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STOCK EXCHANGE

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A Practical Guide to Listing



The information in this publication relates to companies considering joining the main market of the Exchange. The main market is the Exchange's principal market for listed companies from the UK and overseas. For companies considering joining our AIM™ market for young and growing companies worldwide, which has a less stringent regulatory regime than the main market, please visit our website at **www.londonstockexchange.com/aim** or telephone **+44 (0)20 7797 4404**. However, much of the general information included in this guide will be useful to companies looking to join either of our markets.

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A Practical Guide to Listing

Listing: a pivotal choice

The London Stock Exchange has been helping to finance companies, and provide a market for their shares, for over 200 years. For companies of all types, nationalities and sizes, the market has offered access to a deep pool of investment capital, while bringing sharebuyers the benefits of a transparent and liquid market on which to trade.

Most successful privately-owned companies will ultimately reach a stage where they consider whether to list their shares on a public market. In making this decision, they inevitably face a whole series of fundamental questions about their future. Perhaps the company has venture capital backers or family founders looking for an opportunity to realise part of their

investment. Or maybe the business' expansion plans are being constrained by a lack of finance.

Clearly, a flotation may provide solutions to challenges such as these. Going for a listing is one way to address these challenges – and companies need to weigh up all the options before deciding which is the most suitable. Even when a flotation appears the best route, the company must give careful consideration to the pros and cons involved, and to the longer-term implications of being a listed company.

The purpose of this publication

As its title suggests, this publication is designed to be a down-to-earth, practical guide to the listing process, taking you, in a series of logical steps, from the very start of

the decision stage, right through to life as a public company. This publication does not seek to encourage you to list, as this is a decision you will reach only after much consideration and discussion with your advisers. Instead, its aim is to bring to your attention the issues and potential challenges of which you should be fully aware before setting out on this road.

Admission Process

A two-stage admission process applies to companies who want to have their securities admitted to the Exchange's main market for listed securities. The securities need to be admitted to the Official List by the UK Listing Authority (UKLA), a division of the Financial Services Authority, and also admitted to trading by the Exchange. Once both processes are complete, the securities are officially listed on the Exchange.

It may be the most demanding thing that you've ever done...
but also the most rewarding.



Contributors

In researching and writing this publication, we have spoken to many people with direct experience of the flotation process from every side. Their co-operation and input has been invaluable. In order to enable them to be as frank as possible, we have allowed them to remain anonymous throughout, and have only identified them by their area of expertise. However, the people who have helped us know who they are, and we would like to thank them sincerely. Without their assistance, this publication would not have been possible.

The opinions and quotes we have used have been drawn from four types of market professionals:

Accountant

Any firm looking to come to the stock market must have a reporting accountant, who is responsible for reviewing the company's financial record and position, so that potential investors can make an informed choice about its shares. Accountants may also act as the sponsor to an issue. The accountants we have spoken to are highly experienced in advising companies through the flotation process.

Company

We have spoken to senior executives who have been through the flotation process as company directors, some of them several times. These people come from a wide range of industries. Their experience makes them ideally qualified to comment not only on the benefits of flotation, but also on the potential pitfalls, and on what it feels like to be going through the process.

Fund Manager

The fund managers we have spoken to are responsible for investment decisions involving millions of pounds every day. They have been able to provide invaluable advice on what the market and the investing institutions are looking for from the companies they invest in.

Stockbroker

Stockbrokers are securities firms which are members of the London Stock Exchange, authorised to buy and sell shares on the Exchange's markets on behalf of their clients. They may also act as sponsors, the main financial advisers to a company on its flotation, and/or as corporate brokers, acting as the company's main interface with the stock market. The stockbrokers we have spoken to have extensive experience of guiding companies through flotation.

1 Decision Stage

- 5 **Narrowing down the options**
- 7 **Looking at yourself and your business**
- 9 What are the pros and cons of a listing?
- 9 The pros: reasons for going public
- 10 The cons: reasons for staying private
- 12 **Is your company right for a listing?**
- 12 Regulatory requirements
- 13 Market requirements
- 16 **Are your company and its management ready?**
- 16 Investor relations
- 17 Corporate governance
- 18 **Preparing the way for your flotation**
- 18 Appointment of advisers
- 18 Deciding on the method of listing
- 18 Executing necessary changes in the board and operations
- 18 Taxation
- 18 Beginning the valuation process

2 Flotation Process

- 21 **What becoming a listed company means**
- 21 The role of the London Stock Exchange
- 22 The disciplines inherent in being a public company
- 22 Different methods of flotation
- 23 Public trading of shares
- 23 Liquidity and share price volatility
- 24 Costs of a listing
- 25 **Choosing your advisers – and what they do**
- 26 The sponsor
- 27 The corporate broker
- 27 The reporting accountant
- 28 Lawyers
- 28 Other advisers
- 29 **Countdown to flotation**
- 29 Documents
- 30 The flotation timetable
- 30 12 to 24 weeks before admission
- 32 6 to 12 weeks before admission
- 34 1 to 6 weeks before admission
- 35 1 week before admission week
- 37 Admission week
- 38 **Countdown to flotation timetable**

3 Life as a Public Company

- 41 **Life as a Public Company**
- 42 Continuing obligations
- 42 Disclosure of price-sensitive information
- 43 Directors' responsibilities
- 43 Dealing restrictions and the Model Code
- 44 Shareholders
- 44 Report and accounts
- 45 Transaction and document disclosure
- 45 Ongoing costs
- 46 **Making the most of your listing**
- 46 Best practice: the benefits of going beyond compliance
- 47 Investor and media relations
- 48 Monitoring growth and informing investors
- 49 Monitoring shareholdings and investment patterns
- 49 Corporate governance
- 50 The role of non-executive directors
- 50 Dividend policy
- 50 Active management and use of your listing
- 52 **And finally...**
- 53 **Glossary of market terminology**
- 55 **Useful contacts**

1 Decision Stage





Narrowing down the options

The decision on whether to list your company's shares on a public market is a significant one. It must be based on an honest and realistic assessment of your company, its management resources, its stage of development and its prospects. And it must be made after full consideration of the alternative routes by which your business might achieve its goals.

The precise circumstances which prompt a company to consider floating vary in every case. It may simply be a shortage of capital for expansion, with the sources of finance which have taken the business this far – such as banks or existing shareholders – now unwilling or unable to put more money in. There may be existing shareholders, particularly venture capitalists, looking for the opportunity to realise part of their investment.

The company may also want to tie in key staff through employee share ownership schemes, and give them a liquid market on which to trade their shares. Marketing issues may also be influential, since a private company may often find itself at a disadvantage if the majority of its competitors are listed, because those competitors may be seen by customers and suppliers as being more financially reliable.

As well as improving the perception of a company's financial stability and transparency, a quote on a public stock market also demonstrably increases the profile which a company receives in the press.

Any or all of these factors may help to shape the ultimate form of your decision. For example, a cash-generative business may currently have no need of further finance – and many companies opt to join the market without raising any additional capital. In these circumstances, the other benefits are seen as justifying the costs of the listing. But even in these cases, there is the advantage that the opportunity for future capital-raising via the stock market is opened up. And, as a general rule, access to capital is a

Main Market

The Main Market is the Exchange's principal market for listed companies from the UK and overseas.

It currently includes approximately 1,325 UK companies and 325 overseas companies.

major stimulus behind most companies' decisions to float on the market.

In general, a business which needs more long-term funding, but wishes to retain its independence, will look at four options:

- ◆ bank finance, generally in the form of long-term loans
- ◆ further investment from existing shareholders (possibly in conjunction with additional bank finance)
- ◆ venture capital, with the venture capital providers generally taking a substantial equity position, on the understanding that they will have an 'exit' via a trade sale or flotation in three to five years
- ◆ a listing with accompanying capital-raising on a public market.

Each of these options has its own benefits and drawbacks, depending on a wide range of

factors specific to the business, including its prospects, its sectors of operation, its owners and its managers. Raising equity finance, either public or private, may be cheaper but will inevitably involve a trade-off in terms of loss of control, especially of the nature and timing of the backers' exit from private equity. Taking on further debt finance, on the other hand, may be especially risky in times of rising interest rates or market uncertainty.

Every option should be examined closely, but inevitably all of them have major implications for the ownership, control and strategy of the business. And since each of these options involves further financial commitment from outside, they will all require a business plan setting out solid and realistic targets and projections for the company's continuing development.

techMARK

techMARK groups together innovative technology companies listed on the main market, enhancing their visibility and profile. Launched in November 1999, techMARK has 144 companies from many different subsectors. More details are available from our website www.londonstockexchange.com/techmark

techMARK mediscience

techMARK mediscience is our specialist segment which groups together pioneering healthcare companies listed on our Main Market. Launched in November 2001, it includes 32 companies ranging in size from £6m to over £100bn. More details are available on our website www.londonstockexchange.com/techmark

AIM

AIM is the Exchange's global market for young and growing companies. Launched in 1995, it has been specifically developed to meet the needs of these types of companies. Over 1540 companies from the UK and overseas are quoted on AIM. More details are available by visiting our website www.londonstockexchange.com/aim.



Looking at yourself and your business

Before even considering the pros and cons of a flotation, as a director of a company thinking about coming to market you must take a long hard look at your own ambitions, both personally and professionally.

The process of preparing for and seeing through a flotation is a demanding and painstaking one, and the ongoing obligations faced by a listed company represent a step-change from the requirements of a private business. Indeed, some private businesses are run in a way to suit the lifestyle of the owner-managers, which would prove highly incompatible with the rigours of a public listing.

This means that any owner or manager looking at taking a company public should think carefully about what the change will mean. They should also bear in mind that any disruption or departures at board level in the aftermath of a flotation are likely to have an effect on both investor confidence and the share price. Anyone taking a company public should think in terms of several years' commitment – and should ask themselves questions such as these:

- ◆ What are my long-term personal goals?

- ◆ What are my ambitions for my professional career?
- ◆ How committed am I to the business?
- ◆ Do I feel sufficiently committed to see the process through?
- ◆ Is my relationship with the rest of the board/management team strong enough?
- ◆ Am I prepared for the continuing obligations, restrictions and public profile involved in running a listed company?

If you do feel committed enough to proceed, then you must also analyse your own company's strengths and position in the market, given the fact that these will be crucial in persuading investors to buy and hold the shares once the flotation has gone ahead. It is often best for the company to identify a small group of directors to consider these issues, in order to minimise the disruption to the business as a whole. Questions you should ask – if you have not been doing so already – should include:

- ◆ Where is our current business plan taking us?
- ◆ What are our likely capital requirements?

“You often see conflicts among the board members, because everyone has a different agenda. The classic confrontation is the owner versus the management team – basically the owner's desire to stay in control versus the managers' requirement for shares as a reward for staying on with the company. If conflicts like this are addressed early enough, then there is no problem.”

Corporate adviser, accountancy firm

‘It can be a very steep learning-curve for management. It is generally much easier for them if they already have venture capital investors, and are therefore used to the idea of outside shareholders.’”

Corporate adviser, stockbroking firm

- ◆ How strong is our competitive position, and how can it be maintained and strengthened?
- ◆ What is the quality of the management team, both at board level and below, and does it need strengthening?
- ◆ Are all members of management working to the same agenda?
- ◆ What outside advice and perspective – such as non-executive directors – does the board have access to?
- ◆ What will attract investors to the company and are we ready to commit time to communicating with investors?

Inevitably, the preparations for a flotation place every member of the management team under intense pressure, and if cracks between them are ever going to appear, then they will appear during this process. So it is crucial to ensure that the board is unified behind whatever collective decisions have been taken – and that all members are able to explain and promote the company's plans.





What are the pros and cons of a listing?

Many owners and managers of private companies which have gone public say that before embarking on the process they thought that the main advantages of a listing were access to capital and to provide a market for the company's shares. The most prominent drawback was considered to be the continuing obligations placed on a listed company.

Having been through the process, they realise that the spread of pros and cons is both broader and much more complex than that. For example, many are surprised by the scale of the positive effect on their relationship with suppliers and customers. By the same token, the amount of work required to complete the project and the input and commitment of directors may be higher than some companies anticipated when flotation was first raised as an option.

The pros: reasons for going public

The relative importance of each argument in favour of a listing depends on the company's precise circumstances. While the priority may vary, here are the main benefits which are usually identified by companies and advisers.

Access to capital for growth:

A listing on the Exchange's main market brings a company the opportunity to raise equity finance, both at the time of the initial listing and through further capital-raising at a later stage.

Providing a market for your company's shares:

The creation of a public market at an externally-agreed price stimulates liquidity in the shares, and gives shareholders the opportunity to realise the value of their holdings. This can help to broaden the shareholder base, and enables existing investors – whether venture capitalists or other owners – to exit, if they so choose, either on flotation or at a later date.

Employee commitment:

A public market in the shares means employee share ownership schemes have a visible value and market for trading. This encourages employees' participation in the ownership of the company, and increases their long-term commitment to the business. This in turn helps the company to recruit and retain good staff.

Ability to take advantage of acquisition opportunities:

Greater access to capital, and the capability to issue paper with a market value as an

“For us, the most obvious benefit of the listing has been the ability to raise capital for growth or simply to reduce our debt. But there are other advantages too. For example, a listing definitely helps to raise your visibility and your profile, which is obviously very important when you are growing your business quickly. What I can say is that without the finance which we have accessed through the stock market, we simply could not have been where we are today.”

Company secretary, media company

“When you go to see prospective customers and they realise you are a publicly quoted company, it makes a lot of difference. For example, we sell systems to clients on three-year service contracts. If you go in on that basis and they don't know who you are, then they might not have the confidence to buy from you, because they can't be sure you'll still be around in three years' time. But if you're publicly quoted, as we are, then they're much more ready to buy your product.”

Operations director,
technology company

acquisition currency, can increase the potential to make acquisitions of private or quoted companies.

Higher public profile:

The listing on a public market inevitably means that the business and its activities will receive more extensive coverage in the press, thus widening the awareness of the company and its products. It will also be covered in analysts' reports. This heightened profile in turn can help to sustain demand for and liquidity in the shares.

Reassurance for customers and suppliers:

Companies coming to market tend to find that the perception of their financial strength within their own industry is transformed. This is especially true of a smaller company dealing with much larger customers, who are reassured that the company has received regulatory approval and has undergone a rigorous due diligence process. This perceived higher financial standing may even enable the listed business to conduct business on better commercial terms, since the perceived risk of default is lower.

Greater efficiency:

The requirement for more rigorous disclosure tends to lend itself to better systems

and controls, improved management information, and greater operating efficiency for the business as a whole.

The cons: reasons for staying private

It is crucial that a business considering a flotation appreciates the drawbacks, obligations and costs, both in terms of money and management time, which are likely to be involved. Some of these are one-off effects before and during the flotation process, while others – such as the higher degree of disclosure – continue beyond the listing. Overall, a flotation brings significant responsibilities as well as benefits, since it involves the stewardship of outside investors' money.

Again, the relative importance of these disadvantages may vary with the precise circumstances and even personalities involved in the business. Those most generally identified by directors and advisers include:

Susceptibility to market conditions:

However strong and well-run a business is, it may find that the price and liquidity of its shares are affected by market conditions beyond its control. A smaller listed company may find that its shares suffer from illiquidity, or a company of any

size may find that its share price is adversely (or even positively) affected by market rumour, economic developments or events elsewhere in the same industry. In the worst case scenario, adverse market conditions at the time of coming to market may force the postponement of a planned flotation.

Potential loss of control:

The sale of equity in the company inevitably involves ceding a degree of management control to the outside shareholders, whose views must be taken into account. In fact, certain corporate actions on the main market – such as significant acquisitions – are only possible with the prior approval of shareholders. And the need to satisfy shareholders' requirement for a return on their investment, on a continuing basis, can lead to the company feeling

Why have disclosure requirements?

The disclosure requirements which the UKLA places on all listed companies have two main purposes: to ensure the timely disclosure of all potentially price-sensitive information, and the equal treatment of all shareholders.



pressure to achieve short-term performance rather than long-term strategic goals. Depending on the proportion of the equity which remains in directors' hands, the company may also run the risk of being taken over by an unwelcome acquirer at some point in the future.

Disclosure requirements and ongoing reporting:

The process of floating, and the subsequent listing, both involve the company in a much higher degree of disclosure and reporting than is required of a private company. This will require additional investment in management information systems, and a more rigorous application of compliance controls.

Loss of privacy:

The greater accountability to outside shareholders inevitably means that the directors lose much of the privacy and autonomy they may have enjoyed when running a private company. The company's heightened profile also means that any underperformance receives a greater degree of coverage, which may have a direct impact on the share price. The higher degree of interest which the press takes in a listed company can be a benefit in good times, but may be much less welcome when things are not going so well.

Costs and fees:

Especially if the company is relatively small, the overall costs involved in flotation, raising additional capital and the ongoing costs of maintaining a listing may outweigh the benefits. The company should ensure that it is aware of the likely costs before embarking on the process.

Management time:

Both the flotation process itself and the continuing obligations – particularly the vital investor relations activities (outlined in Section 3, Life as a Public Company) – use up significant amounts of management time which might otherwise be directed to running the business.

Directors' responsibilities and restrictions:

The directors of a private company may find that they simply do not like the implications of running a listed business. Greater disclosure of salaries, restrictions on share dealing and price-sensitive information, and the need to invest time and money in investor relations are all additional burdens which are unlikely to have arisen in a private company.

“First of all, our London listing means we enjoy a much higher profile than a private company – leading to greater awareness of us both among the public at large, and also among our own customers and suppliers. A listing also gives us a market in our shares, meaning we can use them to motivate our staff. And we have the opportunity to grow our business quickly, by using shares rather than borrowing to raise finance.”

Managing director, engineering company

‘About 80 per cent of the companies who come to us considering a flotation decide against it first time around. But a lot of them return to the idea later when they’re better prepared.’

Corporate adviser, accountancy firm

‘When you are considering a listing, you should make the decision backwards. You should look at where you will be after the flotation, and compare it with where you are now. You are going to spend hundreds of thousands and possibly millions of pounds in fees, and if you are not sure what benefits you are buying for that money, then there is definitely something wrong.’

Chief executive, manufacturing company

Is your company right for a listing?

To be able to list on the main market, your business must satisfy specific sets of criteria.

The UKLA's Listing Rules set the specific regulatory requirements which you have to meet to be allowed to list on a market. In addition to meeting the UKLA's requirements for granting officially listed status, you will need to apply to the London Stock Exchange to be admitted to trading on the main market. The Exchange has a set of straight-forward admission and disclosure standards that will help you to gain admission to the main market.

An additional consideration is the investment community's view of your company as an attractive business with good commercial prospects. Unless this view is favourable, your flotation – and, more specifically, any capital-raising which you are attempting at the same time – may run into trouble, and the prospects for an active trading market on the Exchange in the longer term will be uncertain, to say the least.

Not surprisingly, these sets of criteria overlap to a substantial extent, since investors are unlikely to entrust their money to a

company lacking the formal controls and track record required by the UKLA. But it is useful to draw a distinction between them, as it helps divide the things you must do from those you should do.

Regulatory requirements

Your advisers will guide you through the fine print of the UKLA's requirements, and will spare no effort to ensure that you meet them in full. Though these rules generally apply, there are also some exceptions. For example, a technology company at the 'pre-profit' research and development stage would not necessarily be prevented from listing – and many such companies have done so. Again, your advisers will be able to guide you through the way the rules are applied, and any specific rules which might apply to your company.

The precise requirements are

set out in the UKLA's Listing Rules, so there is no need to spell them out here in detail. However, a brief overview may be handy. Here are the principal requirements which your company and its directors must usually meet:

Incorporation:

The company must be incorporated under the relevant laws, which for UK companies means being a public limited company (plc).

Accounts:

The company must normally have published or filed audited accounts covering a three-year period, such a period ending no more than six months before the planned flotation.

Track record:

The company should have an independent trading and revenue-earning record covering the same period. Also, if the company has made a number of significant acquisitions in the three years running up to the flotation, then it must show that these have a suitable track record as well.

Directors:

The company's directors and senior management must show they have appropriate collective experience and expertise to run all areas of the business, and must be free of conflicts of interest

Admission & Disclosure Standards

The Exchange's Admission and Disclosure Standards are available on our corporate website www.londonstockexchange.com. The UKLA Listing rules are available on the FSA's website www.fsa.gov.uk.



which might hamper their ability to do this.

Working capital:

The company must be able to show it has enough working capital for its current needs and for at least the next 12 months.

Independent operations:

The company must be able to carry on its business independently and at arm's length from any shareholders with a controlling interest – which generally means anyone with control of more than 30 per cent of the shares, or who can influence the appointment of directors.

Shares in public hands:

Once the company is listed, at least 25 per cent of its shares should be in public hands.

Market capitalisation:

A company listing its shares on the market must have a total market capitalisation of not less than £700,000, and would normally be expected to be much larger.

Market requirements

Clearly, any company must satisfy the UKLA's Listing Rules before it can apply to be admitted to be traded on the Exchange, and your advisers are there to ensure you submit the right information at the right time. But you should remember

that by floating your business, you are putting a long-term value on it and selling it to outside shareholders. So, irrespective of your ability to meet the UKLA's requirements, if the investment community does not value your business as highly as you do then the flotation may not be a success.

As you would expect, many of the UKLA's requirements coincide with the attributes which investors are looking for in a company. Things such as a demonstrable trading record and appropriately-experienced directors clearly help to satisfy both the regulators and the potential shareholders. However, rather than seeing your company's ability to meet the regulatory requirements as being any measure of its value, it is crucial that you try to step back and look at your business long, hard and dispassionately, as an outside investor would. Ultimately, the ability to meet the market's commercial expectations is all-important.

To be suitable and ready to float and attractive to investors, your business should possess the following attributes, many of which are inter-related. In individual cases, other factors may be relevant – but this list will

“When I look at the management of a company, I am looking for track record and relevant skills. I also want to see an ability to explain the business and where the growth is coming from. The best attitude is cautious enthusiasm – if they are overstating their aims, it doesn't help.”

Corporate adviser, stockbroking firm

‘By and large, I don't think businesses present themselves as well as they could do. They simply have to stand aside from their business, try to detach themselves from it and appreciate that an investor is starting with a clean sheet of paper. All too often, directors speak from their own perspective inside the company. They should be more aware of the need to help other people understand their business.’

Fund manager, institutional investor

‘Institutions are looking for fast, controlled growth, and companies which deliver what they say they'll deliver. Above all, the board must be seen to be in control, to have the ability to drive the business forward, and the vision to expand organically and make astute acquisitions. You need board members who can present well, or you might never get your message across.’

Corporate adviser,
stockbroking company

provide you with a good general starting-point:

Track record as a sound, well-managed business:

Investors are generally comforted by the perception that a business has a reliable and relatively broad base of products and customers, and a relatively consistent record of revenues and profits. This is not an absolute requirement, since some companies in sectors such as IT and biotechnology now come to market at the pre-profit stage to enable them to fund the necessary R&D. However, as a general rule of thumb, erratic or declining financial performance is likely to set the alarm bells ringing for investors.

By the same token, investors may feel that a business which is over-reliant on a small market niche, or a single customer or contract, may be disproportionately vulnerable to minor changes in market sentiment or in its customer relationships. Similarly, a business which has grown rapidly on the back of a particular product with a potentially limited market cycle may be seen as overly dependent on what is 'fashionable' at the time, thus throwing its long-term prospects into doubt. Essentially, the market is likely to find a wide range of



sustainable but smaller products and clients preferable to one big product and client.

Viable and realistic business plan:

No one will invest in a business which cannot set out where it thinks its revenues will come from in the future. The business plan, which forms one of the building blocks for the prospectus, should not be over-optimistic, and must be backed up by sound and justifiable projections of sales and costs, with enough working capital to meet the projected requirements. However, a viable business plan is really something you should have anyway, and is a prerequisite for gaining the source of external finance you are seeking – be it share capital, venture capital or bank finance.

Management quality and continuity:

As potential investors look over your company, the range and depth of its management experience will be a key focus of their attention. They will want to check that the board and senior management include people who have had relatively long experience – preferably several years – in the business. Recent major changes at board level may cause doubts about the outlook. At the same time, the company should look to identify and plug any gaps in the full breadth of expertise needed to fulfil its business plan. This is where non-executive directors can be very useful. Investors will also look for a management team which shows it is united behind the company's plans, personally committed to its future, and fully agreed on its objectives.

Corporate governance:

Although compliance with the corporate governance requirements as set out in the Combined Code is voluntary, investors will expect to see the development of appropriate corporate and management structures. These will help to reduce the company's reliance on individuals, thus giving greater security to investors. While some changes might be inappropriate for a very small



Corporate governance

'Corporate governance' refers to the way a company conducts itself and structures its top management. The main current benchmark for 'best practice' is the *Combined Code* drafted by the Hampel Committee, which took account of the earlier *Cadbury* and *Greenbury Reports*. Copies of the *Combined Code* and the *Hampel Report* are available from Gee Publishing on 08457 573113.

business, potentially relevant steps may include splitting the roles of chairman and chief executive, the appointment of non-executive directors to the board, and appointing a qualified finance director. Investors may also look for signs of long-term commitment to the business from key staff at and below board level, through contractual arrangements or share option schemes.

Transparency of ownership and accounting:

Potential investors could be put off by the presence of a controlling shareholder, since they may fear that their influence on the business' direction would be more limited than if no single dominant shareholder was in place. They will also want to see evidence that the company's financial controls and accounting systems are of a high standard.

Timing and market sentiment:

Factors beyond the control of the company or its management, such as changes in the economic environment or shifts in market sentiment, may affect the business' valuation by the market and even its ability to float. Management should also be aware that some business sectors are more highly-rated on the stock market than others – essentially meaning that a business coming to market in a particular industrial category will possibly be able to raise more money. Some businesses even choose to reshape themselves for flotation, by shifting the bulk of their operations towards more highly-rated areas.

'Timing is important. The decision to float was taken at our financial year end. So we kept the books open for two months to catch all the liabilities, and then started the flotation process after the audit was completed at the end of that two-month period. We floated four months after that.'

Chief executive, industrial company

'You've got to get your business looking right for the market. For example, there are different multiples for different sectors, and even for different businesses within those sectors. You will want to be in a sector alongside your own peers.'

Corporate adviser, accountancy firm

'The chairman and chief executive of a private company are often the same person, so for the float they need to get a non-executive chairman from outside, and put him with a well-integrated management team which knows the business inside out.'

Smaller companies fund manager

Is your company and its management ready?

Given the need to sell your business to stock market investors, it may be a good idea to compile a checklist of issues which your business must address before it can consider floating.

All directors should be able to follow a common line in response to questions on any of these areas. If directors cannot answer searching questions on the company's affairs in a coherent and well thought-out manner, then potential investors will not get the best possible impression of its prospects as a listed company.

Management should examine a wide range of factors in order to gauge the business' suitability for the market. These can be divided broadly between issues which management should be able to resolve themselves, generally relating to the directors' personal wishes and the position of the business in its particular sector; and more stock market-related issues into which the company's advisers will probably have greater insight, and which management cannot really address alone. Obviously, there are some areas of overlap – such as the mix of skills on the board – but generally it is useful to split

the factors into these two areas.

The issues on which the management must make up its own mind include the following:

- ◆ Where do the directors want to be, both personally and professionally, in, say, five years' time?
- ◆ What is the management's position on market strategy and planning?
- ◆ Are there any skill gaps at board level that must be plugged?
- ◆ How will that be achieved?
- ◆ Are the directors prepared individually for greater disclosure, openness and accountability after the listing?
- ◆ Have ownership and tax issues been thrashed out at an early stage?
- ◆ Are you convinced of the loyalty and commitment of key employees? How is that being ensured?

The issues on which your advisers – especially your sponsors and brokers – are likely to have considerable influence include the following:

- ◆ Is flotation the most appropriate option for the management team to achieve its objectives?

- ◆ The strength of the business and its trading record – is it saleable to the market?
- ◆ Should the business be reshaped to put it into a more highly-rated sector and increase shareholder value?
- ◆ What strategic initiatives (eg acquisitions) need to be completed before going for flotation?
- ◆ Are the operational, financial and management information systems robust enough for a listed company?
- ◆ Have you taken account of 'best practice' on corporate governance, such as that set out in the *Combined Code*?
- ◆ Is the timing right for your flotation, both in terms of the business and the market conditions, or would it be better to wait?
- ◆ Do you understand what investors expect and require from you?

Investor relations

According to many advisers, the greatest difficulty which smaller and medium-sized companies face when they come to market is understanding precisely what the market wants from them. Investor relations is not a peripheral or optional activity. It is central to maintaining a



listed company's contact with the stock market, and to stimulating liquidity in its shares. So the business should get its facts and plans straight in advance, because any weaknesses will inevitably be exposed under the rigours of the flotation process. And management must be prepared to spend time and resources on investor relations if the business is to gain the maximum benefit from its listing.

Corporate governance

A further point to remember is that it may be worth considering going beyond the minimum requirements in areas such as accounting controls and corporate governance, and instead to aim for 'best practice' as standard. Again, this policy can be instituted well before the flotation takes place, and may help convince advisers and investors of the value and solidity of your business. Your advisers will be able to give you guidance on what is now regarded as best practice in terms of disclosure and governance.



'The board should be made up of the key decision-makers, and it's always nice to have a non-executive director such as an industry guru. The non-executive may not be on the board at the time of the flotation, but it's good to start looking round for one as early as possible. What you want is someone who has done it all before and will sharpen up your act.'

Corporate adviser, accountancy firm

'The main reason to take action before going to market is to avoid finding yourself in a pickle once you have listed.'

Chief executive, manufacturing company

'A lot of companies make acquisitions to develop critical mass pre-listing. The problem is that we don't want to see the management distracted by a major acquisition just as they're going into a flotation.'

Smaller companies fund manager

Preparing the way for your flotation

If careful consideration of all the pros and cons shows you that a listing will benefit your company, that it is suited to joining the main market, and that the timing in terms of the business cycle appears to be favourable, then it will be time to push ahead with preparing the ground. All the necessary steps will be covered in greater depth later in this guide, but these are the main issues you will need to think about:

Appointment of advisers

The first step, once you have decided on a flotation, should be to identify and appoint the sponsor for your listing. They will coordinate your company's entry to the market. You will also need a corporate broker, which may or may not be the same firm as that sponsoring your issue. Further advisers needed for the flotation include reporting accountants, solicitors and tax specialists (usually accountants or lawyers), and you will also probably decide to use public/investor relations advisers. For more information on advisers, see page 25.

Deciding on the method of listing

One of the first things you will decide with your advisers is the method of going public.

These can range in cost and complexity from a less expensive introduction to the market, raising no new money, to a public offer, where institutions and private individuals are invited to subscribe. A half-way house may be a placing, in which shares are offered for sale on a selective basis, primarily to institutional investors. Your sponsor will be able to advise you on which route best suits your business. For more information on methods of listing, see page 22.

Executing necessary changes in the board and operations

If you and your advisers have identified changes which should be made in the board of directors or the shape of the business, these should be enacted as early as possible. Investors are keen that a company coming to market should go through a period of stability prior to the flotation, allowing the management to focus its attention on the listing. So, once the decision is made, any acquisitions, disposals, and recruitment of new directors or senior management necessary to smooth the way for the flotation should be pursued as a matter of priority.

Taxation

In a flotation, the tax position

of the individual directors and of the business as a whole can be complex, and should be clarified as early as possible. Again, your advisers will be able to guide you through this complicated area. Existing shareholders may be liable for capital gains tax if they dispose of shares, and the sale of a family-owned business may affect inheritance tax. You may decide to use your other advisers for tax advice, or employ specific tax specialists.

Beginning the valuation process

The market value of your business is clearly central to the flotation. If funds are to be raised, it will affect the proportion of the company's capital which needs to be sold. Also, the value of the business might be affected by any corporate restructuring and board appointments made in the run-up to the float. The management and its advisers should start doing their calculations at the beginning of the process, to establish a realistic value which the market might put on the company. Management should be aware, however, that the final valuation achieved on flotation will depend on market conditions at the time.

2 Flotation Process





What becoming a listed company means

The role of the Exchange
Before your company comes to the main market, it is important that you appreciate the different roles which the Exchange and the Financial Services Authority play in the listing and trading of shares in London.

In its role as the UKLA, the Financial Services Authority has a legal obligation to oversee the listing process, and to ensure that its rules are met. This duty involves the UKLA in reviewing and approving the prospectus or listing particulars. This document – which will be passed to the UKLA by your sponsors – primarily contains information on the company and its business, and must satisfy the UKLA's Listing Rules to ensure that only companies meeting the conditions for listing come to market.

The UKLA engages in a dialogue with your company's advisers until the regulatory requirements are met. You may find that you have some direct contact with the UKLA during this time, but the main point of contact will usually be your sponsor or corporate broker, who will refer queries back to the relevant company directors and other advisers. In parallel to the UKLA's listing process, you must apply to the Exchange to have

your company's securities admitted to trading on its markets. The Exchange has its own set of admission and disclosure standards which are designed to sit alongside the UKLA's Listing Rules to make access to the Exchange as straightforward as possible.

The Exchange works to ensure your company receives the maximum benefit from being traded on its markets. If you are considering applying to be traded on the Exchange's main market you should contact the Exchange as early as possible so that we can assist you through the admission process. Admission to listing becomes effective only when all the relevant documents have been approved by the UKLA, and the decision to list the securities and admit them to trading has been announced jointly by the Exchange and the UKLA.

Once your company is listed, then you become subject to the continuing obligations which are placed on all listed companies, and to which privately-owned businesses are not subject. These obligations include a range of requirements, such as ensuring that information which might affect the share price is made available to all

investors at the same time, and that financial results are released on a timely basis in an acceptable format.

The disciplines inherent in being a public company

The need to maintain a level playing field in the trading of shares, and to ensure that all investors are able to deal on the basis of the same information, means that the directors of any company coming to the stock market will immediately experience a step-change in their responsibilities and obligations. These requirements affect the conduct both of the company in general and of the individual directors, who must be scrupulously careful that they obey the regulations in areas such as their personal share trading and the release of information. In the worst-case scenario, you risk breaking the law. The fact that these rules must be followed with absolute attention to detail is one of the main reasons why the directors of a private company must have a clear understanding of what is involved before coming to market. As a director, you should also be aware that there are further disciplines – particularly in areas such as corporate governance and dividend policy – which are not absolute requirements,

but which may have a significant effect on investor confidence and support, and ultimately on the share price.

Taken as a whole, the disciplines inherent in coming to market, and subsequently in being listed, may entail a transformation in the way your business is run. Tighter management control and accountability must be matched by greater openness, both internally among the directors and also in the company's interactions with outside investors. Further details on the disciplines and restrictions on a listed company can be found in Section 3 of this guide: Life as a Public Company.

Different methods of flotation

Depending on the nature of your business and its capital requirements, you may choose one of three different ways in which to come to market.

Public offer:

In a public offer, your sponsor will offer your company's shares to private and/or institutional investors. The sponsor will also usually arrange for the offer to be 'underwritten', meaning that any shares not bought will be purchased by institutions who have agreed to do so for a


fee. A public offer is generally the most expensive route to market, and is often used by larger companies. However, it also brings in private investors who are important in increasing the liquidity of a company's shares. It is also the method of choice for a business looking to raise substantial amounts of capital.

Placing:

A placing usually involves offering the shares to a selected base of institutional investors. This allows the company to raise capital but with lower costs and greater freedom in terms of how it is done. It also potentially gives a company more discretion to choose its investors. However, the downside is that it can result in a narrower shareholder base than a public offer, which can give rise to less liquidity in the shares.

Introduction:

An introduction is where a company joins the market without raising capital and is therefore often the least expensive and most straightforward way of joining the market. Generally, a company can use this method if over 25 per cent of its shares are in public hands, and there is already a fair spread of shareholders. It involves no underwriting fees and little



requirement for advertising the flotation, which keeps costs to a minimum. However, the downside of an introduction is that the opportunities for boosting the company's profile and visibility are more limited than with other methods of flotation.

Public trading of shares

There are various different ways in which shares can be traded on the Exchange's markets. If you are a small or medium-sized company, once you are listed your shares will be quoted on one of the Exchange's automatic quotation systems, SEAQ or SEATS PLUS. The buy and sell prices for your shares will be set by competing 'market makers', who are effectively wholesalers offering to trade in your shares at their stated price. Stockbroking firms, trading on their own account or on behalf of investors, buy and sell the shares when they feel the price is right. The market makers will change their quote for your shares depending on the strength of demand for them, and in reaction to news about your company or its trading environment.

For bigger companies, including those in the FTSE 100 index, the Exchange runs a separate trading system

called SETS. This is an 'order-driven' system, based on an electronic order-book, which pairs up matching 'buy' and 'sell' orders for the same shares and executes the resulting trade automatically.

Liquidity and share price volatility

The term 'liquidity' is much used in the share markets, and refers to the amount of trading in a company's shares, which is a fundamental factor in the level of its share price.

Generally, demand for a company's shares is stimulated by a good financial performance, since this is likely to result in a rising dividend return for shareholders. However, there are several other factors which can influence the share price. Many companies look to cultivate loyalty and long-term support among private investors, who may well be customers for the company's products as well. And the proportion of a company's shares in 'free float' – held by outside investors of all types – can also affect demand for the shares, and their price. The more shares in public hands, the greater the amount available for trading.

At the same time, other factors beyond a company's control can influence both the level of demand and the

“We raised £2.5 million in total when we floated – £2 million went to the existing owners and the rest came into the business. We didn't need the money for operations because we are cash-generative, but we used the balance to fund the flotation and raise the company's profile.”

Managing director, distribution company

‘Once you become listed, don't become too hung up on the volatility of your share price. Also, when you have a new product, you may suddenly feel very excited and optimistic – and then it's very disappointing when you find out how hard it is to get the institutions interested.’

Corporate adviser, stockbroking firm

‘The upsetting bit comes when you report a 25 per cent rise in your interim profits and your share price doesn't move at all. It isn't the Exchange's fault, but clearly a lot of the institutional investors are currently putting their weight behind the really big companies in areas such as telecoms and pharmaceuticals.’

Chairman, smaller quoted company



share price, such as a significant piece of economic news with implications for the business, or speculation over a potential corporate action. If a company's share price has moved dramatically and this has happened for no apparent reason, then the UKLA will ask the company and its advisers if they know of any reason for this, and may require the board to make an announcement if they have anything relevant to say. As this scenario suggests, listed companies – particularly at the smaller end of the spectrum – must also be prepared to experience periods of volatility in the price of their shares. Since the liquidity in smaller company shares tends to be lower than in bigger stocks, the price can be moved rapidly by relatively small volumes of trading.

Management may also feel that the share price is not reflecting the growing value of the business. This can be annoying, but directors of listed companies stress that it is important not to become fixated on the share price, and that – like investors – the directors should take a long-term view.

However, whatever the influences on the share price, a listed company cannot expect to sit back and let the market beat a path to its

door. One of the greatest surprises for some companies coming to market is the active role they need to play in terms of investor relations, helping to generate interest in the company and its products. You should regard time and money spent in developing contacts and awareness among the investment community as being a sound investment for the future – and you must be prepared to make time for it alongside the day-to-day demands of running the business.

Costs of a listing

Coming to the stock market is a major investment for any business. A listing on the main market is likely to cost your company at least £500,000 in professional fees. This figure can rise significantly for a sizeable listing, especially when factors such as underwriting fees are taken into account. On a more positive note, you may well be able to fix some of your costs at the start of the process, such as for accounting and legal advice, helping you to get a clearer idea of your outgoings in advance.

At the same time, the UKLA and the Exchange also charge fees to listed companies. Both fees are among the most competitive charged

worldwide and are set out in price lists available from the UKLA and the Exchange.

Once listed, companies have an obligation to disclose price sensitive information to the market through a Regulatory Information Service (RIS). The cost of this service is paid directly by the company to their preferred RIS.

While the total costs vary widely depending on individual circumstances, as a rule of thumb they tend to come to between four and eight per cent of the total proceeds of the sale, although this proportion may be higher for relatively small share offers as some of the fees, for example for accountants and solicitors, are a fixed cost.

It is also important to note that costs can be paid out of the proceeds of the sale.

UKLA & Exchange fees

These fall into two categories – admission fees when the company lists/increases its share capital, and annual fees on an ongoing basis. Each type is payable to the UKLA to cover the UK Listing Authority, and to the Exchange to cover its activities in providing the trading market.

Choosing your advisers - and what they do

Choosing good quality corporate advisers is one of the first and most important things that you must do in preparation for a flotation – and is also one of the most difficult.

The sheer range of different aspects on which you need advice means that you require a whole team of professional advisers, each looking after their own specific area of specialisation. Some areas of responsibility, such as the roles of sponsor and corporate broker, can potentially be combined by a single firm. But many directors feel it is actually in a company's interest to have separate advisers for each area, since it may lessen the potential for conflicts of interests in the event of any problems or unforeseen developments.

The natural starting-point in your search for suitable professional advisers to guide you through the listing process is to talk to your existing advisers, usually accountants and solicitors. You should really start this process at least a year before you intend to join the market, although you may ultimately find that the process takes less time than you expect. Your existing solicitors and accountants may already possess the necessary

expertise, experience and resources to act for you on the flotation. If not, they will certainly be able to recommend and introduce you to suitable firms of advisers who can provide independent guidance.

Many companies approach the appointment of advisers by holding 'beauty parades' with a series of them, asking each about their expertise and fees, and getting a feeling for what it would be like to work closely with them over an extended period. You will be spending a considerable amount of time (and money) with your chosen advisers, and the relationship may well continue after the flotation, so it is crucial that you can get on with them on a personal level. You should also investigate the potential scope for negotiation on costs and areas of responsibility.

During the flotation process, you will inevitably rely heavily on your advisers for guidance as to what is happening at each stage – and to what will happen next. As the flotation process gets under way, it is all too easy for management to develop the feeling that it is being swept along in a sequence of events it does not really understand, and over which it has little control. This sensation is one which

“The process typically takes about two years and is likely to cost at least £500,000 for a listing on the main market.”

Corporate adviser, accountancy firm

‘We needed to choose a corporate broker, so we fixed up meetings with four of them and asked them all the same three questions. How much will it cost us to float? What range of valuations can we expect? And which market should we float on?’

Chief executive, industrial company

‘Any private company with any ambition should already have a PR agency. A positive profile before you come to market will go a long way in helping your flotation.’”

Smaller companies fund manager



many directors, after the flotation, admit to having felt during it. To avoid this, it is important that you understand what is going on at all times, and to retain some perspective on the overall process. Your advisers will be happy to help you to do this – they will have been through the whole thing many times, and will be happy to put each stage in context for you.

The sponsor

The first concrete step towards your flotation is to identify and appoint a suitable sponsor for the listing. The sponsor takes a central role in the flotation process, advising the company on a wide range of issues, probably including the appointment of other professional advisers. An investment bank, stockbroker or other adviser eg a corporate finance house or accountancy firm, can take on the role of sponsor, provided they are approved by the UKLA to do so. A full list of approved sponsors can be obtained from the UKLA at www.fsa.gov.uk/ukla.

Since acting as a sponsor also requires a high degree of commitment from the firm taking on the role, the appointment process is pretty much a 'two-way street'. You will certainly want to look at the potential sponsor's

expertise, experience and likely fees. But they will also want to have a good look at your business before agreeing to take on your flotation. It is a good idea to prepare a 'snapshot' briefing in advance on your company's business and financial history for each prospective sponsor.


Although the precise valuation of your business will not be decided until the eve of the flotation, many better-informed companies make a discussion about company valuation part of the beauty parades for their sponsor. As a would-be issuer, it is also sensible for you to conduct research into the listed companies in your own sector, to give you some idea of the methods of valuation and the kind of rating you might expect from the market. This will ensure that your management can have a meaningful discussion with the parading investment bank.

A further good idea at this stage is to quiz the investment bank about the likely investor base for your issue. If the investment bank is well-prepared, it should be able to discuss the proportion of the issue that should go to investors specialising in your sector or perhaps to funds with an international flavour, and will have the evidence to back up its opinions. Much of

this advice can apply to the appointment of your broker as well.

If you and the potential sponsor are still interested in one another after the initial meeting, they will then require more detailed financial information, and will probably want to come and look at your operations and premises before accepting your business. Essentially, the sponsor will want to be sure that your business and its management are appropriate for a listing, and that the flotation stands a very good chance of success. So, as well as assessing their abilities and fees, it is your job to convince them of your own company's strength and prospects.

The sponsor's pivotal role, and its responsibilities both to your company and to the UKLA, mean it has to undertake a wide range of duties right through the flotation process. Many of these will overlap with the company's own assessment of its suitability, in areas such as management depth and financial controls. First of all, the sponsor will assess the company's general suitability for a listing, in the light of its organisational structure and capital requirements. It will then advise on the structure and make-up of the board,



the best method of flotation for the company, and the flotation timetable. It will also assist (if required) with the appointment of other advisers, and co-ordinate their activities once they are on board. As the flotation approaches, it will advise on the pricing and underwriting of the shares.

The corporate broker

The corporate broker acts as your main interface with the stock market and potential investors. The firm you appoint will assess the current conditions in the stock market, and provide vital feedback on investors' likely response to the issue. If your sponsor is an integrated firm offering both investment banking and stockbroking services, then you may decide you also want them to take on the role of corporate broker. Again, your sponsor will help and advise on the selection of the right firm, although you may want to see a number of them to compare their fees and approach. One useful guide is to look at the other companies they have acted for, which will give you some idea of their standing and areas of expertise. For example, if your company is in the high-tech sphere, you may want a broker which has a solid track record in stimulating investor interest in

technology businesses.

You may also want to be sure that your chosen broker appears in the league tables of leading research houses for your particular sector.

As well as advising you and your sponsor on market conditions and the likely level of demand, the corporate broker also actively markets the shares to potential investors, and can advise on the best method, size, timing and price. It can put in place market-related arrangements such as underwriting and placing agreements. It will also help you meet the UKLA's Listing Rules, and usually continues to work with your company after the flotation to maintain your shares' liquidity and profile in the after-market.

The reporting accountant

The role of reporting accountant in a flotation is separate from that of the company's existing auditors, but can be (and often is) fulfilled by a separate team in the same firm if you so choose. The sponsors may want to appoint a different firm to ensure the highest possible level of detachment and independence in this key role. Essentially, the reporting accountant is responsible for reviewing the company's

'After meeting several corporate brokers, we chose one because of their good image, good people, reasonable fee structure and their very thorough 'lead by the nose' approach to the whole process. In retrospect, we feel we made the right choice. However, the fees to lawyers and accountants were much higher than we had expected.'

Finance director, support services company

'Your team of advisers must have experience of flotations. However, that does not mean you will have to sack your lawyers or accountants if they are not a major firm. It may be possible to retain your existing smaller firm of accountants as your auditors, and use a major firm of accountants as reporting accountants for the prospectus. Remember many investors take comfort from seeing 'known' names among your advisers.'

Corporate adviser, stockbroking firm

'The quality of research and regular analysts' reports are vital in supporting your ongoing quotation and should be considered during the broker beauty parades.'

Chief executive, engineering company

financial record and internal systems for potential investors, and thus has an influence on their decision as to whether to buy the shares.

As you go through the flotation process, you will hear a lot about 'long form' and 'short form' reports. The difference is quite simple. The 'long form' report, as the name suggests, is a detailed financial and management history of the business. It is not published, but does provide the management and sponsors with the information needed to draft the prospectus. It also serves as the basis for the reporting accountants' 'short form' report, which is published as part of the prospectus itself. The reporting accountants will also usually prepare a report for the sponsor on the company's projected working capital position over the 12 to 18 months following flotation. They may also advise on the tax implications of the flotation, or you may have decided to appoint separate tax specialists to do this.

Lawyers

Most flotations involve two separate sets of lawyers – one to advise the company and its existing shareholders, and the other to advise the sponsor. The responsibilities of the company's lawyers, with whom you will of course

have the most contact, include overseeing the changes to the company's articles of association and directors' contracts, and possibly re-registering the company as a plc. They also prepare the painstaking 'verification' questions, which are used to confirm that every single statement in the prospectus can be justified as fact. The rigours of this process mean you will get to know your lawyers very well.

Your lawyers will also work alongside the sponsor's lawyers on the necessary agreements between your company, the sponsor and the existing shareholders, covering aspects like underwriting and tax. You might also want them to draw up share option schemes for staff, to be introduced with the flotation.

Other advisers

Depending on the method of your flotation and the specific circumstances of your company, you might also decide to use a number of other advisers in particular areas. The most likely is a firm of financial public relations consultants, to maximise the degree of positive awareness of your company, and its products or services, among both the general public and the professional investment community

in the run-up to the flotation. Companies coming to market often underestimate the importance of public profile and press contacts. Your financial PR consultants should also help ensure that any public statements and press releases are permissible under the relevant disclosure regulations. You will also find that by helping to generate ongoing press interest and publicity, your financial PR consultants can play a key role in sustaining awareness and liquidity after the flotation. You may consider media training for those key directors who will be under the spotlight.

You may also require a number of other advisers. These include: registrars to manage your company's share register; chartered surveyors or valuers to assess property values; security printers for safe, accurate and speedy production of documentation; actuaries to assess the position of company pension schemes; receiving bankers to handle share applications (only in a public offer); and insurance brokers to check that all risks are adequately covered.



Countdown to flotation

It is difficult to be precise on the length of time which a company will take to come to market, since the length of the process is influenced by so many variables – including the size, sector and structure of the company, the method of flotation being used, and the degree and complexity of ‘due diligence’ which has to be conducted by professional advisers.

While it can often take up to two years to prepare a company thoroughly for flotation, and most advisers suggest at least a year from decision to execution, the timetable for the flotation process itself is much shorter. The period from the preparation of the accountants’ report on the company to the start of dealing on the main market is often around 24 weeks, although as little as three months is not uncommon. The precise stages making up this period of activity also vary, depending on the method of flotation. A company undergoing an introduction will have to follow through the full due diligence and disclosure process, including the preparation of listing particulars. It probably will not need to conduct investor roadshows to generate interest.

In contrast, a flotation involving an offer for subscription to the public is a much bigger project. The company will have to follow through the full due diligence and disclosure process including the preparation of a prospectus. In addition, it will probably require participation in various marketing activities, including roadshows, alongside the regulatory and disclosure duties. This sounds more expensive – but it is interesting to note that, as a general rule, the total costs of coming to market as a percentage of the funds raised tend to fall as the actual size of the offer increases.

Documents

Whatever method of listing your company is going for, you and your advisers will have to prepare a prospectus or listing particulars, as appropriate. This document is central to your flotation, and has two main functions. Firstly, it sets out all the information which has to be made public to investors under the UKLA’s Listing Rules. And secondly, it plays a crucial role for the company itself, amounting to a coherent description of the business, its areas of activity and its prospects. The quality of the document can have a fundamental impact on the success of your flotation, and you and your advisers should

“ ‘The lawyers can be very demanding in terms of what the company can say and what forecasts it can make. That’s one reason why we prefer it if a company has had venture capitalists involved. It means the management is more familiar with how lawyers and accountants react to things, and what they expect from the directors.’ ”

Corporate adviser, stockbroking firm

‘We invite companies to put together a trial prospectus, and then present it to a few tame institutions. That way, we can see how it goes down, and test the likely response. It is a dose of reality for the company, and if it goes well it gives them a lot of confidence at an early stage.’

Corporate adviser, stockbroking firm

‘Our preferred lead-in time before a flotation would generally be at least a year, and probably more like two. That gives us time to make sure the board is properly put together.’ ”

Corporate adviser, stockbroking firm

pay close attention to both its style and content.

According to the UKLA's Listing Rules, the absolute minimum period between the submission of your documents and approval for your flotation is 20 working days. After that, if your company is coming to market via a placing or public offer, then it may decide to issue a 'pathfinder' prospectus (also known as a 'red herring'), which contains almost everything a full prospectus would except the price. The pathfinder can be used to market the issue to selected potential investors, on a restricted basis. For bigger issues, a 'book-building' process may be conducted to identify potential institutional investors and the price at which they are prepared to buy. The full prospectus is then issued, complete with the price and a notice of any changes from the contents of the pathfinder.

It is important for your company to be properly advised during this whole process as to what information can be released to whom, and at what time.

For example, employees count as members of the public during the offer, so it may not be legally possible to send them documents restricted to sophisticated professional investors. However, smaller businesses often come to market via an institutional placing on behalf of existing shareholders or venture capitalists, and the rules on selling to the public may not apply.

The process of going to market is painstaking and time-consuming. Many companies effectively release a small team of directors – perhaps two or three – from day-to-day management responsibilities for the duration of the process, and allow them to commit their time and energies to driving the flotation forward. This may be less disruptive than having all the directors continually interrupted during the course of their normal work, although a small company may not have sufficient management resources to allocate directors in this way.

However, whatever approach you take, no director will be immune from the process, or

from the need to provide documents and information.

The flotation timetable

This section should be read in conjunction with the accompanying timetable on page 38.

The run-up to the flotation is generally described in terms of a timetable counting down to 'admission'. Admission follows 'impact day'. Impact day is when the full prospectus will be issued and advertised to investors, and the flotation officially announced. For a main market listing, the 'listing process' is generally regarded as starting between 12 and 24 weeks before admission, depending on the size, complexity and method of flotation. The period up to 24 weeks before impact day is regarded as 'pre-float preparation' – during which the company should prepare itself for life as a public company and discuss the planned float with potential advisers. The timetable starts with the appointment of the sponsor.

12 to 24 weeks before admission

This period essentially

| | Exchange | UKLA | Company | Corporate Broker | Sponsor | Accountant | Lawyers | PR |
|---------------------------------------|----------|------|---------|------------------|---------|------------|---------|----|
| 12-24 weeks before admission | | | | | | | | |
| Appoint advisers | | | ✓ | | | | | |
| Detailed instructions to all advisers | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Detailed timetable agreed | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | |

involves getting all the necessary elements in place for a successful flotation. The steps completed during this period would usually include:

Appointment of advisers:

This would generally begin with the 'beauty parades' and appointments of the sponsor and corporate broker, and (if you are not using your existing advisers) lawyers and reporting accountants. A public relations consultancy would usually be brought in at this stage as well.

Sponsor's visit and meeting:

Your sponsor will generally come to your business and discuss the flotation process in detail with the entire board.

Detailed timetable and instructions:

Letters of engagement and detailed instructions will be agreed with your advisers. They will issue administrative documents about the flotation and give initial views of its market potential. A realistic timetable will be agreed and your advisers will produce a detailed list of the documents required before the flotation can go ahead.

Advisers' planning meeting:

All the advisers involved will come together with the directors to discuss the flotation and their respective roles in it. The timetable will be studied and finalised. The

precise structure of the flotation, and the proportion of the company's shares to go into public hands, will be discussed at this stage. But there may well be no final decision until later in the process, when the market's likely response is clearer.

Commence accountants' reports:

The reporting accountants begin to conduct 'due diligence' on the company, and to pull together the information for short and/or long-form reports, as necessary.

Preliminary consultations with the Exchange and the UKLA:

The company and (more particularly) your advisers will consult the Exchange and the UKLA at an early stage about the planned flotation, giving an idea of the timetable and preparing the way for the necessary submissions and approvals.

Plan the marketing programme:

The company, sponsor, brokers and (if appointed) PR advisers will discuss plans for the marketing of the issue to potential investors. The scale and nature of these plans will depend largely on the form the flotation is taking, and especially whether it involves a public offer. The lead role in

“ ‘There were many side benefits of the listing process. For example, preparing the prospectus helped the new directors understand the business, because it helped to refine the story and the strategy, and to highlight areas where improvements were needed.’ ”

Finance director, support services company

‘The time taken depends on how organised the company is. If they come to us 12 months ahead and are well-prepared, then it's no problem. If venture capitalists are already involved, then three months is generally enough. But with something like a high-tech company with little organisational structure and a value which depends on its intellectual property, then that would be difficult.’

Corporate adviser, stockbroking firm

‘The truth is that from 20 weeks before the float, no real work is done on the business by the top management. The brokers like to hold meetings at 7am, the accountants at 10am, the PR people want to meet for lunch, and the lawyers like to see you at 7pm. That keeps the afternoon free for seeing your sponsor. And at weekends you're on the phone.’ ”

Corporate adviser, accountancy firm

marketing is generally taken by the brokers, since they are in constant direct contact with the market itself and have the clearest feedback on the response to the issue.

6 to 12 weeks before admission

The pace and intensity of activity is picking up, and you will find that much of your company’s management resources are now focused on the flotation. Different advisers are involved in various aspects of the float, so you may find yourself with a queue of meetings throughout the day involving, in turn, your sponsors, brokers, lawyers, accountants and PR advisers. The common thread in these meetings may be you, which can make them wearing as well as extremely time-consuming. Due diligence will be well under way, and you (like many management

teams) may be surprised by the depth and detail of information required. However, this is crucial for investors to make a reliable and informed decision on your business.

The steps usually completed during this phase include:

Review of problem areas:
Any remaining factors which you or your advisers think could become a sticking-point for the flotation should be raised and addressed as soon as possible.

Documents drafted:
These may include the accountant’s long-form and short-form report, together with the first draft of the prospectus. All drafts will be the subject of detailed meetings with advisers to pore over the contents and get them as near as possible to their final state.

The requisite draft documents

are submitted to the UKLA. The UKLA raises questions about the contents of the documents, which are then returned to the advisers, who may address the query to the relevant director. Since the overall aim is to ensure that the documents comply with the UKLA’s Listing Rules, their comments can be quite detailed, clarifying things like the basis of any estimates of market share or growth.

One issue which can arise with your advisers is that messages may not always get through clearly to and from the UKLA. For example, there may be a dialogue between the UKLA and your accountants, involving your broker (who may not be an accountant) acting as a go-between – with the result that something might well get lost in translation. Problems like this can slow the process and make it seem unduly picky and bureaucratic. The solution

| | Exchange | UKLA | Company | Corporate Broker | Sponsor | Accountant | Lawyers | PR |
|---------------------------------------|----------|------|---------|------------------|---------|------------|---------|----|
| 6-12 weeks before admission | | | | | | | | |
| Review of problem areas | | | ✓ | | ✓ | | ✓ | |
| Draft prospectus produced | | | ✓ | | ✓ | | ✓ | |
| Other documents in first draft | | | | | ✓ | | ✓ | |
| Initial review of pricing issues | | | ✓ | ✓ | ✓ | | | |
| First drafting meetings | | | ✓ | | ✓ | ✓ | ✓ | |
| Draft documents submitted to the UKLA | | ✓ | | | ✓ | | | |
| Initial meeting with the Exchange | ✓ | | ✓ | | ✓ | | | |
| Review PR presentations | | | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Analysts’ presentation | | | ✓ | ✓ | ✓ | | ✓ | ✓ |

is that you ensure that each of your advisers is available to talk to the UKLA at a sufficiently early stage to make sure changes and comments get through in the right way and to the right people on both sides.

At the same time as submitting draft documents to the UKLA you will need to arrange an initial meeting with the Exchange. The main focus of the meeting will be a discussion about your company's business and an assessment of ways in which the Exchange can assist you to develop an active trading market following admission.

Start of legal verification:

As the documents go through their iterative process with the UKLA, the company's lawyers will begin the 'verification' process – a painstaking task involving the confirmation of every statement or claim in each document. This can involve the directors digging back into their personal and professional records. This is however, largely for the protection of the directors who ultimately take responsibility for the documents.

Initial review of pricing issues:

Pricing is one of the most delicate decisions in the entire process, and may be affected by events and

conditions outside your company's control. The economic background, current market conditions and the market's rating of your sector of commercial activity are highly relevant, alongside your company's specific track record and prospects. Your sponsor and broker will want a realistic price which the market will find attractive, while you want to optimise the money raised. If underwriters and sub-underwriters are involved, then their views must be taken into account as well.

The initial pricing meetings, generally involving your sponsors and brokers, will look at all these issues. You can get an early indication at this stage of the likely pricing range, but the final decision is left as late as possible – largely because market conditions can change overnight. In the worst-case scenario, an issue might even have to be 'pulled' in the event of a market collapse, a scenario which leaves you with advisers' fees to pay and no listing to show for it.

Detailed asset valuations:

As part of the due diligence process, precise valuations are produced of the company's assets ranging from pension funds to property holdings. This may involve advisers such as actuaries and surveyors, and your accountants will be able

“ ‘We felt ourselves to be under great pressure during the process. This was really due to our feeling that we weren't really in control, since our advisers were the ones who had been through it all before and understood what was happening.’ ”

Chief executive, technology company

‘During verification, the lawyers go through the prospectus line by line, and want proof of everything. So the managing director is 54? Prove it. So he has worked for BP and ICI? Prove it.’

Corporate adviser, accountancy firm

‘The issue price is often not thought through properly. Unless you are looking to sell your shares on day one, it really isn't that important – so it's better to set it at a lower level.’ ”

Corporate adviser, stockbroking firm

| | Exchange | UKLA | Company | Corporate Broker | Sponsor | Accountant | Lawyers | PR |
|---|----------|------|---------|------------------|---------|------------|---------|----|
| 1-6 weeks before admission | | | | | | | | |
| Drafting meetings | | | ✓ | | ✓ | ✓ | ✓ | |
| Due diligence on prospectus | | | ✓ | | ✓ | ✓ | ✓ | |
| PR meetings and roadshow | | | ✓ | ✓ | ✓ | | | ✓ |
| Formally submit and agree all documents with the UKLA | | ✓ | | | ✓ | | | |
| Bulk print pathfinder prospectus if required | | | | | ✓ | | ✓ | |
| 1 week before admission | | | | | | | | |
| All documents completed and approved by the UKLA | | ✓ | ✓ | | ✓ | ✓ | ✓ | |
| Pricing and allocation meeting | | | ✓ | ✓ | ✓ | | ✓ | |
| Register prospectus | | ✓ | | | ✓ | | ✓ | |
| Sign subscription agreement | | | ✓ | | ✓ | | | |
| Bulk print final prospectus | | | | | ✓ | | | |
| Admission week | | | | | | | | |
| Submit 48 hour documents | ✓ | ✓ | | ✓ | ✓ | | | |
| Formal application for listing and admission to trading | ✓ | ✓ | | ✓ | ✓ | | | |
| Pay UKLA and Exchange fees | | | ✓ | ✓ | ✓ | | | |
| Listing and admission to trading granted | ✓ | ✓ | | | | | | |
| Trading commences | ✓ | | | | | | | |

to advise you on whom to use.

Review PR presentations:

The form and design of the promotional activity surrounding the listing is discussed at this stage, with likely input from your PR and legal advisers alongside your brokers and sponsor. In an introduction to the market, involving no sale of shares, any public marketing efforts would clearly be minimal. However, at the other end of the scale, a public offer involves substantial promotion of the company and its planned flotation in order to attract as wide a range of investors as possible. Even here though, practice is always changing. For

example, companies now rarely (as they used to) publish the entire prospectus in the national press, opting instead for a summary version. It is important that all PR material is reviewed carefully and professionally from a legal as well as a marketing standpoint.

1 to 6 weeks before admission


This period sees the vindication of all your previous hard work, as you get everything in place for the flotation itself.

Drafting meetings on prospectus:

Following the process of feedback from the UKLA and responses from your advisers, the prospectus is now nearing its final form. There will be repeated meetings to ensure that all historical statements and details on the issue are demonstrably correct. If you have decided to issue a 'pathfinder' prospectus, without any pricing details, then it will be published at this stage.

Review of cash flow and forecasts:

You may decide to include a forecast of cash flow and profits in your prospectus.



If you do this, you and your advisers must make sure that the assumptions on which they are based are clear, readily understandable and realistic. Your reporting accountants and sponsors are required to report publicly on the forecasts, confirming that they believe them to be fair and reasonable.

Legal verification:

During this period, the lawyers complete the painstaking 'verification' process of all statements in the listing documents.

PR and investor relations meetings:

All promotional and investor relations material will be completed and approved by the board and advisers. The brokers will also report on the latest state of play in terms of the flotation's marketability to investors. Their views will feed into the pricing discussions.

Appointment of registrars:

Registrars to maintain your share register are appointed at this stage. There may also be a need to complete other formalities, such as re-registering the business as a public limited company, and ensuring the Memorandum and Articles of Association will allow dematerialised settlement of shares in CREST.

Investment presentations:

Your brokers move into a highly active marketing effort, including a series of presentations, to convince investors that they should buy your company's shares. Aside from the completion and pricing meetings, this is generally the directors' main task during the weeks leading up to admission.

1 week before admission week

This is the final week leading up to impact day. During it, you and your advisers will complete and sign off each of the diverse tasks pursued during the previous weeks and months.

Completion and pricing meeting:

At the completion meeting, all relevant documents and paperwork are reviewed in their final form by both the directors and their advisers. This opens the way for the registration of the prospectus and accompanying documents with the UKLA. Once all the documents have been reviewed in this way, the focus of attention for the board, sponsor and broker switches to the pricing of the shares. This decision often represents a fine balance between ensuring the issue 'gets away' successfully and bringing in as much capital as

“ ‘Before you go to the market, you really must do your homework, and plan everything very thoroughly. You need a squeaky-clean business – the lawyers will go through it with a fine toothed comb, and if there's anything untoward, they'll find it.’ ”

Chief executive, software company

‘Due diligence is inevitably stressful and time consuming, or else the advisers aren't doing their job properly.’

Corporate adviser, stockbroking firm

‘When you first meet institutional investors, getting good responses from them can be quite exhilarating. But it's still very hard to tell how the presentation has gone down. The sponsor will groom the directors in doing this, but what you must do is practise your presentation in advance, keep it to about 45 minutes, and get your ‘unique selling points’ in early. You don't need to tell them everything – that's up to the prospectus.’ ”

Corporate adviser, stockbroking firm

is practicably possible.

Generally, the price is the last thing to go into a prospectus before completion.

UKLA approval of documents:

The prospectus must be submitted to and approved by the UKLA. The UKLA also requires any supporting documents including the underwriting or placing agreement, directors' service contracts, audited accounts and all reports referred to in the prospectus to be delivered on the date of approval. It is important to note that the UKLA only approves the prospectus on the day it is dated and published.

Impact day:

This is the day on which the availability of the prospectus is advertised, and the flotation is officially announced, along with the pricing of the shares.

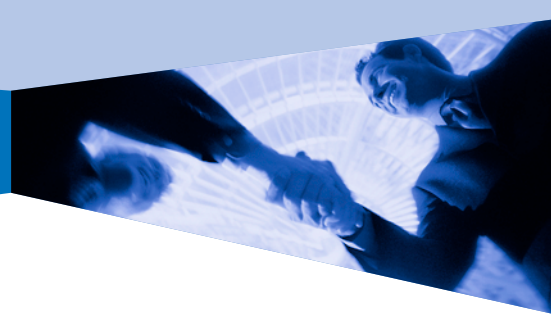
Publication of prospectus:

Applications for the shares, and the prospectus on which they can base their investment decision, are issued to potential investors. The directors and advisers will be involved in briefings for the press and for investment analysts to maximise coverage and awareness of the flotation.

Applications for listing and trading:

At least 48 hours before admission, the formal application for a listing is submitted to the UKLA. At the same time a formal application for admission to trading is submitted to the Exchange.





Admission week

Two things happen at this stage:

- ◆ Applications and cash from prospective investors are received. If more shares are requested than are available, the issue is said to have been over-subscribed, and a basis of allocation will have to be applied. If the issue is under-subscribed, then the underwriters will have to pick up the unallocated shares at the agreed price.
- ◆ The share application lists are closed.

Admission:

This is the point at which your shares are admitted, and you start to see your shares traded publicly on the main market.

- ◆ The basis of the share allotment is agreed between the board and advisers, and is announced to investors.
- ◆ The listing is officially granted by the UKLA in conjunction with admission to trading being granted by the Exchange.

- ◆ Your listing becomes effective and dealing in your shares begins. If the market price rises above the issue price, then the shares are trading at a premium. If the price falls below the issue price, then they are trading at a discount.

Advisers and companies usually hope for a small premium – suggesting that the price was attractive but not a ‘give-away’. However, the difference between a discount and premium could well come down to market conditions on the particular day, rather than signalling anything about the company itself.

“**‘Completion day is the most stressful, when all the paperwork is being signed off, and all the company wants to know is whether you have placed the issue. They tend to be more relaxed by the first day of dealings, so we lay on a champagne breakfast for that.’**

Corporate adviser, stockbroking firm

‘Going through a flotation is like being a top salesman with only one big deal – and everything is riding on it.’”

Chief executive, software developer

Countdown to flotation timetable

| | Exchange | UKLA | Company | Corporate Broker | Sponsor | Accountant | Lawyers | PR |
|---|----------|------|---------|------------------|---------|------------|---------|----|
| 12-24 weeks before admission | | | | | | | | |
| Appoint advisers | | | ✓ | | | | | |
| Detailed instructions to all advisers | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Detailed timetable list agreed | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | |
| 6-12 weeks before admission | | | | | | | | |
| Review of problem areas | | | ✓ | | ✓ | | ✓ | |
| Draft prospectus produced | | | ✓ | | ✓ | | ✓ | |
| Other documents in first draft | | | | | ✓ | | ✓ | |
| Initial review of pricing issues | | | ✓ | ✓ | ✓ | | | |
| First drafting meetings | | | ✓ | | ✓ | ✓ | ✓ | |
| Draft documents submitted to the UKLA | | ✓ | | | ✓ | | | |
| Initial meeting with the Exchange | ✓ | | ✓ | | ✓ | | | |
| Review PR presentations | | | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Analyst presentation | | | ✓ | ✓ | ✓ | | ✓ | ✓ |
| 1-6 weeks before admission | | | | | | | | |
| Drafting meetings | | | ✓ | | ✓ | ✓ | ✓ | |
| Due diligence on prospectus | | | ✓ | | ✓ | ✓ | ✓ | |
| PR meetings and roadshow | | | ✓ | ✓ | ✓ | | | ✓ |
| Formally submit and agree all documents and derogations with the UKLA | | ✓ | | | ✓ | | | |
| Bulk print pathfinder prospectus if required | | | | | ✓ | | ✓ | |
| 1 week before admission | | | | | | | | |
| All documents completed and approved by the UKLA | | ✓ | ✓ | | ✓ | ✓ | ✓ | |
| Pricing and allocation meeting | | | ✓ | ✓ | ✓ | | ✓ | |
| Register prospectus | | ✓ | | | ✓ | | ✓ | |
| Sign subscription agreement | | | ✓ | | ✓ | | | |
| Bulk print final prospectus | | | | | ✓ | | | |
| Admission week | | | | | | | | |
| Submit 48 hour documents | ✓ | ✓ | | ✓ | ✓ | | | |
| Formal application for listing and admission to trading | ✓ | ✓ | | ✓ | ✓ | | | |
| Pay UKLA and Exchange fees | | | ✓ | ✓ | ✓ | | | |
| Listing and admission to trading granted | ✓ | ✓ | | | | | | |
| Trading commences | ✓ | | | | | | | |

3 Life as a Public Company





Life as a Public Company

Your flotation should be seen as a means to an end, and not an end in itself. Indeed, the day of flotation is not the end of the process but just a new beginning in the life of a listed plc and its employees. For many directors this is one of the highlights of their career.

As a director of a newly-listed company, you will feel that you have, in a very real and demonstrable sense, arrived. As a publicly quoted company, the directors, employees and shareholders can check its share price on one of the various share information services, and they can actually watch trading as it happens.

Most people who have been involved in the flotation are likely to be both elated and very tired, and may be looking to take a well-earned rest.

However, this is the beginning of life as a public company, and that new status means there is a lot to get used to. The first priority, apart from a good sleep, is to get back into your day-to-day management of the business – a role which the directors may well have put on the back-burner during the frenetic activity of the flotation process.

Day-to-day management will not be the same as it was before. As your advisers will have made you well aware, you cannot now run the company in precisely the way you did before floating, since by joining the market you have submitted yourself and your business to a range of disciplines and requirements. These can be broadly divided between the legal/regulatory requirements, which are the continuing obligations that all listed companies must meet; and market-driven disciplines and activities, which are not compulsory, but which are advisable and even necessary if you are to make the most of your listing and gain the maximum benefit from it. Being listed also involves some ongoing costs, as you will have to pay fees on a continuing basis both to your professional advisers, the Exchange, the UKLA and a Regulatory Information Service (RIS).

P/E ratio

The 'price/earnings ratio' is a measurement of a company's rating by the stock market. It is calculated by dividing the share price by the annual earnings per share. A high PE ratio means the company is highly-rated, since its share price is relatively high compared to its earnings – suggesting that investors think its prospects are good.

Continuing obligations

The continuing obligations of the UKLA require all listed companies to fulfil two aims: to ensure the timely disclosure of all relevant information and equal treatment of all shareholders.

While these aims are clear cut, as a director of a newly-listed company you may find it less easy to define precisely which actions and information fall into these obligations – especially if you are trying to do things such as decide what information may be deemed price-sensitive. As a rule of thumb, you should err on the side of caution and seek advice from your professional advisers whenever there is uncertainty, especially from your brokers and lawyers.

There are several facets of the continuing obligations to which you should pay close attention. These are set out in full in the UKLA's Listing Rules.

Price-sensitive information

A company has an obligation to notify the market of any information which would be likely to lead to substantial movement in the price of its shares. For example, new developments in its activity which are not public knowledge; any changes in the company's financial condition, the performance of its business or in its expectation of its performance.

Here is a brief overview of the main requirements:

Disclosure of price-sensitive information

It is in everyone's best interests that there is a flow of timely and accurate information between listed companies and the stock market. It means that investors of all types are able to trade on the basis of current and reliable information, and helps protect companies from the unpredictable, unexplained and potentially volatile share price movements which can result from rumour and speculation. Clearly, different types of investor will receive and act on the information at different speeds, but the fairest approach is to ensure everything is released to the market as a whole at the same time. Public announcements via an RIS are required on a range of occasions, including major developments in your company's activities, dividend decisions, half and full-year profits figures, and any changes at board level.

For all listed companies, the fundamental rule is that they must notify the market as soon as possible of any price-sensitive information, which might be a significant change in the company's financial position or outlook, or a major

new development. An announcement must also be made if you have reason to believe that a leak may have occurred about any ongoing negotiations of a price-sensitive nature. Any board decisions which might influence the share price must be announced before the start of trading next day. Information relayed at a shareholders' meeting which could be price-sensitive must be announced no later than the time the information is delivered at the meeting.

Many unexpected circumstances can arise which trigger an announcement – and sometimes you may have to move very fast indeed. If a company's share price does move sharply for no apparent reason, then that company and its brokers are likely to receive a call from the UKLA to establish whether a leak of price-sensitive information may have occurred. If this may be the case, and there appears to be a risk of a disorderly market, then the company will be required to make an announcement to the market. Similarly, you could find yourself awoken in the small hours of the morning by a call from your advisers, telling you that the press is carrying a speculative story about your company. Much of the article may be



wide of the mark – but it could contain just enough truth about your commercially sensitive negotiations to force you to make a rapid announcement.

If you ever happen to become involved in merger or takeover talks, then special rules come into play on the secrecy, timing and content of your announcements. These are set out in the *City Code on Takeovers and Mergers*, which your advisers will know virtually by heart. As ever, it is crucial that you consult your advisers on anything you are not sure about.

Directors' responsibilities

As a director of a newly-listed company, you have already accepted legal responsibility for the information your company supplied to the market during the flotation process. You and your fellow directors also have individual and collective responsibility for your company's continuing compliance with the UKLA's Listing Rules and the Exchange's Admission and Disclosure Standards. In addition to these weighty responsibilities, directors are subject to a whole raft of further requirements and duties which they have to get used to, such as greater dis-

closure of many aspects of directors' activities, and restrictions on share dealing. These are additional burdens which are virtually unheard of in a private company. Any changes at board level must be announced immediately once a decision has been made, even if the precise timing of the change has not yet been set. You should also take account of the corporate governance guidelines appended to the UKLA's Listing Rules, which can have an effect on directors' behaviour and how they are remunerated.

Dealing restrictions and the Model Code

All directors of a listed company, and even some employees in contact with price-sensitive information, have to comply with a range of restrictions on their share-dealing activities. These are grouped together in the Model Code, which is designed to prevent people with unpublished price-sensitive information, or who may be perceived as having access to such information, from dealing on the basis of it, and thereby gaining an advantage over other shareholders who do not have such information. Directors also have to inform the company, which in turn must make an

“ ‘It seems like a simple thing, but you should make sure that your announcements are properly written. If they are not, it makes a terrible impression.’

Smaller companies fund manager

‘After the listing, it is useful to arrange for your sponsors to come to a board meeting shortly after the flotation to check that you are not encountering any problems with the market requirements – or making any fundamental errors.’

Corporate adviser, stockbroking firm

‘As a listed company, you find that meeting the continuing obligations becomes second nature – it just seems to happen alongside running the rest of the business. Once you're accustomed to them they are no real bother, and generally speaking we don't perceive ourselves as having any extra costs because of them.’ ”

Chief executive, property company

announcement to the market, of details of all the dealings they conduct in their company's shares. The Model Code is set out in full in the UKLA's Listing Rules.

The range of restrictions imposed by the Model Code include a ban on dealing in your company's shares when you are (or could be) in possession of price-sensitive information, or within a minimum period – normally two months – before the announcement of regular information such as annual results. Also, directors must first get approval for their share dealings from the company chairman or from a designated director specifically appointed to monitor and approve their fellow directors' share dealings under the Model Code. Overall, the Model Code sets a minimum standard of good practice for your company's agreed procedures – and many listed companies go well beyond it in setting their own guidelines.



Shareholders

In terms of the requirements placed on a company, the management must bear in mind a range of factors including the proportion of share capital in public hands, which should normally stay at above 25 per cent of the total. Substantial shareholders in a listed company must also disclose any significant changes in the proportion of shares they hold. They must make this disclosure to the company, which in turn must disclose the information to the market via an RIS.

Report and accounts

All listed companies must publish their annual report and accounts, including an audited financial statement, no later

than six months after the end of the financial year – and any company failing to do so will face having the listing of its shares suspended. The company also has to prepare unaudited half-yearly figures within four months of the end of its half-year. Again, the penalty for failure is suspension of the shares. These results must be sent to the UKLA and published to the market via an RIS. It is becoming common practice among many listed companies to publish summary financial statements (a shortened version of the annual report and accounts) particularly for private investors.



Transaction and document disclosure

Many types of transaction must be disclosed to the market, and for some – such as a major acquisition or disposal – shareholder approval is required in advance for the deal to go ahead. As a rule of thumb, the larger or more significant a transaction is, the greater the requirements imposed on the company, ranging from a straightforward company announcement for a relatively modest deal, up to the publication of a circular, shareholders' approval and even suspension of the shares for the biggest transactions. Transactions covered by these requirements will involve considerable discussion with advisers and the UKLA. Types of transaction generally excluded from these requirements include those that are in the ordinary course of business such as the buying and selling of stock and raw materials.

Ongoing costs

Inevitably, there are costs associated with meeting the continuing obligations of a listed company.

Financial, legal and accounting advisers are a must, while

you will also probably need further advisers in areas such as public and investor relations. Increasingly, specialist environmental advisers and employee benefits consultants may also be worth paying for, as these areas become more important and prominent. If your flotation goes well, it is highly likely that you will retain the same advisers who guided you through it.

It is difficult to give even a rough figure for what your ongoing advice will cost you, since it depends on so many variables, including the size and nature of your business, and the use you decide to make of your advisers. You will also have to pay annual fees to the Exchange, for maintaining the market in your shares and to the UKLA. Prices are available separately from the Exchange and the UKLA. In addition, there will also be the costs of an RIS for the disclosure of information to the market, as required by the UKLA's Listing Rules.



'The annual report is very useful as a sales document to be used by your sales force. It lets you mention every part of the business and what is happening in it, so the salesperson feels a sense of belonging and ownership. Also, every year we bring together our top 50 people, and point out to them the bits of the annual report which we think they should be aware of, such as the part on directors' responsibilities. It's one thing to send your people a big box of annual reports, but if you get them to pick it up and actually read it then they will really understand it and use it.'

Chief executive, industrial company

'Being quoted has brought us several advantages. Initially, there was the clear benefit of giving the company's existing shareholders the opportunity to sell their shares if they wanted to. Secondly, it has certainly raised our profile – it's hard to prove what tender lists we wouldn't have been included on without being quoted on the stock market, but I'm sure it would have been quite a few. And the third and most important thing is that we have been able to raise money through the stock market for growth and acquisitions. For a business of our size, the advantages of being quoted may not be as great at the moment as they usually are, but there are certainly no disadvantages. These things do tend to go in cycles – and we're here for the long term.'

Managing director, house-building company



Making the most of your listing

Like any relationship – commercial or personal – being listed on the stock market is not something which will reap benefits without substantial commitment and effort. A company which assumes that its listing will automatically attract investors, and stimulate high levels of interest and liquidity in its shares, is in for a rude awakening.

Any listed company has to talk to the market, promote itself to the investment community, and listen closely to what the market is telling it. Those messages come across in a variety of ways, both direct and indirect, ranging from changes in the share price and trading patterns to direct communication from investors of all sizes.

There are three things investors are interested in that are worth mentioning here. The first is knowing that a business is well-run, and

has an organisational structure which promotes the cross-fertilisation of ideas. A company – and its executives – must not be seen to be indulging in self-interested politicking or navel-gazing as events unfold around them. The second is good commercial strategy and transparency, involving a demonstration that the business is sure-footed, focused, knows what it is about, and has sound objectives going forward. The directors and their advisers must be able to communicate all this to the market on a continuing basis. Otherwise, interest in the company, and ultimately its share price, will suffer as a result – and many of the principal benefits of being listed will be lost. The third area of interest is the bottom line for investors: the delivery of growing profits and dividends, at least in line with their expectations, and hopefully in excess of them.

Achieving all this is not easy, and requires the commitment of considerable management time and effort. Before coming to the market, you may have seen your flotation as some kind of conclusion to a logical process. But to a large extent, the challenge does not end when you join the market; rather it begins. The challenge pervades all areas of your business, but there are several areas where

you can usefully concentrate your energies to the maximum effect.

Best practice: the benefits of going beyond compliance

The legal and regulatory obligations in areas such as disclosure and corporate governance only provide listed companies with the barest minimum framework in terms of communication, information provision and organisational guidance – and it is crucial that you build on them as actively as possible, if you are to make your listing a long-term success. Once you are listed, your relations with investors, analysts and the press are no longer peripheral to your company, but should be regarded as core business relationships on a par with any other.

Like anyone else, these decision-makers and opinion-formers are influenced by what they see and hear from and about your business. They like to see a coherent strategy, and to hear it well-expressed. They like to see a company taking advantage of wider commercial experience, for example, in the appointment of suitable non-executive directors from outside. And they often want to see a business going beyond the legal requirements in corporate gover-

Liquidity

Liquidity is a measure of tradeability of a company's shares. Smaller companies' shares tend to be less liquid than those of larger companies, as, for example, there may be fewer shares available for trading or they are more tightly held.



nance, potentially involving actions such as splitting the roles of chairman and chief executive – see page 49 on corporate governance. As a listed company, you are in a goldfish bowl, and every decision or action should be taken with that fact in mind.

In recent years, given the growing prominence of environmental and ethical concerns, the concept of best practice has extended rapidly into these formerly obscure areas. Environmental audits and statements are relevant for some listed companies, and the number of ethical investment funds being launched gives this pressure added commercial edge, since it can feed into liquidity and demand for your shares. As a result, companies need to keep a tight rein on aspects such as potentially polluting emissions from their operations, and must also pay serious regard to the employment record and policies of their business, not only within their own operations but also in their suppliers' businesses. An ethical or environmental scandal involving a listed company is now potential front-page material for the press, and in the worst-case scenario can result in falling sales or even consumer boycotts.

Inevitably, activities such as

investing in your profile and adhering to (and even exceeding) best practice cost money. This may be especially galling since it comes on top of the regular costs which mere compliance involves. However, failure to invest in the awareness and image of your business may well turn out to be a false economy in the long run, as problems arise and your failure to cultivate shareholder and public opinion comes back to haunt you.

Investor and media relations

It is vital that you maintain your company's profile, and stimulate interest in its shares on a continuing basis. Many listed companies, even relatively small ones, employ specialist financial public relations and investor relations advisers on a retainer basis to keep the business on the financial pages and in the minds of investors. These professionals generally work separately from the 'product' PR operation, which may be kept in-house. The fact that these two roles are often split reflects the different skills and contacts which they involve.

However, you cannot leave press or investor relations to your advisers. Top executives will commonly devote at least a couple of days a month to

“ **'Profile is clearly one advantage of a listing. Over and above that, there is access to capital for growth. At the same time, having a public market for the company's shares can be a very motivating factor for both management and employees, who benefit from share option schemes.'**

Corporate adviser, accountancy firm

'Yes, it is a good idea to go beyond compliance, and adhere to best practice. Just being compliant is not sufficient. If you do decide not to comply with best practice in some way, such as not splitting the chairman and chief executive roles, then you must make sure you can explain exactly why you are doing it.'

Chief executive, industrial company

'There are lots of surveys done about why companies go to market, and the bottom line is that they usually do it as a source of money – whether for existing shareholders, for development of the business or to pay for acquisitions. Frankly, it doesn't really matter what the purpose is, since the main thing is access to capital. And it's seen as an attractive and high-profile way of raising money, compared to alternatives such as venture capital.'”

Corporate adviser, accountancy firm

developing and nurturing such contacts, in lunches, briefings and presentations to opinion-formers and investors. This commitment will increase sharply around regular announcements such as company results, at the launch of a new product or strategy, or at times when the business and its profile have been hit by adverse events. This must be regarded as time well spent, and as an investment in the future. As a publicly-quoted company, it is a core element of running your business properly and responsibly.

Sadly, research has shown that the standards and quality of dialogue and relationships between smaller companies and the investment community are often patchy, and marred by a lack of mutual understanding and transparency. This is partly due to the increasing consolidation of the investment industry, and the accompanying tendency to concentrate on larger stocks. However, there is a lot that companies can do to counteract these effects, and the current thinking on how smaller companies should engage with the market – and keep investors interested and up to date with what they are doing – is advancing all the time.



The more forward-thinking companies have now introduced formal procedures under which they provide high-quality, meaningful and timely information to improve the market's understanding of their companies. These may involve instituting internal performance indicators, a regular 'Statement of Prospects', and quarterly trading reports. Companies should also consider producing an 'Investor Communication Statement', setting out the procedures which they apply to their investor communications. The DTI produced a very useful report 'Creating Quality Dialogue between SGCs and Fund Managers', available from www.innovation.gov.uk/finance.

Monitoring growth and informing investors

As the move towards more formal monitoring and communications processes

indicates, it is not enough simply to talk to investors. You must also have something interesting and meaningful to say, or they may stop listening. With this in mind, it is crucial that you keep a close eye on the performance and growth of your business – and are able both to respond strategically to what is happening, and also to communicate the resulting changes to potential and actual shareholders. By communicating your growth strategies, and showing that you know what challenges you face and have worked out how to meet them, you will inevitably improve the market's perception and understanding of your company. This openness and honesty will also serve you well if and when problems arise, since investors will be more receptive to what you tell them, and are more likely to believe you.



Monitoring shareholdings and investment patterns

Once you are listed, your share register is a mine of useful information, and can be used pro-actively as a tool to promote your business and broaden your shareholder (and even customer) base. By examining the split between different types of investor, such as institutions and private individuals, and even – on the institutional front – between individual investors themselves, you can identify which investors need addressing, and formulate a specific and targeted investor relations strategy. There is also often a cross-over between customers and shareholders, who are often the same people. Many companies offer shareholder incentives to smaller investors, or even contact them directly to welcome them. As well as encouraging custom, this helps establish loyalty which can be very useful in difficult times.

On a more defensive note, the share register also gives you early warning of any stake-building by a potential predator. An unusual or unexplained holding may have a perfectly innocent explanation, but should be investigated to find out if there is a more threatening purpose.

Corporate governance

Throughout the 1990s, a series of high-powered committees – notably Cadbury, Greenbury and Hampel – drew up sets of guidelines on best practice in the way companies manage themselves. These corporate governance issues are not included in the UKLA's Listing Rules. However, current best practice guidelines (the *Combined Code*) are appended to the Listing Rules, and disclosure is required in a company's report and accounts outlining to what extent they comply with the *Combined Code*. Such is the importance commonly attached to them that companies are well-advised to take them into account.

Among the more prominent issues raised in the guidelines are the separation of the roles of chairman and chief executive, the need for independent non-executive directors and effective internal controls, the types of share incentive offered, and the role and structure of remuneration committees. Organisational structure and executive pay are very topical issues both with investors and the general public, and the media clamour over 'fat cats' and a failure to link pay and performance has become



'At the time of our first results as a listed company, we did a roadshow involving one-to-one meetings with institutional investors in London and Scotland, organised by our City PR firm. They also used their press contacts to generate a lot of media coverage. With subsequent annual results announcements, we have done presentations to 35 analysts at once, followed by an open day for all investors. It takes up a lot of our time, but it's worth it.'

Chief executive, support services company

'I had always believed that if the company performs, then the share price will look after itself. But for a company of our size, that does not seem to apply nowadays. I am now talking to financial PR companies about what we should be doing in terms of investor relations.'

Chief executive, hospitality services company

'Our chief executive and myself both spend one or two days a month dealing with investor relations – and we regard it as time well spent.'

Finance director, software company

'With institutional investors, the key is to be available to them all the time, and to badger them to see you. They have the power of ownership, so it's really their responsibility to see you.'



Chief executive, manufacturing company

a focus of concern at Government level. Investors do look at such issues, and a company's commitment to meeting and exceeding 'best practice' can be seen not only as a sign of good faith, but also as a reflection of the degree of openness and forward thinking inherent in the senior management. This greater credibility, in turn, can manifest itself in levels of investor interest, trading and – ultimately – the share price.

The role of non-executive directors

The appointment of non-executive directors to the board or as a chairman is widely seen as a litmus test of a company's attitude towards maintaining high standards in its corporate governance. As voices of experience and (relative) independence on the board, they fulfil two principal roles – first as strategic business advisers with extensive knowledge and contacts, and second as arbiters of best practice across all areas of the business. They are especially useful in areas such as executive pay and business ethics, although it is all too easy for them to become tarred with the same brush as the 'fat cats' when a controversy arises. In several boardroom confrontations, relations between the

executive directors have reached such a state of deadlock that the ultimate decision has had to be left to the non-executives as the only way out. They can be very useful in such a situation – although it is to be hoped you never have to resort to this use for them.

Dividend policy

The level of dividend which you opt to pay your shareholders is a key measure and determinant of the price of your shares. It is also a decision which involves a fine balancing act between the interests of the company, which may want to hold back the cash for investment or expansion, and the shareholders looking for a good return on their investment. The balance is further complicated by the fact that holding back on investment may impair the company's long-term prospects, and reduce the prospects of capital gains for those same shareholders.

As in other areas, the real key may be to take pains to explain to your investors not only what level the dividend is to be paid at, but why that level is in the best interests of the company. At least this will allow shareholders to make a decision based on the long-term commercial logic rather than the immediate payout.

Active management and use of your listing

Your listing is not a static thing. By floating on the stock market, even if you have raised no capital while doing so, you have opened a new long-term funding route for your company. As directors of listed companies often point out, banks will ultimately demand their money back, but shareholders' money is not normally required to be paid back. The capital you raise through the market can be used for the full range of corporate requirements – including paying off outstanding debt, growing the business organically, and making acquisitions.

Many substantial listed companies openly say that they would not be where they are today without access to the stock market to fund their acquisition trail. And even more of them say that the prestige of being listed has transformed their relationships with a whole range of business partners, both suppliers and customers, irrespective of the funding aspects. Other companies will see you as more solid and financially transparent, and may be happier to strike long-term contracts with you. So it is important that you work to exploit the edge which your listing gives you in business-



to-business marketing terms, both with existing contacts and new ones. This edge can be especially pronounced if you have competitors which are still privately-owned.

A further major opportunity presented by your listing is to reward and retain outstanding staff by offering share option schemes. The public quotation gives such schemes a demonstrable value, and makes them feel much more 'real' to the employee shareholders, who also gain a long-term interest in the success of the business. It is highly likely that your advisers will have helped you institute such schemes in readiness for the flotation, but if not then you should consider bringing them in at an early stage.

Once you are on the market, the most common way of raising extra funds is via a placing. Alternatively, rights issues allow existing shareholders to pick up additional

shares so their holding is not diluted. These will generally be underwritten (for a fee) to protect the issuer against any sudden adverse move in market.

As the director of a newly-listed company, you will have joined a select group of men and women – and will also have crossed a major threshold in any business career. Congratulations will certainly be in order. However, much will still lie ahead. Your listing will raise the profile of your business, and should establish its credibility more firmly in the eyes of competitors and partners. And, as you move forward, it can be a platform for strong, controlled growth which will transform your company.

However, this process cannot be left to take care of itself. The best captains of industry never waste the chance to learn more about their craft. In running a listed company, as in anything else, there is no substitute for experience, and on every working day you will learn more about the processes and pressures involved in being on the stock market.

Rights issue

In a 'rights issue', a company which is already listed invites its existing shareholders to purchase additional new shares in the company for a set price. Shareholders can either 'take up' their rights, thus maintaining their percentage holding in the company, or they can 'pass' them, meaning the proportion they hold will fall.

'The whole point of investing in smaller companies is to try and outperform blue chips. Also, the smaller companies which have made it to the market should be the best in their sector. We mainly look at earnings growth and capital growth, although a reasonable growth in dividends is also quite important – so long as it's managed properly.'

Smaller companies fund manager

'I would recommend to any director that they should become a non-executive in another business. It means you get a clear view of other people's mistakes – which you might then realise you are also making yourself, in your own company. It's tremendously useful, and all executives should put aside some time to do it.'

Chief executive, industrial company

'Our strategy is to continue growing the company through licensing, collaborations and acquisitions. And capitalising on our listing by using shares to do that is certainly part of our long-term plan.'

Investor relations vice-president, biotechnology company

And finally...

Your advisers, who have been through it all before, are there to help you. So is the Exchange. And a constant flow of guidance and information is readily available for those willing to look. We recommend that you tap into these information sources, and exploit them to the full. Remember also that you can contact the Exchange's business development and admissions teams – a list of useful contacts is included on page 55.

This publication has taken you from the first concepts of flotation to the final product. It will have been a long road, but – we are sure – a worthwhile one. For your business, the best is yet to come.





Glossary of market terminology

AIM

The Exchange's global market for young and growing companies.

Combined Code

The current benchmark for best practice corporate governance, drafted by the committee chaired by Sir Ronald Hampel. The Code is appended to the UKLA's Listing Rules.

CREST

The paperless share settlement system through which trades executed on markets can be settled. CREST is operated by CRESTCo Ltd and was introduced in 1996. See Settlement.

Daily Official List (DOL)

The daily record setting out the prices of all trades in securities conducted on the Exchange.

Dividend

That part of a company's profits after tax which is distributed to shareholders – usually expressed in pence per share.

Equity

The risk-sharing part of a company's capital, usually made up of ordinary shares.

FTSE indices

Indices, including the FTSE 100 index, which are calculated and maintained by FTSE International Ltd to illustrate the performance of various sectors of the UK and European markets.

Flotation

When a company's shares are admitted to trading on an exchange.

Free float

See Shares in public hands.

FSA

The Financial Services Authority. The agency appointed by the Government under the Financial Services and Markets Act to oversee the regulation of the investment industry.

Insider dealing

The purchase or sale of securities by someone who possesses 'inside' information affecting securities which has not yet been made available to the market and which, if made available, would significantly affect the share price. In the UK such deals are a criminal offence.

Liquidity

Ease with which a security can be traded on the market.

Listed company

A company whose securities have been admitted to the UKLA's Official List and admitted to trading on the London Stock Exchange.

Listing particulars

When a company applies for a listing of its securities in circumstances other than an offer to the public, listing particulars (or a prospectus) are required in accordance with the UKLA's Listing Rules, detailing information on the company, its accounts, directors and its securities to be listed.

Main Market

The Exchange's main market for UK and international listed securities.

Mandatory quote period

The time when market makers on the Exchange's quote-driven SEAQ and SEAQ International services are obliged to make firm two-way quotes for the securities in which they are registered. This time is 0800-1630 hours for SEAQ and 0930-1530 hours for SEAQ International.

Market maker

A securities firm which is obliged to offer to buy and sell securities in which it is registered throughout the mandatory quote period.

New issue

An issue of shares when a company comes to the market for the first time or issues extra shares.

Nominated adviser

Exchange-approved adviser for AIM companies. AIM companies must retain a nominated adviser at all times.

Offer price

The selling price for securities in the market.

Offer for subscription

A method of bringing a company to the market. The public can apply for shares directly at a fixed price.

Official List

The list of all securities officially listed by the UK Listing Authority.

Ordinary shares

The most common form of share. Holders may receive dividends in line with the company's profitability and on the recommendation of its directors.

POTAM

Panel on Takeovers and Mergers, which regulates conduct of takeovers and mergers in the UK.

Preference shares

These are normally fixed-income shares whose holders have the right to receive dividends before ordinary shareholders. If a company were to go into liquidation, preference shareholders would rank above ordinary shareholders for the repayment of their investment in the company.

Price/earnings ratio (P/E ratio)

The P/E ratio is a measure of the level of confidence investors have in a company (rightly or wrongly). Generally, the higher the figure the higher the confidence. It is calculated by dividing the current share price by the last published earnings per share – where earnings per share is net profit divided by the number of ordinary shares.

Price-sensitive information

Information which, if made public, is likely to have a significant effect on the price of the company's securities.

Primary market

The function of a stock exchange in bringing securities to the market for the first time. Money is raised either for the company at admission or through further issues to fund future growth.

Prospectus

When a company applies for a listing of its securities which are to be offered to the public in the UK, a prospectus is required in accordance with the UKLA's Listing Rules, detailing information on the company, its accounts, directors and its securities to be listed.

Private company

A company which is not a public company and which is not allowed to offer its shares to the general public.

Public limited company (plc)

A company whose shares may be purchased by the public and whose share capital is not less than a statutory minimum. Not all plcs are listed companies.

Registrar

An organisation responsible for maintaining a company's share register.

RIE

Recognised Investment Exchange which meets the FSA requirements for recognition. The London Stock Exchange is an RIE.

Rights issue

An invitation to existing shareholders to purchase additional shares in the company.

RIS

Regulatory Information Service – which ensures that information from listed and AIM companies, and certain other bodies, is disseminated to all subscribers, such as major information vendors at the same time for onward transmission to the market.

RNS

The Exchange's Regulatory Information Service – which ensures that information from listed and AIM companies and certain other bodies is disseminated to all RNS subscribers, such as major information vendors at the same time for onward transmission to the market.

SEAQ

SEAQ is a continuously updated electronic

notice board containing price quotations of UK securities. Market makers use the system to display the prices at which they are prepared to buy or sell shares of a particular company.

SEAQ International

The Stock Exchange Automated Quotations system for international equities.

SEATS PLUS

SEATS PLUS is a hybrid market model combining market maker quotes and an order book. All AIM and some main listing securities are traded on SEATS PLUS.

Secondary market

Marketplace for trading in securities.

Securities

General name for stocks and shares of all types.

SETS

Trading of the most liquid stocks is through the electronic order book often referred to as SETS (Stock Exchange Trading System). It is a fully automated, screen based market where buy and sell orders are entered into a system anonymously and automatically executed during continuous trading when the price details match. Otherwise known as the order book.

Settlement

The process of transferring stock from seller to buyer and arranging the corresponding movement of money between the two parties (see CREST).

Shares

See Ordinary shares, Preference shares, Securities.

Shares in public hands

A company seeking admission to the Official List must have at least 25 per cent of its shares in public hands. Shares are not deemed to be in public hands where they are held by a director of the company or its subsidiaries, individuals connected with the directors and any person holding five per cent or more of the shares.

Stockbroker

A securities firm which provides advice and dealing services to the public and which can deal on its own account.

techMARK

The Exchange's international market for innovative technology companies.

techMARK mediscience

The Exchange's international market for healthcare companies.

Touch

The best buying and selling prices available on SETS or from a market maker on SEAQ or SEAQ International in a given security at any time.

UKLA

The Financial Services Authority acting in its capacity as the United Kingdom Listing Authority.

Underwriting

An arrangement by which a company is guaranteed that an issue of shares will raise a given amount of cash. Underwriters undertake to subscribe for any of the issue not taken up by the public. They charge commission for this service.

Warrants

Securities giving the holder a right to subscribe for a share or a bond at a given price and from a certain date.

Yellow strip

The yellow band on a SEAQ or SETS screen which displays the highest bid and the lowest offered prices that competing market makers are offering in a security. They are known colloquially as the 'touch' or 'yellow strip' prices.

Yield

The return earned on an investment taking into account the annual income and its present capital value. There are a number of different types of yield, and in some cases different methods of calculating each type.



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