



YOUR AMBITION DELIVERED

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IPO GUIDE



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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 |
| The benefits of being an IPO | 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 |

INTRODUCTION

The decision to float on a public market is a seminal event in the lifecycle of a company. 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 to help you manage this but most importantly senior members of the firm have been involved in our own flotation bringing a unique perspective to our advisory work. 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
Managing Director, finnCap

A London listing – a global mark of quality – 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 and having founded finnCap and floated it on AIM, we can tell you first-hand the transformative effect an IPO has on an ambitious company, 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 Group Plc



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 | <ul style="list-style-type: none">Prestige market for 'blue chip' and large cap stocks in the UKDirect access to Main Board UK investor baseProvides potential investors with the highest level of comfortMore 'index' investorsCarries corporate governance 'seal of approval' |
|-----------------|---|

| | |
|-----------------------|---|
| Considerations | <ul style="list-style-type: none">More complex regulatory process prior to IPOMore onerous requirements around acquisitions and placingsMore demanding governance standardsListing fees higher |
|-----------------------|---|

AIM

| | |
|-----------------|---|
| Benefits | <ul style="list-style-type: none">Access to UK & small-cap investors with risk appetite, growth focus and international outlookRelatively quick IPO process as documentation vetted by NOMAD, not UKLAStreamlined process for acquisitions post IPO'Large fish in a small pond'May have tax advantages for existing and new investors |
|-----------------|---|

| | |
|-----------------------|--|
| Considerations | <ul style="list-style-type: none">A few investors will not/cannot invest in AIM-listed stocksAIM IPOs perceived to be higher riskInvestors' 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 | Yes | Yes | Yes |
| 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
- Generally at least half the Board should comprise of 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 and “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

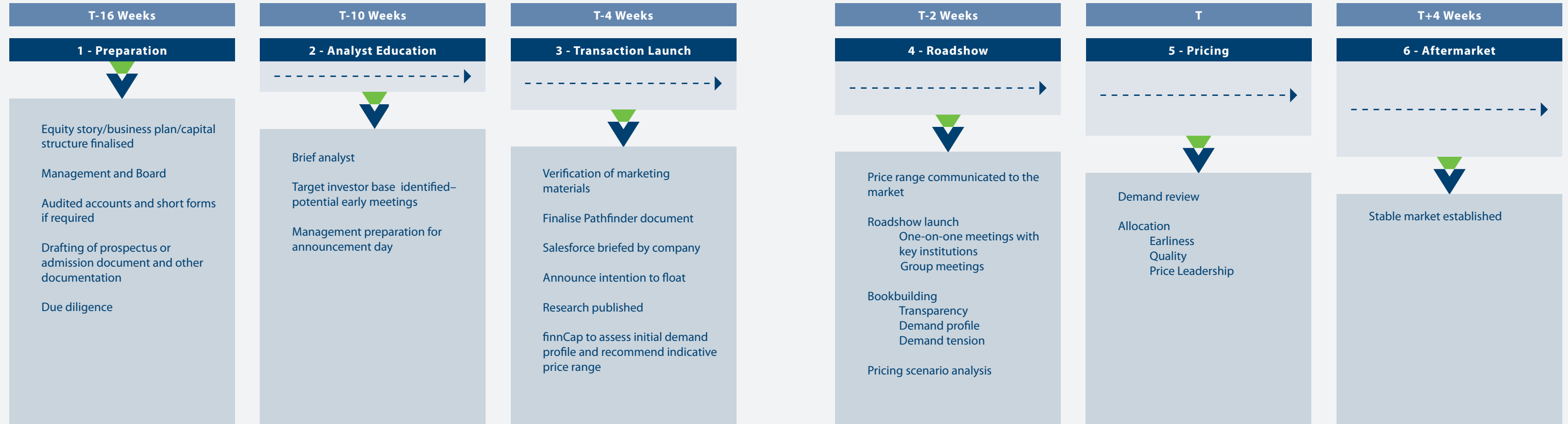
► Accounting Preparatory Work

- 3 years audited IFRS accounts required for IPO admission document
- 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 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

- Specialist 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 120 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

LARGEST NOMAD & AIM COMPANY FINANCIAL ADVISER AND NO.1 BROKER ON AIM

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

Fundraisings; 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 £2.8bn 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 33 listings in the last four 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.



financial services for growth companies

Equity Capital Markets

Plc Strategic Advisory

Debt Advisory

Private Growth Capital

M&A Advisory

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