

Recipe for a shareholder friendly fundraising

How do you ensure that all discounts on a secondary fundraising are given to existing shareholders? Edward Beale and Sheldon Cordell share their recipe for success.

Secondary fundraisings are normally very expensive for existing shareholders. Typically such fundraisings are structured as a private placing at a discount of at least 10% to the share price. Add in transaction costs and the total cost rises to 15%+. The recipe below can be used to give all discounts to existing shareholders and can have negligible cost.

Utensils

First, update the standard AGM resolution which enables directors to have rights issues without requiring additional shareholder approval; it needs to enable bonus issues as well as rights issues and also needs to refer to equity instruments rather than shares. If necessary, an EGM may be called to update this resolution.

Once you have such a resolution you can proceed to the actual fundraising at the time of your choice.

Ingredients

A well drafted warrant instrument (particularly containing the relevant clause set out in 'Preparation 3' below).

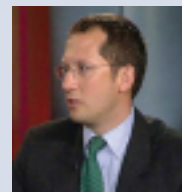
Preparation

1. Using the shareholder approval previously acquired the directors can resolve to have an issue of warrants, allocated pro rata to all shareholders.
2. The exercise price should be at a sufficient discount to the share price such that the directors can be

Continued overleaf

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confident that the warrants will be exercised. As this discount is being given in a fair manner to all shareholders, it does not matter how great it is.

3. The warrant instrument can include a clause allowing the directors to place any warrants that have not been exercised by the shareholder exercise date, for the benefit of the company. The places will then be able to exercise those warrants within a limited time period ensuring that the company receives all the funds expected from the warrant issue (plus any placing premium, less any placing commission).

Cooking Time

The warrants can have as long or as short a life as required, depending on when the company needs the cash.

That's all there is to it.

No matter how much money might be raised on exercise of the warrants, no prospectus should be required, because no money is being raised on issue of the warrants and therefore the fundraising should fall within the 'less than Euro 2.5m' exemption.

If the warrants are not going to be traded, then no admission document is required.

Shares issued on exercise of the Warrants, so long as they are of the same class as existing traded shares, will be admitted to trading in the normal way, at no additional cost.

Source

This is a simplification of the Western Selection fundraising announced on 16th July 2007. The Western Selection fundraising was complicated by the simultaneous issue of tradable long-term warrants.

Authors

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QCA 2007 Annual Dinner Photos - page 7



Sitting down for dinner in the Ballroom

Diary Dates

Monday 12 November:
Finance Directors' Dinner
at the House of Lords,
sponsored by Speechly
Bircham

Tuesday 20 November: Fund
Manager discussion lunch
with Mike Lenhoff, hosted by
Brewin Dolphin

Wednesday 21 November:
Birmingham Regional Forum,
'The Business Review'

Wednesday 5 December:
Seminar - 'Is Your Board
Good Enough?'

Tuesday 29 January:
Adviser Members' Dinner
at the House of Lords

*For more information on the
above events please visit
the QCA website:*

www.quotedcompaniesalliance.co.uk