Spinout to Exit:

Exiting the technology business (Flotation)

Maximise your potential

A stock market flotation involves selling a percentage of the company's share capital on one of the stock markets. There are two main stock markets in the UK. The largest and best known is the main market of the London Stock Exchange ('LSE') which is generally populated by large companies. The other is the Alternative Investment Market ('AIM'), which is usually the market on which early stage technology companies will float if they are applying for a UK listing. It is also becoming increasingly common for UK technology businesses – and particularly life science based ones - to float on an overseas market. This may happen where, for example, the company seeks access to specific overseas funds or intends to be active in another jurisdiction.

Flotation is time-consuming and costly so is not suitable for every business and before a decision is made to float the business, discussions should be held with experienced brokers to evaluate the company's prospects of securing sufficient interest from investors to make any flotation successful. We would suggest seeking this advice at least two years before the intended date of float so that any potential issues can be dealt with in good time.

The success of a float will depend not only on the characteristics of the company, but also on the market and economic factors at the time of flotation. Investors will only be interested in buying shares in a business if it has strong growth prospects.

If a business cannot deliver the necessary growth that investors would seek, or it is found to operate in a relatively unattractive sector for investors, a trade sale, where the business is sold to another outside party, might be a more viable option.

Preparing to float

When preparing to float a business must ensure it is able to comply with the legal and regulatory standards required of a public limited company. It will also need to ensure that its accounting systems are able to produce the information required to prepare annual accounts and reports which comply with the generally accepted accounting principles of the market upon which the company seeks to float.

During the preparation period the management team should seek to address any issues which might present a risk for an investor. This will include ensuring all regulatory filings are up to date, outstanding penalties and fines are paid and possible litigation (if any exists) is appropriately resolved.

The aim will be to present the company as an ideal, well run, investment opportunity.

Appointing professional advisors

Having the right advisors is a key element to a successful flotation. The management team may have limited experience of the demanding legal, regulatory, financial and marketing processes associated with a flotation and external help, while it is likely to be expensive, will be invaluable for several reasons:

Using an advisor who provides poor advice could seriously affect a business' ability to attract investors and float successfully;

In addition a stockbroker will be required to generate interest in the business in the investment community and

A corporate lawyer will be responsible for the legal due diligence process and for verifying statements in the prospectus and other documents. An accountant will be needed to review and audit the company's finances and perform financial due diligence.

The flotation process

A typical flotation will take an absolute minimum of three months to complete, but usually longer (6 months is typical) and it could take as long as a year to ensure that everything is in place and the company is ready to go public. For this reason, it is important to ensure the management team do not allow the flotation to distract them from the day-to-day business of running and growing the company.

Advantages

Access to capital to enable the development of the business;

Once shares are traded on an open market they are easier to buy and sell, which will make them more attractive to investors;

If the management team intend to make acquisitions it is easier to offer shares in the company as consideration instead of, or as an alternative to, cash;

Offering employees extra incentives, such as share options, when there is a market for the shares is more attractive than offering share options in an unlisted business;

The greater status afforded to listed companies will raise the profile of the business.

Disadvantages

The value of the business may be less than for a trade sale, especially if the company is trading in an unfashionable market;

The value of the business will become more vulnerable to market fluctuations;

Only certain businesses are suitable for floating. Good prospects for growth and an impressive management team are needed in order to attract investors;

The original management team will lose some or all control over the business as they will need to consider the interests of the external shareholders when making decisions;

The initial costs are substantial (typically in excess of £300,000 and can be significantly more)

The ongoing costs of listing and complying with the regulatory environment will be high, as will the demands this places on management time;

Exit may only be for the initial investors, not the management team who may need to be retained. It is probable that a period of 'lock-in' will be required post IPO.

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