How to access the world’s most successful growth market

A GUIDE FOR ENTREPRENEURS
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 £87m. 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 £58m to £104m, while average capital raised at admission has increased from £34m to £58m.

What’s more, approximately 60% of all the money raised on AIM has been by companies incorporated in the UK or overseas.

£38bn

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.

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.

London Stock Exchange Group has long campaigned for greater use of equity or long-term patient capital for high-growth and innovative businesses. Debt is perfectly suitable (and tax deductible) for big established companies to manage their obligations but is often unsuitable for high-growth, dynamic firms which seek to prioritise innovation and growth ahead of servicing a loan.

Patient or long-term capital providers are increasingly supporting each other across the equity funding ladder, from angel finance to venture capital and crowdfunding through to public markets like AIM.

As a Group, we have also strived, alongside a wide range of shareholder and industry associations, to secure AIM a supportive environment, for example, by making shares eligible for Individual Savings Accounts (ISAs) and campaigning for the abolition of Stamp Duty on growth market shares.

These moves have been central to encouraging ongoing investment into AIM, supporting healthy levels of liquidity in the market to make sure that, once companies have joined the market and raised capital, they benefit from a healthy level of trading in the aftermarket.

Following our successful campaign to make AIM shares eligible for ISA inclusion, £4bn flowed into growth company shares overnight.

Together, AIM, our ‘Companies to Inspire’ reports, showcasing the fastest-growing companies across the UK, Europe and Africa, and ‘ELITE’, our business support and capital-raising programme, are shining a light on the fastest-growing companies across the world.

AIM is home to vibrant companies from across all sectors and every founder and entrepreneur has a unique story to tell about their journey up to and onto AIM.

For some founders, capital raising has been their primary reason for joining AIM, whilst for others it has been about expanding their shareholder base or accessing a secondary market for their shares. There are entrepreneurs that seek a significant exit and others that come to market in order to keep long-term control of their company. The IPO transaction period can vary greatly too, from over a year for some management teams to just months for others.

And many founders have returned to the market post IPO to raise secondary funding or complete M&A transactions, whilst others have looked to grow organically.

This guide is designed to be practical, informative and helpful for the entrepreneurs, investors and company to IPO, including the key questions you need to consider at each stage and the major logistical milestones along the way.

Marcus Stuttard
Head of AIM and UK Primary Markets, LSEG

Case study: Making magic in Hotel Chocolat

Case study: Campus commercial

Case study: Touchstone innovations

Case study: Life as a public company

Further reading
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

AIM COMPANIES HAVE RAISED MORE THAN £100bn IN CAPITAL

95

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

A PLATFORM FOR GROWTH

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

AVERAGE MARKET CAPITALISATION OF AIM COMPANIES

AVERAGE MONEY RAISED AT IPO BY AIM COMPANIES

AMOUNT RAISED ON AIM IN THE UK IN 2016 THROUGH IPOS AND FOLLOW-ONS

INDUSTRIES REPRESENTED

“A 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
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**
  - What’s the right timing to come to market?
  - 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 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 would we (the company, employees, management team, wider value chain and existing shareholder) gain from an IPO?

### PREPARATION AND PLANNING: 6–12 MONTHS

- **Test marketing or pilot fishing (optional)**
- **Agree deal timetable and structure**
  - Are our corporate structure, governance, financials, controls fit for due diligence?
  - How is fund marketing being received? What investors do we want to keep and/or attract?
  - Have we got the right internal and external teams and resources?
  - Financial due diligence and reports: long-term report, historical financial information, working capital
  - Are we the type of business and management that suits public markets? And how do we attract investors?
  - Legal due diligence report produced and verified
  - Appoint your advisers - in particular, the Nominated Adviser
  - Are we the type of business and management that suits public markets? And how do we attract investors?
  - What are our capital raising options? VC, PE, trade sale? IPO? How do we keep our options open?
  - Informal discussions and fact-finding*
  - What’s the right timing to come to market?
  - 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 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 would we (the company, employees, management team, wider value chain and existing shareholder) gain from an IPO?

### THE IPO PROCESS: 1–2 MONTHS

- **Placing list finalised**
- **Roadshow meetings with institutional investors**
- **Research note written by house broker**
- **Draft admission document completion meeting**
  - Are we roadshow ready? What is the right shareholder mix? How do we educate and pitch to investors at the same time?
  - Are we to set out obligations, and expectations of life as a public company
  - Are we the type of business and management that suits public markets? And how do we attract investors?
  - Do we have a clear track record and equity story to communicate?
  - Have we thought about remuneration plans for the board and our staff?
  - Have we thought about personal wealth planning?
  - Are the required processes, communications, and documents in production?
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  - Have we got the right internal and external teams and resources?
  - Financial due diligence and reports: long-term report, historical financial information, working capital
  - Are we the type of business and management that suits public markets? And how do we attract investors?

### ONGOING

- **Preparation to float announcement (optional)**
- **Life as a public company**
  - Schedule One announcement
  - This is the public announcement made at least ten days prior to admission
  - Pricing
  - Final documents and final admission submitted to AIM three days before admission
  - Admission to AIM and dealings commence
  - Ask your LSEG account manager about Issuer Services and the range of products and services you have access to as a public company
  - How do we continue to engage with investors? Is our investor relations strategy strong?
  - How do we make the most of being public?
  - What are the ongoing obligations and expectations of life as a public company?
  - What are the first 100 days as a public company like?
  - How do we balance expectations and performance?
  - How do we make the most of being public?

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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.

“The 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 from the crowd can pay off.

Mortgage Advice Bureau has grown by at least 20% every year since 2008.
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 2006, the business felt off a cliff overnight. Business fell by 50%. Those offers just melted away. “Faced with a collapsing market and having geared up in 2006, the business had attracted interest from a number of potential buyers and offers were on the table.

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 carage. All the big IPOs, particularly some of the larger names in the banking and housing sector, were delayed. But we were still 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.”

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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%.

any more,” says Hall. “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.”

Cerillion considered its options. “One was to recapitalise with a new private equity firm,” says Hall, “but that wouldn’t have done much for the company. It would have saddled us with extra debt and we would still be at the whim of whichever private equity firm came in. In five years’ time they might have changed direction, just as other firms had.”

They considered an outright sale. “But we didn’t feel ready to bale out, and we thought Cerillion could turn into a much bigger and better company,” Hall adds.

Instead, an IPO would enable Cerillion’s private equity shareholders to exit, while giving Hall and his team access to a wider pool of capital and the ability to set their own strategic direction. “It would be us doing the steering, not the private equity company,” he explains.

Hall says life as a public company has been a positive experience so far. “The fact that you have to announce everything, and everyone knows what everyone else is paid, is more challenging,” he says. “But that is part of the transparency that customers tend to like.”

Initially, liquidity in Cerillion shares was relatively thin, perhaps unsurprisingly given that two major shareholders held 18% each and management another 55%. In early 2017, Hall and other executives sold just over 10% of the company, hoping to improve liquidity in the shares.

The day-to-day share price is not important to Hall, but the company wants to use its position on AIM to make acquisitions. “It’s about having a platform we can use to significantly expand the business,” says Hall.

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Blue Prism has been a high-profile success on AIM since its IPO in March 2016. The company doesn’t just lead the field in robotic process automation software – it invented the category. Blue Prism’s use of robotics to replace human activity by automating back-office functions is at the centre of a huge programme of change that is now under way in big business. It has been labelled the new industrial revolution that could transform the world of work.

Blue Prism’s success on AIM has been equally remarkable. Its shares, priced at 78p when the company came to market in March 2016, traded at nearly £10 just 18 months later. Alastair Bathgate and David Moss founded Blue Prism in 2001. Moss was the architect of its groundbreaking software, while Bathgate brought knowledge of big-business processes and mindset, having spent years working in banking organisations, including Bradford & Bingley.

“It was essentially two inventions,” says Bathgate. The first was to create software that could automate a series of mundane back-office functions which, until now, had been carried out by thousands of employees. The second phase was in 2008 to 2012, when they worked on industrialising the product to make it reliably scalable for use in big companies.

“One way to look at it is that the first thing we did was to invent a piano that played itself,” Bathgate explains. “The second was to enable an orchestra to play a complex piece, all made up of

SNAPSHOT
Alastair Bathgate, CEO and co-founder, Blue Prism, Newton-le-Willows, Merseyside
Co-founded the business in 2001

Top tips for entrepreneurs:
- Spend time choosing your broker.
- Set up the organisation to run itself while your CFO and CEO are diverted on the IPO process: the CFO for six months, the CEO for less.
- Be clear on your objectives and what you want to achieve from an IPO.
- Talk to people who have done it before. Ask your broker for references – that engages you with people who have been there before. I found it enormously useful.

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“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 spooked. Being a public company helps us build confidence and trust from huge global customers.”

Many British technology companies in the past have shown huge potential, but have found it hard to move beyond adolescence. Bathgate sees the IPO as a way to help prevent Blue Prism from falling into adolescence. “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 get people to buy in? With enterprise software, you don’t just turn up at the door and they 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 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
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 spent 18 months reorganising its structure and processes in order to be in the right shape to come to market.

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.

“To walk away, and we didn’t want to do that. We wanted to grow the business, and at the same time share in the credit for the business you have already built. Also, we weren’t ready to retire. We wanted to take 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. “I took nearly 18 months for the accountants to get it all tidied up,” Bazini recalls.

Looking good: Warpaint’s IPO has enabled its founders to grow the business and share in its success.

18 months

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

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.

What is the right timing to come to market?

Have we got the right internal and external teams and resources?

Do we have a clear track record and equity story to communicate?

Have we thought about remuneration plans for the board and our staff?

What are our corporate structure, governance, financials and controls fit for due diligence?

Are we corporate structure, governance, financials and controls fit for due diligence?

Have we thought about personal wealth planning?

How is the deal structured? How do we agree on valuation and pricing?

Are the required processes, communications and documents in production?

Who’s involved and when? How do we select the right advisers?

What is our objectives/vision? Have we got a well-defined business plan?

Are we set to meet the ongoing obligations and expectations of life as a plc?

What’s the right shape to come to market?

How is test marketing being received? What investors do we want to keep and/or attract?
PREPARING YOUR IPO

Wall Street. But they’re not like that at all. Fund managers’ questions are pertinent, intelligent and to the point. They really are high-quality people.”

Most of them did ask why Warpaint was coming to market. “We said hudsons was a big factor,” Bazini explains. “Plus the fact you get the proper value for the business while you can still share in the growth.”

It is still early days for Warpaint, which only came to market at the end of 2016, but the company avoided the dreaded post-float slowdown. It has continued to grow, and is increasingly focusing its expansion on the US and China. Being a public company has opened the company avoided the dreaded post-float slowdown.

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,

**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 had 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.

MaxCyte’s IPO has given it more resources to fund trials of a potential breakthrough cancer treatment.

**Top tips for entrepreneurs:**

1. 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.
2. Get a good team with experience that can manage the process. Don’t micro-manage. You don’t have to strengthen your management team.
3. 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.
4. 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.

**Highlight:**

MaxCyte’s IPO has given it more resources to fund trials of a potential breakthrough cancer treatment 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.”

**Planning checklist:**

- **Key areas to consider**
  - Timing and window of opportunity
  - Deal structure, timeline, objectives
  - Pre-IPO fundraise, initial valuation
  - Evaluate management team and the board
  - Review governance and corporate structure
  - Internal controls and reporting procedures
  - Financial results and performance
  - Equity story and investor relations
  - Incentivisation and remuneration

**High level consideration**

- **Ownership structure –** Proposed ownership structure is a balance between controlling interests (more than 30% of share capital) and liquidity (level of trading).
- **Financial Information –** Three years of audited financials (or such shorter period that the issuer has been in operation).
- **Corporate structure –** Keep things simple. All contractual rights, assets and IP should be held under the AIM company that is required for the execution of business activities.
- **Corporate governance and the board –** Following good corporate governance practices provides investors with confidence and is often synonymous with a company’s success on market. Often, companies choose to adhere to the Quoted Companies Alliance corporate governance code for small and mid-sized companies, which focuses on 12 key principles and a set of minimum disclosures that companies are encouraged to consider.
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 accounting program that was designed specifically for very small businesses. The idea grew, and he brought in two co-founders, Olly Headley and Roan Lavery, 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.

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).

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 and advisers. 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.

FreeAgent’s accountant program helps very small businesses stay on top of their finances.

Tip – your exit:
You may have thought about the tax structure 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.

We created an excellent team of advisers, brokers and communication people and worked with them... – Doug Doerfler, MaxCyte

SNAPSHOT
Doug Doerfler, President and CEO, MaxCyte, Gaithersburg, Maryland, US
Spun the business off from a public company in 1990
Sector: Pharmaceuticals and Biotechnology
IPO: 2016

We have low churn and long customer lifetimes. You can’t throw $100m at our company and make it grow 100 times faster, but there is a predictability about it.”

That said, there are very few public companies that service micro-businesses and aren’t trying to attract bigger customers. Did investors understand the proposition?

“The investors absolutely understood the problem we were solving,” he says. “Either they, their husband or wife or their friend was running a small business, so they understood the frustrations those people encounter. But at the same time, they saw companies like Sage and Quickbooks [the two largest small business accounting software firms] going for the same market with much more money and bigger teams. They asked if there was a distinct micro-business market, as opposed to small business.”

The size of the business sector isn’t in doubt; 95% of the UK’s businesses have ten employees or fewer, and 75% have no employees at all. FreeAgent has good evidence that its customers value its offering. NPS benchmarks, which measure customer satisfaction, suggest that customers rate FreeAgent very highly, with positive rankings matching those of global giants such as Amazon and Apple. “It means we know...”
we are doing something that is materially more engaging than others in our area," says Molyneux. "We can point to the numbers to prove it."

As a young, relatively small public company, FreeAgent’s shares have proved volatile on low trading volumes since launching on AIM. As the company grows, Molyneux hopes that liquidity will develop and volatility reduce.

He says FreeAgent is enjoying being a public company. ‘For the team, it feels like a big step forward, and we really have got some momentum.’

Perhaps, too, he may inspire other Scottish companies to follow in his path. “Edinburgh is a great place to build a company,” Molyneux says. "The university is excellent and there is great talent here.”

**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. Somehow, 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. “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.”

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**Top tips for entrepreneurs:**

- You don’t have to do it as early as we have. It depends on your business model. We went early because we have predictable revenues.
- Consider if you really do want to come to the market. It is not a panacea by any means, but it can be the right place to be.
- You can never start your homework too early. Having the systems in place before the IPO was time well spent.

**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.

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**SNAPSHOT**

**Ed Molyneux, CEO, FreeAgent, Edinburgh**

**Founded the business in 2007**

**Sector:** Software | **IPO:** 2016

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**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 Nominated 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

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**TECHNICAL TOOLKIT**

**NEED TO KNOW**

**Syndicate of advisers:**

- Raises potential problems early in the admissions process
- Provides valuable independent perspective on the flotation process
- Law firm
- Conducts legal due diligence on your business, including verifying ownership of assets
- Supports with the drafting of the admission document
- Negotiates the terms of the placing agreement
- Market maker
- Responsible for ensuring the two-way price of your security
- Important role in the secondary market as provider of liquidity
- Public relations firm
- Helps to craft your company’s story
- Works with other advisers to produce the institutional roadshow presentation
- After flotation, will continue to build and maintain media interest
- Registrar
- A company will normally appoint a registrar to maintain the register of shareholders
- Provides information to the Nominated Adviser and other advisers, eg when your company needs to distribute a circular
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

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

Top tips for entrepreneurs:

› Start the process early. Go for pre-marketing with investors, we did three rounds. I would wholeheartedly recommend it.
› Be prepared to work at building liquidity. Unless you are a large IPO, you won’t get much early on. It has to be a journey over a number of years. Spend time if it matters to you.
› Get as much of the work done as possible before you start. If you are too caught up in the process, the performance of the business could slip.

Highlight:

Coming up with a differentiated product and strategy. Your strategy is your reason for existing and is core to everything.

Call credit:

LoopUp is on a mission to improve conference calls

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)

For thousands more business people, it may mean torture and instead become a pleasure.

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)
**CASE STUDY: HOTEL CHOCOLAT**

**MAKING MAGIC IN HOTEL CHOCOLAT**

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

Rather unexpectedly, it was peppersmints, 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 peppersmints for corporates,” Thirlwell recalls. “The peppersmints went well, but our customers kept asking us for other products and we were peppersmints 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 [founding print 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 trademark 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 things would have done the job. “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 to them, so some of the things they said gave us pause for thought. We are now more attuned to soaking up that aggregate wisdom.

“In the British psyche, achieving a listing is seen as a success story, and people like winners. It has helped raise our profile”

**Expansion plans**

The IPO raised £50m 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.

“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 they 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.”
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 did 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.” Walters recalls. “But as we got closer to the float, they came up with all these reasons why the company wouldn’t reach that valuation any more.

“You realise you are being chipped away at. In the end, they were discussing a price we didn’t think was a fair valuation and we said we weren’t going to go ahead.”

Looking back, Walters says he thinks the company was lucky to extract itself relatively easily. “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 great 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. “Ultimately, after the first broker we walked away from a valuation of near £40m, and eventually we achieved £58m, so it was always a sensible thing to do,” says Walters. To underline the point, Quartix shares doubled in value soon after flotation and have continued to perform well.

Walters was also relaxed about the cost of the flotation. “Overall, the cost was less than it cost us to bring on board one new investor in 2008. That is very healthy,” he says.

If creating a market in your shares is a primary aim of floating, liquidity is a critical factor in success. “It absolutely did what we wanted in achieving liquidity,” says Walters. “The thing that astounded me was quite how many financial institutions there are in London that can invest. There are all these people who are able to take decisions on investing millions of pounds very, very quickly. That contrasts enormously with private equity.”

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

“The thing that astounded me was quite how many financial institutions there are in London that can invest. There are all these people who are able to take decisions on investing millions of pounds very, very quickly. That contrasts enormously with private equity” – Andy Walters, Quartix
THE IPO PROCESS

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

Just the tonic: Charles Rolls (left) and Tim Warrillow (right) saw a gap in the market for premium mixers

A Guide for Entrepreneurs

SNAPSHOT

Andy Walters, Managing Director, Quartix Holdings, Cambridge

Founded the business in 2001

Sector: Software | IPO: 2014

“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 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, triggers 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 could 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 out of advertising and into the world of gin. It was natural, then, that he sought out Charles Rolls, the man who had turned Plymouth Gin from an old tipple, well past its sell by date, into a successful, revitalised brand. Instead of talking about the newly fizzing gin market, however, the two ended up talking tonic – or rather, about how mixers had not caught up with the renewed interest in premium spirits. The result was Fever-Tree, creator of premium tonic water and other mixers for the international spirits trade.

“One of the many advantages of working with Charles was that he had made a success of Plymouth Gin and made some money, so he put early seed finance into Fever-Tree alongside some other seed funding,” Warrillow recalls.

Premium tonic water proved an inspired choice. It took some time for Warrillow to create a tonic water that he and Rolls thought worthy, but once the formula was perfected, prestigious retailers, hotels and restaurants adopted it enthusiastically.

The business went from strength to strength and seed funding progressed to private equity investors. “About five years into our first funding round, the investors suddenly decided they wanted a return on their investment,” says Warrillow. “We knew that was going to be an option, but we said at the time that we thought they were mad and were getting out too early. But that was their decision.”

A second funding round in 2012 turned into a protracted process because, by that stage, the private equity world had caught on to Fever-Tree’s prospects. “It was flattering because we were not short of suitors. But it lengthened and complicated the process. The result was that we went into another private equity house.”

This time around, Warrillow and Rolls were prepared for uncertainty about how long their

Track record: FreeAgent worked towards an IPO quickly in order to gain a long history of delivery
private equity backers would give the project, but they themselves became even more convinced of Fever-Tree’s long-term potential. “We realised this business 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? “There is no question that the business we have now is a great deal more exciting than one in gin. Gin is one category – we interact with all aspects of the spirits market. The scale far outreaches that of gin.”

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 longed 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 testing 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

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)

Clear advantage: Tim Warrillow says the market for mixers offers much greater opportunities than gin alone
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 into noise and vibration issues for cars was enduring. 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 fields, 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 sector. 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.
CAMPUSS COMMERCIAL

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.

Touchstone 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 (including 15 years at 3i Group). In 2006, he was headhunted back to what was then Imperial Innovations as Chief Investment Officer.

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

Cummings says public markets such as AIM are critical to companies led by intellectual property (IP) because of their capacity to be long-term. “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: product development can accommodate that, because investors can be recycled over the period while the funding structure endures. “All too often, business angels and venture capitalists are looking for the quick fix, and the quick fix may not be there,” Cummings says. “Public markets can accommodate that, because investors can be recycled over the period while the funding structure endures.”

Cummings says investor understanding of technology companies has improved over time, but in some cases remains patchy. “There are areas where public markets are good and others where they are not so good,” he says. “This is where 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.

Cummings says the company’s first priority is to form a management team around the new piece of intellectual property, followed by raising capital and the building of the management teams around the new piece of intellectual property. “Once you have identified the new concept and the management team around it, you have to prepare to tackle a new situation by asking advice.”

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.

1. **Medical marvels:** Touchstone’s portfolio includes cutting-edge medical inventions.

2. **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.

3. **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.

4. **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 they aren’t the exception. You don’t want to set people up in a role where they’re 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 officers 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 back at base you want to have a product development manager who 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.

5. **Get your product and your strategy right before you think about an IPO.** It’s difficult to change direction, or change anything in your business plan, when you are a public company. You need to be comfortable with the business model from the start, 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.

CASE STUDY: TOUCHSTONE INNOVATIONS

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 do 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 mantra 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 of 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.
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 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 M&A activity and other corporate actions. Ensuring you have a clear and concise ongoing communications plan in place is important, particularly when it comes to M&A activity and other corporate actions. At AIM, you will find that having the correct resources, controls and procedures in place to adhere to the AIM rules is important, not only for trading and liquidity purposes, but also to ensure the company is in line with reporting, transparency and disclosure requirements.

One of the main changes from private company life is the amount of company information that must be provided to the market. For many companies this is based around the financial calendar, but it’s important that, throughout the year, all investors have access to equivalent information. To ensure existing and potential investors understand your business, a strong financial PR strategy and engagement with both analysts and investors will help distinguish your company from your peers. AIM is one of the world’s most successful growth markets, and the performance of the quoted companies on AIM shows just how effectively public markets can catapult companies from start-up to stardom.

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 an 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 £8m 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 accounting firm to advise on options for the future. “The advice of the non-executives and the accounting firm 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 –
he was keen to have a clean break. The idea of an IPO was raised, but was dismissed by the advisers. “They said we would never be able to raise any money for ourselves on day one, that there would be no liquidity in an AIM stock. They said it would cost over £2m and take at least two years and that we didn’t stand a chance of getting the £20m to £25m they thought the business was worth.”

Foy isn’t a man who takes advice unchallenged, however. “We went to see three nominated Advisers and presented our business, and they came back with proposals for listing. All three came back suggesting a valuation of around £40m, said that the float could be done within six months and offered to do the IPO on a contingent fee, with no cash up front.”

“So we did it – and we were over-subscribed.”

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 IPO of 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 Partnership in 2014, using its own shares as currency. ‘I am convinced we wouldn’t have been able to buy that business if we hadn’t been listed,’ Foy says. ‘They saw the rising share price and the benefits of bringing their business together with ours. It meant that they were able to participate in the benefits of that rather than just getting cash on day one. SMS has since made another three complementary acquisitions, two in installation and one in IT, with payment in shares as an important factor in the deals.”

In SMS’s case, the caution about trading in AIM-listed shares being sparse also proved wrong. Perhaps because of the rising share price – from 60p on listing to 650p in mid-2017 – SMS shares have proved relatively liquid. “About a third of our shares have gone through the market over the past year,” says Foy. “There has been an average of around 200,000 shares traded a day. American investors have spoken to are looking for more – perhaps 500,000 a day – but when our staff have wanted to sell shares, or investors have wanted to buy, there has not been a problem in getting sales done. I had heard stories of difficulties in other companies, but our experience has been entirely different. I think perhaps we are suited to what markets are looking for.”

As a public company, SMS has had the capital to take advantage of all the growth opportunities in smart metering over recent years, including moving into domestic smart 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 want 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 demands on Bathgate’s time, with around 20% spent on IR and other public company duties. But he says the benefits are clear. ‘One such benefit is the ability to recruit and retain talent. ‘Everybody already had some sort of share option in the company, but to have the shares so visible after the IPO is a definite advantage,” he says. Blue Prism had always attracted talented staff because it was a fast-growing company in an exciting area of robotics and the future of work. “People want to work for us for excitement and success, and everybody in the company had some sort of share option,” he says. “But those attractions needed to be supported at some stage with compensation as well, and the float helps achieve that.”

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.
When investors become clients
Mortgage Advice Bureau (MAB), which operates as a franchise operation for mortgage operators 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 understanding the sector, but the relationships have had to spend a lot of time helping investors unexpectedly to the business. Early on, Brodnicki

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 came 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 AB to offer equity packages to all its staff. A first share scheme was completed in 2016 and a second is now under way.

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

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BRIBERY

Fever-Tree
(A see page 17)

Life as a public company “has been a very good opportunity,” 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.”

Doug Doerfler, President and CEO, MaxCyte (see page 11)

Doug Doerfler, President and CEO, MaxCyte (see page 11)

Doug Doerfler, President and CEO, MaxCyte (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

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