



'helping ambitious companies grow'

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IPO Guide



Page Guide

Introduction	2
Why consider an IPO?	5
Which market?	6
Key issues to be addressed ahead of IPO	10
What investors look for	13
Creating the right equity story	14
The benefits of being a public company	16
What drives value in the equity markets	18
How will you contribute to the IPO process	20
IPO process time line	22
Key advisers	24
Life after an IPO	26
FinnCap appendix	28
Credentials	30
Transactions	32
Case studies	33

Introduction

The decision to float on a public market is a seminal event in the lifecycle of a business and one which marks the beginning of a new journey. From the very start there are a number of important decisions to be made with respect to the advisory team, timing, structure and market. We hope that this guide will give you a useful insight into these decisions and how the process works.

Inevitably the IPO process itself places the most strain on the executive management as you are required not only to continue running your business successfully but make decisions on the IPO process whilst being subject to a rigorous due diligence process. The team at finnCap has many years of experience and has collectively acted on hundreds of IPOs. We will ensure that at every stage you have the time and advice to deal correctly with the issues that arise.

For us an IPO is a partnership not just for the IPO but for what we hope will be many successful years afterwards as a quoted company. If you choose to start the journey we look forward to working with you.



Stuart Andrews
Head of Corporate Finance, finnCap

A London listing – a global kite mark – allows access to diverse pools of investment from around the world and can deliver the funds your company needs to fuel its ambitions.

At finnCap we believe passionately in the power of London’s capital markets. As a leading adviser to stockmarket-listed companies, we know the transformative effect an IPO has on ambitious companies, and how it opens up new markets and starts conversations with partners and investors.

But, the process can appear daunting for a business considering a listing, and that is why it is so important to get the right advice from the outset.

finnCap’s collaborative culture encourages long-term relationships. We focus on: giving you the right advice to make informed decisions; producing insightful research that helps investors to value your company and its future potential; delivering ongoing introductions to new investors; and, access to investment when it is needed... and we will be alongside you every step of the way.

Our team has produced this guide to provide an introduction to London’s stockmarkets, why you should consider an IPO, and what happens next.

We would love to discuss your business with you, so please don’t hesitate to contact me or one of the finnCap team to start a conversation which could transform your future growth plans.

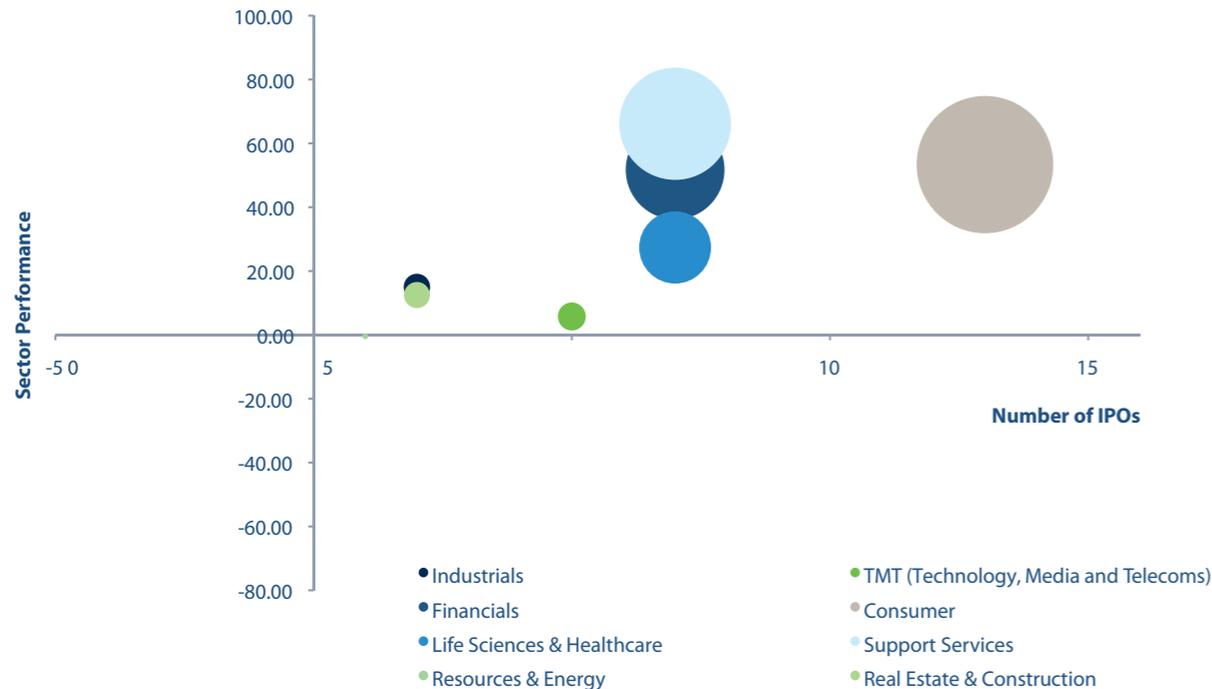


Sam Smith
CEO, finnCap

The IPO Market is Returning

2015 IPOs

2015 IPOs included the AA, Autotrader, Revolution Bars, Sophos, Stride Gaming and Market Tech.



Bubble size denotes total funds raised in each sector

*Main Market and AIM IPOs (<£500m) 2015

Why Consider IPO?

ACCESS TO CAPITAL

Going public allows a broad exposure to a large pool of investors to fund growth

ACQUISITION FIREPOWER/CURRENCY

Allows you to use your company's shares to make acquisitions

BRAND EQUITY

Going public provides a sense of corporate stability and increases your brand awareness and profile

INCENTIVISE YOUR EMPLOYEES

Use share options to incentivise and retain key staff

REMAIN INDEPENDENT

Provides opportunity to partially exit without selling out to PE/VC thereby retaining control

➤ Which Market?

Main Market

Benefits

- Prestige market for 'blue chip' and large cap stocks in the UK
- Direct access to Main Board UK investor base
- Provides potential investors with the highest level of comfort
- More 'index' investors
- Carries corporate governance 'seal of approval'

Considerations

- More complex regulatory process prior to IPO
- More onerous requirements around acquisitions and placings
- More demanding governance standards
- Listing fees higher

AIM

Benefits

- Access to UK & small-cap investors with risk appetite, growth focus and international outlook
- Relatively quick IPO process as documentation vetted by NOMAD, not UKLA
- Streamlined process for acquisitions post IPO
- 'Large fish in a small pond'
- May have tax advantages for existing and new investors

Considerations

- A few investors will not/cannot invest in AIM-listed stocks
- AIM IPOs perceived to be higher risk
- Investors unit size may be limited due to perceptions of reduced liquidity

► A good company will sell itself, regardless of the market

MARKET	MAIN MARKET PREMIUM LISTING	MAIN MARKET STANDARD LISTING	AIM
Minimum free float	25%	25%	10% - 15% as guidance
Minimum market cap	£700k	£700k	Nomad assessment of suitability
Audited historical financial information	3 years	3 years or shorter period, if applicable	3 years or shorter period, if applicable
75% of business supported by revenue earning record for the 3 year period	Yes	No	No
Control over majority of assets for the 3 year period	Yes	No	No
Working capital statement	Must be clean	Yes	AIM Rules
Sponsor or NOMAD required	Sponsor Required	No	Nomad required
Listing Document	Prospectus	Prospectus	Admission Document

Key issues to be addressed ahead of IPO

▶▶ REMUNERATION STRUCTURES

- Post-IPO structure needs to be consistent with market mood
- Management incentive schemes commensurate with size and peer group

▶▶ IFRS AND FINANCIAL DISCLOSURE

- Three-year audited historical financials required
- Conversion to IFRS
- Building achievable financial forecasts
- Financial reporting procedures—requirement to evidence adequate financial reporting and control systems at IPO

▶▶ MANAGEMENT PARTICIPATION AND LOCK-UP

PROVISIONS

- Post IPO sales by management and major shareholders are always sensitive
- A measured disposal combined with a lock-up period will be accepted by the market
- Establish and coordinate liquidity/exit roadmap for major shareholders
 - Lock-up period for major shareholders and management: Phased sale over two years

▶▶ ENHANCE PROFILE

- Carefully handled initiatives to increase the visibility of the company in both trade and financial circles will aid marketing of the business during the IPO process
- Areas to focus on include:
 - Appointment of financial PR
 - Build media coverage via selected meetings with key journalists

▶▶ BOARD STRUCTURE

- Balance of Executive and Non-Executive Directors (NEDs), and in particular Independent Non-Executive Directors (INEDs), such that no individual or small group can dominate Board decision making
- At least half the Board should comprise INEDs
- The non executive directors should bring a combination of the following:
 - PLC background—known and respected by investors
 - Finance background—“recent and relevant financial experience” necessary for audit committee chair
 - Sector experience—not essential for the market, but likely to add value in the business
- Investors will want to see a strong, well respected and senior independent director



 What Investors Look For

KEY THEMES

CAPITAL STRUCTURE

Not over leveraged
Concerns above 2x net debt/EBITDA but depends on credit and cash profile

KEY METRICS

P/E ratio critical to all investors
Other metrics vary in their importance to individual investors
(EV/EBIT, free cash flow, EV/EBITDA, Price/Book)

VALUATION AND OFFER STRUCTURE

Focus on valuation and peer group
Important to keep some value 'on the table' for investors
Aftermarket liquidity is key

ATTITUDE TO SELL DOWN

If majority of fundraise is for selling shareholders, valuation may be lower
Remaining stock will need to be "locked-in"

TIMING AND PROCESS

Investors are open to IPO discussions now
No predetermined preferences on sectors
Identity of sponsor/nomad will be key

KEY THEMES

GROWTH OPPORTUNITY

Potential to accelerate growth
Ability to capitalise on opportunities (e.g. acquisitions)

CASH GENERATION

Good free cash flow conversion
Ability to sustain dividend growth

EARNINGS VISIBILITY

Track record of revenue growth and margin resilience
Predictability of future earnings

STRONG MANAGEMENT

Past track record
Future incentivisation creates alignment with shareholders
Strong corporate governance

INDUSTRY DYNAMICS

Attractive end markets
'blue chip' and sticky customers
Barriers to entry



► Benefits of an IPO

► PROVISION OF CAPITAL TO FACILITATE GROWTH

- Additional source of capital for future investment
- Provides attractive acquisition currency in the form of publicly traded shares

► BROADEN SHAREHOLDER BASE

- Potential for existing investors to realise part of their investment (if they wish to do so)
- Broaden shareholder base to institutional funds through IPO offering
- Creates a market for company's shares to trade freely between investors/market participants
- Assist the recruitment, retention and incentivisation of key management and employees through equity incentive schemes

► MAXIMISE VALUATION

- Research analyst would produce a report directing market on their view of valuation
- Investors subsequently value the company
IPO and trading prices reflect an ongoing and objective market valuation of the company driven by investor sentiment and view on valuation
- Value significantly increases post IPO if forecasts are met or exceeded

► INCREASE PROFILE

- A public listing will raise the profile of the Company materially
 - Greater overall visibility
 - Enhances brand
 - International investor knowledge
 - Favourable for suppliers and customers

What Drives Value in Equity Markets

▶▶ GROWTH

- Investors invest for a return on their capital
- In equity markets, most investors are looking for growth
 - In earnings
 - Through volume
 - Through margin enhancement
- Short term focus
 - Current year EPS
 - 18–24 month perspective
- Medium to long perspective
 - The five-year sustainable growth rate

▶▶ CASH GENERATION

- Cash-generation a key financial metric
- Cash generation allows:
 - Re-investment in the business: R&D; Manufacturing; Sales
 - Reinvestment in acquisitions
 - Enhancing future growth, or
 - Return of surplus capital to shareholders: dividends, share repurchases enhancing total shareholder returns (TSRs)
- Fundamental value frequently based on DCF

▶▶ MULTIPLES

- Key multiples are PE ratio and EV/EBITDA ratio
- Key drivers of multiples are:
 - Rate of earnings growth
 - Quality of earnings growth: the reliability of growth
 - Margin: as a proxy for the added-value of a product or a service
- Delivery on expectations is critical a “under promise and over deliver” is key

▶▶ RETURN ON CAPITAL

- Another key benchmark
 - For the existing business
 - For new investment
- Are the existing or expected returns in excess of the Company’s cost of capital?
- And by how much?
- What shareholder value is all about



► How will you Contribute to the IPO Process

► BUSINESS STRATEGY/INVESTMENT CASE

- Equity story will position the company to potential IPO investors
- Equity story presentation will include the competitive advantages, strategy and growth prospects for the group and each division
- Divisional teams will need to assist the advisers in finalising the equity story
- Company view on future industry trends impacting each division will also be needed

► BUDGETING

- Valued by the market based on 1 year forward forecasts
- Budgeting will also feed into the required working capital analysis for the IPO
- Accurate forecasts therefore vital for the IPO process
- Subsequent achievement of those forecasts also key to post-IPO performance and validating future growth prospects

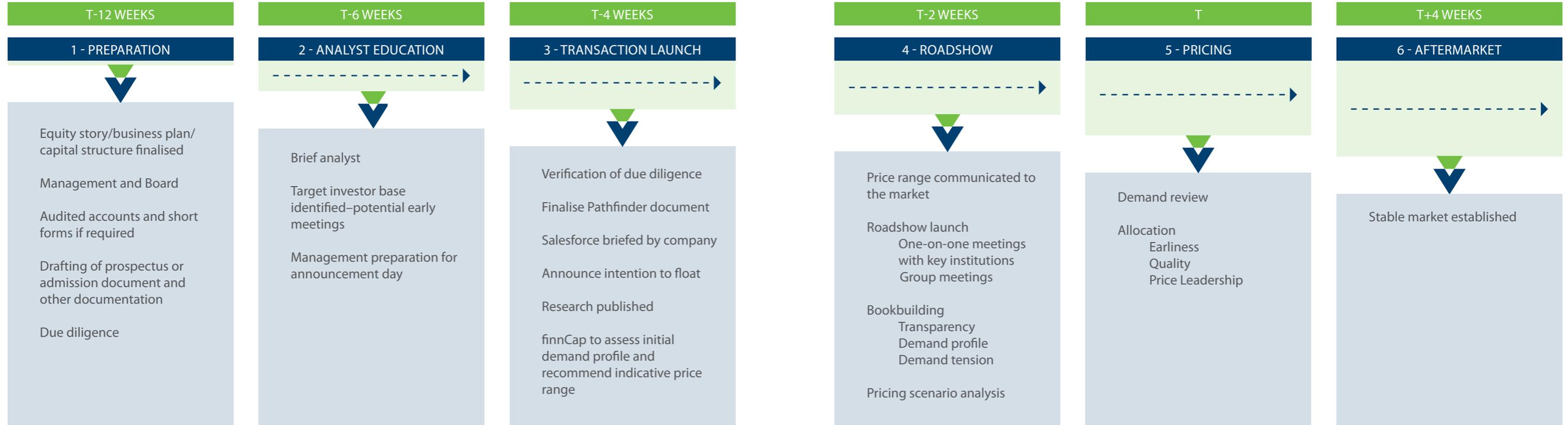
► ACCOUNTING PREPARATORY WORK

- 3 years audited IFRS accounts required for IPO ad doc
- Auditors also required to report on working capital forecasts
- Detailed “Long Form Report” is the principal due diligence report for the IPO and is produced by the company’s accountants
- Accountants also required to review internal financial and operational controls
- Finance teams will need to commit significant resource to this preparatory work

► DUE DILIGENCE

- Private reports that principally cover commercial, legal and accounting aspects of the business
- Also includes areas such as insurance, environmental issues and corporate governance
- Process largely driven by advisers, but will require significant input and resource commitment from divisional teams
- Supports disclosure in the various IPO public documents

IPO Process Time Line





▶ Key Advisers

Adviser

Key Responsibilities

FINANCIAL ADVISER/
NOMAD/SPONSOR/
BROKER

Overall co-ordination of advisers and management of process
As Nomad/Sponsor, responsible for listing requirements/suitability for listing
Liaison with investors

LEGAL ADVISERS

Preparation of legal due diligence
Drafting of documentation
Tax advice
Overseas requirements if applicable

ACCOUNTANTS

Preparation of long, short and working capital reports
Responsibility for financial statements in documentation
Tax advice/structuring

PR

Marketing amongst sell side analyst community and liaison with press

OTHER – PRINTERS
– REGISTRARS

Production and distribution of documents



► Life after an IPO

An IPO is just the start, after-market is key. Appoint the right advisers who can help you navigate the journey and fulfil your growth strategy.

► REGULATORY

- Ongoing confidential advice on all matters surrounding the AIM Rules, Listing Rules and Takeover Code
- Advice on results and other announcements
- Corporate Governance best practice advice

► ADVISORY

- Full range of corporate finance services
- Senior team with strong range of skills and experience
- M&A and strategic financial advice

► CORPORATE BROKING AND SALES

- Largest growth company broking and sales team
- Comprehensive CRM system delivering real-time feedback on share price movement
- Over 200 institutional and PCB clients
- Aftermarket care and focus
- International reach, especially in Europe

► MARKET MAKING / SALES TRADING

- Over 130 stocks under the FCAP banner
- Strong presence in all our corporate stocks
- Increased market intelligence and liquidity post-Admission

► INVESTOR RELATIONS

- Co-ordination of holder and non-holder institutional and PCB roadshows (Edinburgh, Leeds)
- Regular investor feedback
- Share register analysis

► RESEARCH

- Market leading commentary from an AIM award - winning team
- Note published on release of full year and interim results
- Ad hoc notes released in reaction to market news
- Innovative distribution methods – videos and sector notes



finnCap

 finnCap Appendix



finnCap is the No.1 broker to AiM companies, and top 5 adviser on LSE

Our team has a strong track record in advising and raising capital, providing research, and after market care for ambitious growth companies.

Our Services

Corporate Finance – fund raisings; IPOs and private equity transactions; private company acquisitions and disposals; recommended and hostile offers; and general strategic advice.

Corporate Broking & Sales – Focused on building long term relationships with corporates and institutions, we have successfully completed a wide range of IPOs and secondary placings. We focus on providing our clients with a stable shareholder base and long term support.

Research – Award winning team that works closely with the broking and sales team to support our clients with insightful, relevant and timely research across a number of key sectors.

Trading and Market Making – Our sales trading and market making team delivers best price and liquidity to our institutional clients and strong support for corporates.

Raised over £1bn since inception

As specialists in the growth area of the market, we have led well over a billion pounds of both M&A transactions and fundraisings for our clients since inception.

Advised on 18 IPOs in the last three years

We have a strong track record in delivering IPOs for our clients and have advised on a number of successful deals in the last three years.

Expert Advice

Our team advises on a variety of transactions from fundraisings to acquisitions and general strategic advice.

Recent Transactions

Maintel Holdings Technology	CityFibre Infrastructure Holdings Technology	Constellation Healthcare Lifesciences	Jelf Group Financial Services
£48.5m Reserve takeover Placing £24m	Placing £80m Placing & Acquisition	Placing £30m Placing	Transaction value £258m Takeover by Marsh & McLennan
April 2016	January 2016	December 2015	December 2015

Case Study: Maintel

SUMMARY

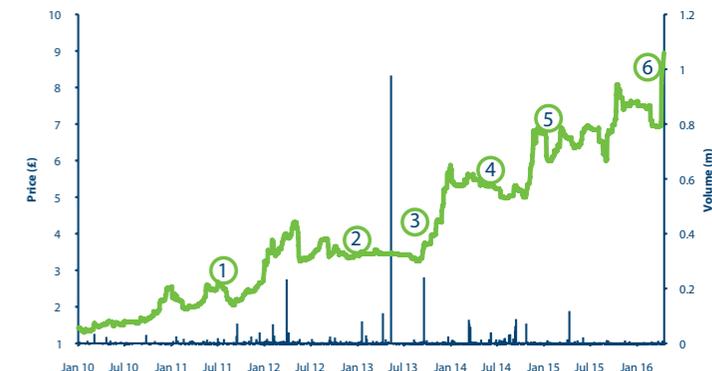
- Maintel is a leading independence business to business reseller of voice and data solution
- finnCap has acted as Nomad and Joint Broker for the Company since July 2009
- Share price appreciation of 702% since take-on¹
- The Company has completed 4 acquisitions since finnCap's take-on and IPO
- finnCap acted on the successful secondary fundraise of £24m in April 2016 for the transformational acquisition of Azzurri Communications (total consideration of £48.5m)
- Trading market share 2016 YTD: finnCap 78%, Peel Hunt 12% and Winterflood 7%

KEY SHAREHOLDERS

Kestrel Investment Partners	Octopus Investments
Business Growth Fund	Herald Investment Management
Slater Investments	Hargreave Hale

¹ As at 20 April 2016 ² As at 1 November 2015

SHARE PRICE PERFORMANCE



CORPORATE ACTIVITY

- October 2011:** Acquisition of Totility for a total consideration of £2.83m
- March 2013:** Positive results showing the successful integration of Totility and a growth in profit before tax of 26%
- September 2013:** Acquisition of Datapoint and its Irish trading operations for a total consideration of £3.5m
- October 2014:** Acquisition of Proximity Communications for a total consideration of £11.6m
- March 2015:** Positive results showing a 35% increase in revenue and 16% increase in profit before tax
- April 2016:** Acquisition of Azzurri Communications for a total consideration of £48.5m

Case Study: CityFibre

SUMMARY

- CityFibre is the largest independent designer, owner, builder and operator of fibre optic infrastructure to mid-sized cities and major towns
- CityFibre provides gigabit capable infrastructure for enterprise and public sector organisations, service providers, mobile network operators and businesses
- CityFibre was admitted to trading on AIM on 17 January 2014, raising £16.5m from blue chip institutional investors
- CityFibre returned to market on May 23 2014 to raise £30m from institutional investors to accelerate the roll out of its fibre networks
- On 14 December 2015, CityFibre raised £80m from institutional investors to acquire assets from KCOM Group Plc
- On 6 April 2016 finnCap traded 15m shares (>£7m) clearing an institutional overhang
- Trading market share 2016 YTD: finnCap: 21.8%, Liberum: 15.4%, Winterfloods: 4.4%¹

KEY SHAREHOLDERS

Aviva	Odey Asset Management
Jupiter	Herald Investment Management
Mitton	Octopus Investments
Allianz	Hargreave Hale
Woodford	Baillie Gifford

¹ As at 20 April 2016

SHARE PRICE PERFORMANCE



CORPORATE ACTIVITY

- 1 January 2014: Admission to AIM and placing to raise £16.5m from institutional investors
- 2 February 2014: CityFibre announced as the preferred bidder to acquire the Coventry Metro Area Network
- 3 March 2014: Sky and TalkTalk partnership to launch ultra-fast broadband to the home in York
- 4 April 2014: RNS detailing the scale of businesses signing up to use CityFibre's metro fibre network
- 5 May 2014: £30m oversubscribed placing to accelerate the roll out of its fibre networks
- 6 November 2014: Signing of a long term national framework agreement with mobile network operators EE and Three UK
- 7 December 2015: Placing to raise £80m to acquire national infrastructure comprising of approx. 1,100 route kms of metro network assets
- 8 March 2016: Southend contract awarded to build a 50km future-proof dark fibre network connecting 120 key public sector sites
- 9 April 2016: Deals with Exa Networks and Diva Telecom extend fibre broadband networks in Leeds and Bradford.
- 10 April 2016: CityFibre delivers profit ahead of schedule

Sell Downs post IPO

Quixant Placing of £25.0m management equity Placing Price: 140p Discount to prevailing price: 13% Premium to IPO price: 204% April 2014	Quixant Placing of £8.0m management equity Placing Price: 200p Discount to prevailing price: 8% Premium to IPO price: 334% April 2016	Quartix Placing of £2.0m management equity Placing Price: 255p Discount to prevailing price: 2% Premium to IPO price: 120% October 2015	Quartix Placing of £2.4m management equity Placing Price: 347p Discount to prevailing price: 0.01% Premium to IPO price: 199% April 2016
Utilitywise Placing of £30.0m management equity Placing Price: 290p Premium to prevailing price: 0.1% Premium to IPO price: 383% June 2014	Utilitywise Placing of £17.2m management equity Placing Price: 100p Discount to prevailing price: 4% Premium to IPO price: 67% June 2013	Utilitywise Placing of £10.0m management equity Placing Price: 75p Discount to prevailing price: 3% Premium to IPO price: 25% October 2012	Redcentric Placing of £5.0m management equity Placing Price: 110p Discount to prevailing price: 6% Premium to IPO price: 22% April 2014

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