process, it took less than five months to complete, but Brodnicki says they spent almost the same amount of time preparing for the process and ensuring they had the right advisers, board and processes in place.

Then came the next big test. “When we started our research process, AIM was flying. When we announced our intention to float, the market was volatile and the headlines about the property market were terrible. It was carabbage. All the big IPOs, particularly some of the larger names in the banking and housing sector, were delayed.

“We could see that our private equity backers wanted exits – they were not really into tech any more. We could also see that a lot of investment was needed going forward, and we wanted to get out there and create value with acquisitions.” – Louis Hall, Cerillion

“IT consultancy Logica, Cerillion survived the dotcom crash while scores of others fell by the wayside. At the beginning, Cerillion was a one-trick operation, providing billing and customer relationship management tools to telecom companies. It might have continued doing just that, successfully but unspectacularly – but then CEO Louis Hall recognised an opportunity in the newly developed cloud computing technology. “We saw the cloud coming and built a platform that could do billing for anyone from a financial services firm to a utility or a retailer,” he says. While Cerillion was recalibrating its ambitions upwards, its owners had rather different

“Remember sitting in a taxi with my CEO and saying, ‘In this situation, we’ve always done the opposite to everyone else,’ so we decided to go for it. It was a bit touch and go, but in the end we were over-subscribed.”

Brodnicki and his team refused to be panicked into cutting the price. “We didn’t rethink the range because we didn’t want to compromise on that. In the end, we weren’t even at the bottom of the range we’d set.”

“When private equity exits on a cloud

Cerillion is one of those businesses with stargazing power. Created at the peak of the dotcom boom in 1999 in a management buy-out from a firm like ours at that time, because we offer a lot of support to advisers in our model. It gave us an edge in the market. We helped advisers to grow market share.”

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In 2017, Hall and other executives sold just over 10% of the company, hoping to improve liquidity in the shares, taking the free float to about 20%.
Growing Your Business

Alastair Bathgate, Blue Prism

“We would have got a better valuation from private equity or venture capital than we did at IPO. We chose the public route for more strategic than financial reasons” – Alastair Bathgate, Blue Prism

“Although the money was raised at a lower valuation, there is no leverage,” he continues. “With an IPO, you have a very clean share register where everyone has equal rights. We liked the idea of all shareholders being equal.” Blue Prism also saw an IPO as a way of confirming its position as a leader in the robotic process automation sector. “We are working in a new software category and we wanted to be the first in our sector to go public,” says Bathgate.

“What now seems like an obvious overnight success story was not quite so clear-cut at the time of flotation, when Blue Prism raised £21m in new capital. Like many fast-growing companies, Blue Prism was not making profits and wasn’t expecting to do so in the short term. “At IPO, we had two large contract renewals coming up, and we couldn’t offer any guarantees that those clients would stay,” Bathgate explains.

“Fortunately, they did, and the level of new business has been beyond most people’s expectations.” A partnership with Accenture, the consultancy firm, has given Blue Prism access to some huge global businesses, and it has also undertaken a big back-office automation project for Accenture itself. Bathgate says: “You can imagine the size of some of those Accenture customers. If you are a private organisation, big companies like that can be spoilt. Being a public company helped us build confidence and trust from huge global customers.”

“Many British technology companies in the past have shown huge potential, but have found themselves acquired by bigger rivals before they could move beyond adolescence. Bathgate sees the IPO as a way to help prevent Blue Prism going the same way.

“Our IPO is an entrance, not an exit,” he says. “We see it as a defence against acquisition – it is harder to acquire a public company than a private one. We don’t want to be acquired. We think we service the market and investors better by remaining independent.”

To outsiders, Blue Prism may look like an overnight success, but it is clear that its gains have been made on the back of long-term commitment and hard work. “Inventing something new can be difficult,” Bathgate concludes. “How do you present it to the world? With enterprise software, you don’t just turn up at the door and say, ‘Yes, we will buy your product.’ It takes years for them to agree.”

Customers won’t buy into new, disruptive technology they feel lukewarm about, he adds. “Our customers have to be delighted, not just happy.”

“We see it as a defence against acquisition – it is harder to acquire a public company than a private one. We don’t want to be acquired. We think we service the market and investors better by remaining independent.”

Initially, Blue Prism used money raised from seed capital and a £1.7m investment from venture capital, as well as tapping into its own resources. Then it became clear that organic resources would constrain the business when it was ready to take off. There was no shortage of potential buyers who saw the opportunity and wanted in. “I was chased around the world by private equity firms,” Bathgate remembers. “They all wanted to invest, and we would have got a better initial valuation from private equity or venture capital than we did at IPO. We chose the public route for more strategic than financial reasons.”

“Although the money was raised at a lower valuation, there is no leverage,” he continues. “With an IPO, you have a very clean share register where everyone has equal rights. We liked the idea of all shareholders being equal.”

“AIM is not the right place if you are just looking for an exit. That is not a reason to approach a public market. We saw an interesting long-term growth opportunity.” Tim Warrillow, CEO and co-founder, Fever-Tree (see page 16)

“Making connections: Since listing on AIM, Blue Prism has focused on attracting shareholders who are in it for the long term”

Thanks to the following companies for those valuable insights

FURTHER READING

Check out our ELITE programme – a structured engagement helping private companies to scale and secure external investment

www.lseg.com/elites
PREPARING YOUR IPO

“BY FAILING TO PREPARE, YOU ARE PREPARING TO FAIL” – BENJAMIN FRANKLIN’S WORDS ARE WORTH Bearing IN MIND FOR ANY ENTREPRENEUR PLANNING AN IPO. SAM BAZINI OF WARPAIN, DOUG DOERFLER OF MAXCYTE, ED MOLYNEUX OF FREEAGENT AND STEVE FLAVELL OF LOOPUP SHARE THEIR COMPANIES’ STORIES

Transforming your business into a public company calls for dedicated time and resources, high-quality advice and a clear vision for the business which is aligned across the board. The key to a successful and smooth IPO process is often found in the planning and preparation completed before the transaction even begins. This stage is about assessing your readiness for IPO, choosing your advisers, defining your objectives and locking down a practical timeline and agenda.

From market stall to stock market
Sam Bazini and Eoin Macleod, the founders of Warpaint, both started out selling cosmetics on market stalls and always got on well. They began working together, and in 1992 they founded Warpaint, initially as a cosmetics and fragrance clearance business. Cosmetics companies such as Revlon would sell them excess stock, which they would then sell on to cash-and-carry businesses, market traders and discount retailers such as Poundland.

It was a successful business, but it had its difficulties, and it was in solving those problems in 2002 that Warpaint created the real basis of its success – its own cosmetics brand. “When you buy excess stock, you tend to get lots of the slower lines, but never the biggest sellers,” Bazini explains. “It was to plug the gaps in our range that we initially created our own brand.”

Warpaint started by buying stickers and creating their own product lines. They started with the ‘W’ brand – named after the Ealing postcode where the business was then based – flourished as a brand and Warpaint gradually introduced new lines. The success of the brand convinced Bazini and his partner that they had the potential to take the business much further.

So what made them consider an IPO? “There were a number of reasons,” says Bazini. “It's a good business – it wasn’t a pipe dream. We had been in the business for 30 years and always made a profit. We got to the age of 54 and if you go to private equity, they want you to work for five years and sometimes offer you very little credit for the business you have already built.”

“Also, we weren’t ready to retire. We wanted to see the business grow, and at the same time share in its success. If you get someone to buy it then you just walk away, and we didn’t want to do that. We think there are lots of legs left in the business, so we took the IPO route.”

Warpaint took some time to get itself into the right shape to come to market. Some of this was to do with the structure needed for a public company – putting in a new CFO, finding a chairman and non-executive directors. Also, after 30 or so years there were complexities within the business that needed ironing out – changing financial year-ends so that all the companies in the group coincided, for instance, and making sure properties were in the right ownership. “It took nearly 18 months for the accountants to get it all tidied up,” Bazini recalls.

During the initial marketing, he says issues such as how much of their own shares they should sell and how much potential money the company should raise continued to be debated – partly because investors themselves had conflicting views. Some wanted existing shareholders to stay in, to prove their belief in the future of the business, while others refused to invest unless at least half the company was floated.

“In the end, we didn’t raise much money for the company. In fact, we’d left two years of profits, in cash and stock, in the business. We raised a bit to pay for the float and development capital, and we sold about 30% of our holdings.”

As a newcomer to the stock market and the City, Bazini was initially apprehensive about meeting investors. “The City was not what I was expecting,” he says. “You get the impression people are doing their homework.”

Warpaint spent 18 months reorganising its structure and processes in order to be in the right shape to come to market.

18 months

Warpaint spent 18 months reorganising its structure and processes in order to be in the right shape to come to market.
Funding the search for a cancer cure

It is a long way from the MaxCyte headquarters in Gaithersburg, Maryland, to the City of London, but for Doug Doerfler, the company’s CEO, the City is close to a second home. Rather than raise money in the US, Doerfler was persuaded that AIM would be a better fit.

“That question always came up on the roadshow,” Doerfler concedes, “but this was a natural place for us. Given our size and what we were trying to achieve. It fits us perfectly.”

MaxCyte was spun out of a public company in 1990. Its specialism was the area to which Doerfler has dedicated his life’s work: the research and development of cell-based medicines, particularly for the treatment of cancers. In 2010, MaxCyte added a new business line, working in partnership with other pharma and biotech companies to develop their technologies and bring them to market.

With both areas of the business growing fast, MaxCyte needed more capital to fund its growth. And to add to the momentum, it developed its own cancer treatment platform, CARMA, which shows great potential as a breakthrough treatment in immuno-oncology that seeks and destroys cancer cells. It required resources to fund pre-clinical and human clinical trials.

“We began looking at alternatives to raise new money, at a public listing in the US, at private equity and in the UK, particularly AIM,” says Doerfler.

At first, the feedback was that MaxCyte’s story hadn’t matured enough for AIM. Doerfler took the advice on board. “We created an excellent team of advisers and brokers and communications people, and we worked with them for about a year before we were ready to come to market,” he says.

Having spun off a public company and having had serious investment backers in the past, MaxCyte did not find the governance or structural demands of AIM difficult. “We felt the requirements were reasonable and practical, and there was an amount of latitude in the rules on how long it takes to prepare, how large the company is and the size and complexity of the deal. On average, the cost is around 7–9% of the total money raised.

Top tips for entrepreneurs:

• Don’t take your eye off the ball. It is a long process and a lot of people concentrate on the IPO, and then end up with a profits warning because they haven’t concentrated on the business.
• Get a good team with experience that can manage the process. Don’t micro-manage. You don’t need to strengthen your management team.
• Be prepared to listen. We ran our business ourselves for 30 years. Now, if we want to do something and the chairman raises an issue, we have to listen. Running a public company is different from running a private one.
• Don’t be greedy. Institutions investing want to know they are in it with you.

Highlight:
Creation and development of the W7 brand in 2002.

Tip: Some companies spend 12 to 18 months preparing for an IPO, but it really depends on what your starting point is. If you’re already behaving much like a public company, the planning and preparation time can be considerably shorter – around three to six months.

Tip: The cost of an IPO can vary and depends on how long it takes to prepare, how large the company is and the size and complexity of the deal. On average, the cost is around 7–9% of the total money raised.
that meant we didn’t have to invest heavily in
unnecessary bureaucracy or process,” says Doerfler.
MaxCyte had issued stock options to its staff
from the beginning, so the AIM IPO didn’t mean
a dramatic change in style, but it does give
employees far greater transparency and flexibility
in handling their shareholdings. The company
also found the tax-efficient Enterprise Investment
Scheme (EIS) and Venture Capital Trusts (VCT)
schemes useful in helping to build a long-term
shareholder base.

As a US company, MaxCyte has found that the
positives of AIM definitely outweigh the negatives.
“The downside is that you have to disclose more
information, but it has also established the
perspective,” Doerfler explains.

But on the upside, going public has helped
them with their finances, but it has also established the
company as more global and more stable, which
is important in a commercial environment. There
is a familiarity with a public company and a
sense of validation.”

Walking 500 miles
FreeAgent’s founder and CEO, Ed Molyneux, is
someone who dares to think differently, which has
benefited the small, youthful Scottish company
whose target market is micro-businesses.

He was originally a fighter pilot, having been
sponsored on a computer science degree by the
RAF. After 11 years, he left and discovered he was
starting from scratch again. “I went to a couple of
resettlement courses and it occurred to me that I
had no transferable skills apart from becoming an
airline pilot,” he recalls.

He set up as a consultant, working with some
of the defence companies he had dealt with in
his previous career, and it was the frustration of
managing his own tiny business that provided the
spark of an idea for FreeAgent. He started to build
a prototype online accountancy program that was
designed specifically for very small businesses. The
idea grew, and he brought in two co-founders, Ollie
Headley and Roan Laveng, to help develop it further.
In 2007, FreeAgent was born.

They raised money when they needed it, from
angel investors in 2008 and from crowdfunding a
few years later. These funding rounds filled a gap,
but Molyneux had greater ambitions for FreeAgent
and wanted a longer-term solution.

With a different CEO in place, FreeAgent might
have worked steadily towards an IPO at some
point in the future. Molyneux decided he wanted
to go as soon as possible.

“We want to build a long track record of
delivery. The sooner you start, the longer your
track record can be,” he says. “We have low churn and long customer
predictability about it.”

FreeAgent’s revenues and business model.
FreeAgent has good evidence that its customers
are very highly, with 60% of new customers rating
them 5/5 and 75% of paying customers staying for
over a year before they were ready to come to market.”

valued among their peers, Molyneux says, “You have to
make the commitment. This is not just a financing
platform, it is a way of doing business. It has to be
taken seriously. You have to allocate the time.”

Tip – your exit:
You may have
thought about the
tax structuring and implications
for the business, but are you
prepared for your own
personal wealth management
plans as you approach
the liquidity event?

Consider speaking
to a professional
about your own
plans and options.

“Spend time finding
the right directors for your company. You can
leave it to the last minute and have someone foisted
on you, or take the time to find someone
who fits with your
company and brings
new skills. We were fortunate to find
really good people.”

Doug Doerfler, President and
CEO, MaxCyte, Gatheringsburg,
Maryland, US

Spun the business off from a public company
in 1990

Sector: Pharmaceuticals and Biotechnology
IPO: 2016

Top tips for entrepreneurs:
› Take time to select the right team of
advisers. There will always be issues and
times when you need the best advice.

› Make a commitment to the UK and AIM.
It is on my routine travel schedule to
come six times a year to meet investors
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SNAPSHOT

Valuation

Valuation components:
existing and potential risks,
market conditions,
performance of quoted peers, liquidity,
quantitative factors (cashflows, track
record, forecasts),
qualitative factors (team, the board,
momentum), type of stock (growth vs yield,
investment case).

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PREPARING YOUR IPO

To AIM via Silicon Valley

The founders of LoopUp met on an MBA course at Stanford University – two Brits in a room mostly full of Americans. Steve Flavell had quit his job as a consultant and gone into debt to fund the expensive course, but he thought it might lead to new adventures.

A few years and a few adventures later, Steve and Mike Hughes were ready to set up on their own. After debating many wacky ideas, they decided to solve the issue that remains the bane of thousands of business lives – the conference call.

“We’re all about making conference calls and remote meetings less miserable,” says Flavell. “That story resonated when we set up and it does so now. Many people dislike conference calls intensely, but they are an essential part of business life. We decided to make them better.”

Flavell had always assumed he would move out to San Francisco, where his business partner Mike was already a successful Silicon Valley entrepreneur. Somewhere, that never happened. “We had a prototype product, and it just came naturally to get started here in the UK too, because we had the contacts and it seemed sensible to make use of them,” Flavell explains. LoopUp started out as, and remains, a company with its feet firmly in two locations – London and San Francisco.

Business angels supplied the funding in the earlier stages. “We had great angel investors, 55 in all – people we had worked with in the past, friends from university days and so on,” says Flavell. “They were well known to us rather than professional angels, but they decided to take a punt on us.”

Many of the angels invested through tax-efficient EIS schemes, and the AIM flotation enabled them to retain EIS status as they became shareholders in the public company. LoopUp’s founders didn’t sell shares in the IPO, but the company raised £8.5m in new money to fund future growth, plus another £4.5m from an existing shareholder converting debt into equity. LoopUp’s journey to AIM was longer and slower than Flavell had intended, but that proved to be a strength (see page 15).

Highlight:

In 2016 we entered a partnership with RBS. We competed to win the opportunity to be supplying this facility to RBS’s customers, and winning it was a great validation of the work we had done.

SYNDICATE OF ADVISERS: what are their roles?

Nominated Adviser
- Guides you throughout the flotation process
- Undertakes due diligence to ensure your company is suitable for AIM
- Holds the pen, drafting the AIM admission document
- A Nomination Adviser must be retained at all times under the AIM Rules or a company faces suspension and cancellation after one month
- Broker
- Supports your financing needs by assessing the level of investor interest in your company’s shares at the time of admission
- Provides ongoing advice on market and trading-related matters
- Advises on the pricing of shares and investment opportunities
- A broker must be retained at all times under the AIM rules
- Reporting accountant
- Reviews and reports on aspects such as financial position, financial reporting procedures, working capital, and tax and share incentive schemes

“Talk to people who have done it before. When we talked to other people in Cambridge, everybody had come across the same issues. We should make our mistakes benefit others.”

Andy Walters, MD, Quartic Holdings (see page 15)
PREPARING YOUR IPO

a saving grace when the IPO encountered difficult markets. “We were those fools who came to market just after the Brexit vote,” Flavell explains. “We were set to announce our intention to float just after the referendum. That didn’t happen. We took a few days because there was so much dust to settle. Then we started to have conversations with investors we had begun to know quite well, and their response encouraged us to go on regardless. I am delighted we did.

“We accidentally did something I would highly recommend in general,” he continues. “We started the process very early. We started talking to nominated advisers two years before and investors a year and a half before. It wasn’t our intention to do it that way, but it worked out really well. “By the time we got to the roadshow in August 2016, we had met some of our investors five or six times. We had developed a decent rapport, they had heard the consistency of our story and they had seen us deliver on everything over that period. It gave them comfort that we could deliver on the forecast that the bank’s analyst had produced. “The world is full of shock events,” he continues, “and Brexit nearly derailed the process. But, given how well we’d got to know everybody, the reaction from many people was, ‘Well, it doesn’t affect your business model, so why does it matter?’ That was exactly the argument we wanted to make, and people were putting it to us. Getting everyone comfortable with your story means that when surprising things happen in the world, people are more understanding.”

Flavell and his team had also developed a very close relationship with the nominated adviser on the IPO. “They always liked what we were doing, but over time it felt as if they liked it more and more. The sales guys knew our story so well, a couple of them could pretty much have done the roadshow presentation instead of us. That is incredibly helpful, given that they were the ones selling to institutional investors for us.”

The law firm involved had an existing long-term relationship with LoopUp, and the ability to speak openly to their legal advisers was a big plus – 80% of the legal work was done before the lawyers were officially engaged. LoopUp’s sizeable American business added a layer of legal complexity for the IPO, with further compliance and due diligence required. “The US is a massive part of our business story, so a small piece of every process was a price easily worth paying,” says Flavell.

The US connection meant that LoopUp had looked into seeking funding from Silicon Valley before it decided to float on AIM. “We went to Silicon Valley a year or two before we ended up on AIM and had a number of conversations,” says Flavell. “I believe we could have raised venture capital there, but their growth expectations were really high.”

“Nobody aspires to grow our business more than we do, but we were not aligned with Silicon Valley in the intensity they wanted. It seemed like a philosophy of growth at all costs – at least doubling in size every year.”

So they decided against the Silicon Valley route. “They always liked what we were doing, but over time it felt as if they liked it more and more. The sales guys knew our story so well, a couple of them could pretty much have done the roadshow presentation instead of us. That is incredibly helpful, given that they were the ones selling to institutional investors for us.”

Flavell adds that the reaction of LoopUp’s people has been one of the high points of being a public company. “All our employees have reacted incredibly positively to it. A lot of them asked if they could invest. It was just really good fun – we had some big parties.” Having raised growth capital, LoopUp is now able to deliver career progression opportunities to its employees.

It is early days for LoopUp as a public company, but both the company and its shares have performed strongly in their first year. “This is the start of a new phase for us,” says Flavell. “For thousands more business people, it may mean conference calls soon stop being a form of business torture and instead become a pleasure.”

Call credit: LoopUp is on a mission to improve conference calls

80% of the legal work was done before the lawyers were officially engaged

80%

The most important thing to think about is the composition of the board and the management team. Having people around you who have been there and done it before is important, so that you can continue to run the business.

Ross Cummings, CEO, Touchstone Innovations (see page 19)

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CASE STUDY: HOTEL CHOCOLAT

CHOCOLATIER HOTEL CHOCOLAT WAITED NEARLY 20 YEARS BEFORE LAUNCHING AN IPO. CO-FOUNDER ANGUS THIRLWELL EXPLAINS HOW A SLOW AND STEADY APPROACH TO GROWTH HAS PAID OFF

Rather unexpectedly, it was peppermints, not chocolate, that got Hotel Chocolat started. Its founders had met when Peter Harris recruited a young Angus Thirlwell to a Cambridge tech company. A year or so later, they went into business together.

“It was the most niche business you could imagine: company-branded peppermints for corporates,” Thirlwell recalls. “The peppermints went well, but our customers kept asking us for other products and we were peppermints or nothing. After a while, we realised that chocolates were good for creativity and had an emotional relationship that mints didn’t have.”

For years they built a small business that grew organically. They were early adopters of the internet, with a website that delivered chocolates. The pair ploughed the profits back into the business and kept it as lightly indebted as they could.

The big breakthrough came in 2005, when Hotel Chocolat was born and the business decided it was in a position to take on the luxury chocolate market head-on.

“By then, the company had become interesting to private equity houses, and we had lots of cups of cocoa with people who liked the strength of the brand,” says Thirlwell. “It was interesting, but it didn’t fit our vision of what we wanted to do. We have always been long term about our thinking and we like to keep adapting and innovating. With private equity, there was a two- to five-year timeframe and then all bets were off. We wanted more.”

“My father [frontlineprint founder Edwin Thirlwell] is in his 80s and is still working on business ideas every day. On that basis, I have 30 more years of business,” Thirlwell continues. “We didn’t want to squeeze the pips out of the company to achieve someone’s short-term goal.

There was a wish to change things, however. “We wanted a period of crystallising some of the value in the business to offset all those decades of ploughing back the profits,” says Thirlwell. “We thought it would be nice to enjoy the fruits of what we have grown before we got too old. But we also wanted to access development capital, on a repeat basis if required, and to reward our team who have helped build the company.”

An IPO was the obvious answer. “We plotted our path, took advice and made a campaign to attack it,” says Thirlwell.

Early feedback from the Nominated Adviser was good, and the view seemed to be that Hotel Chocolat’s track record and strategic vision would garner support from investors. The business had already been run professionally for many years, so big changes weren’t needed. When it came to choosing a Nominated Adviser, Thirlwell says any of those shortlisted would have done the job. When we looked at companies we admired and saw who their advisers were. The final choice came down to small points. An analyst who understands your business model is important. But we were very happy – they did an excellent job.”

When it came to meeting investors, the management team found unexpected benefits. “With few exceptions, we felt the time we spent with potential investors was good for us on several levels,” says Thirlwell. “The questions people asked gave us some insight into how we were perceived. And these people get a lot of big brands presenting themselves, which is a good experience rather than grand ideas.

“International is a big opportunity in the fullness of time, but we aren’t rushing at it,” says Thirlwell. “We explained to the City that we know it takes businesses time to do international well: to understand the culture, logistics, models, market entry and branding. So we decided to have an operation in a relatively small and nearby market where we could reduce the risk to ourselves.” They chose Denmark as a good place to start.

In other areas, they took investors to see UK stores using their new format, which includes a drinks element, and enabled them to compare it to the old format. They took investors to a small-scale manufacturing plant in Cambridgeshire and showed them how scaling it up could transform performance.

“The aim was to show, rather than tell, people where we were heading. ‘We didn’t want to be distracted by having to explain why we had surprised people with what we were doing.’ Thirlwell says.

So far, the approach has paid off. The shares have more than doubled over their first year. “Some people have said, you must regret selling out at the lower price,” says Thirlwell. “The answer is no, we’re delighted, because we still have a third of the company.”

Liquidity in Hotel Chocolat shares has not been huge and volatility has been higher than the company would like. “We have overcome that by not looking at the share price – we look at the trend line,” says Thirlwell. “We have educated ourselves to be resilient on that.”

“Having to do seven pitches a day also meant we honed our messaging,” he adds. “We could then tell our story to our own team in ways we’d never been able to do before. At the end, our CFO said he couldn’t stand the sound of our voices any longer. I must be a storyteller, because I quite enjoyed it.”

Expansion plans

The IPO raised £51m in total. £10m went to the company and the remainder to Thirlwell, Harris and their families. In total, they sold a third of the equity.

While they were always clear that they wanted to bank some capital during the float, the company’s expansion plans were a key motivation. The growth plans included international expansion, growing the UK retail base, improving the company’s digital platform and its manufacturing capabilities, and making acquisitions to bring in new capacities and techniques. That is a long list, but Hotel Chocolat’s growth plans are typically based on evidence and experience rather than grand ideas.

“The expected benefits from becoming a public company have duly arrived. Thirlwell also notes some unexpected upsides: “It has made a big difference to our staff – we have 1,000 in the UK and 1,200 in St Lucia on our cocoa estate. The degree of financial literacy and interest in financial matters has increased a lot. That has led to better discussions and, consequently, better decision-making about many facets of running the business. We have probably 40,000 employees, and we have key leaders in the company, and they have come on a lot.” A Sharesave scheme has enabled all employees, even the junior members, to become shareholders.

“Being a plc has also helped us with suppliers,” Thirlwell adds. “In the British psyche, achieving a listing is seen as a success story, and people like winners. It has helped raise our profile as a British success story.”

Hotel Chocolat may have British roots, but in the tiny island of St Lucia it is an important employer, with a 140-acre cocoa plantation and a luxury hotel. Is this the elusive hotel from the brand name? Thirlwell laughs.

“When we changed the name to Hotel Chocolat, I told the staff, ‘Listen, we’re never going to go into hotels – it’s a metaphorical allusion.’ No sooner had I said that than we bought an old cocoa estate. It’s such a beautiful place that we wanted customers to see it – and do that, we needed a hotel.

“We aren’t going into the hotel business, but the cocoa estate is important to the brand. It gives us authenticity. If you don’t have that knowledge of cocoa, how can you make the best chocolate?”

Key highlight:

Creating the brand name Hotel Chocolat. It gave us a turbocharge. Fundamentally, we are in the business of making people happy through escapist.

The full listing is seen as a success story, and people like winners. It has helped raise our profile as a British success story.

Hot chocolate: Hotel Chocolat has ambitious plans for expansion

CONTACT DETAILS

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14/23

SNAPSHOT

Angus Thirlwell, CEO, Hotel Chocolat, Royston, Hertfordshire

Founded the business in 1987

Sector: Travel and Leisure | IPO: 2006
THE IPO PROCESS – THE TECHNICALITIES

ANDY WALTERS OF QUARTIX HOLDINGS, ED MOLYNEUX OF FREEAGENT, TIM WARRILLOW OF FEVER-TREE, LOUIS HALL OF CERILLION AND TONY BEST OF AB DYNAMICS SHARE THEIR EXPERIENCES OF THE IPO PROCESS AND THEIR INSIGHTS INTO HOW IT WORKED FOR THEM

The formal part of the IPO process consists of financial and legal due diligence, documentation – specifically, drafting the AIM admission document – the marketing process and then completion. Your advisers will lead you through the workstreams, but if you’ve used the preparation time effectively, you should be able to provide all the information and verification needed to ensure that the key milestones are reached on time.

Finding the right route to market
Quartix Holdings is finely attuned to the complexities of getting from A to B. Its vehicle tracking software helps businesses follow and analyse the movements of their vehicle fleets, and it also provides the software for ‘pay as you drive’ motor vehicle insurance. Quartix’s experience on the road as a public company has been scenic and enjoyable. Its road to the IPO, on the other hand, involved a few bumps.

“We are different from many AIM companies in that we didn’t need to raise any money,” explains Andy Walters, Managing Director of Quartix. “We started the business in 2001, and over time a whole range of people became shareholders. A few years ago, we reached a point where some of those people wanted to realise their investments. “We had a look at the options to find ways for those people to sell their shares,” he continues. “Any kind of private equity would have wanted conditions and constraints on the balance sheet, such as debt. That wouldn’t have been fair on the remaining shareholders. The overwhelming benefit of AIM was that it created a market for individuals to sell shares and for others to buy in. We are unlikely ever to raise money on AIM. We didn’t need a market for our shares.”

The main bump in the road for Quartix was valuation. A first run at AIM early in 2014 did need a market for our shares.”

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Looking back, Walters says he thinks the IPO was a good opportunity. “As an entrepreneur bringing a company to AIM, I would look more closely at the terms of advisers’ engagement packages,” he says.

Later the same year, Quartix came back to the market with a new Nominated Adviser. “It had its stresses and strains,” Walters recalls. “Just before book building, they said they wanted to drop the price by 10%, and we refused point blank. In the end we were over-subscribed, and we have a big relationship now.”

The disagreements over valuation weren’t due to arrogance or vanity on Walters’ part – he felt an obligation to his existing shareholders. “A longstanding friend was releasing a big shareholding in the business. I couldn’t have lived with myself if I’d let the valuation fall too low. He had worked many years to achieve that.”

The push-back on valuation paid off. “Don’t be overawed. An IPO is a well-trodden path and the London Stock Exchange is very helpful. People tend to be put off, thinking it will be difficult, but it is a management process.”

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The IPO due diligence process is very efficient, he points out, because all investors are prepared to rely on it to make their own individual investment decisions. He is also pleased that Quartix has come to the attention of a number of international investors, including some from the US.

He says the benefits of being a public company have proved greater than he had expected. “It has made recruiting talent easier. We have also given equity to everyone in the company, and that is an important motivator. We brought in a couple of non-executive directors as part of the process and that has worked really well for us. They have become shareholders, and it feels like they are really invested in the business.”

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Andy Walters, Quartix

The open road: Quartix’s vehicle tracking software attracted investors when the company floated on AIM.
THE IPO PROCESS

SNAPSHOT
Andy Walters, Quartix
Managing Director, Quartix Holdings, Cambridge

Founded the business in 2001
Sector: Software | IPO: 2014

Top tips for entrepreneurs:

› Talk to people who have done it before. When we talked to other people in Cambridge, everybody had come across the same issues. We should make our mistakes benefit others.
› Don’t accept what people tell you to do. AIM has a less prescriptive regulation and there are aspects that people will tell you are necessary, but they aren’t. For example, we don’t have a financial PR company.
› Consider selling fewer shares at the outset. I had a strong feeling before we floated that the business would be worth more than the brokers were telling us and wanted to sell the minimum amount of stock. People say it isn’t a serious float unless you sell 25%. Ultimately, provided you are intending to be a proper public company, it isn’t essential. We sold 19%.

“It has made recruiting talent easier. We have also given equity to everyone in the company, and that is an important motivator... But also we have benefited commercially from being publicly quoted. We are seen as more significant.”
– Andy Walters, Quartix

Giving a good account of themselves
Ed Molynieux, founder and CEO of accountancy software company FreeAgent (see page 13), says the IPO process itself was a lot of work.

Molynieux and his team travelled from their base in Edinburgh to London to choose a Nominated Adviser. “They are all perfectly capable of doing the transaction, and it is amazing how they all have charts that prove that each of them is the best!” he says. “Ultimately, it is about personalities. This was a team we would be working with intensively for the next year and less intensively for the next ten years. We had to like them.”

It helped, too, that their Nominated Adviser’s main contact has Scottish links and is regularly in Edinburgh. Other advisers, including accountants and lawyers, were from closer to home.

Carrying out due diligence was less painful than expected because of FreeAgent’s previous experience with other investors. “We had built up a level of discipline in our management and reporting that stood us in good stead and we were a long way down the road for due diligence. There were a bunch of other things to do too, some of which were annoying, like changing reporting regimes, but others were interesting,” he says.

“Having to explain how the business works is a good discipline. It is a great way to crystallise in your own mind what the business is about.”

Molynieux says it only occurred to him halfway through the process that the IPO was a sort of examination which, if a company passes it, enables investors to take the company on trust for a Nominated Adviser. “They are all perfectly capable of doing the transaction, and it is amazing how they all have charts that prove that each of them is the best!” he says. “Ultimately, it is about personalities. This was a team we would be working with intensively for the next year and less intensively for the next ten years. We had to like them.”

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Molynieux says it only occurred to him halfway through the process that the IPO was a sort of examination which, if a company passes it, enables investors to take the company on trust for that,” he says. “We are now in a position where there is a level of validation over what we say and there is a lower hurdle for investors to engage with us. Everyone can see we are well managed and have a robust set of indicators.”

In August 2016, FreeAgent tested the market with a pre-marketing exercise to see if their IPO might fly. “We had a good reception, and some of those people were keen to invest, so that was the trigger for us to go ahead in the autumn.”

The IPO was successful and FreeAgent is now enjoying life as a public company. But Molynieux’s ambitions don’t end there. “We are far from finished with our product,” he says. “As accounting systems and banking systems converge, we can start to look at the role of machine learning and big data, and what insights we can deliver to our customers to help them run their businesses better. These are really interesting questions we are starting to look at that could be transformative.”

A tonic for the markets
A young Tim Warrillow was considering moving to home.

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The IPO Process

Top tips for entrepreneurs:
- Only do this if you have a really good finance director and a finance department that is really well organised. We’re proud to have both.
- AIM is not necessarily the right place if you are just looking for an exit. That is not a reason to approach a public market. We saw an interesting long-term growth opportunity.

“Make sure you are running your business with a data room. Getting your business really organised, with all admin up to date, is critical when it comes to due diligence.”

Alan Foy, CEO, Smart Metering Systems (see page 21)

Tim Warrillow, CEO and co-founder, Fever-Tree, London
Co-founded the business in 2003
Sector: Soft Drinks | IPO 2014

Private equity backers would give the project, but they themselves became even more convinced of Fever-Tree’s long-term potential. “We realised this was growing, and growing in opportunity,” he says. Therefore, when it became clear that their private equity backers wanted to realise some of their investment, all agreed that an IPO would be a better way forward for Fever-Tree.

“What attracted us to floating was that it allowed us to fulfil the potential of the business in the long term. There was real appetite from investors who wanted growth, but were comfortable with steady rather than exponential growth. It’s the latter that private equity really feeds off.”

Andy Branchflower, Fever-Tree’s Finance Director, says that having been through a protracted private equity investment process had put the company in good shape for an IPO.

“A lot of it was about selecting the right private equity house, but beyond that there was a huge amount of due diligence,” he recalls. ‘You have to very quickly upgrade all your systems and back office. Then, once they had invested, the private equity backers wanted to fix anything they had identified as a weakness in the due diligence.”

By spring 2014, Branchflower was just emerging from this intense period. “That was when we started to think about an IPO,” he says. The timeframe for the IPO was short – four months from decision to float. The cost was “considerably less than the previous private equity deal”, according to Warrillow. He gives credit to the private equity house for allowing Fever-Tree to run the process. “Of course they were involved, but they left us to make decisions about who we hired and so on. I am not sure that is always the case,” he says.

Most of the float was made up of the private equity firm selling shares, although they retained some of their holding. Fever-Tree raised a small amount – enough to satisfy its working capital needs. “We didn’t need the money to acquire anything,” says Warrillow.

Fever-Tree likes AIM because of its less prescriptive regulation. “We were drawn to the idea that financial reporting on AIM happens twice a year, which is manageable,” says Warrillow. “We are a small business in terms of headcount and we didn’t want it to get in the way of fast decision-making.

“The other thing that has been positive is the profile that being a public company brings; not only in the press, but also as an international reputation. We are an international business and this has been reassuring for our customers and suppliers and has attracted a lot of attention.”

Warrillow says that the experience has also been interesting from a personal perspective. “I had become familiar with the world of private equity, but this is a new investment arena that we have had to learn about pretty quickly. It’s been very interesting to talk to a lot of the people we’ve met, and to hear their views and expectations. We’ve been encouraged by the number of blue chip holders we have attracted.”

Does he ever regret giving up gin for tonic? “What attracted us to floating on AIM was that it allowed us to fulfil the potential of the business in the long term.”

– Tim Warrillow, Fever-Tree

An efficient process

Louis Hall, CEO of London-based computer services company Cerillion (see page 6), hadn’t been through an IPO before, but he did seek advice from people he knew who had experienced the process. Cerillion’s case was unusual, in that Hall and his management team emerged from the IPO as bigger shareholders than before.

“All the money we raised went to the private equity investors and the management shareholders didn’t take any cash out,” Hall explains. “The IPO has actually enabled us to leverage our own positions and become larger shareholders.”

Although Hall’s holding increased, he points out that an IPO enables even management teams without substantial holdings in their company to take control of their company’s direction.

In Cerillion’s case, the process took around six months, spaced out slightly to take into account seasonal events such as the Christmas break and annual results. It was a complex deal, and negotiations with the existing private equity house took time. “The longest process was convincing our investors to sell at a price we thought would stack up for an IPO,” says Hall. Having worked with private equity for so long, Cerillion found the due diligence process for the IPO manageable, and the company had many of the governance features required for public life already in place. “For companies like ours, used to private equity scrutiny, it was not that big a leap.”

The same was true for meeting prospective investors. “A roadshow is a much more straightforward transaction than in private equity deals, where each firm has its own process,” says Hall. “Most institutional investors have many more investments than a typical private equity fund. They cannot afford to waste time. Private equity will come in and think they are buying the company, whereas institutional investors are investing in the business. It is much more transactional and efficient.”

Engineering an investment

The time when huge manufacturers and engineers launched large on the FTSE 100 is long gone. All Dynamics (ABD) represents a modern version of engineering: a smaller, more nimble business that delivers technologically advanced equipment to motor industry giants all around the world.

Among the investors he met during the company’s roadshow, Chairman Tony Best was surprised to come across several who were
specifically looking for small British engineering companies to add to their portfolios. He was delighted to discover that investors were actively seeking British engineering expertise, and no wonder. A year or so before, he had been told in no uncertain terms that an AIM float for ABD would be a bad idea.

A Cambridge-educated engineer, Best worked in various areas of the automotive industry, beginning with Rolls-Royce Motor Cars, before starting his own one-man-band consultancy in 1982. A few years later he was joined by Paul Middleton, a talented engineer whose research into noise and vibration issues for cars was producing useful results.

The business grew steadily, but consultancy became more challenging as the large motor companies increasingly moved their design and research bases overseas. ABD branched out into making testing equipment for the motor industry and discovered a talent that has endured. ABD works with almost every major vehicle manufacturer, and 95% of its testing equipment is exported.

In the early 2000s, Best explored the idea of selling the business to his young directors, but the new generation, while talented in their field, did not relish the prospect of running the business themselves. ABD then hired a major accountancy firm to explore other options, and talks began with potential trade buyers.

"Both deals faltered," Best recalls, "not because of a problem with us, but because the senior managers were keen to have shares in the company and neither buyer would consider that possibility."

The prospect of an AIM flotation, raised by Best, was firmly quashed by the advisers he had hired. "They said it would cost an arm and a leg, that we wouldn’t be able to do what we wanted and that we were not big enough. They were clear that it wasn’t the right thing to do."

That might have been the end of it, but for a chance encounter at a wedding. Best got talking to someone who was on one of London Stock Exchange’s committees, who said he didn’t believe ABD was too small at all. "He took me to meet London Stock Exchange and it was quite clear that I had been given a bad steer," says Best. "That was one of the reasons I wanted to talk here, to set the record straight."

Discussions with people at London Stock Exchange gave Best a clear idea of the issues he had to consider. "We recognised that we had to have a managing director who was young enough to do the job," says Best, who was 75 at the time. ABD advertised, and from close to 800 applicants they hired Tim Rogers, who brought extensive experience in managing companies in the engineering and chemical sectors. One of Rogers’ first jobs was to help the company decide how it should go forward. He firmly believed AIM was the right direction.

Rogers and Best say they interviewed a number of firms to become advisers, and ended up splitting the role of Nominated Adviser and broker. "That was a good call," says Rogers. "There were issues along the way and the Nominated Adviser could act as intermediary in a way they could not have done if they had also been the broker."

Best says the response from investors was very positive. "That was really helped by having good sales people who understood the business," he adds.

"We rarely met people who weren't good prospects for us," says Rogers. "Investors knew what they were getting into before they came to the meeting."

Preparation for the float had its challenges. Having to create cashflow projections for three years ahead was "a massive task and one thing that caught us out," according to Best. Rogers still winces when he recalls the adversarial nature of the accountancy due diligence, which required them to hire two firms to complete different parts of the task.

Overall, though, they found the process worked well, and Best was pleased that his sergeant-major approach to AB’s finances over the years paid dividends when it mattered. The book-building process involved running two books, one making use of the tax schemes available for AIM investors, and the other outside the scheme. "Fortunately, there was appetite for both books," says Rogers.

Another significant moment in the flotation process was the decision to offer the AIM shares to AIM investors, and the other outside the scheme. "Fortunately, there was appetite for both books," says Rogers.
CASE STUDY: TOUCHSTONE INNOVATIONS

TOUCHSTONE INNOVATIONS CEO RUSS CUMMINGS HAS WORKED IN VENTURE CAPITAL AND RUN COMPANIES THAT HAVE FLOATED ON AIM, SO HE IS WELL PLACED TO GIVE ADVICE ON HOW TO POSITION A COMPANY FOR SUCCESS.

T
ouchstone Innovations creates and invests in companies based on UK science. It began life as a means of unlocking the commercial potential of inventions created by academics and researchers at Imperial College, the eminent London university. CEO Russ Cummings studied at Imperial himself before building a career in venture capital and selling his stake in the business before setting up a new company, Touchstone Innovations, as Chief Investment Officer.

Touchstone’s portfolio includes companies at the cutting edge of invention and medicine. Nexusx, created from a merger of Oxford and Imperial spin-offs, is creating the new generation of anti-cancer therapies. Nexeon, from a merger of Oxford and Imperial spin-offs, is creating the new generation of lithium batteries. Luminex, created from a merger of Oxford and Imperial spin-offs, is the cutting edge of invention and medicine.

Cummings says inventor understanding of technology companies has improved over time, but in some cases remains patchy.

“Sometimes the technology is a broad church. With a drug discovery company, it could take ten years before it generates revenues, and there will be risks along the way as clinical trials work through. Investors need to go in with their eyes open and probably have a portfolio of investments.”

Cummings says some sectors are well served by specialist investors and research analysts, who allow more generalist investors to take an informed view.

“With software companies, you are typically much closer to, or are already achieving, revenues and it is about the scale of the growth, which you can see happening quarter on quarter.” Understandably, perhaps, investors typically find software companies easier to evaluate.

“Other sources of funding for high-growth companies are typically shorter-term in nature, whether that is business angels, venture capital or tax break funding,” he says. “They are often based on a three- to five-year timeframe. Commercialisation of IP can be a 10- to 15-year journey.”

Public markets can accommodate that, because investors can be recycled over the period while the funding structure endures.”

He says public markets are so enthusiastic about the technology and pharmaceutical sectors for one simple reason: high potential upside. “It is about an opportunity that could be a five- or ten-times return on investment,” he says, “the chance for an investor to pick a huge success story.” Scale is on the side of smaller companies in this equation. “You can take a company from £10m to £500m, but taking a £1bn company to £10bn is far more difficult,” he adds. “These sectors provide the potential for multiple returns.”

Advice for entrepreneurs

Having been on both sides of the fence, as an AIM CEO and an investor in companies floating on AIM and other markets, Cummings has long experience of what works and what doesn’t. Here are his key pointers:

- Medical marvels: Touchstone’s portfolio includes cutting-edge medical inventions
- Recognise gaps in your team and recruit to fill them
- The classic advice to entrepreneurs is to prepare 12 to 18 months in advance, which to them usually means thinking about their track record and ensuring their accounting policies and systems are in order. In fact, the most important thing to think about is the composition of the board and the management team. Having people around you that you have been there and done it before is important, so that you can continue to run the business.
- Fund your business correctly from the start. Think carefully about the composition of your shareholder base and how that will transition over your journey as a business. A lot of companies are funded by seed capital or angel investors, but by the time you think you have something successful that you want to grow ambitiously, those early investors may be looking to sell out. In theory, that is what public markets are there to do. However, if you list and raise capital and then have a stream of original shareholders exiting, the share price may not perform well, even if the company is doing well. Be up front with your shareholders and consider it part of your IPO preparation to find new shareholders to replace those who want out, so that when you come to the market you have a stable shareholder base. That way, the market can see if you are performing well. Don’t see the IPO as a solution to the issue.
- Make sure the founders are in the right roles.
- We spend a lot of time working with founders who are brilliant at the early stages because they have the energy to build the company. Some go on to become brilliant CEOs, but then they are the exception. You don’t want to set people up in a role where they are likely to fail because they don’t have the experience or skill set. Get them into the right role where they can contribute positively. They often make great chief technical advisors in the US, they even have something called ‘futurologists’. We can laugh about the titles, but the idea is sound. Founders can be great evangelists for a business, but at base you want to have a product that a sales director and market manager knows how to bring a product to market, or a sales director who can motivate and organise a sales force. Ensure the founder is in the right role before you expose yourselves as a public company. Once you’ve floated, it is harder to change.
- Get your product and your strategy right before you think about an IPO.
- It is difficult to change direction, or change anything in your business plan, when you are a public company. You will get lots of presentations to investors and analysts setting out your story, and it is brave for a management team to say “this needs to change”. That may be exactly what you need to do. But if you wait, and float when your business model is established and proven, you can avoid that problem.

Key highlight:
When we floated, we were called Imperial Innovations and we worked exclusively with Imperial College, London. Five years later we declared ourselves open for business with other universities. It was a big, strategic move which has proved very successful. Now we do as much work with Cambridge University as we did with Imperial. It was a seminal moment that changed the business and led to a change in name to reflect that.

In an IPO, you must have a plan B.
This has been a recurring theme for every company I’ve been involved in. An IPO is something that you build up to over perhaps 18 months and can become all-consuming in the last six months. Then there are the big moments: the roadshow and the pricing meeting. If you don’t have a plan B, that final stage can be an incredibly stressful period for a company and a management team. The most uncomfortable ones are when you’re sitting in a pricing meeting thinking “we don’t have any choice but to do this.”

So before you go into the process, have a frank conversation with your existing shareholders so that, if at any stage right up to the pricing meeting, you don’t think it is the right thing, you can back out and the shareholders will still support the business. Before going into a pricing meeting, ask yourselves “on what terms are we prepared to walk away?” Ask your shareholders what their attitude would be. The alternative may be to come back to the market in six months’ time, when markets are more supportive or you have built up better evidence for your business case. You can earn a lot of support from investors by listening to their feedback and acting on it.

www.touchstoneinnovations.com
LIFE AS A PUBLIC COMPANY

Once the excitement of launching on AIM is past, it’s time to get on with the next phase of growing your business. We asked Alan Foy of Smart Metering Systems, Alastair Bathgate of Blue Prism, Peter Brodnicki of Mortgage Advice Bureau and Tony Best of AB Dynamics to share their experiences of life running a public company.

Taking your company to AIM is mostly a once-in-a-lifetime experience for entrepreneurs, and quite rightly brings a huge sense of achievement. Once the IPO process is over, it’s important to remember that this is not the end game. It’s now that the business enters into a new chapter: life as a quoted company.

Being a public company on AIM brings with it a number of ongoing obligations to make sure that companies have the correct resources, controls and procedures in place to adhere to the AIM rules. AIM’s regulating structure has been designed to ensure that it meets the needs of growing smaller businesses, allowing them to flourish once on market.

It’s important to make the most of being on AIM. Not only do you have the ability to come back to market time and time again for cost-effective follow-on capital raising, but being listed also provides significant opportunities to execute your growth strategy – particularly when it comes to M&A activity and other corporate actions.

Ensuring you have a clear and concise ongoing financial PR strategy and engagement with both investors understand your business, a strong information. To ensure existing and potential companies this is based around the financial transparency and disclosure requirements.

To ensure the company is in line with reporting, only for trading and liquidity purposes, but also to M&A activity and other corporate actions.

It’s now that the business enters into a new chapter: life as a quoted company.

£44m

SMS’s listing on AIM was over-subscribed, valuing the company at £44m.

Made up: Warpaint officially came to market at the end of 2016 (see page 9)

Shane Bazini, Joint CEO, Warpaint (see page 10)

“Be prepared to listen. We ran our business ourselves for 30 years. Now, if we want to do something and the chairman raises an issue, we have to listen. Running a public company is different from running a private one.”

Using shares as fuel for growth

In 2004, Alan Foy had an enviable future in front of him. He had a solid job with blue chip Scottish Power, complete with final salary pension scheme and even the prospect of a comfortable early retirement.

Understandably, then, some of his friends suspected a mid-life crisis when Foy decided to quit his job, remortgage his house and buy into a fledgling utilities connection business, which eventually became Smart Metering Systems (SMS). He even sold his car to commit the cash.

But what others saw as a moment of madness, Foy saw as his opportunity to establish a business. “Steve Timoney had started his own utilities connections business in 1995,” Foy recalls. “When I joined, we decided to change the model completely. Competition had just been introduced into the utilities industry. We decided to turn the utilities construction business into an asset-owning metering business. We were able to build off our existing client base.

We invested more of our own cash into developing IT systems and to fund metering assets,” he continues. “We grew steadily, as fast as we could with the cash we were generating from the business. By 2008, we were growing too fast to fund the business with existing cash, so we borrowed £2.5m to invest further.”

By 2011, original founder Timoney wanted to retire and take some of his hard-earned capital out of the business. But with bank debts of around £6m and a capital-hungry growth business to feed, that wasn’t possible without a big change.

The pair had always run the business professionally, with non-executive directors to help advise on strategic issues. They also brought in a big accountancy firm to advise on options for the future.

“The advice of the non-executives and the accountant was the same: we shouldn’t sell immediately, but instead we should bring in venture capital to strengthen the balance sheet,” Foy recalls. “But that wasn’t what Steve wanted –
we got our £27m for the company and £17m of placed shares, most of which were Steve’s.”

The founder sold £15m of shares in the IPO, but still retained a 25% stake in SMS.

As a member of the AIM class of 2011, SMS has experienced being a public company over a number of years. The changes were noticeable immediately, says Foy.

“We were installing 2,000 meters a month when we were admitted to AIM. By December that year, we were installing 9,000 meters a month because we had the capital we needed.”

There were also dramatic changes on a personal level. “We received enhanced terms from the bank because we were a reduced risk to them,” says Foy. “We were able to take our houses out of the bank guarantees, because we were a public company backed by professional shareholders rather than two heavily indebted individuals.

There was a different perception of our business, he continues, adding that everyone from customers to suppliers to banks took them more seriously.

There was another advantage – perhaps the most critical – that has helped power SMS to further growth over the years. SMS’s share price strength meant it was able to acquire Utility Metering. Foy has no problems with the need for transparency and regular reporting, but he says the time commitment is greater than he had been led to believe. “I would say 20–30% of my time is involved in managing the plc – not just investor relations (IR), but the wider responsibilities.”

Finding the right shareholders

Software company Blue Prism joined the AIM market in March 2016 (see page 7). The company’s shares were priced at 78p at the time, but 18 months later they were trading at almost £10.

Trading in Blue Prism shares has certainly been active post-IPO, but co-founder Alastair Bathgate says it works best if the broker is involved in matching bigger buyers with sellers. “If someone wants a big chunk of the company, they can find that difficult. But the brokers have done contract matching. Volume is running at around 250,000 to 300,000 shares a day.”

Bathgate’s focus, from the IPO onwards, has been on encouraging the right sort of shareholders – those who believe the story and are in for the long term, rather than those riding the wave of a successful stock. “Our major shareholders now are exactly the ones we wanted. We wanted that level of commitment,” he says.

Life as a public company makes demands on the business, Foy says. “We have a strong feeling before we floated that the business would be worth more than the bankers were telling us and wanted to sell the minimum amount of stock.”

Top tips for entrepreneurs:

- Make sure you have a solid team – an IPO will take up more time than you think.
- Make sure you are running your business with a data room. Getting your business really organised, with all admin up to date, is critical when it comes to due diligence.
- Take advice, but don’t feel constrained to act on it. No one will know your business like you do. If I had listened to our consultants’ advice, we would not have gone for the IPO. But a strong chairman and non-executive directors are essential and need to be in place before you move.

See page 17 for touchstone innovations.
When investors become clients
Mortgage Advice Bureau (MAB), which operates as a franchise operation for mortgage advisers across the UK, has been through some testing times (see page 5). A planned sale in 2008 was scuppered by the global financial crisis, and just after the company announced its intention to float on AIM in 2014, the market fell dramatically.

But CEO Peter Brodnicki went ahead anyway, and, having made a debut in a stock market that was in the doldrums, MAB has since flourished, helped by delivering consistent growth year-on-year. Brodnicki remains optimistic and believes the technology capabilities within MAB could help deliver, particularly given the luddite tendencies of many of its competitors in the industry. “We see a real opportunity to step up the business using our tech abilities,” he says.

Life as a public company has many benefits, he adds. “It helped us to attract good people to the business and to look and think differently. Having non-executive directors on board gives you a different perspective. And everyone in the business, no matter how junior, has shares in the company. Transparency doesn’t bother me. In an industry where firms sometimes fall over, it can be helpful if potential partners or suppliers can see your accounts and know you are solid.” Good relationships with investors have also added unexpectedly to the business. Early on, Brodnicki had to spend a lot of time helping investors understand the sector, but the relationships have developed over time. “And at least we are a useful company to visit,” he adds. “We can help them remortgage. A lot of them have become clients!”

£5m
AB Dynamics raised £5m in 2016 in a placing to raise additional funds for plant, research and development

Engineering an investment
Engineering company AB Dynamics, which delivers technologically advanced vehicle testing systems to the automotive industry, launched a successful IPO on AIM in 2013 (see page 18).

As part of the company’s preparations for listing, founder Tony Best hired the experienced Tim Rogers as Managing Director. Now aged 80, Best remains as Chairman, although he is no longer an executive chairman.

“I come into the office, but Tim might question if I really work,” he says with a smile. The flotation allowed AB Dynamics to reorganise itself in such a way as to reduce its dependence on Best, and that process has continued. The float also enabled ABD to offer equity packages to all its staff. A first share scheme was completed in 2016 and a second is now under way.

ABD has also used the market to raise money since its flotation. Best and other directors have placed some shares, although Best still retains more than 30% of the company.

More significantly, ABD raised £5.4m in a placing in 2016 to fund completion of its new manufacturing facility and other research and development commitments. Alongside the placing, they also offered new shares to existing shareholders on the same terms.

“We have a loyal – and sometimes vocal – retail shareholder following and we felt it was a good opportunity to give those people a chance to come in at the same level,” says Rogers. Both types of fundraising were over-subscribed – the retail offer by 14 times.

Life as a public company “has been a very good ride,” says Best. Rogers adds: “We have been fortunate in that we have hit a good cycle in the business, and so we have hit our numbers every year. We have managed to invest and make that money work for us.”

“Passing the test: AB Dynamics has enjoyed life as a public company so far, achieving all targets”

Doug Doerfler, President and CEO, MaxQde (see page 11)
FURTHER READING

THERE ARE PLENTY OF ONLINE RESOURCES TO HELP YOU PLAN AND PREPARE FOR AN IPO, PROVIDED BY LONDON STOCK EXCHANGE AND OUR PARTNERS. HERE'S A SELECTION FOR YOU TO EXPLORE.

London Stock Exchange contacts
www.londonstockexchange.com/companies-and-advisors/aim/contact/contact-us.htm

Find the right Nominated Adviser for your company
www.londonstockexchange.com/exchange/companies-and-advisors/aim/for-companies/nomad-search.html

Find the right broker for your company
www.londonstockexchange.com/exchange/companies-and-advisors/aim/for-companies/broker-search.html

Download the UK Corporate Governance Code

A guide to Environmental, Social and Governance (ESG) reporting
http://www.theqca.com/about-us/

The Business Finance Guide, produced by the ICAEW and the British Business Bank

Find out more about our ELITE programme
www.uk.elite-growth.com