

# **United Kingdom: Alternative Investment Market (“AIM”)**

## **- IPO Overview**

### **1 Regulatory Background**

#### **1.1 Overview of Regulatory Requirements**

The requirements for listing on the AIM are found in the rules of the London Stock Exchange ("LSE") and the AIM Rules for Companies.

#### **1.2 Regulatory Entities**

The London Stock Exchange is the regulatory body for companies wishing to list on AIM.

#### **1.3 Required Approvals**

A company seeking to list on AIM needs to get the consent of the London Stock Exchange.

### **2 Listing Criteria**

There are no specific minimum eligibility requirements for admittance to AIM. However, securities traded on AIM must be freely transferable and must be capable of electronic transfer and the company must appoint and retain a nominated advisor and broker. Also, if a company has not been financially independent or revenue earning for 2 years, its directors and substantial shareholders cannot sell their shares in the company for at least 12 months from the initial date of admission. The directors must also make a statement that the company has sufficient working capital for at least 12 months.

#### **2.1 Suitability/Eligibility of Listing Applicant**

Any type of company can be listed on AIM provided the AIM Rules, where relevant, have been complied with. The requirements to be listed on AIM are the same for domestic and foreign companies. All companies must adhere to the requirements in the AIM Rules to be admitted to the market.

#### **2.2 Track Record Requirement**

There is no trading record requirement. Subject to certain conditions, AIM does admit new companies.

#### **2.3 Minimum Market Capitalisation**

There is no requirement for the expected aggregate market value of the company's securities to exceed a specified level. However, if the applying company is an investing company, then it needs to raise a minimum of £3

million in cash via equity fundraising on, or immediately before, admission.

## **2.4 Sufficiency of Working Capital**

The working capital of the applicant should be sufficient for the 12 months following the date of admission.

A statement confirming the sufficiency of working capital, made by the directors of the company, must be included in the admission document.

## **2.5 Eligibility for Electronic Settlement**

The securities must be eligible for electronic settlement.

# **3 Overseas Companies**

AIM is open to all companies subject to compliance with the AIM Rules. Foreign companies and companies that are already listed elsewhere are eligible to list on AIM.

If a company has been listed on certain foreign markets or on the UK official list for 18 months, then it can use a fast track process. Under the fast track process, there is no need to publish an admission document and the pre-admission announcement only needs to be made 20 business days before the expected date of admission.

# **4 Shareholding Requirements**

## **4.1 Public Float**

There is no requirement for a prescribed percentage of securities to be in public hands following admission.

## **4.2 Restrictions on Major Shareholders**

The constitutional documents of the applicant company should not specify any minimum or maximum holdings of shares. This is because any shares admitted to AIM should be freely transferable with no restrictions.

## **4.3 Spread of Shareholders**

There are no requirements for a minimum number of shareholders.

## **4.4 Post IPO Lock-up**

The AIM Rules require the "locking-up" of shareholders in certain circumstances. Where the company has not been independent or earning revenue for at least 2 years, the related parties and applicable employees

must make a written statement whereby they agree not to dispose of their AIM securities for at least a year from the date of admission.

## **5 Listing Procedure and Timetable**

It is usual for the listing process to begin around 3 months before the expected date of admission.

Up to around 4 weeks before the admission date, the company and its advisers will carry out legal due diligence. An applicant to AIM must produce an admission document and make it available to the public, free of charge, at least one month prior to the expected admission date. The applicant must provide to the Exchange a pre-admission announcement at least 10 days before the expected date of admission.

3 business days prior to the expected date of admission, the company must submit to the Exchange the relevant fee, a completed application form and an electronic copy of its admission document together with the nominated adviser's declaration. The applicant's admission to AIM will become effective once the Exchange has issued a dealing notice to that effect.

### **5.1 Marketing the Offer**

The broker of the applicant will play a lead role in the marketing process. A road-show will be organised in order to provide any potential investors with a clear view of the main reasons for investing.

Book building is another important aspect of the marketing process, whereby the broker obtains commitments from investors that they will purchase the applicant's listed securities. All the marketing documentation must strictly adhere to the information contained in the admission document.

### **5.2 Required Documentation**

Please see section 5 above for the requirements for lodging the admission document.

The applicant must lodge with the Exchange a completed pre-admission announcement at least 10 days before the expected date of admission, a completed application form at least 3 business days before the expected date of admission, and an electronic version of its admission document at least 3 days before the expected date of admission.

### **5.3 Publication of the Prospectus**

The admission document, where needed, must be made available to the public a month before the expected date of admission. An electronic copy of the admission document must be provided to the Exchange 3 business days before the expected date of admission.

## **6 Documentary Requirements**

### **6.1 Contents of the Main Listing Document**

The admission document must include a large amount of information, as set out in the AIM Rules. The company must disclose selected financial information relating to each year that is covered by the financial statements, include a responsibility declaration from the people responsible for the information in the admission document, include a statement of compliance, provide reasons for the flotation, provide a working capital statement, and disclose risk factors that are specifically relevant to the applying company or the industry in which it operates.

### **6.2 Other Documents**

The AIM Rules set out the necessary content for the pre-admission announcement. The Rules require the company to provide to the Exchange, amongst other things, information concerning its name, address, a brief description of its business, the capital to be raised on admission, the percentage of AIM securities not in public hands at admission, the name and address of its nominated adviser and broker, and its expected admission date.

### **6.3 Articles/Constitutional Documents**

There are no specific rules as to the contents of a company's articles of association or constitution, but any company applying to be listed will need to have articles of association or a constitution that reflects the fact the company is a quoted company. For example, the company should ensure that its ordinary shares are able to be transferred freely with effect from admission.

## **7 Financial Information**

### **7.1 Audited Financial Information**

Any company seeking a listing on AIM must provide 3 years of audited financial information if possible, or, if shorter, information for such time as the company has been in operation. The auditors or the reporting accountants must give their opinion as to whether the financial information shows a true and fair view. In certain circumstances it may also be necessary to include pro forma financial information.

### **7.2 Applicable Accounting Standards**

Usually where the company is listed in the EEA, it is required to comply with the International Accounting Standards. If the company is not a parent company, then it needs to comply with the applicable standards of the country of its incorporation. If the company is incorporated outside the

EEA, then it must comply with one of the following accounting standards: the International Accounting Standards, the US GAAP, the Canadian GAAP, the Japanese GAAP or the Australian IFRS.

### **7.3 Period Covered by the Accounts**

As a general rule the historical financial information included in the admission document should cover the past 3 years. However, AIM does allow for the historical information to be for the period during which the company has been in operation, if this is less than 3 years.

### **7.4 Overseas Companies**

As set out in section 7.2, overseas companies may have to comply with different accounting standards. Also, English is the designated language of AIM and as such all documentation produced must satisfy this requirement.

### **7.5 Pro Forma Financial Information**

Companies admitted to AIM can include pro forma financial information in the admission document, although they are not required to. However, if a company is required to comply with the Prospectus Rules, then pro forma financial information showing the effect on assets, liabilities and earnings is mandatory if the flotation will result in a significant gross change.

### **7.6 Interim Financial Information**

If the financial year ended more than 9 months prior to the date of the admission document, then the company must also include interim historical financial information covering at least the first 6 months of the financial year, although this financial information can be unaudited.

## **8 Parties Involved**

### **8.1. Nominated Adviser**

A company seeking admission to AIM must appoint and retain a nominated adviser at all times, from application to admission and at all times following admission. A company seeking to list on AIM must also appoint and retain a broker. A broker must be a member firm of the Exchange, and can be a partnership, corporation, legal entity or sole practitioner.

Only a firm or company can be a nominated adviser (no individual can be a nominated adviser), and they must be approved by the Exchange and be included on the current register updated by the Exchange. The nominated adviser must satisfy certain requirements to be approved by the Exchange. These requirements include the need to have practised corporate finance for at least 2 years and in that 2 year period they must have acted on at least 3 relevant transactions. The nominated adviser must also employ at least 4 qualified executives.

The nominated adviser must take the decision as to whether the company is appropriate for admission, manage the flotation process and subsequently advise the company in respect of the AIM rules and the general requirements of corporate governance.

## **8.2. Other Advisers**

Lawyer: The lawyers take on 3 main responsibilities for the company. They will carry out a legal due diligence review, set about verifying every statement in the admission document and bring together the statutory and general information that comprises the back-end of the admission document.

Broker: The broker's main function is to raise funds for the business and to develop and maintain good relationships with the investors and the investment community.

Reporting Accountants: The reporting accountants carry out the financial due diligence and will review and report on the working capital and financial controls of the company.

## **9 Listing Costs**

### **9.1 Listing Fees**

The admission fees for AIM range from £7,056 to £79,601, depending on the market capitalisation. The annual fee is £5,899 for each company listed on AIM.

### **9.2 Professional Fees**

The costs for professional fees when listing on AIM will vary, depending on the size of the capital the company seeks to raise. Where the capital raised is up to £20 million, the fees will usually be around 5% of the total. Where the capital raised is over £20 million, the fees will often be around 3% of the total. The cost of professional fees can also vary depending on the nature of the company, for example a high risk venture will usually incur greater fees than a low risk venture.

## **10 Corporate Governance Requirements**

AIM does not demand that companies listed on its Exchange comply with any relevant corporate governance guidelines. However, a company listing on AIM may adhere to corporate governance guidelines to become more attractive to investors or due to existing investor pressure. For guidelines on corporate governance, a company should refer to the AIM Rules, the Corporate Governance Guidelines for AIM Companies or the Corporate Governance Policy and Voting Guidelines for AIM Companies.

## **11 Continuing Obligations**

Once admitted, AIM companies must continue to comply with the requirements of the AIM Rules. A company must continue to have a nominated adviser and a broker. A company also needs to have a Regulatory Information Service to ensure that relevant information can be notified as and when required. Annual accounts and half yearly reports need to be produced. If further shares are issued, then an admission document will be needed. There are general disclosure obligations on the listed company, including in relation to price-sensitive information, any material changes, significant share interests, directors' dealing and board changes.

## **12 Our Office**

Our firm can give legal advice to foreign clients seeking to list on the Stock Exchange. For advice on IPOs please contact Gary Jones ([gary.jones@weightmans.com](mailto:gary.jones@weightmans.com)).

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