The essential

AIM Stock Market Guide

Embrace the journey

HollandBendelow
FLOTATION CONSULTANTS

Contents

AIM is now established as one of the world's leading growth stock markets for younger and growing companies.

Since its launch in 1995, over 3,700 companies have joined the market raising over £100 billion of investment capital. Over the years AIM has also developed into a truly international stock market, with a strong following of both companies and investors outside the UK. In recent years the performance of AIM companies within the FTSE AIM All-share index has outperformed the average performance of the FTSE 100, which is another sign of the success and maturity of the market.

Companies choose to join AIM because it provides:

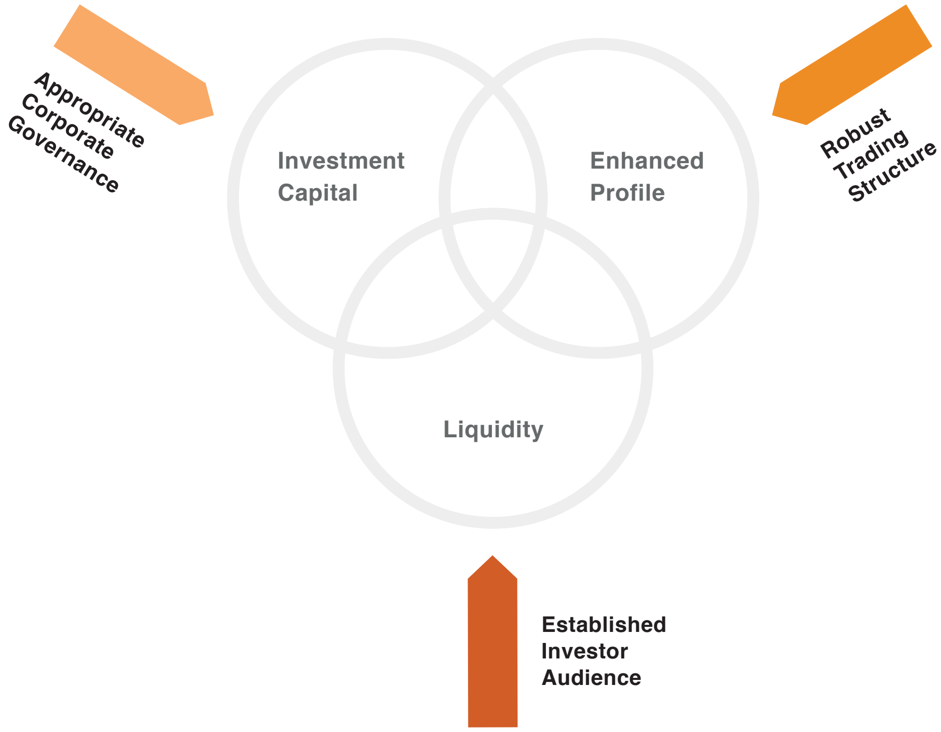
- A platform to raise funding
- A mechanism to undertake further fundraisings
- The opportunity to raise the profile and credibility of a company
- A strategic exit route for existing investors
- An objective valuation
- A method of incentivising and retaining employees through share schemes

> In this latest publication we build on our previous AIM guide by including case studies and transaction timetables. We also include insights from our experienced consultants and associates providing the most comprehensive independent AIM guide available. I thank all those who have contributed to this new publication; I hope that you find this a useful first step in considering AIM for your company. Our consultants are happy to answer further questions that you may have.

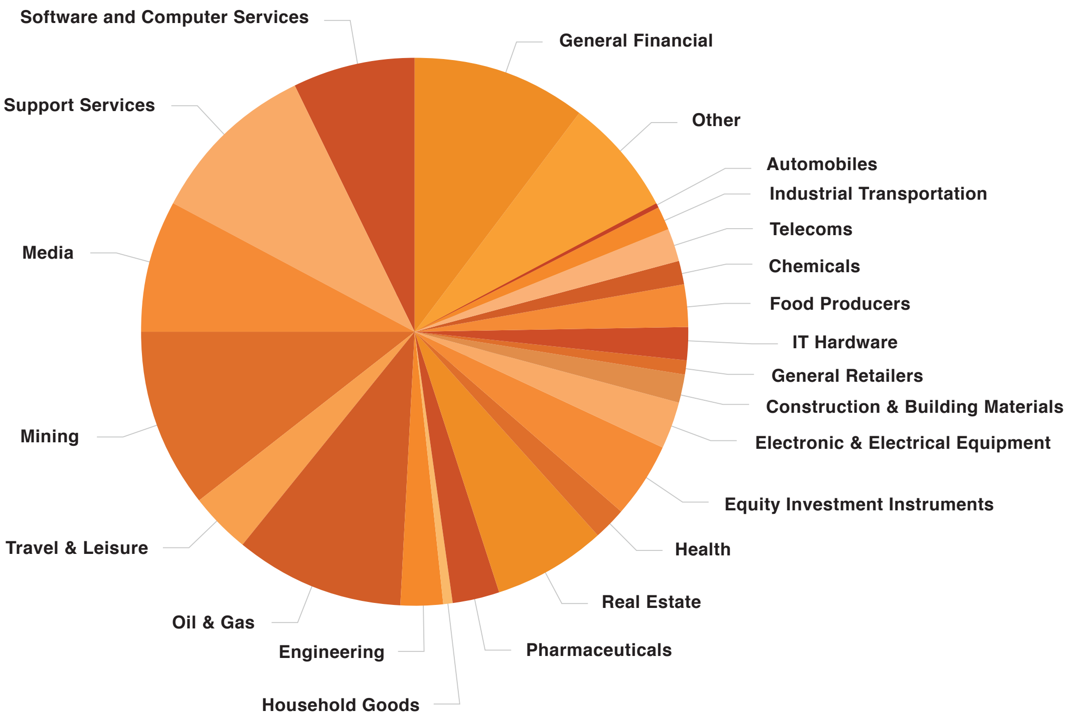
John Holland

Managing Director, Holland Bendelow

Why AIM?
A proven combination



AIM companies by sector



AIM Stock Market Overview

What is AIM?

AIM (The Alternative Investment Market) is a stock market owned and operated by The London Stock Exchange. The market was established over 20 years ago to provide a destination for growing companies to raise equity growth capital. AIM offers growing companies the opportunity to raise significant amounts of capital, which is often more suited to their requirements than debt capital. There are a range of shareholder tax incentives which encourage investment into AIM companies and provide additional liquidity to the market.

Raising funding on AIM

For growing companies, early stage funding from angel investors, banks or even family and friends is often insufficient to support ambitious growth. However, many smaller growing companies are not ready to commit to the regulatory requirements of an IPO on The London Stock Exchanges Main Market, or other international stock markets. AIM fulfils the needs of growing companies by offering a market that provides investment capital and the opportunity to undertake repeat fundraisings, but within a more flexible regulatory environment. This is invaluable when companies wish to undertake an aggressive acquisition strategy, and require the reassurance that repeat funding will be available quickly to capitalise on opportunities as they become available. AIM companies therefore have a distinct advantage over their private company rivals when considering raising money, making acquisitions, or carrying out other corporate finance activities.

A destination for International growing companies

AIM has always attracted a broad range of international companies who look to benefit from AIM's global brand and access to deep pools of investment capital. The market is now home to companies from over 40 different business sectors, from software to healthcare. Non UK companies now represent nearly 20% of the companies on the market.

AIM indices

Today, trading in AIM shares is encouraged and supported through a number of indices that have been developed to improve investor's ability to benchmark and trade AIM shares in a variety of ways. The FTSE AIM Index Series includes the FTSE AIM 100 Index, FTSE AIM All-Share Index and FTSE AIM All-Share Super Sector Indices.

The Super Sector indices provide investors with 18 industry-based benchmark tools, helping them to identify macroeconomic opportunities for investment and trading, and to differentiate between the performance of Main Market and AIM companies in a given Super Sector. These help to boost institutional interest and investment in AIM Stock Market Companies.

The benefits of joining AIM

Growing companies require access to long-term equity capital without the burden of over regulation. AIM has a simplified route to admission, a simplified set of rules governing companies that have joined the market, and access to the deepest pool of investment capital anywhere in the world.

Access to essential investment capital to support growth –

The most common reason why companies choose to join the market is to raise equity capital to support their growth, whether organic, acquisitive or mix of the two. Companies have raised over £100b on the market since its inception.

Access to additional tranches of funding post listing –

AIM provides a mechanism that enables companies to raise additional capital on an ongoing basis though the further issue of shares once they are listed on the market.

A platform from which a company is able to broaden their shareholder base –

AIM attracts both retail and institutional investors, and has a continuous market making system that ensures there is always a market in AIM companies shares.

The Benefits of AIM

- **Access to essential investment capital to support growth**
- **Access to additional tranches of funding post listing**
- **A platform from which a company is able to broaden their shareholder base**
- **Effective share schemes**
- **Using company’s shares as currency**
- **Enhanced profile and new marketing opportunities**
- **A more flexible regulatory environment**
- **Access to a broad range of different sizes and sectors of companies**
- **Tax benefits**
- **Exit strategy**

Effective share schemes –

Companies benefit from introducing meaningful and transparent share based incentive schemes which can help to recruit, motivate and reward staff, enhancing employee performance.

Using company's shares as currency –

AIM enables companies to use their shares as currency, in full or part consideration for acquisitions.

Enhanced profile and new marketing opportunities –

AIM companies enjoy an enhanced profile that can lead to improved status with new and existing customers and suppliers. The profile and credibility of a listing can also open new business opportunities.

A more flexible regulatory environment –

AIM's balanced regulatory environment is specifically tailored to support the needs of smaller companies. The AIM Stock Market's success is underpinned by its regulatory environment, which has been specifically designed to meet the needs of smaller and growing companies, whilst offering appropriate investor protection.

Access to a broad range of different sizes and sectors of companies –

AIM can accommodate a wide diversity of businesses from start-ups to large international businesses. There is a large and loyal investor base in place looking to support companies with ambitious growth plans.

Tax benefits –

There are certain tax benefits associated with AIM, however the tax issues surrounding the market are often complex and it is therefore advisable to take tax advice from a tax expert ahead of the listing.

Exit strategy –

AIM can provide founder or existing shareholders in a company a partial or full exit strategy.

How to join AIM

The AIM Stock Market is designed to allow growing companies from both the UK and around the world to join with few restrictions. For example, the AIM rules do not prevent companies with a short, or even no trading record from joining the market.

The London Stock Exchange's AIM joining rules do not stipulate any minimum requirements for:

- The size of a company (market capitalisation/value)
- The trading record of a company
- The number of shares that a company must put into public hands (free float)
- The number of employees in a company
- The gross revenues of a company
- The profitability of a company

The rules for joining the market are relatively straightforward and stipulate the following:

- A company's shares when admitted to AIM need to be free from restrictions on transferability
- Appropriate settlement arrangements for trades in the company's shares must be in place. All trades in AIM securities must be able to be undertaken via electronic settlement. (This will be organised by your advisors)
- AIM companies must retain a broker and nomad at all times
- AIM companies are required to pay a joining fee to The London Stock Exchange
- Companies that are regarded as 'investing companies' are required to comply with special conditions and raise a minimum of £6 million in cash via an equity fundraising at the time of admission to AIM
- Those companies from the mining or natural resources sectors must comply with the London Stock Exchanges 'Note for Mining Oil and Gas Companies'. The key rule here is that the company is required to have prepared a 'Competent Person's' report

AIM and the UK law

The rules governing the offer of shares to the public in the UK are governed by the Prospectus Rules, published by the UK's Financial Services Authority (FSA). The rules are particularly important as they make it compulsory for new companies joining AIM to produce an AIM admission document which contains information equivalent to the information contained in an AIM prospectus, but with certain important omissions.

The key issue is whether a proposed fundraising on AIM by a company constitutes an 'offer to the public'. If it does then the AIM admission document must fully comply with the Prospectus Rules, and the document requires prior approval by the UK Listing Authority.

In most cases an offer of shares, which is to less than 100 persons or to qualified investors, is not considered to be a 'public offer' under the Prospectus Rules and therefore will not need to comply with the rules.

Start up and pre-revenue businesses

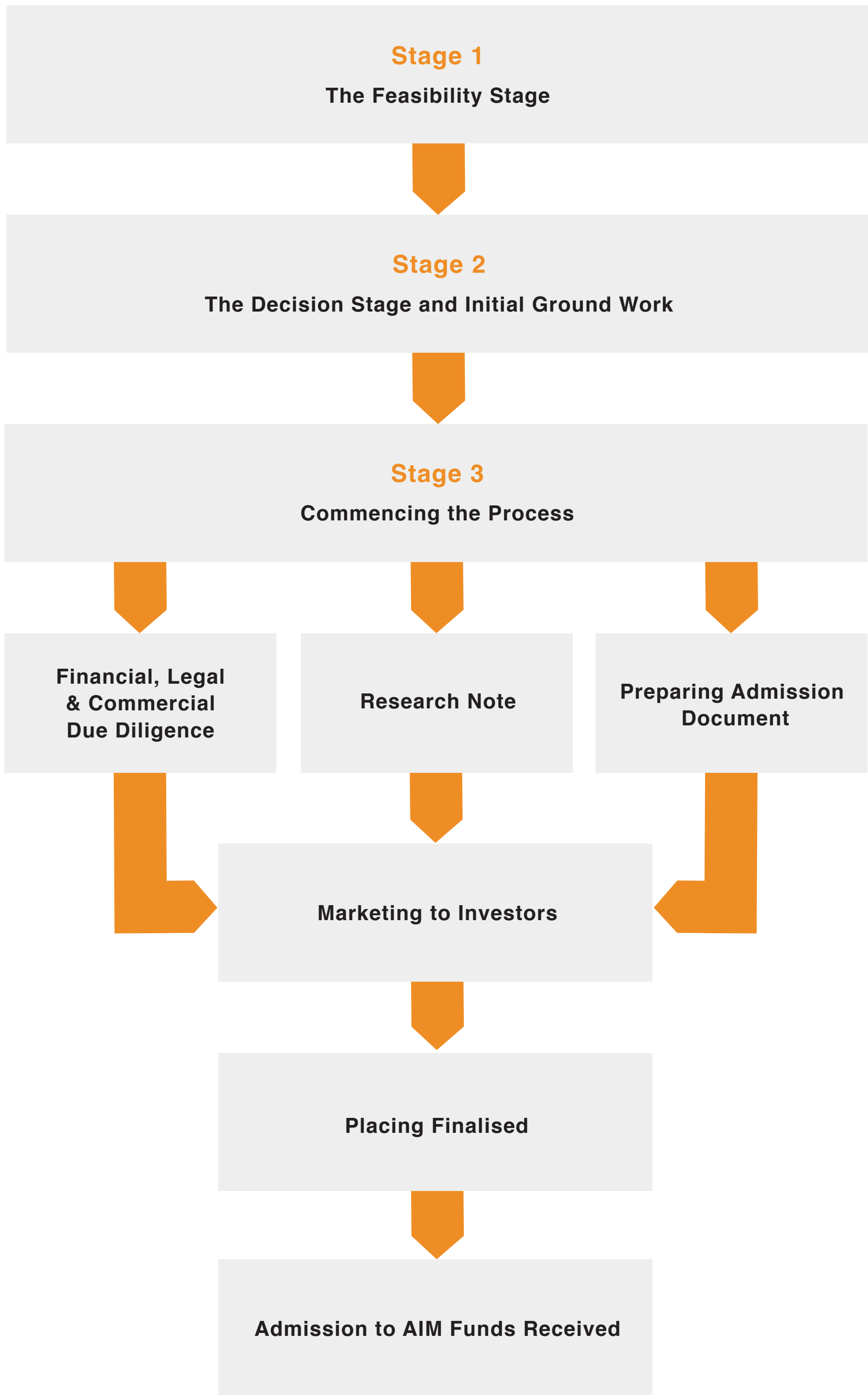
The AIM rules permit early stage and pre-revenue businesses to join the market, however the task of securing investor support for a start-up business can be challenging. It is advisable to engage the services of a flotation specialist to assess the viability of a potential AIM flotation and fundraising prior to engaging advisor teams and incurring unnecessary costs.

Certain business sectors will be more appealing to AIM investors than others at pre-revenue stage, for example natural resources businesses often join AIM without the benefit of existing revenue streams. Also, some businesses that operate in sectors which require a large amount of upfront investment prior to generating revenues, such as biotech, software and technology companies.

What makes a successful AIM IPO process?

Harvard Business School undertook a 10 year study of the financial and non-financial factors that are critical to the success of newly public companies. The study undertook in depth analysis which included qualitative feedback from over 2,500 companies that undertook IPO's over a 10- year period. The conclusions of the research revealed that pre-IPO preparation is key to the success of any IPO. The success of the transaction from a private company to a public company relies, to a large extent, on the ground work undertaken ahead of the IPO and the formal joining process.

The Joining Process



Stage 1 | The feasibility stage

Perhaps the most important part in the process involves weighing up the pros and cons of an AIM listing for a company and its unique set of circumstances. For many companies it's prudent to undertake a feasibility exercise first, so that fully informed decisions can be taken about if, how and when an IPO could and should happen.

In addition, the benefits and drawbacks of AIM can be assessed alongside other funding options, such as private equity funding or debt finance.

In some cases where an exit strategy is one of the driving forces behind a potential flotation, the benefits of AIM and the potential returns for shareholders can be weighed up against a trade sale. Companies without in-house stock market expertise will need to engage the services of a stock market consultant, who will undertake an AIM flotation feasibility exercise on behalf of a company. As part of the study they may decide to test market a company's business proposition with key AIM stock market participants and assess how an AIM flotation may impact on the business.

Stage 2 | The decision stage and initial ground work

Once the necessary information has been collated to enable the company to make a fully informed decision about joining AIM, the consultant will work with the company to produce a timetable for the transaction that ensures disruption to the business is prevented.

The consultant will also work with the company to shape the investment case into a cohesive document which can be used to communicate the company's key message to a broad range of stock market participants. These may include investors, advisors, and regulators. Often the key issue at this stage is to present a proposition which accurately reflects both the current and future prospects of the company and ensures that market participants can quickly grasp the fundamentals of the business.

The consultant may review current corporate governance in a company and advise on board composition as it moves from becoming a private company into a public company arena. This may involve advising, and if required, undertaking a search assignment to identify the relevant Executive and Non-Executive Directors that could enhance the board ahead of the AIM admission.

The consultant will support the company in the selection of broker and advisor teams that will be required to undertake the transaction. This may involve arranging meetings with shortlisted advisors, reviewing the various fees, terms and conditions and ability of firms to undertake the various work streams.

Stage 3 | Commencing the process

Assuming a decision has been made to proceed with a flotation, the next stage in the process is to appoint advisors. A more detailed timetable with key action points will be circulated to the advisor teams. In some cases additional due diligence may be required by specialists over and above the work undertaken by lawyers and accountants, this is usually the case where a company is involved in mining or mineral resources. Also, certain technology or bioscience companies may require additional specialist reports to verify the valuation of intellectual property owned by the company.

The IPO process generally involves 3 phases.
Although these are 3 distinctive work streams they often overlap:

Phase 1 Due diligence	• Legal and financial due diligence is undertaken by the Lawyers, reporting accountants and nomad undertaking a review of the business. They will identify any risks which will then be addressed or may be highlighted in the admission document • A virtual data room is created to enable the company and all the advisors to access information easily and quickly
Phase 2 Preparing the AIM admission document	• First drafts of the admission document are prepared • Drafts of legal and financial due diligence (long form report) is prepared • Draft of working capital report is prepared • Tax clearances submissions are made • Verification notes are drafted • New board appointments are made • The admission document is finalised, which covers the business, the risked associated with investing in the business, historical information and various legal disclosures • All of the information contained within the admission document is verified by management to ensure that statements made are accurate
Phase 3 Marketing to investors	• An IPO research note is circulated by the broker to potential investors • A roadshow commences with meetings taking place between the company's senior management and potential investors • Pricing is agreed and placing letters sent to investors • AIM Application form is submitted • Admission to AIM • Monies are received by the Company

Timetable

Summary of key tasks	Responsible	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
The feasibility stage	F C	■	■															
Initial groundwork	F C			■	■													
Appoint advisors	F C					■												
Prepare/update proposal document	F C					■	■	■										
Prepare forecasts	F C						■	■	■									
Accounting due diligence	A						■	■	■									
Legal due diligence	L							■	■	■	■	■						
Admission doc	N L C							■	■	■	■	■	■	■	■			
Long form report	A							■	■	■	■	■	■	■				
Working capital report	A							■	■	■	■	■	■	■				
Accountants report	A							■	■	■	■	■	■	■				
Verification of admission document	L													■	■			
Financial reporting procedures	A													■				
Investor presentation	B C													■	■			
Placing document	B C													■	■			
Marketing investor roadshow	B PR C														■	■	■	
Admission doc	N																	■
Funds deposited with company	B																	■

- F **Flotation Consultant**
- A **Accountant**
- L **Lawyer**
- C **Company**
- N **Nominated Advisor**
- B **Broker**
- PR **Public Relations**

Types of listing

There are a number of different ways of accessing AIM. Choosing a particular route will depend on the reasons for a company joining the market and their funding requirements:

Introduction

An introduction is the route whereby a company joins AIM, but does not raise funds at the time of admission. This is often the most cost effective method of flotation and the most straightforward. Joining AIM via an introduction enables a company to access the market and to have an independent valuation of the business, whilst the plc status helps to raise the profile of the business to a wider audience. An introduction would not however involve a significant fundraising and therefore is not chosen by companies who require an immediate tranche of investment capital in the short term.

Placement

The most popular route to AIM for companies looking to raise funds at the time of admission is via a 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.

Initial Public Offering (IPO)

An IPO is when companies offer shares to a wide potential investor audience, i.e. a public offering.

Reversing into an AIM cash shell

Joining AIM via a reverse transaction into an existing cash shell offers some benefits over other routes to AIM. In particular, there is a readymade shareholder base and a transparent amount of cash available. If you wish to explore this option, please see Holland Bendelow's 'Essential Guide to AIM Cash Shells', or speak with one of our AIM cash shell experts.

Raising funding on AIM

AIM has enabled companies to raise over £100 billion, and over the past years the market has developed a sizable community of investors that follow and support AIM companies. The attraction from an investor's perspective is the potential growth that many companies offer. The various tax breaks that AIM companies offer add additional incentives.

How AIM companies use funding:

- To reduce the dependency on bank finance
- To reduce pressure on working capital
- To pay down significant creditors
- To buy out founder shareholders
- To fund strategic acquisitions

Raising funding at IPO –

A successful fundraising at IPO will depend on matching the expectations that the company has regarding valuation with what the new investors are willing to buy shares at. The key challenge is to ensure that both sides feel that the result is fair and satisfactory. The final value of a company and its shares will, to some extent depend on demand for the company's shares amongst investors, and therefore the strength of the overall business proposition.

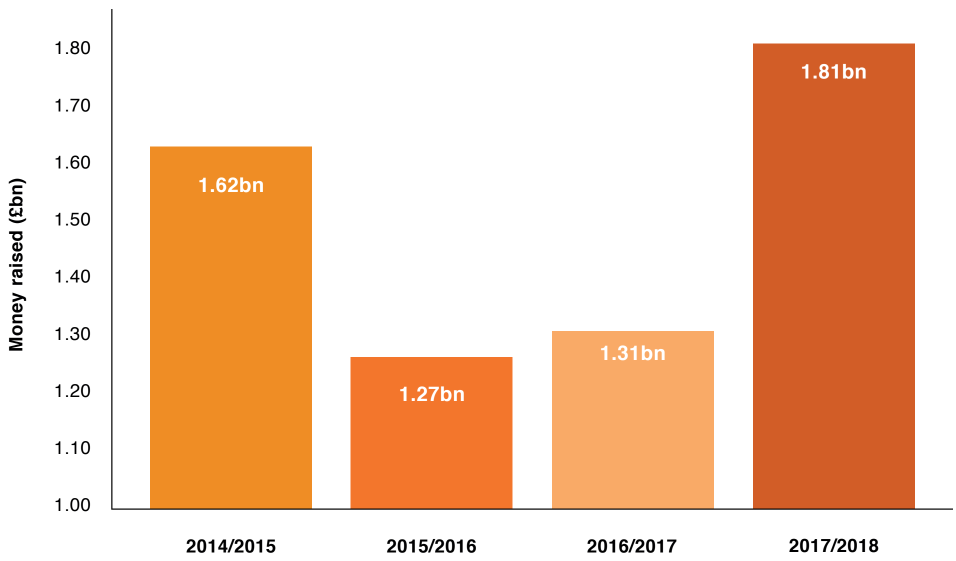
Who are the investors? –

AIM attracts investors from around the globe; these include traditional institutional investors, experienced retail investors, hedge funds, family offices, high net worth individual investors and Venture Capital Trusts. The majority of funding raised to date by AIM companies has been via further capital-raisings post IPO. This demonstrates the effectiveness of the market to support companies who require multiple fundraisings post admission to the market.

Raising further funding post the IPO –

Companies frequently raise funding for acquisitions post an AIM listing. This is largely because the regulatory dynamics of the market make the process relatively straightforward and cost effective. There is no requirement to undertake an admission document or prospectus and much of the cost associated with additional fundraisings following an IPO are commissions paid to brokers based on a percentage of the funding raised. It's therefore unsurprising that AIM companies have raised over £60b post their IPO's since AIM's launch. Even through the most challenging years of the recession of 2008 companies listed on AIM raised significant funding through the further issue of shares.

Amount of money raised through AIM IPOs



Securing a satisfactory valuation

One of the key considerations for companies looking to join AIM concerns the valuation of the company and potential structure of the equity raise.

As with most financial transactions, there are competing interests to consider. Firstly, those of the existing shareholders in the company and secondly, new shareholders investing in the company for the first time.

The first step

Initially, it is useful to discuss valuation expectations with a stock market consultant at the outset, and prior to commencing the flotation process. It's important to establish at the earliest stage whether valuation expectations are likely to be met by an investor audience. This may influence whether a company decides to pursue a stock market listing, or seek other alternative funding options. In most cases a stock market consultant will undertake initial research to ascertain an achievable valuation range.

How is valuation set?

Stock market analysts are experienced at assessing companies businesses models, and arriving at a valuation range. They regularly benchmark companies against each other, as far as it is possible to do so, from similar business sectors to arrive at comparative valuation ranges.

Pathfinder research

Once committed to the flotation process the brokers equity research team will then begin to commence pathfinder research, briefing investors about the company. Information will be prepared by a company analyst that has particular knowledge about a company's business sector. This should replicate or be consistent with the company's own financial projections. The pathfinder research will then be distributed to targeted investors. The company may then, following advice from its advisors, decide to make a formal announcement about it's intention to float.

Having distributed the pathfinder research the broker will then commence the process of company presentations to institutional investors, usually 2 weeks after the pathfinder research has been distributed.

Investor roadshows

Following the pathfinder and initial research distribution, representatives from the company will deliver presentations to potential investors. This process is often referred to as the investor 'roadshow'. The presentation material used will be pre-vetted by lawyers to ensure that it is accurate and relevant. Invariably the responsibility for attending and presenting in these roadshows falls with the company's CEO, FD and/or Chairman.

The number of presentations required to be undertaken may depend on the amount of funding your company requires and the size of the company. It's often the case that the roadshow takes place in London and that between 5 to 7 meetings a day are required. There are invariably follow up questions following the roadshow and it will be the broker's sales team and analyst role to liaise with the company and interested parties to respond.

Receiving funds and issuing shares

When the broker has finalised the share price they will prepare a placing agreement. This is agreed with the company and it sets out the terms and conditions in relation to the sale of the company's shares. The broker will also prepare the necessary paperwork and liaise with a registrar to register the new shareholders interests. The new investor payments are taken and shares issued through an electronic trading system called CREST.

Book building

Towards the end of the investor roadshow it will become apparent what the final valuation of the stock will be. The broker will commence the book building exercise; this involves gathering all the orders from investors and balancing demand for shares with available shares. The broker will then recommend a final price for the IPO based on demand and availability of shares. The broker will be seeking a price for stock which is in accordance with the valuation range agreed with the company, the key objective is to ensure that the share price is realistic and will be robust over a longer period.

Undertaking acquisitions using AIM

Using a company's shares as currency

Being listed on AIM enables a company to use its equity share capital as 'currency' for full or part consideration for acquisitions.

From the acquisition target company's perspective, shares in the AIM company benefit from having a visible objective market value and are therefore more attractive than shares in a private company. AIM also provides the target company with a trusted trading platform to realise the value of shares in the enlarged company post transaction. Usually there needs to be a moratorium over selling shares for a period immediately post-acquisition for the significant shareholders.

Reverse takeovers

Under the AIM Rules, only transactions which constitute reverse takeovers require shareholder approval. This makes the process of making acquisitions straightforward from a regulatory perspective. This is particularly helpful as often the process involved in undertaking an acquisition needs to move quickly to a successful conclusion.

AIM companies should, however, be mindful of the provisions of the City Code on Takeovers and Mergers. All UK-based AIM Stock Market companies and some based outside the UK are subject to the provisions that are there to protect shareholders and, in essence, ensure that a fair deal is put on the table and that all shareholders are treated equally.

Where an AIM company undertakes a transaction, or a number of transactions over a period of 12 months, which exceeds 100 per cent in any of the class tests, or which 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', and include the following;

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

Substantial transactions

Where an AIM company undertakes a transaction which exceeds 10 per cent in any of the class tests, it is known as a ‘substantial transaction’. The AIM Company’s advisors will notify the transaction via an announcement to the market as soon as the terms have been agreed. The notification must include certain information prescribed in the AIM Rules, including particulars of the transaction, a description of the business etc.

Related party transactions

Where an AIM company undertakes a transaction with a related party which exceeds 5 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 which, 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

Where 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 6 months to make one or more acquisitions which constitute a reverse takeover.

What are AIM investors looking for?

What makes investors choose to invest in an AIM company?

Each investor has their own particular criteria for investing, which may be influenced by a range of different economic factors or sector specific trends. However, there are a number of key characteristics that AIM investors are looking for when assessing a company and deciding whether to invest or not.

1. Macro-economic factors –

- What is the expected economic outlook and how may this have a bearing on a company?
- Are there political or government initiatives that may have a positive or detrimental impact on a business?
- What are the business sector trends that apply to either a company, its suppliers or customers?

2. Geography –

- Where is a company based?
- Where are a company's target markets and customers?
- Currency issues

3. Management team –

- Expertise of the board and senior management team
- Appropriateness of the Chairman
- Non-executive directors experience and relevance
- Balance of executive and non-executive directors
- Willingness of senior management to invest into the company
- Directors remuneration
- Adherence to satisfactory levels of corporate governance

4. The Business –

- Proof of concept
- Controlling risks
- Customer base
- Trading history of the business
- Qualification for tax benefits, EIS and VCT

5. Forward projections –

- Visibility of future revenues
- Deliverable margins
- Satisfactory cash flow assumptions
- Barriers to entry for products and services
- Competition
- Strength of intellectual property and patents
- Dividend policy
- Financial gearing
- Recurring revenues

6. Appropriate use of funds –

- Amount of funding required
- Use of funds
- Further fundraises and when required
- Existing shareholder agreements
- Existing shareholder exits/part exits
- Valuation of the company/stock

6. Scalability –

The ability of the company to grow significantly

How to make a company more attractive to AIM investors:

1 The importance of a simple story

The most successful stock market companies are usually those that can communicate what their business does, who their customers are and how they intend to grow. If this can be easily communicated from one individual to another swiftly and concisely then there is a greater chance that investors will invest in a company. As most people now receive their news in short snippets or sound bites, so investors favour companies that have a story which can be quickly understood.

2 Corporate structure

It's advisable to have a straightforward company structure which can be easily communicated and which potential AIM company investors can understand. It is also helpful to have one class of shares and a simple staff share option scheme.

3 The importance of good management

Often characteristics which AIM investors will look for within the management team include:

- A recognisable management structure with clear defined roles
- Reporting systems in place which produce key management information
- Previous experience in the business sector
- Appropriate Non-Executive Directors that bring experience to the board

4 The importance of Non-executive Directors

The value of appointing suitable Non-Executive Directors should not be underestimated. They can potentially fulfil an important role, by bringing independent unbiased experience to a company's board. In some cases they may have the ability and networks to open new doors to business opportunities. Other Non-Executives may add value through having a successful track record of dealing with the city and investors.

The importance of an AIM company website

The company website is important in representing the business to investors and other stakeholders in the investment arena. Under the AIM rules (rule 26) key information about a company, its governance, and share information must be shown.

This presents an opportunity to provide all those visiting your company's website, whether they be investors, potential investors, opinion formers or customers, an impressive overview which encourages them to engage with the company. Website company information should include:

Company details –

- A description of the business
- The history of the business
- The company's strategy and vision
- Details of the board and senior management team
- Details of incorporation

Share information –

- The number of shares issued
- Who the major shareholders are (those with over 3%)
- Restrictions
- Share price information

Corporate Governance –

- A Corporate Governance statement
- An outline of committees

Reports and documents –

- Articles of Association
- Annual reports
- The AIM admission document
- Investor presentations

Additional information –

- RNS Reach announcements
- Regulatory information
- An investor blog
- A list of the Company's advisors
- AIM Rule 26 - listing of all the information required under AIM Rule 26

AIM Stock Market rules

The AIM Stock Market is a market regulated by the London Stock Exchange.

Companies who join AIM are required to comply with the AIM Rules for companies. Once a company has joined AIM it is obliged to comply with the continuing obligations set out in the AIM Rules.

In the worst case scenario, the London Stock Exchange has the power to impose sanctions on an AIM company for failure to comply with the AIM Rules. Usually first or minor discretions are dealt with by issuing a company with a warning notice. For repeat or serious breaches of the rules a fine can be imposed or in extreme cases a censure. In very extreme cases a company can have its AIM listing cancelled. Fortunately it's extremely rare for this to happen.

In addition to complying with the AIM Rules, companies joining the market must also comply with the UK legal requirements for offers of securities and the restrictions on financial promotions which are contained within the Financial Services and Markets Act 2000. For companies outside the UK there may be a requirement for the company to comply with the laws covering the sale of securities in its country of origin.

Reporting to the market

Reporting financial performance to shareholders and the broader investor community is one of the key tasks once listed. Audited annual accounts must be published and sent to shareholders not later than six months after the end of the financial year to which they relate. If the company is incorporated in an EEA country, the accounts must be prepared to and presented in accordance with International Accounting Standards. If not incorporated in the EEA, companies can use US, Canadian or Japanese GAAP or Australian IFRS.

In addition to the information and format prescribed under the relevant accounting standards and company law, an AIM company also needs to include details of:

- Any transaction with a related party where any of the class exceed 0.25 per cent and
- Details of director's remuneration earned in respect of the financial year by each director; this includes all payments whether cash, shares, pension contributions or benefits in kind.

Half-yearly reports

These relate to the six-month period after the last audited balance sheet date. These are released not later than three months after the relevant period end. There is no set format for the statement, although the accounting treatment and format should be consistent with that used in the audited accounts. It must include a balance sheet, an income statement, a cash flow statement and comparatives. There is no requirement for the statement to be audited; most companies simply have it revised by the auditors.

Price sensitive information

Companies often have ad hoc trading updates, sometimes at the time of the Annual General Meeting or partway through the trading year. It's important to make an announcement if new developments that are not already in the public domain would lead to a significant movement in the price of the company's shares. Advisors will support companies in assessing precisely what information would fall into this category.

Directors share dealings

The directors of AIM companies regularly buy and sell shares in their own companies. Dealings in these shares are announced to the market. AIM companies consult with their advisors ahead of such dealings so that mistakes are not made in respect of breaching AIM rules. Director's dealings are not permitted during the close period which is usually two months before reporting the interim accounts or publishing annual accounts.

The role of AIM Advisors

A team of AIM advisors support companies through the flotation process, and post admission to AIM:

Stock market flotation consultant

The consultant works closely with the company throughout the process. Initially their role is to provide the necessary information required to assess the feasibility for a listing. Their tasks may include:

- Ascertaining the fundraising capacity of the company
- Shaping the business proposal to maximise the valuation of the company
- Securing initial interest
- Advising and instigating searches for new Executive and Non-Executive board members
- Arranging for advisor team ‘beauty parades’
- Providing a timetable of events
- Providing a project plan with key action points
- Undertaking benchmarking exercises with pier group companies
- Preparing initial proposition documentation
- Arranging presentations with interested parties
- Managing the information flow to and from the company with interested parties
- Minimising the direct and indirect cost involved in the process

The Nomad

The Nomad plays an important role in ensuring the right companies come to AIM. They are approved by The London Stock Exchange to undertake this role. They undertake due diligence on the company, oversee the preparation of the admission document and confirm to The London Stock Exchange that a company is suitable for AIM. They act on behalf of the London Stock Exchange to ensure that a company fulfils its obligations under the AIM Stock Market rules post admission.

The Broker

The Broker’s role is to:

- Provide on-going advice on market and trading related matters
- Advise on the pricing of shares and investment opportunities

The broker will often have 3 teams each with their own specialist function:

- The Equity Research team has an important role in producing research on a company. This will invariably include a company analyst forecast of the company’s future performance. It will also provide the reader with guidance on the value of the current share price. Alternatively, analyst research can be written by a firm independent of the broker 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.
- The sales team will deliver key messages about the company to investors and potential investors. It is their role to create demand for a company’s shares. They may also take on a practical role of organising meetings between company and investors.
- The market making team - Some Brokers have their own market making team responsible for making a market in a company’s shares, and ensuring there is sufficient liquidity in your company’s shares for investors to be able to buy and sell shares.

Improving the information flow about a company 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.

The Reporting Accountant

The reporting accountant’s role will include reviewing and reporting on key aspects of the company including its financial position, reporting procedures, and the disclosure of historical financial information.

Market Makers

Market makers are 'wholesalers' of shares and are responsible for ensuring that there is always a two-way price in the shares in which they are registered. They play an important role in the secondary market as providers of liquidity; ensuring investors have efficient means for buying and selling a company's security.

The Lawyers

During the flotation process, the lawyers will advise on the structuring of the company and its subsidiaries, and undertake the following key tasks:

- Legal due diligence on the business
- Verification of the ownership of assets
- Support with the drafting of the AIM admission document
- Preparing employment agreements for directors and other key staff
- Advise the company's directors on their responsibilities in accordance with the AIM Rules
- Provide advice on the legal aspects of the flotation process and the continuing obligations
- Advise on corporate restructuring, if required

The Financial PR firm

Financial PR firms provide support in designing and implementing a communications strategy. This ensures that companies leverage a variety of opportunities for communication with investor audiences. The PR firm will work closely with other advisers in producing the investor road show presentation which will form the basis for the face-to-face meetings with investors.

Following the listing, most of the PR activities will be based around the main financial events such as interim figures, AGM's and financial results. Their objective is to ensure that there is a regular news flow to the market. Historically daily newspapers and financial press were the main sources of information about listed companies, now social media, private investor forums and other on-line channels have become equally important in the dissemination of listed company information. The Financial PR firm will utilise all of these communication channels.

Registrar

Companies appoint a registrar in order to maintain an up to date register of shareholders.

The Sequence of Engaging Advisors

The costs of joining AIM

Factors affecting costs

The costs associated with floating on AIM vary considerably from company to company depending on a number of factors including:

- A company's preferred route to market (introduction, placement, IPO or reverse into an AIM cash shell)
- The amount of funding raised
- How prepared the management team are to commence the flotation process
- Negotiation of fees for AIM advisors
- The costs associated with recruiting additional Executive, and Non-Executives to a company's board (if required)

How the costs of joining AIM can be managed

Raising additional funding to cover costs –

In most cases smaller growing companies raise additional funding over and above that required for their business growth to pay some or all of the costs of the flotation.

Back end loading fees –

Companies often agree with their AIM advisor teams to back end load a proportion of fees until the fundraising is completed so as not to have a detrimental impact on the company's working capital.

Contingency fees –

It is not unusual for companies to engage with certain advisors or brokers on a contingency basis, whereby their fees, or a proportion of fees, become due only following a successful IPO and after funds have been raised.

AIM joining fees

Market Cap (£m)		Increment (£m)	Maximum fee (£)
Greater than (A)	Equal or less than	(B)	(C)
0	5	Minimum fee	8,700
5	10	870	13,050
10	50	430	30,250
50	250	217	73,650
250	and over	96	97,500
		Maximum fee	97,500

AIM further issues fee table

Market Cap (£m)		Increment (£m)	Maximum fee (£)
Greater than (A)	Equal or less than	(B)	(C)
0	2		No charge
		Minimum fee	4,360
2	250	180	49,000
250	and above	Maximum fee	49,000

Life as an AIM company

Joining AIM is a considerable achievement for a company and is often the start of a new chapter in a company's development.

Whilst joining AIM does mean there are additional ongoing obligations to consider, there are also considerable opportunities to be explored which may include undertaking additional fundraisings. This may involve using shares as full or part currency to undertake strategic acquisitions.

Further fundraisings

The AIM Stock Market has demonstrated that even through the most challenging economic conditions in recent years, its ability to provide equity capital for companies once they have joined the market. The process and the costs associated with further fundraisings once listed on AIM is considerably quicker and less expensive than the initial IPO. Funding for new acquisitions or to accelerate organic growth can usually be processed in a matter of a few weeks ensuring companies have sufficient growth capital on tap to fuel its ambitions.

Communicating with investors and influencers

AIM companies potential audiences stretches beyond the existing investor base. For example, companies often wish to communicate key messages to customers, suppliers, opinion formers, or the media. Having a clear communications strategy post admission is therefore important, and the opportunities of raising your company's profile considerable. Often Financial PR firms are appointed to support companies raise awareness of the business whilst keeping within the guidelines of AIM regulation.

Having an effective investor relations strategy in place post the IPO is very important. Not only does it enable existing investors to be made aware of developments in your company, but for the benefit of future fundraisings, it can inform a much broader investor community both directly and indirectly through news providers.

The key objective of an Investor relations strategy is to ensure that value of the company and its operations is fairly reflected in its share price. A Financial PR firm will look to create a following of AIM analysts and also private client stockbrokers. News flow is key in this regard as are site visits, which may help to maintain the profile of the company amongst investor audiences.

The importance of research notes

Investors and potential investors will want to track a company's progress once listed on AIM. One of the most important areas of communication with investors is the research provided by a company's broker. The broker's analyst will publish notes regularly in reaction to company news. The analyst will adjust their forecasts and recommendations about a company depending on internal and external factors, allowing investors to assess the company and its existing performance against projections and future performance.

The on-going obligations of AIM

Following flotation, the company will be subject to a set of continuing obligations set out in the AIM Stock Market Rules. The key rules are as follows:

Disclosure of price sensitive information

One of the key continuing obligations relates to the disclosure of price sensitive information. This includes specific information which must be publicly announced.

- Details of any substantial transactions, any related party transaction, reverse take-overs or a disposal resulting in a fundamental change of business
- Deals by directors in the company's shares
- Changes to any significant shareholders
- The resignation, dismissal or appointment of any director of the company
- Any change in the company's accounting date
- A change in a company's registered office address
- Changes in the company's name
- Any decision to pay a dividend
- The reason for the cancellation of any of its shares
- The resignation, dismissal or appointment of its Nomad or Broker
- A general obligation to take reasonable care to ensure that any information released to the market is not misleading, false or deceptive

Half-yearly reports

Once listed on AIM, companies are required to produce a half-yearly report. This must be published within three months after the end of the period to which it relates.

Code on share dealing

A company on AIM must ensure that its directors and applicable employees do not deal in its shares during a close period. Compliance with this requirement is addressed by adopting a code on share dealing. The code sets out the details of what directors and applicable employees need to consider before they deal in the company's shares. For the purposes of the share-dealing code, an employee is an applicable employee if they are likely to be in possession of unpublished price-sensitive information in relation to the company.

Transferability and settlement

AIM companies must ensure that their shares are freely transferable and that the appropriate settlement arrangements have been put in place. In addition, AIM securities must be eligible for electronic settlement unless otherwise agreed with the London Stock Exchange. In practise these are straightforward tasks that the company's advisor teams will undertake with little involvement required by the company.

Announcements

One of the key on-going requirements for AIM companies is to disclose certain information to the market in a timely manner. This is one of the primary obligations which sets an AIM Stock Market company apart from a company that remains in private hands.

Information is released to the market via a regulatory information service known as (‘RIS’). RIS announcements are purely regulatory, they are not to be used to generate investor interest in the company. Advisor teams will usually prepare these announcements on behalf of a company with information supplied by a company, and check that they comply with the AIM rules prior to releasing to the market.

Price-sensitive information

AIM Stock Market companies are required to issue notification of major new developments regarding changes in their financial condition, or activity and performance of their business which would be likely to lead to a substantial movement in share price. Usually an assessment of the requirement to make these announcements is made after consultation with the company’s advisors.

Announcement of share dealings

Companies on AIM are required to announce dealings by directors and any relevant changes to the holdings of significant shareholders (holders of 3 % or more of the shares). AIM company directors will invariably take advice from their company’s advisors before any form of dealing in the shares of the company.

Other announcements

An AIM company is also required to announce changes to its board, its year end, registered office or company name.

Transactions

Often the requirement to announce to the market transactions undertaken by an AIM company will vary depending on the size and nature of the transaction. Advisors will consider this by applying the required class tests found in the AIM Rules.

AIM Corporate Governance

The Corporate Governance code is kept under review by the Financial Reporting Council.

Compliance with the Code is voluntary for AIM companies. Compliance with the Code by AIM companies is, however, widely regarded as good practice and has become expected of larger AIM companies. Many investing institutions expect AIM companies to either comply with the Code or set out the reasons for non-compliance.

How AIM companies comply with the code

For the majority of AIM companies, the costs of full compliance with the Code outweighs the benefits to their shareholders. Some AIM companies are unable to comply with all of the terms of the Code, perhaps because they are too small or at an early stage in their development and do not yet have the breadth of management teams in place to fully comply. Organisations such as the Quoted Companies Alliance (QCA) produce their own guidelines to help AIM companies focus on the best way to achieve Code compliance for their own particular set of circumstances.

Website disclosures

Under the AIM rules, companies must maintain an up to-date website and include key information on the company.

The Company's board

The key requirement is to ensure that a company's board is sufficiently independent, effective and has the skills and experience to enable it to deal effectively with its company's affairs.

The guidelines published by the QCA state the key features of governance which are regarded as helping a company board operate efficiently, but also in a commercial way, which does not distract from the entrepreneurial ethos required to manage a growing successful and profitable business. The key areas that are identified are as follows:

Committees –

The board of an AIM company should establish, maintain and review the terms of reference of an audit committee, a remuneration committee and, less commonly, a nominations committee. The audit committee should comprise of at least two members and all the members should be independent Non-Executive directors. The terms of reference of the committee will include:

- Monitoring, alongside the auditors, the integrity of the financial statements, company announcements regarding performance and financial reporting judgments
- Reviewing the internal controls of the company
- Reviewing the internal audit function, if any, or considering whether one should be created
- Making recommendations regarding the appointment, reappointment and remuneration of the external auditor monitoring the performance and independence of the external auditor
- Developing and implementing the policy for using the external auditor for services other than audit services, bearing in mind relevant ethical guidance, and reviewing the whistleblowing policy

Nominations Committee –

Recommendations to the company's board regarding new board appointments should be made by the company's nominations committee, if an AIM company has one. The nominations committee includes the whole of the company's board although if this is the case the majority of its members should be independent non-executives. In practise, few AIM companies actually have established Nominations committees.

Disclosure –

An AIM company's annual report should include a statement of how the company achieves a satisfactory standard of corporate governance. AIM companies undertake a formal review of how they have complied with the principles of corporate governance. The AIM rules for companies require they publish or make available on their company website, details of the terms and conditions of the appointment of non-executive directors, terms of reference of the audit committee, remuneration committee and nominations committee, if they have one.

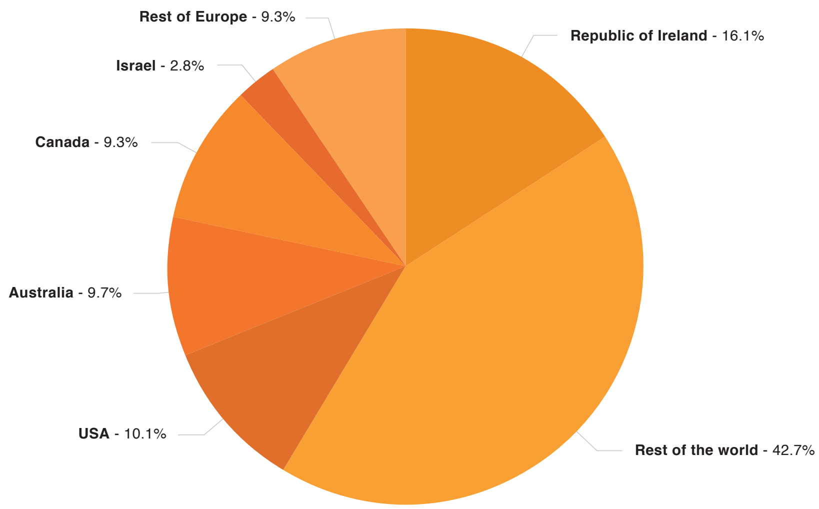
AIM for Non UK companies

The AIM Stock Market remains an appealing destination for many non UK companies. Since its launch in 1995 AIM has attracted over 700 companies incorporated outside the UK.

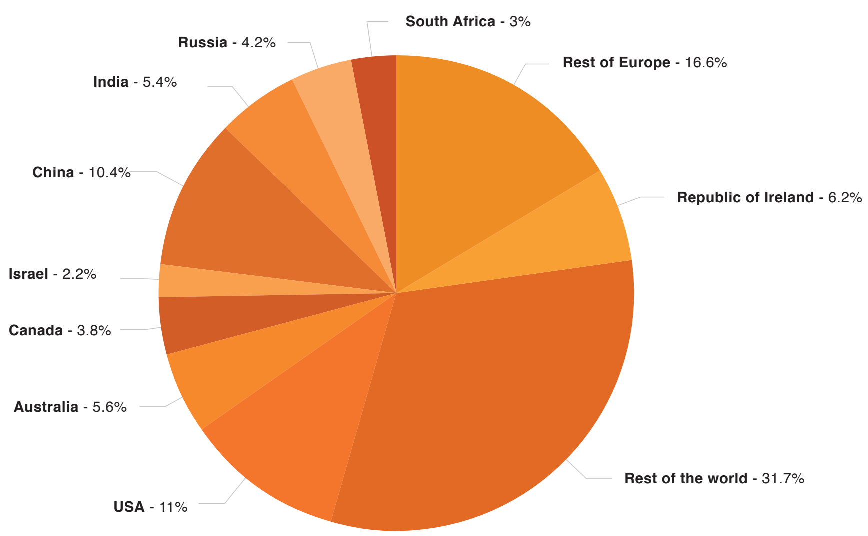
In recent years there has been a steady flow of companies joining AIM from the emerging markets in Asia Pacific, India and Eastern Europe. In addition, AIM companies from Australia and Canada feature prominently on the market.

AIM companies are not required to be incorporated in the UK or in any other specified jurisdiction. Non-UK companies joining AIM are subject to identical eligibility requirements within the AIM rules as those companies incorporated in the UK. Those companies that have joined AIM from non-UK countries are also subject to the same continuing obligations under the AIM Rules as apply to UK companies. If a company is dual listed then a non UK company must make announcements to both the markets simultaneously.

International companies on AIM by country of incorporation



International companies on AIM by country of operation



Accounting standards

Non UK AIM companies must publish annual audited accounts in accordance with International Accounting Standards or if they are non EEA companies, in accordance with the equivalent standards, such as US GAAP, or Australian IFRS. All the documents prepared by the company and its advisors in accordance with the AIM rules must be written in English, or alternatively have an English translation provided.

AIM Designated Markets

The London Stock Exchange has introduced rules that make it possible for some companies that already have their shares traded on certain other overseas stock exchanges, and that are considered an 'AIM Designated Market', to join The AIM Stock Market on a fast track process.

Although a full AIM admission document is not required for these companies, other information must be prepared and provided to the London Stock Exchanges AIM Regulation Team to assess whether a company is able to take advantage of this route to AIM.

The fast track route is available if a company already has securities admitted to trading on an AIM Designated Market (ADM) top tier markets of:

- Australian Securities Exchange
- Deutsche Börse Group
- Johannesburg Stock Exchange
- NASDAQ
- NYSE
- NYSE Euronext
- NASDAQ OMX Stockholm
- Swiss Exchange
- TMX Group
- UKLA Official List

Local Advisors

Companies are required to engage lawyers in the country where the company is incorporated. These lawyers will work together with the company's UK lawyers to advise the directors of the company on due diligence and verification of information in the company's AIM Stock Market admission document.

Half-yearly reports

Half-yearly reports (or interims) are required to be notified not later than three months after the end of the relevant six-month period. While the form of the interims must be consistent with the annual report, the required information includes just a balance sheet, an income statement, and a cash flow statement and must contain the prior year comparative figures. These figures need not be audited.

Annual accounts

The annual accounts must be published and sent to shareholders not later than six months after the end of the period to which they relate. The accounts must be prepared in accordance with International Accounting Standards if the company is incorporated in an EEA country, unless the company is not a parent company, in which case it can prepare its accounts in accordance with the accounting and company legislation and regulations from its country of incorporation. A company incorporated in a non-EEA country must prepare its accounts in accordance with IAS or to prescribed GAAP standards.

AIM case studies

Sopheon plc

Sopheon are a software company that listed on AIM in 1996. The company specialises in software and services for product life cycle management. The company's accolade solution supports strategic road mapping, idea development, product portfolio management road mapping, and product portfolio management. Sopheon now has bases in the US, UK, Netherlands and Germany. The company has used AIM to grow and increase revenues from £18m to £28 m over the past 5 years. It now has developed a user base of over 60,000 across 50 different companies.

Diurnal Group plc

Diurnal is a pharmaceutical company that listed on AIM in December 2015. The company targets patient needs with chronic hormonal diseases. Diurnal raised £30m by way of a placing of new ordinary shares to institutional and other investors. The placing gave the company a market value of £75m at admission to AIM. The new funds were used to accelerate the development of two products which target diseases of cortisol deficiency and adrenal deficiency.

Breedon Group plc

Breedon listed on AIM in 2010 and raised £50m. The company has used AIM to support its growth, and has since become the largest independent construction and materials group in the UK. Breedon has acquired more than 60 quarries and 200 ready mixed concrete plants. The company now has more than 700 million tons of mineral reserves and a market value of over £1b.

Gear4music plc

Gear4 music plc listed on AIM in 2015 with a market value of around £28m and raised £10m in growth capital. Since then the company has used AIM to support its growth to become the UK's largest online retailer of musical instruments and equipment. The company now has 19 websites in 15 languages in 8 different countries. The value of Gear4music is now over £100m.

Staffline Group plc

Staffline Group joined AIM in 2004 and raised £6.7m. The company is a recruitment specialist with divisions such as 'Driving Plus' that focus on HGV and LGV drivers, and 'Staffline Agriculture' which specialises in farming and agricultural recruitment. Staffline has grown through acquisition and organic growth. Notable acquisitions saw the company acquire EOS (a welfare to work provider) in 2011, and in 2015 A4e. The two acquisitions are now fully integrated and have been rebranded as People Plus. The company has used AIM to support its growth and it is now the largest recruitment company in the UK with a market value of over £270m.

Frequently asked questions

Will my company be required to undertake a fundraising when joining AIM?

Many companies join AIM via an introduction and do not undertake raising funds at the time of flotation. For example, some join in order to get an enhanced valuation for their company. Some companies use AIM to significantly raise their profile to various constituent groups including customers, suppliers and the media. Other companies may already have a strong balance sheet, and join AIM so that they can access funding at some stage in the future.

How long will it take to join The AIM Stock Exchange?

Typically companies take between three and six months of deciding to proceed with a flotation following undertaking the feasibility stage. The actual AIM flotation timetable may depend on how much preparatory work has been carried out by the company and flotation consultant in advance of the flotation process.

I'm considering an AIM flotation for my company, what is the first thing I should do?

Initially contact a stock market consultant and discuss your requirements with them. They will need to understand your business and the level of funding you require and how the funding will be allocated in your business. It's helpful to send them your business plan if you have one, so they are able to make an initial assessment of your company. If they feel that flotation is potentially an option for your company, they will then guide you on the next steps you need to take.

Will being listed on The AIM Stock Market change the way we are able to manage the company?

Joining AIM does not impact on the way a business is managed. Indeed it may be considered less intrusive than other sources of equity capital such as Venture Capital funding.

Does the UK Corporate Governance Code apply to AIM Stock Market Companies?

The UK Corporate Governance Code does not apply to companies on AIM. However potential investors will expect to see your company adopt some of the best practice principles and provisions set out in the UK Corporate Governance Code.

Once on AIM will the company require shareholder approval for acquisitions?

In most circumstances your company will not require the approval of shareholders prior to making acquisitions. However, if the acquisition is a reverse takeover then shareholder approval will be required.

Glossary of Stock Market terms

Admission - The admission of securities to trading on a stock market.

Admission and Disclosure Standards - The London Stock Exchange's Admission and Disclosure Standards for securities admitted or seeking to be admitted to trading, as set out in this document, as amended from time to time.

Admission Document - The disclosure document which a company applying for admission to AIM must produce. The document contains information set out in schedule two to the AIM Rules for Companies. Unlike a Prospectus, an Admission Document does not need the approval of the FSA.

AIM - Originally called the Alternative Investment Market. The London Stock Exchanges market for smaller growing companies. Regarded as the most successful growth stock market in the world.

AIM Cash Shell - A cash shell is a company that does not quite meet the definition of a shell company, but whose main value nonetheless lies in its listing rather than its assets or its business.

AIM Rules of Companies - The rules for companies admitted to trading on AIM or which are applying for admission to AIM published by the London Stock Exchange.

Approved prospectus - The document produced by the company and its advisors to be approved by the Competent Authority of the company's home country, and published in relation to the admission of securities to a regulated stock market, or an offer of securities to the public.

Capital structure - The capital structure of a company is the particular combination of debt, equity and other sources of finance that it uses to fund long term financing.

Chinese wall - A system designed to prevent confidential information leaking from one department of a financial institution to another.

Combined Code - The benchmark for best practice corporate governance.

Corporate Governance - Used to describe the systems used to control corporations. There are corporate governance codes and recommendations that are not compulsory.

Covered warrant - A listed security issued by a party other than the issuer or originator of the underlying asset that gives the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price during, or at the end of, a specified time period.

City Code - Rules, administered by the Panel, governing offers for public companies.

Class tests - Tests set out in the London Stock Exchanges AIM Rules for Companies which are used to establish what type of transaction involving a company is taking place. These could be a substantial transaction, a related party transaction, a reverse takeover or a disposal resulting in a fundamental change of business.

Close Period - A period of time in which an AIM company must ensure that its directors and applicable employees do not deal in any of its own shares. This is a period of two months before the publication of a company's annual results and the period of two months immediately preceding the announcement of its interim results. In addition, a company will also be in a close period if it is in possession of unpublished price sensitive information.

Continuing obligations - The rules applicable to AIM companies on a continuing basis following admission to the AIM Stock Market.

CPR - A competent person's report. The rules and requirements of which are contained in the Guidance Note for Mining, Oil and Gas companies published by the London Stock Exchange. These are specific guidelines that relate only to resource companies.

CREST - The system for the paperless settlement of trades in securities and the holding of certificated securities operated by Euroclear UK & Ireland Limited (previously CRESTCo Limited).

Depositary receipt (DR) - A transferable certificate that represents shares in a company and confers certain rights in respect of those shares, issued by a depository bank for the purposes of admission to trading.

Dividend - The part of a company's profits after tax which is distributed to shareholders, usually expressed in pence per share.

DTR - The Disclosure and Transparency Rules published by the FSA.

Dual listing - A dual listing of a company is a way for a company to have two equal listings (neither being a secondary listing) in different markets.

Due diligence - The process of obtaining all information about a company to ensure that the company is appropriate to be admitted to the AIM stock market.

EPS - Earnings per share (EPS) is the profit attributable to shareholders (after interest, tax, minority interests and everything else) divided by the number of shares in issue.

Equity - The stake its owners have in the company. This is the risk sharing part of a company's capital, usually made up of ordinary shares.

FSA - The Financial Services Authority, who act as the competent authority in the UK.

FSMA - The Financial Services and Markets Act 2000.

FTSE Indices - Maintained by FTSE International which demonstrate the performance of various sectors of the UK and European markets. These include indices for the Main Market, such as the FTSE 100 the largest 100 companies by market capitalisation on the market. Also indices for AIM, such as the AIM 50.

Flotation - When a company's shares are admitted to trading on a Stock Exchange.

Free float - The amount of shares in a company which are in 'public hands' i.e. not owned by a director of the company or its subsidiaries, or individuals connected with the company and any person holding five per cent or more of the shares.

Gearing - Often known as leverage, measures the extent to which a company is funded in debt. A common definition is debt divided by shareholders funds.

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 this is regarded as a criminal offence.

Introduction - A method of obtaining admission to AIM without an offering of shares.

IPO - An Initial Public Offer is the sale of shares to the public as a precursor to the shares trading on an exchange for the first time. Issuer - an entity with a class of securities admitted to trading on a stock market.

Listed company - Acompany is said to be listed or quoted or having a listing of its shares. It is the company's shares, not the company that is listed.

Listed/Listing - The admission of securities to a listing by a competent authority under the law or regulation of a member state implementing EU directive 2001/34/EC.

Listing Particulars - A document in such form containing such information as may be prescribed by the Listing rules of the FSA.

Long form report - A financial due diligence report prepared by accountants on the company and its subsidiaries. In contrast to the short form report, this document is not disclosed to the public.

LSE - London Stock Exchange plc. The LSE operates AIM and the Main Market.

Listing Rules - The Listing Rules of the United Kingdom Listing Authority.

Liquidity - The ease with which a security can be traded without influencing the price.

Lock-in - An agreement that means a shareholder will not dispose of any shares in the company for a specified period after admission to AIM. This can be subject to exceptions.

Market capitalisation (Market Cap) - The total value of the shares of a company, sector or market.

Market Maker - A securities firm which is obliged to offer to buy and sell securities in which it is registered to the market for the first time or issues of extra shares.

MIFID - The European Parliament and Council Directive on markets in financial instruments

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

Nominated Advisor - A firm approved by the London Stock Exchange to support flotation's on AIM, and to be retained by the company for the duration of its time on the market.

Prospectus Regulation - Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements. The Prospectus Regulation contains the detailed contents requirements for a prospectus.

Prospectus Rules - The prospectus rules published by the FSA. These now form part of the FSA Handbook.

Offer price - The selling price for securities in the market.

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

Official List - The list maintained by the FSA of those securities which have been admitted to listing.

Order book - A facility operated by the London Stock Exchange for the electronic submission and automatic execution of orders in any order.

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.

Panel - The Panel on Takeovers and Mergers. The Panel is an independent body whose main functions are to issue and administer the City Code and to supervise and regulate takeovers and other matters to which the City Code applies in accordance with the rules set out in the City Code.

Placing - An issue of shares to institutional and other selected persons rather than to the general public.

Preference Shares (prefs) - These are legally shares, but they are different from ordinary shares. The economic effect of prefs is more like that of bonds. Like convertibles, they are regarded as hybrids of debt and equity.

- Dividends on preference shares have to be paid before dividends in ordinary shares
- Preference Shareholders have a higher priority if a company is liquidated than ordinary shareholders, although a lower priority than debt holders
- Dividends on ordinary may not be paid unless the fixed dividends on preference shares is paid first
- In the case of cumulative prefs, if the dividend is not paid in full, the unpaid amount is added to the next dividend due.
- Preference dividends are fixed, so they do not participate in increases in profits as ordinary shareholders do

Price/earnings ratio (P/E ratio) - The P/E ratio is a measure of the level of confidence investors have in a company. 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.

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 rules, detailing information on the company, its accounts, directors and its securities listed. Most AIM fundraisings are structured as Placings to avoid this requirement. The threshold for fundraisings which require a prospectus is €5 million. Offers of shares made to less than 150 persons per member state also not require a prospectus.

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

Professional Securities Market (PSM) - The London Exchange's market for debt securities or depositary receipts of any denomination, aimed at a professional investor audience.

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.

Recognised Investment Exchange (RIE) - An organisation that is recognised by FSA as complying with the recognition requirements laid down in the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001.

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

Related Party - Any director of the company or any other group company, any substantial shareholder who holds 10% or more of the company's shares or any associate of any director or any substantial shareholder.

Reporting Accountants - The accountants appointed by the company to, among other things, prepare the long form report and the short form report.

Reverse takeover - A reverse takeover is one in which control goes to the shareholders of the company that is legally the one that is bought. The term is used to describe the purchase of a listed company by an unlisted company.

Rights issue - A rights issue is a way in which a company can sell new shares in order to raise capital. Shares are offered to existing shareholders in proportion to their current shareholding. Rights issues are common because shareholders have the right of first refusal (pre-emption rights) on the new issue of shares.

Scrip dividend - The distribution of cash to shareholders with option to elect to receive shares in the company instead of the cash payment.

Secondary listing - A security may be listed in more than one market. It is common for such listing to be a primary listing with others secondary listings.

Settlement - The process of transforming stock from buyer to seller to buyer and arranging the corresponding movement of money between the two parties.

Share Capital - Share capital is an accounting number that is part of the breakdown of shareholders equity on the balance sheet.

Shareholders' Funds - Shareholders' funds is the balance sheet value of the shareholders interest in a company.

Shell Company - A shell company is a company that exists but does not actually do any business or have any assets. Given that it take time and money to obtain a listing on any stock market, a listed shell has significant value even if does not have any assets. Listed shells are therefore often targets for reverse takeovers.

Short form report - The accountants' report on historical financial information which is reproduced in the Admission Document.

Stock - When referred to as a security is the security not divided into units, as shares and corporate bonds usually are.

TradElect - A system operated by the London Stock Exchange which supports the trading services, facilitates quote and order entry, automatic execution of orders, receipts and publication of trade reports, and which is a reporting system.

UK Corporate Governance Code - This sets out best practice in relation to issues such as board composition and development, remuneration, accountability and audit and relations with shareholders.

UKLA - The Financial Services Authority acting in its capacity as the United Kingdom's Listing Authority.

Underwriting - An arrangement by which a company is guaranteed that the 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 a commission for this service.

Verification - The process, based on written questions and answers, which is designed to ensure the accuracy of the information (other than financial information) contained in the Admission Document.

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

Working capital statement - A statement by the directors of an AIM company in the Admission Document that in their opinion the working capital available to the company is sufficient for at least 12 months from Admission to AIM.

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.

Contact details

Holland Bendelow are the UK's longest established stock market consultants, with a successful track record of advising UK and International companies about stock market flotation.

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