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Mind the Gap - LSE announces plans for new High Growth Segment

By Alex Gibson, James Green & Thomas Sibert

Following the announcement last September that the government was encouraging the London Stock Exchange ("LSE") to relax its rules for tech companies, the LSE last week formally announced its plans for a new High Growth Segment of the Main Market. Aimed at companies with a market cap of between £300 - 600 million, there are high hopes that this new market will fill the perceived gap between AIM and the Premium Segment of the Main Market and, in doing so, will allow London to give NASDAQ a run for its money.

The key selling point is the reduced minimum free float requirement - 10% rather than the 25% required by the Main Market. Combined with the perception of Main Market respectability, the hope is that the LSE can attract home-grown and EU fast-growing tech companies to match the big names seen across the pond - the next generation of Amazons, Facebooks and Googles.

The LSE has published a draft rulebook and invited feedback by 8 March 2013.

The eligibility requirements

The High Growth Segment is limited to EEA trading companies - resource exploration and investment companies are specifically ruled out. The much heralded 10% minimum free float also comes with strings attached - shares in public hands must be worth at least £30 million, the majority of which must be raised at admission by a new issue or shareholders selling down. There must also be a sufficient number of shareholders at admission to provide for an orderly market. There is likely to be a balancing exercise to minimise the shares in public hands to get the maximum benefit from the 10% (rather than 25%) free float requirement whilst meeting the £30 million value requirement.

A company also needs to demonstrate revenue growth (on a CAGR basis) of at least 20% over the prior three years.

New Key Adviser role

The LSE is proposing to create a new adviser title of "Key Adviser" for High Growth Segment companies. The role is more akin to a Sponsor rather than a Nomad - advising on rule interpretation and specific transactions and events rather than constant supervision and responsibility. The rules contain various criteria for approval but it would seem reasonable to assume that these should not cause problems for firms already registered as Sponsors.

How successful will this be?

Time will tell, but a cynic may ask whether there are really that many EEA high-growth tech companies queuing to list in London, irrespective of the existing free float requirement. Although there have recently been concerns in relation to the corporate governance of companies from overseas markets that have listed on the Premium Segment, if the High Growth Segment is to become an international home for tech companies, it might be preferable to open it up to global companies, particularly with Europe's economy facing so many challenges in the near term.

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Investors may also be put off by what is the High Growth Segment's key selling point - the 10% free float. There are many participants who complain about the illiquidity and volatility of AIM stocks and the High Growth Segment may prove as bad or worse.

As for the attempt to inspire confidence with a "Premium Segment-lite" approach to the High Growth Segment's rulebook, in a number of respects the ongoing requirements are in fact less rigorous than AIM. At a time when the UKLA is considering tightening up the Listing Rules to address concerns over the corporate governance of overseas companies (Consultation Paper CP 12/ 25), do investors have the appetite for investing in high growth companies on a market with looser rules than the Premium Segment?

Notwithstanding these reservations, the LSE is to be applauded for experimenting - perhaps the High Growth Segment will prove to be the perfect balance between AIM and the Main Market, by closing the regulatory gap between them and providing a more attractive home for European tech companies. What is clear is that it will only succeed if it is able to attract sufficient numbers of both companies and investors.

Summary

The table on the following page summarises the key differences between the two existing segments of the Official List, AIM and the draft rulebook for the new High Growth Segment.

Authors:

Alex Gibson
alex.gibson@klgates.com
+44.(0)20.7360.8245

James Green
james.green@klgates.com
+44.(0)20.7360.8105

Thomas Sibert
thomas.sibert@klgates.com
+44.(0)20.7360.8197

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Requirement	Premium	Standard	AIM	High Growth
Listing document	Prospectus	Prospectus	Admission Document	Prospectus
Financial adviser	Sponsor	None	Nomad	Key Adviser
Exchange Rules	Listing Rules and Admission & Disclosure Standards	Listing Rules (but more limited) and Admission & Disclosure Standards	AIM Rules	High Growth Segment Rules and Admission & Disclosure Standards
Earning track record	3 years	None	None	CAGR of at least 20% over three years
Working capital statement	12 months	12 months	12 months	12 months
Minimum share cap. in public hands	25%	25%	No official requirement -Nomad assessment	10% (but at least £30m and majority must be raised at admission)
Restrictions on share dealing	Model Code	None	AIM Rules	None
Corporate governance	Corporate Governance Code	DTR 7	No requirement but QCA guidelines are market practice	No requirement but must disclose in accounts any code applied and extent of compliance
Pre-emption rights	All companies (Listing Rules)	Applicable company law	Applicable company law	Applicable company law
Requirements for significant transactions	Shareholder approval	None	Notification (10% threshold for class tests) Shareholder approval for reverse takeover and fundamental transaction	Notification (25% threshold for class tests - class tests very similar to Listing Rules) Shareholder approval for reverse takeover (cancellation and re-admission)
Requirements for related party transactions	Shareholder approval	None	Notification and "fair and reasonable" statement	Notification
DTR	Yes	Yes	DTR 5 and separate requirements under AIM Rules	Yes
Cancellation	75% shareholder approval	No shareholder approval	75% shareholder approval	75% shareholder approval None if moving to Premium listing
Other				EEA trading companies only