A Guide to AIM
The Junior Market of the London Stock Exchange

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AIM is the junior market of the London Stock Exchange, and has become a leading market for companies all over the world to raise funds for growth and development. The number of companies trading on AIM as of December 2015 was 1,044 and the total amount of money raised on AIM throughout 2015 was £5,462,800 million.

AIM has developed rapidly both in terms of the number and diversity of companies admitted to the market, and the range of institutional and retail investors involved. Its success is built on a simplified regulatory environment which has been specifically designed for the needs of smaller, emerging companies.

The equity capital markets team in the London office of Locke Lord LLP regularly advises AIM companies on the flotation process and on their ongoing obligations under the AIM rules.

ADVANTAGES OF AN AIM LISTING. Companies admitted to AIM gain all the benefits of flotation on a public market in addition to the extra advantages of being quoted in London including:

• The credibility and profile associated with an AIM quotation
• Exposure to one of the deepest pools of capital in the world
• Increased exposure to institutional investors
• A market and quotation for the company’s shares
• The ability to use the company’s shares as currency for acquisitions
• The premium attached to observance of good corporate governance standards
• Internationally respected regulatory standards
• Raising the company’s profile with global customers and suppliers
• Boosting employee motivation by creating shared ownership

KEY FEATURES OF AIM

• AIM provides a flexible regulatory environment for small and growing companies. The market is regulated by the London Stock Exchange (Exchange).
• The AIM Rules for Companies (AIM Rules), published by the Exchange, set out the rules and responsibilities for AIM companies.
• There is no requirement for a minimum level of capitalisation (unless the company is an investing company, as defined in the AIM Rules, in which case it must raise or have raised at least £3 million via an equity fundraising on, or immediately before, admission to AIM).
• The AIM Rules also do not impose any requirements as to the company’s trading history, the number of shares in public hands, or the pre-vetting of admission documents. The main requirement is that the company is “appropriate” for market, which is determined by the company’s nominated adviser.
• In most cases the AIM Rules do not require prior shareholder approval for transactions.
• The shares to be admitted must be freely transferable and eligible for electronic settlement. All other issued shares of the same class must be admitted.
• AIM companies are required to retain a nominated adviser and a broker at all times.
• An applicant which is a mining or oil and gas company must comply with the ‘Note for Mining Oil and Gas Companies’, including the preparation of a Competent Person’s Report, and specific content requirements.

AIM ADMISSION DOCUMENT

The AIM Rules require a prospective AIM company to publish an admission document. The exception to this is when a company is using the fast track admission process, available to certain companies whose shares have been traded for at least 18 months on designated markets (i.e. ASX, NYSE, NASDAQ, Swiss Exchange).

Publication of a prospectus will be required where a company is offering shares to the public under the Financial Services and Markets Act 2000 (FSMA). A prospectus is not required if: (i) the offer is directed at no more than 150 persons (other than ‘qualified investors’) per European Economic Area state; or (ii) the total consideration of the offer is less than €5million.
In order to avoid the complications, delays and cost involved in producing a prospectus, most IPOs on AIM are structured as placings to institutions and possibly a small number of non-qualified investors. This way the fundraising is not an offer to the public and the invitation to subscribe for shares falls within exemptions to the FSMA restrictions on financial promotions.

An admission document must contain the information specified by Schedule Two of the AIM Rules. These content requirements are based on the content requirements for a prospectus under the Prospectus Rules.

In addition to the specific information requirements, an admission document must contain all information reasonably considered necessary to enable investors to form a full understanding of:

• The assets and liabilities, financial position, profit and losses, and prospects of the company and the securities for which it is seeking admission
• The rights attaching to the securities
• Any other matter contained in the admission document

The information must be presented in an easy-to-analyse, comprehensible form. The directors of the company (as well as the company itself) must take responsibility for the contents of the admission document, confirming that it contains accurate and full information, and that there are no material omissions.

There is no requirement to obtain approval of an admission document by the Exchange prior to publication; however, the company’s nominated adviser must confirm to the Exchange the suitability of a company and its securities to be admitted to AIM.

**METHODS OF FLOATING ON AIM**

There are various ways a company can float on AIM. The company’s nominated adviser will offer guidance on the most suitable route, depending on the company’s objectives.

• **Introduction.** An introduction to AIM enables the company to access the market but does not involve a fundraising. This may be an appropriate method if the company, for example, is dual listing on AIM or moving up from the ISDX Growth Market to AIM.

• **Private Placement.** The most popular route to AIM for companies looking to raise funds at the time of admission is via a private placement. This is often the most cost effective route to join the market and raise funds at that time, as there may be no requirement for the company to prepare a full prospectus.

• **Reversing into a AIM cash shell.** Companies can join AIM via a reverse transaction into an existing AIM cash shell. In certain circumstances, reversing into an AIM cash shell may involve the preparation of more documentation than a straightforward admission. This can also potentially take longer as the transaction requires both an AIM admission document and the approval of the shareholders of the cash shell.

There are however some significant benefits of joining AIM via a cash shell. The transaction will enable the company to have a readymade shareholder base and there may not be a requirement to undertake a fundraising road show. Most importantly, there is cash available in the shell waiting for investment that removes the risk of an unsuccessful fundraising via the traditional method of floating on AIM.
TIMING AND COSTS
AIM’s simplified admission procedures generally result in saving time and cost for an AIM admission as compared to a listing on the Exchange’s Main Market or other regulated market.

Admission to AIM from start to finish typically takes three to six months. The actual timetable will depend on how much preparatory work has been carried out by the company and whether any significant issues are identified during the due diligence process. If, for example, a substantial restructuring of the group is required prior to admission to the market, this may extend the timetable considerably.

Advisers’ fees for advising on and producing the admission document and ancillary documentation, as well as carrying out due diligence, usually varies in aggregate from about £200,000 to £400,000. In addition, the broker will charge a commission of between four to six per cent on the amount of funds raised. There are also fees to be paid to the Exchange for the AIM admission, though these are relatively modest.

THE ADVISERS INVOLVED ON AN AIM ADMISSION

• **Nominated Adviser.** The nominated adviser owes its duties primarily to the Exchange, and determines whether or not a company is suitable for a listing on AIM. On an on-going basis, the nominated adviser will ensure that the company is complying with the AIM Rules, review and advise on the nature and form of regulatory announcements, and provide advice on business strategies and general market conditions. This is the key role in the Admission process. Typically the nominated adviser also acts as the company’s broker. The nominated adviser is responsible to the Exchange for assessing whether a company is appropriate for AIM, and for advising and guiding an AIM company on its responsibilities under the AIM Rules. The nominated adviser is required to make a declaration to the Exchange that the AIM Rules have been complied with and the admission document complies with the content requirements set out in the AIM Rules.

• **Reporting Accountants.** The reporting accountants are distinct from the company’s auditors, and their principal function is to review the company’s financial results and reporting processes and report to the nominated adviser any areas of concern. The reporting accountants are responsible for preparing the long form report, the short form report and a working capital report. As part of their work, they will review the financial reporting systems and controls of the company.

• **Solicitors to the company.** The solicitors to the company will carry out a legal due diligence exercise on the company, the purpose of which is to identify any issues that need to be remedied prior to admission to AIM, and to assist with the drafting of the admission document. The solicitors to the company advise on the legal aspects of admission, including re-registration as a public company, the general duties of directors of a public company, new service agreements, general disclosure requirements and the terms of any placing agreement. The solicitors to the company will also assist with the verification process, the purpose of which is to ensure the statements in the admission document are true and accurate, and not misleading. This is key to ensure that the directors of the company do not incur liability to investors or the Exchange in respect of the admission process.

• **Financial PR Consultants.** The Financial PR Consultants will be engaged to generate positive press interest and publicity, and monitor the content and wording of any public statements.

• **Nominated Broker.** Under the AIM Rules, every AIM company must retain a broker at all times. Their role is to:
  • initially assess the level of investor interest in the company’s shares at the time of admission to AIM and in any further fundraisings;
  • provide on-going advice on market- and trading-related matters;
  • advise on the pricing of shares and investment opportunities.

The broker will often have its own institutional research department that is responsible for producing research on companies that provides investors with analysis of the company and its assets. Alternatively, analyst research can be written by a firm independent of the company but paid for by the company. Analyst research is a valuable tool in raising investor awareness and can be published at admission, and on an on-going basis.
Improving the information flow about a business to investors is key to ensuring a greater understanding of the company’s activities, strategy and future prospects, and can have a positive impact on liquidity and share price performance.

**MAKING ACQUISITIONS ON AIM**

Admission to AIM allows the company’s shares to be used as currency when making acquisitions. Sellers of target companies or assets will be more willing to accept shares in a publicly listed company that can be traded rather than shares in an illiquid private company. This gives the company an alternative to cash and more flexibility with its funding arrangements.

Under the AIM Rules only acquisitions that constitute reverse takeovers require shareholder approval. Where an AIM company undertakes a transaction (or a number of transactions over a period of 12 months), exceeding 100 per cent in any of the class tests (see below), or that will result in a fundamental change in its business, board or voting control, it is known as a ‘reverse takeover’. For investing companies, a reverse takeover can also be triggered by the company departing materially from its investing strategy.

A reverse takeover is conditional on the consent of shareholders and notification of the transaction must be accompanied by the publication of a full admission document of the proposed enlarged entity.

**CLASS TESTS**

There are five tests, each of which results in a percentage used to determine the size of a transaction on AIM. They are known as the “class tests”:

- the Gross Assets Test
- the Profits Test
- the Turnover Test
- the Consideration Test
- the Gross Capital Test

**OTHER AIM TRANSACTIONS**

- **Substantial transactions.** When an AIM company undertakes a transaction that exceeds 10 per cent in any of the class tests, it is known as a ‘substantial transaction’. The AIM Company’s advisers will notify the transaction via a Regulatory Information Service transaction via an RIS announcement to the market as soon as the terms have been agreed upon. The notification must include certain information prescribed in the AIM Rules, including particulars of the transaction, a description of the business, etc.

- **Related party transaction.** A related party transaction is one which an AIM company undertakes a transaction with a related party that exceeds five per cent of any of the class tests. The definition of a related party under the AIM Rules is quite wide and includes parties such as directors, substantial shareholders or associates.

- **Fundamental disposal.** A disposal that, when aggregated with any other disposal over the previous 12 months, exceeds 75 per cent in any of the class tests, is treated as a fundamental change of business and is conditional on the consent of its shareholders in a general meeting.

- **Investing company.** When the effect of the disposal is to divest the AIM company of its trading business or assets, it is treated as an ‘investing company’ and must adopt an investing policy at the general meeting. The investing company will then have 12 months to make one or more acquisitions that constitute a reverse takeover or otherwise implement the investing policy.
CAPITAL STRUCTURE AND CREST

AIM companies usually have only one class of ordinary shares. All of the shares of a particular class must be admitted to trading on AIM. The shares admitted to trading must be freely transferable and eligible for electronic settlement through CREST; however shares of overseas companies cannot be settled directly through CREST, therefore depository interests can be used to enable interests in such securities to be settled electronically.

ONGOING REPORTING REQUIREMENTS

Following Admission to AIM the company will be subject to various reporting obligations. These relate primarily to publication of price-sensitive information without delay (in order to preserve an orderly market in the AIM company’s shares), and producing and filing half-yearly financial statements (within three months of the end of the period) and annual financial statements (within six months of the year-end).

Some of the other key reporting obligations require disclosure of substantial transactions, related party transactions, reverse takeovers and disposals resulting in a fundamental change of business.

There is a general obligation to take reasonable care to ensure that any information released to the market is not misleading, false or deceptive.

KEY CONTACT

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