

AIMHigh

The IPO Market



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Foreword

At finnCap we believe passionately in the power of London's capital markets. As a leading adviser to stock market-listed companies, we know the transformative effect an IPO has on ambitious businesses. A listing on London's junior market helps a company expand into new marketplaces and start conversations with partners and investors. If a company lists at the right time, it can lead to explosive growth.

But the process can appear daunting, and it is often difficult to find clear, unbiased advice amongst the noise. This need for clarity was the motivation behind the inaugural AIM High: The IPO Summit, held at Bloomberg Headquarters in April 2016. The challenge we set our speakers was clear: what are the key issues an ambitious company should think about when considering an IPO, what are the main pitfalls, and when is the right time?

The conclusions are brought together in this report, which seeks to provide independent advice from some of the most recognisable names working on AIM, as

well as a unique insight into the state of the market. There are many voices debating the advantages and disadvantages of the capital markets, and rightly so. Here, we seek to extend that debate by hearing directly from those who run listed companies, those who advise them, and those who invest in them. In short, we look at how the theory is being put into practice.

I'd like to thank all of our speakers and contributors and I hope that you find their insight useful when considering the next step in your business's growth.

At finnCap we want to keep the conversation going. Don't hesitate to contact one of our team if you would like to discuss the content of this report or how we can help your business.

Sam Smith
CEO, finnCap



AIM at a glance

£75billion

AIM is home to 1,074 businesses, with a combined market cap of £75 billion

£70million

The average market capitalisation of an AIM company has grown from £8.2 million in 1995 to £70 million in 2015

£97billion

3,602 companies have been admitted to AIM since its launch, raising £97 billion

£25billion

The overall economic impact of UK AIM companies is equivalent to £25 billion in GDP and some 731,000 jobs



AIM Perspectives: Marcus Stuttard

Head of UK Primary Markets, Head of AIM, London Stock Exchange

On the eve of its twenty first birthday, AIM has become a market of scale and maturity. It now represents over forty different sectors, with assets, operations and management in over ninety different jurisdictions.

AIM has a truly global breadth and scale. It is this internationality, along with the quality of the advisors and wider ecosystem that make AIM such a good place to do business.

The Scale-Up Market

It is clear that AIM has come a long way. There are now over a thousand companies listed on the market, with a combined value of over £70bn. Research conducted at last year's twentieth anniversary showed that AIM's UK companies alone are responsible for a £25bn contribution to GDP and together account for over 730,000 jobs and £50bn of revenue.

As the market grows in scale, it also grows in stature and reputation. On top of the increased access to capital, the market also provides an unparalleled increase in profile and visibility for its companies. Founders often remark that listing on AIM brings in opportunities and contracts that are out of reach to private companies.

It is the long-term nature of the capital that really sets AIM apart from any other global growth market. There are growth markets all around the world that have substantial levels of daily trading and investor support, but none that continue to provide such consistent access to long-term capital.

The Integrated Market

It is integral to the success of AIM that, along with all the London Stock Exchange's public markets, it is very well-integrated with the economy. The London Stock Exchange Group work very closely with the early stage providers of finance to ensure this cohesion, from crowdfunding platforms and business angels to the VC community.

Continuity of finance from start-up to scale-up is the challenge. The aim at the London Stock Exchange Group is

to ensure that the businesses that are thriving currently in the UK are given the opportunity to develop and scale.

This is why we work alongside the government and the European Commission to ensure that the tax environment works in support of AIM businesses and investors. Companies must be allowed the support and resources they need to scale.

Elite

The London Stock Exchange Group is extremely proud of the companies that have thrived on AIM. Two years ago, we launched a programme called ELITE to support private high-growth businesses on their way towards a potential listing. We have recently taken on our fifth cohort.

We are very keen to increase the profile of high-growth private companies and have produced our 1000 Companies to Inspire Britain report three years running now. The report highlights the UK's most exciting and dynamic enterprises, increasing their profile as they seek to grow.

The Future

AIM is the market for the companies of the future. We have a fantastic pipeline full of the next generation of high-growth companies looking to scale-up and access equity finance.

But the market only works if it works for its investors. Given some of the short-term uncertainty around the EU referendum, we have seen a healthy and constant level of IPOs on AIM, ongoing capital raising and steady investor returns. IPOs are up 13% in 2016 already, and 82% of IPOs across the market are above their float price.

Public policy, business environment and the investor community are all showing strong support for the market and its future growth. I'm very proud with what we've achieved over the last 21 years and I'm looking forward to this next period of growth.

CHAPTER 01

AIM HIGH: The IPO Summit

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THE CEOs

Chair: Marcus Stuttard

Bob Falconer
CEO, Gamma Communications

Luke Johnson
Chairman, Risk Capital Partners

Peter Brodnicki
CEO, Mortgage Advice Bureau

#AIM

View from the Top: the listed entrepreneurs

An IPO is a major milestone for any business. For an ambitious entrepreneur, it represents the start of a new chapter of growth. But although the process can be long, a listing brings almost uncapped potential. Many of those who have gone through the process have become passionate advocates of the power of the public markets.

We convened three leading CEOs to discuss their experience of AIM and what they learnt along the way. Together they have a market cap of £1.65bn and have increased their collective share prices by an impressive 186% since IPO.

Why public markets?

The management team of a high-growth, ambitious company can find itself faced with a dilemma: stay private or go public. The choice isn't easy. What's more, the trend for repeated rounds of high-value fundraisings means that some founders can be reluctant to consider a listing.

Recent years have seen a glut of private funding rounds, predominately by tech companies with some valuations in excess of £1 billion. According to research by London & Partners, technology companies in London raised \$3.6 billion in 2015, a staggering 70% year-on-year increase.

Despite this, a listing has significant benefits for ambitious companies. It dramatically raises the company's profile, allowing continuous access to capital whilst ensuring independence for management teams. It also helps a business incentivise its employees.

Luke Johnson, one of Britain's best-known entrepreneurs, has more experience than most - he's a veteran of the public markets having been chairman of high-profile listed companies including Patisserie Valerie and Pizza Express.

"An AIM listing is about creating an enduring franchise," he says, "it's about raising your profile and it's about the regular access to capital to make acquisitions."

"If a company needs to raise money to do deals, the stock market is the place to be", Johnson argues. Unlike other sources of capital, AIM is permanent. "You can be public forever," he points out, "whereas private equity is roughly a five to six year window before they exit."

From l to r: Bob Falconer, CEO, Gamma Communications, Luke Johnson, Chairman, Risk Capital Partners, Peter Brodnicki, CEO, Mortgage Advice Bureau, Marcus Stuttard, Head of UK Primary Markets, Head of AIM, London Stock Exchange

CHAPTER
01



Retain control

AIM allows founders to partially exit whilst retaining full control. A listed business is unlikely to have to give up a board seat, meaning that the founder is left to run the business independently. It's a luxury not afforded to those that take private equity.

Peter Brodnicki, the founder of Mortgage Advice Bureau, listed his business in 2014 and has been allowed to follow his strategy without outside interference. "The investors want me to be totally free to run the business as I see fit" says Peter, "which is exactly what I have done."

Johnson also warns that private equity investors may look to add gearing. "Private equity will want to put more debt into a business," he argued, "so if you don't want to take on much gearing then private equity is going to be a challenge."

Employee retention

An AIM listing also provides a means for companies to attract high-profile employees and allow existing staff to take a stake in the business. Gamma, an AIM listed telecommunications company, has developed a range of save as you earn schemes and share incentive plans for employees.

"The ability to reward staff and create share schemes is important," says Gamma CEO Bob Falconer, "it's great to see staff taking an interest in the share price, and a lot of them have done very well. It has generated a lot of commitment."

Profile raising

A globally recognised kite-mark, an AIM listing can dramatically raise a company's profile. This was a key factor for Falconer, who floated his company in late 2014. "It has brought a lot of credibility to the business," he says. "Increasingly we are selling to the UK enterprise market and being a public company, with the associated governance and transparency, is extremely helpful."

The journey to floatation

The road to IPO can seem long and arduous. "I wouldn't underplay the scale of the work and the effort that we had to put in," says Falconer, "it was quite sobering."

But all three CEOs agreed that the process has significant business benefits. A high-growth company has to ensure its house is in order, and the road to IPO can force a management team to look closely at the direction of the business.

"The process really makes you think about your strategy," says Brodnicki, "at the end of the day, it does help"

Falconer agrees, the extensive preparation for IPO meant his business was in a better position to grow. "It's no bad thing," he says.

The introduction of independent directors during the process also helps a business analyse its growth trajectory. AIM market rules stipulate a minimum of two non-executives on the board. A good non-exec will question everything and challenge key business decisions.

Johnson has seen first-hand the impact of a well-chosen non-executive. "It's healthy and good for the long term," he says.

Brodnicki agrees, pointing to the 'fresh insight' that non-executives provide. He stresses the importance of choosing the right individuals. "It's an interesting balance," he says, "but it can be a huge benefit and real value for money."

"It's healthy and good for the long term"

These processes and disciplines not only help the business get through the IPO process, but also sets it up for life as a growing listed company. A listed company will have clearer and more comprehensive documentation, with a stronger board, and the public nature of reporting encourages executive teams to be more circumspect about the risks that they take.

Life as a listed company

Once a company has floated, an oft-cited concern is the strain on management time. A great deal of the additional burden can fall on the financial director. The role changes dramatically, with the FD becoming being heavily involved in investor relations, company secretarial and deal

documentation. "Many private company finance directors are not necessarily suited to being a public company finance director," warns Johnson.

"Under-promise and over-deliver"

Brodnicki admitted that investor communication is a key part of a CEO's role, but stressed that it doesn't affect his day-to-day running of the company. "There are a few weeks in the year that we meet investors, but there isn't anything that puts me off the day-job."

Finding time to meet investors face to face is still important, says Falconer. "No one is really interested in video conferencing, they want an opportunity for discussing questions. It forces you to really think about your strategy and allows you to explore your long-term plans."

A long-term commitment

A successful AIM-listed CEO keeps a long-term outlook. As Luke Johnson says, 'there is no point of going public if you just want to get out. You have to fully engage and be in for the long haul.'

As the most experienced of our panel, the last word belongs to Johnson. So what does he see as the key to a successful IPO? "Under-promise and over-deliver. It's as simple as that."

Like many things in business it's easier said than done, but over-delivering is certainly something all three CEOs have in common.





THE INSPIRATION

Charles Rolls: A Journey with an aim

Co-founder, Fever-Tree

‘A genuine
eureka
moment’

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The story starts with Plymouth Gin in 1997

I had bought into the company and we used to take people down to the distillery to show them the different gins we produced. The gins were very obviously different when they were on their own, but of course that isn't how they are drunk; you have to mix them with tonic.

Once you did that, it was impossible to tell which gin was in which drink because the tonics on the market were overpowering, full of saccharine. We couldn't recommend them.

So it was a genuine eureka moment that led to the idea of Fever-Tree – the idea that someone needed to produce a tonic that supported and complemented the drink rather than overpowering it.

I met my co-founder Tim Warrillow when he was looking at setting up his own gin distillery, and we both hit on the idea of developing a natural tonic that the premium market was crying out for, and indeed a range of natural mixers.

We released our first tonic in 2005, and quickly developed a strong following. Waitrose took the product and within weeks were saying that they wanted more flavours; Diageo said it was exactly the product they had been looking for to pair with their premium brand Tanqueray.

‘A home for the long term’

Initially funded from Plymouth Gin proceeds, we needed additional funding to support the growth. After early support from Fleming Family & Partners, when they came to sell we had to pitch to twenty-five different funds to get them the best price for their equity.

Part of that pitching process meant that we had to perform

It was the first time we had really considered our commercial decisions

due diligence on the company, and in truth, it was the first time we had really considered some commercial issues, like key man insurance, or supply continuity measures, to mention a couple.

It's only when you're really under the microscope that you scrutinise your commercial past. That was a significant undertaking for us, and really helped push us from being sales-focused to a more complete organisation.

That was the point at which we started to look at the listing process. We had negotiated with LDC as our next private equity investor but never wanted to go through that sale process again. It had stopped us from focusing on the business for the best part of a year. We wanted a way to fund the business that meant the two of us could continue to run it. We decided on AIM.

Thinking about AIM as a home for the long term was the driving factor behind our decision to list. We had seen that private equity, as useful as it had been for us, wanted to flip

their best performing businesses. That could mean a total management distraction as often as every three years. We wanted permanency. We wanted supportive, long-term shareholders who would back us if we were doing the right things. AIM was the answer for us.

‘Telling a story’

We had a team who knew what they were doing and we knew the story resonated. We had grown rapidly and we had the cash. Our business was 70% exports and Tim and I were both happily locked in and wanted to keep running it.

This coupled with the due diligence we had done for our private investors meant going on to AIM was a fairly painless undertaking. We were so well prepared that listing was a relatively simple process.

The only tricky part was trying to filter all the advice that came flooding in. When you list, there are lots of new things being thrown at you. Being able to focus and pick your way through the various opinions is key. Looking back, I think we did well not to overcomplicate the process with advisers.

We went to the City with a strong story that was simple to understand and said to the market, ‘trust us, we're going to grow fast.’ In return, they backed us.

‘Do what you say you're going to do’

Living on AIM has given us access to contracts that we

previously wouldn't have easily been able to secure. One of the first things we did after listing was to sign a contract with a canning company in Holland. The fact we were a listed company was a real selling point for them.

In the UK, the publicity that surrounded our listing was fantastic. We have always courted publicity, but there's no doubt that AIM really lifted us up to a completely different level in the mind of the UK consumer.

From a day-to-day aspect, living on AIM has meant not chasing a share price, and to an extent trying to manage expectations. We have put in four profit upgrades in the last 18 months, the sign of a fundamentally good business.

At the end of the day, what the City wants is growth. While they care somewhat about the nature of the business, what they really want to know is if they can get a return on their capital. What really reassures them is predictability. If you do what you say you are going to do and you don't overpromise, the City will reward you.

That's why I think Fever-Tree has done well. It's a case of a consistent story, of doing exactly what we said we would do at float.

Ultimately, if you've got a genuinely good business that is easy to understand, with a team that is going to present it well, then I think you're on to a winner by listing on AIM.

CHAPTER 02

AIM HIGH:
The IPO Summit

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Bloomberg

THE ADVISERS

Chair: Michael Hayman MBE

Chris Searle
Partner, BDO

Sebastian Orton
Partner, Eversheds

Stuart Andrews
Head of Corporate Finance, finnCap

#AIMHigh

The Advisers

Appointing the right advisers is a crucial stage in the IPO process. But for many entrepreneurs the array of differing firms and services can be confusing. We asked three of the UK's top advisers - a broker, a lawyer and an accountant - to explain their individual roles and explore what makes a good IPO.

The Broker

Stuart Andrews is Head of Corporate Finance at finnCap

An AIM company must appoint a nominated adviser – a 'NOMAD' – and retain the NOMAD at all times. We are responsible for assessing the appropriateness of an AIM company when appointed and for advising and guiding a company post-IPO.

We help companies engage with the market and raise further capital once listed. An IPO is undoubtedly one of the most stressful corporate activities. We are there to make this journey easier.

From the very start there are a number of important decisions to be made with respect to the advisory team, timing, structure and market. With such a complex process, there are always issues. No matter how robust the business, it's never perfect – something always comes out at the due diligence stage. Our job is to solve the problem.

“We are there to make the journey easier”

The likelihood is that we've been there, seen it and done it. With such a breadth of experience, there's not much about the process that surprises us. For management teams in the midst of a complex IPO, it's important not to panic, not to lose sight of the end goal.

Preparation, and seeking the right advice early on, is crucial. All of these issues can be solved well ahead of the listing – it helps the process run as smoothly as possible.

from l to r: Stuart Andrews, Head of Corporate Finance, finnCap, Sebastian Orton, Partner, Eversheds, Chris Searle, Partner, BDO, Michael Hayman, co-founder, Seven Hills



The Accountant

Chris Searle is Partner at BDO

It's impossible to underestimate the importance of effective due diligence. As the IPO accountant, we prepare reports that look into all aspects of a business and its financial performance. We are responsible to the NOMAD and the company – they trust us to complete the requisite due diligence.

We ensure the management team has the appropriate systems and controls in place to ensure continuous intelligence about the business in real time. Once a company is on the market, if appropriate it will need to give a profit warning or adjust market guidance. It's a necessary evil but in the end it adds significant value. A successful IPO comes down to the three 'p's: preparation, positioning, and post-IPO.

“It is never too early to start planning”

It is never too early to start planning for an IPO. For a business considering its next step, even if that's one or two

years out, we are more than happy to come and help on a no cost basis.

Our IPO Relevance Review includes a checklist to help companies prepare. It can be very simple: is there a finance director in place? Does the company have an appropriate accounting system?

“The preparation for the IPO process is key”

The preparation for the IPO process is key. We need to ensure we understand your business and your product properly. Ultimately this will allow the business to progress to the next phase of the IPO.

Once this is done the company's positioning is crucial - why should an institution buy your shares? What do you offer them, and what is the earning story? Articulating why you're different to a competitor becomes essential. Once you've successfully floated it's important to keep momentum post-IPO. The company has to keep up its engagement with its new shareholders and existing stakeholders. Getting all three 'p's right will help an IPO run smoothly.

The Lawyer

Seb Orton is Partner at Eversheds

A large part of the lawyer's role in the IPO process is focused on due diligence, disclosure and verification and these can become very time consuming and disruptive to the business.

Opening your company up to the public markets through an IPO involves a fair amount of risk. We're there to help identify and mitigate that risk.

As legal advisers to the IPO, we must have a complete understanding of the business and its strategy. Following on from the due diligence exercise, the legal team assists in drafting the admission document and then verifying it with an increased focus on risk factors and the description of the business.

“We're there to help identify and mitigate that risk”

We have to test how the company wishes to present its business as management cannot find themselves halfway through a presentation only to realise that there are holes in the story. Our core role through the due diligence process is offering solutions. We will raise a red flag, for example, where there is missing documentation or a term of the document

that could negatively impact on the IPO and we will talk to the right people to get it sorted.

On an IPO, the most important thing we want to see is total commitment to the process from all stakeholders - we need to see that all interests are aligned. Typically, an IPO process will fail or be less successful where management try to drive shareholders to accept a lower valuation or where shareholders try to force management into accepting a process they do not feel is appropriate. It just doesn't work.

AIM should no longer be seen as simply a junior market. It is a grown up market and the IPO process is rigorous. A successful applicant on an AIM IPO should, as a result of the process, be able to demonstrate to customers, partners and investors that it has the appropriate systems and controls in place to be a public company.

AIM has been an enormous success since inception because it offers growth companies the flexibility to hopefully achieve their potential. It has successfully cultivated an environment in which a growth company can raise capital, carry out mergers and acquisitions and finance its business without overly burdensome regulation.

As long as AIM remains in line with the UK's entrepreneurial culture, it should keep growing. There are some inspiring success stories and I'm proud to have helped and continue to help companies on their growth journey.



The Investors: how to cut through

The pre-IPO round of investor meetings can be daunting. With such a short space of time to describe what can amount to a life's work, how do entrepreneurs ensure that their message cuts through?

Three of the UK's top fund managers, who together manage assets in the tens of billions, debated the key qualities of a successful investor pitch.

Clarity is king

Investors see scores of company presentations on a monthly basis, so it's increasingly difficult for management teams to stand out from the crowd.

Andy Brough, one of the UK's best known fund managers, acknowledges that it can be difficult. Now Head of Pan-European Small Companies at Schroders, he suggests that you "present to your investor as you would like to be presented to."

All three investors agreed that brevity is key, particularly as investors dedicate less and less time for company presentations. Jamie Brooke, fund manager at Henderson Volantis explains that "as a private equity investor, you might be seeing a company for two to three hours. As a quoted investor, you will only put aside an hour or so."

Despite this, management teams still bring reams of paper, often arriving armed with a thick investor prospectus and lengthy slide presentation. "I hate it when companies come in with a pack the size of your arm for a one hour meeting", says Brough. "There's virtually the contents of the book on each page. You can barely read it and you leave the room with no clear message."

The time pressure and requirement for concise materials means that companies need to formulate a clear set of short key messages for investors. "I like a company I can understand – one that has a clear message," says Giles Hargreave, the chairman of Hargreave Hale and manager of the Marlborough Special Situations fund.

CHAPTER 03

From l to r: Giles Hargreave, Chairman, Hargreave Hale,
Andy Brough, Head of Pan-European Small Companies, Schroders



From left to right: Jamie Brooke, Fund Manager, Henderson Volantis, Michael Hayman, co-founder, Seven Hills

Companies should also be very clear on the reason for IPO. "If it's just the founders selling, then it's a clear opportunity. That's what I like," says Hargreave. "Problems occur when there is a significant number of employees or ex-owners selling the business, some of which may have warrants. If I don't then find this out until the latter half of the prospectus, then that's a worry."

Some of the insights from advertising remain relevant. As legendary ad agency founder Maurice Saatchi famously said, "Simple ideas enter the brain quicker and stay there longer."

Companies should front-load information, keeping the story as clear as possible. Brooke argues that pitch teams must "make sure that the two or three most vital messages are clearly communicated in the first ten minutes."

The old cliché of the elevator pitch remains pertinent – if you can't fully describe your business model in a few sentences, it is unlikely you will keep the attention of your potential investors.

Shareholder value

In order to win investment, you have to think like an investor.

"If you go into Xavier Rolet's office in the London Stock Exchange, he has a chart on his wall", Brough explains. "It shows a couple handing over their savings, which a broker then invests in a growing company. The couple receive a rising stream of dividends from a rising stream of earnings. We have that chart utmost in our minds when we meet

"Present to your investor as you would like to be presented to"

companies. That is what the stock market is there for."

Put simply, fund managers look for investments that will return shareholder value. It's a crucial, but often overlooked point.

Return on capital remains a key metric. "It's an aspect of the pitch not often explained clearly" Brooke notes, "sometimes it's not mentioned anywhere in a presentation."

Jamie recalls a presentation from Luke Johnson, Chairman of Risk Capital Partners as particularly memorable for its consideration of return on capital and focus on shareholder value.

When pitching Patisserie Valerie, Johnson "came in and said, 'I invested 'X' on this site and that will return 'X' within a year.' It's very easy to see how that model works and how you roll that strategy out; it's obvious that he understands return on capital."

Forever and a day

For a newly listed company, the need for continuous disclosure and reporting can seem like a burden. But get it

"I like a company I can understand – one that has a clear message"

right and you'll find that institutional investors will back you for the long term.

Giles Hargreave points out that fund managers "want to hold stocks forever and a day." Andy Brough agrees, "we recently sold a company that we held for 25 years."

Longevity matters for investors, but to secure that longevity, they need to be able to trust the company. "You need to be very transparent, although that doesn't mean you can wash all your dirty linen in public," says Brooke.

Developing a reputation for clarity and transparency can mean that investors may back you even through the hard times.

"If there is a profit warning, it can be easy to become negative about a company," Brooke says, "but if they're

trying to do the right thing, and they have been fully transparent, then is it really right to give them a hard time?"

Distilling your message

The message from all three investors was clear. The most successful companies have a clear vision, with a credible management team who are committed for the long term and understand return on capital.

"In order to win investment, you have to think like an investor"

The investors kept returning to the idea of clarity – clarity of message and of focus. It sounds simple, and yet for a management team in the heat of an IPO it can be tempting to be sucked into the detail. Standing back and distilling your proposition into a manageable, simple story can help ensure cut-through with investors and a place on one of the most exciting markets in the world.



Regional Director, Midlands
and Head of BGF Quoted, BGF

‘Focused
on **growth**’

THE INSPIRATION

Gavin Petken, BGF

Regional Director, Midlands and Head of BGF Quoted

The Virtuous Cycle: preparing for IPO

At BGF, our goal is to look after high-growth businesses in every stage of their life cycle.

Focused on Growth

BGF looks for entrepreneurs and management teams that are focused on growth and have the potential to achieve it. Since we were established five years ago, our team of 125 people across eight regional offices have driven more than 750,000 miles searching for the right companies to invest in.

In terms of location and sector, we see a fantastic spread of businesses. We meet around 1,500 companies a year and we're building relationships with the management teams that lead them.

So far, we've invested in more than 125 companies, including a growing number that are listed on AIM.

‘In it for the long haul’

When I sit down with a new business, I'm looking to see ambition and passion. We don't want a management team whose ambition is to list on AIM and then exit as a financial engineering exercise. That's not what AIM is for, and not what BGF stands for. We are investors for the long term, on a market that rewards commitment and growth.

In fact, BGF Quoted - our investment platform for AIM-listed firms - came about because we knew that many public

We are in for the long term, on a market that rewards commitment and growth

companies, particularly at the smaller end of the market, are just as constrained by lack of useable funding as their privately-owned peers.

Long-term ambition matters to BGF because it reflects our funding ability. We have £2.5bn under management, but it is £2.5bn of permanent capital. That stability of funding on our own balance sheet determines the way we act. We don't have limited partners who want us to exit in a five-year time frame, which gives us permanency of funding. We apply that principle to the businesses we invest in.

More importantly, our autonomy gives us the freedom to act as a junior partner, and be supportive but non-controlling.

Flexible timings

We are starting to see some of the private businesses we've

backed think about IPO as the next step. We're helping them to think about what they might need to do in order to prepare.

We believe that if you run your business well and get rigour into your processes early on, then you are in a great position to list.

Take on the necessary capital, and then grow to become a better business

The timings of an IPO shouldn't be completely dictated by what's going on in the markets or the geo-political environment. Instead, companies should prioritise the right timing for business. An injection of capital before an IPO can help to get a business into its best possible shape – a bigger and well-rounded business.

We see a lot of management teams re-energised once they have taken on equity capital because it allows them to focus

on growing their business. And, an institutional partner like BGF can be helpful in creating robust processes and streamlining the story that they may eventually go on to tell to the market.

There have been many examples of businesses that have gone to market too early: that is a hallmark of not understanding their own business. The company might be too small, it may be underprepared or their story might be confusing. That can lead to a lower price at IPO.

So our flexibility on timings stems from a belief that businesses should list when they are ready to list. Build a bigger, better business before listing – the price at IPO will be better, the capital raised will be larger, the ability to grow is enhanced, the story will be sharper and the news flow will be better.

Management teams need to be committed to the business for the long haul and should be prepared to wait for the right time to float. Investors need to give management teams the support and the breathing space to allow them to implement their plans, so that they can get the business into the best possible position. This is what I call a virtuous cycle, and we can help businesses create that.

Conclusion

By Sam Smith, CEO, finnCap

Walking on to the stage at the end of AIM High: The IPO Summit, the sense of optimism in the room was palpable. It's inspiring to be around so many ambitious companies, all on the brink of the next chapter in their growth story.

Amongst all the excellent insight from the day, I'd like to explore three recurring themes that were discussed by almost all our panels: The importance of independence, the importance of expectation and the unimportance of timing.

The importance of independence

We heard from our CEOs that an IPO is not just about achieving an exit. It is far more beneficial when seen as a strategic step in the life cycle of a business, giving so much more than just access to capital to generate growth. AIM helps companies increase brand awareness, provides a mechanism to incentivise teams and, most importantly, it enables companies to maintain independence. With so many sources of growth capital available, one of the hardest things for entrepreneurs is to give up control. Founders rightly worry about the effect on the day-to-day decision-making or how they will be able to run the business. One of the most overlooked benefits of an AIM listing is that it allows you to manage your business autonomously. You determine how much capital you raise, what percentage your outside investors own and the ultimate trajectory of the business. Investors own your shares because they are backing you and your management team. The hands-off approach means they rarely have board positions. This independence and autonomy is an attribute other sources of capital can't match.

The importance of expectation

Our investor panel was clear: managing the expectation of your investors is key. Successful listings have sensible valuations, based on realistic forecasts and achievable goals. It is unsurprising that our investors stressed that companies need to consistently beat their forecasted numbers.

Under-promising and over-delivering is key. It's nearly always the difference between a well-performing and an under-performing IPO. The old epithet holds true: you should say what you do and do what you say.

Another truism is that markets hate surprises - just look at a company's share price reaction after a profit warning. Credibility has to be earned through consistent delivery against expectation.

Of course, you don't have to get everything right but being transparent and open with investors is key. If you beat forecasts, your valuation will significantly increase and you will be rewarded in the long run.

The unimportance of timing

The last and probably most hotly-debated subject is around timing. When is the time right and is there such thing as the wrong time?

Writing this in May 2016, we have so far seen some fairly turbulent markets. Domestic uncertainty combined with macroeconomic headwinds has led some to believe that the market is shut.

When is the time right and is there such thing as the wrong time?

However, not only is the market still very much open for business, but timing is not as important as you may think. There have been 18 IPOs on the London market in Q1, 14 of which have made investors money and the average share price is up 27%.

It sounds simple but if share prices continue to rise and if investors get a return on capital, they will continue to invest. It is of course true that some sectors drift in and out of favour dependent on risk appetite and the point in the current cycle. But high-quality businesses will always find money. If there is a growth story there will always be a reason to invest. Our view is simple, a new company coming to market is very unlikely to get the timing perfect.

It is impossible to predict where the market will be in three to six months' time. A good business with a strong management team will succeed whatever the market, which



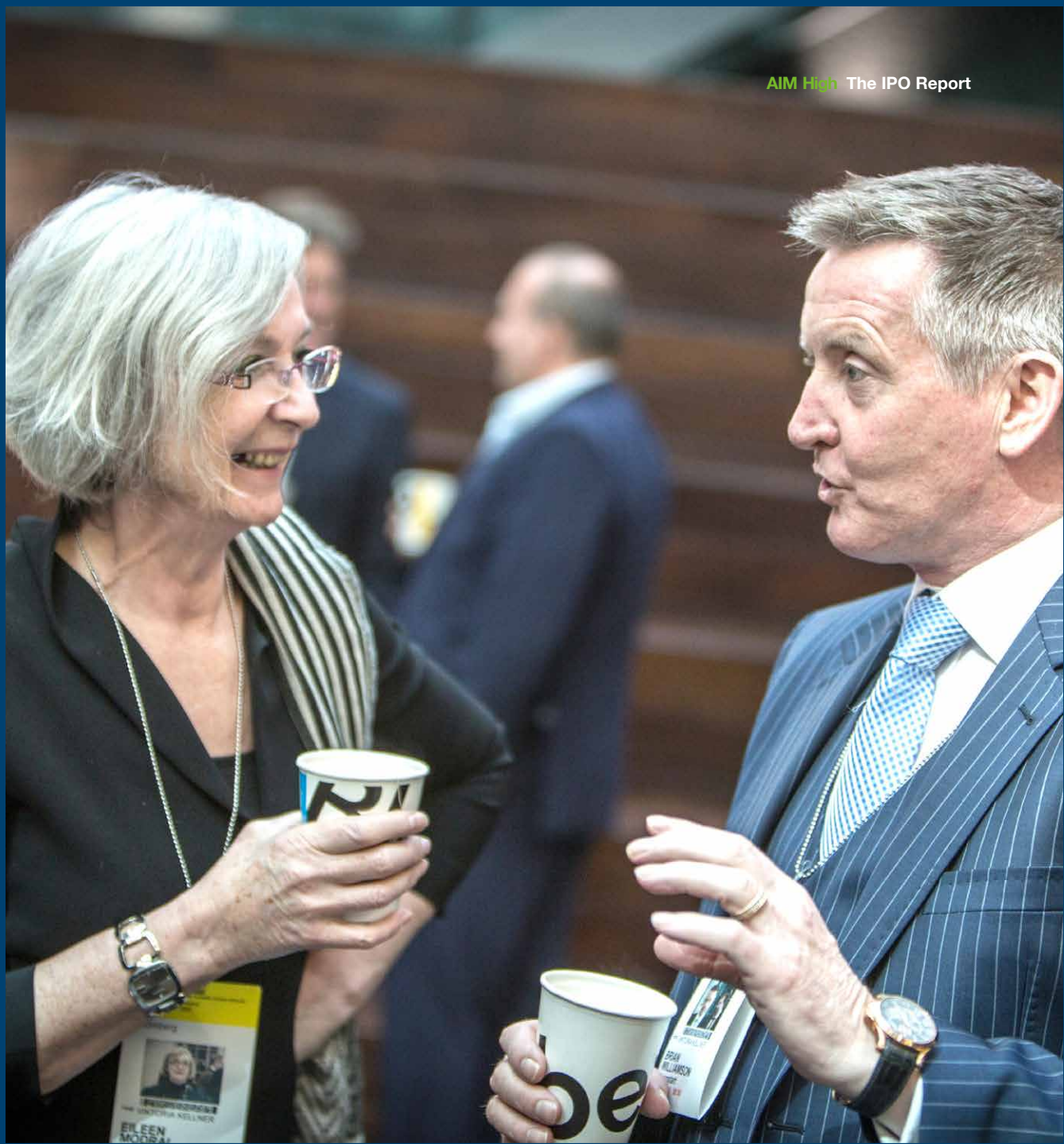
should be reassuring for those pouring over charts and graphs in the months leading up to a proposed IPO.

The next step

The decision to IPO is taken for many different reasons to achieve many different business objectives. Many CEOs have told me it was the most difficult decision they have had to make, but the vast majority of those same individuals have since become evangelists for the power of the public markets.

AIM provides so much more than just capital; that much is clear. But above all, the most important thing to have in the early stages is good advice and not just from the formal 'advisers'. Speak to employees, speak to businesses that have done it before and, of course, speak to the professionals - lawyers, brokers, accountants. AIM High: The IPO Summit exists for that reason. To provide advice unavailable elsewhere, creating a forum for those who are considering an IPO to speak to those who have been through the process, those who have invested, and those who advise. We look forward to seeing you next year.





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It has a partnership culture, encouraging long-term relationships with its clients. As specialists in the growth area of the market, finnCap has led over a billion pounds of both M&A transactions and fundraisings for its clients since inception.

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BDO LLP is a leading accountancy and business advisory firm focused on providing services to ambitious businesses within the UK and worldwide. BDO is the leading reporting accountant for AIM IPOs, having worked on more IPOs than any other accountancy firm in 2011, 2012, 2013, 2014 and 2015. BDO has also been auditor to more AIM companies than any other firm in the last two years. The Mid-Market Monitor shows that BDO is the market leader for client satisfaction for the fourth year running – outperforming all its major competitors.

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