Centillion's London Capital Markets Newsletter

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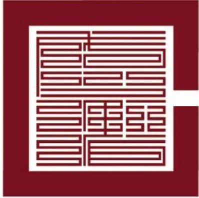

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Standard Listing: Why This May Be For You

In last month's issue we outlined some of the key reasons why a standard listing may be seen as the most flexible option for listing on the London Stock Exchange ("LSE"). We now consider some of the practical considerations that have been the key drivers for companies that have actually chosen a standard listing over the last few years.

We do not have a three year track record

Any "new" companies that have not been around for long enough to be able to demonstrate the requisite three year historical financial track record will automatically be precluded from seeking a premium listing. So for relatively new start-ups attracted by the wider investor pool offered by the Main Market than AIM, a standard listing can provide the answer.

Similarly, investment companies / cash shells can not possibly satisfy the premium listing requirement of a three year track record - but the ability of these vehicles to raise significant amounts via standard listings has been proven by a string of sizeable fundraisings. Vallares plc (subsequently renamed Genel Energy Plc) successfully raised GBP1.35 billion in June 2011, Justice Holdings Limited raised GBP900 million in February 2011 and Vallar Plc (subsequently renamed Bumi Plc) raised GBP 687 in June 2010.

We have strong in-house corporate finance and equity capital markets experience

Some companies firmly believe that there is limited benefit to shareholders in the company incurring the added costs of maintaining a financial sponsor / adviser, as they believe management has the necessary experience and know-how in-house. So they may prefer the flexibility of a standard listing, where there is no obligation to appoint an adviser – as opposed to the mandatory obligations to do so imposed on premium listings, the high growth segment and AIM. Where the company's board includes the likes of former BP executives Tony Hayward and Rodney Chase and a host of non-executives with extensive corporate finance experience (as with Genel Energy Plc), it is arguably justified in believing that there is no need for any external financial adviser. Although this does not preclude such appointments from being made on a project basis from time to time.

As a spin out, we can not meet the independent business test

They may enjoy a long-established successful financial track record, but for companies that are spun out of larger groups, it may nevertheless not be possible to satisfy the premium listing requirement to show it has carried on an independent business as its main activity for the past three years. By way of example, on the demerger of the premium listed Carphone Warehouse Group in March 2010, the only Main Market option for the newly spun out Carphone Warehouse Group Plc was a standard listing as the spun-out business simply did not have the requisite three year independence track record.

Our short term growth plans envisage significant transactions

A number of companies have acknowledged the attraction of the standard listing regime's flexibility to undertake significant transactions without the need for shareholder approval that might be required for a premium-listed company. This flexibility can be particularly important for a company that is growing aggressively, when the board's ability to be able to act swiftly upon identifying an attractive acquisition target can be key to the strategic success. An example was Horizon Acquisition Company plc's acquisition of APR Energy in September 2011, which it was able to do without needing to seek shareholder approval.

This ability to implement a significant transaction without shareholder involvement does, however, depend on the relative value of the company vis-a-vis the acquisition target. On Xplorer Plc's admission to a standard listing in July 2013, it raised approximately GBP1.0 million. The board has acknowledged that, as it targets sizeable acquisitions in the oil and gas sector (naming Asia as one of the regions of focus), it may well trigger a reverse takeover given its relatively small initial equity capital base compared with the likely value of an acquisition – and if so, the reverse takeover would necessitate shareholder approval and a new standard listing.

We need greater flexibility to implement our strategic review

The attraction of not needing shareholder approval for significant transactions is not only appealing to a company interested in growth by acquisitions, but also to companies interested in the ability to speedily implement a strategic review which includes the disposal of non-core components. This can be particularly important for companies in financial straits, including those that have diversified excessively. A prime example is HMV Group plc's move from a premium listing to a standard listing in September 2012. In seeking shareholder support to move to a standard listing, the board emphasised the merits of a standard listing, including the ability to effect major disposals faster and more cheaply, without the need for shareholder approval. Unfortunately for HMV, the move came too late.

Compliance costs are a major concern

Many companies are daunted by what they perceive as the burden of ever-growing compliance costs. This makes the lower administration costs enjoyed by standard listings as a result of the less onerous ongoing obligations, all the more appealing. This was one of the reasons cited by Real Estate Opportunities Plc for stepping down from a premium to a standard listing in February 2011, and was also mentioned in HMV Group plc's circular seeking shareholder approval for its move to a standard listing.

Attracted by the greater opportunity to broaden shareholder base

A number of companies listed on other UK markets have been attracted by the exposure and reputational benefits of the Main Market, which are seen as offering greater liquidity and greater opportunities to raise further capital. When Canaccord Genuity Group Inc moved from AIM to a standard listing in July 2012 (retaining its dual listing on the Toronto Stock Exchange), it was attracted by opportunities to broaden its shareholder base in the region even further. It also felt that the size and business opportunities of the enlarged group (following its acquisition of Collins Stewart Hawkpoint) merited the move for the benefit of the company and its shareholders. KSK Power Ventur Plc's step up to a standard listing from AIM in March 2010, as well as Avation Plc's move from PLUS in October 2010, were motivated by similar considerations.

We do not meet the working capital requirements for a premium listing

For companies that are not able to give an unqualified working capital statement, the only Main Market option will be a standard listing. Cash shell companies formed with the purpose of making acquisitions to be funded from the listing proceeds, as well as other low equity base companies seeking additional funding to support an acquisition drive, fall within this category and can rely on the flexibility afforded by a standard listing being able to make a qualified working capital statement.

We want to be free of buy-back restrictions

Standard listings are also more flexible when it comes to a company wishing to buy-back some of its shares. When Ryanair Holdings plc moved from a premium to a standard LSE listing in April 2012, it was motivated by the desire to be free of the restrictions on share buy-backs that are only imposed on premium listings on the Main Market. Again, flexibility was the deciding factor.

Bearing in mind the breadth of practical considerations that have motivated other issuers to seek a standard listing, it is worth exploring whether a standard listing might be the best choice for you – or indeed, the only possibility to reap the many benefits of a Main Market listing.

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