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Summary of equity funding options for issuers in light of the COVID-19 pandemic

Many companies listed on the Main Market of the London Stock Exchange and quoted on AIM are facing an unprecedented cash flow crisis which may require them to raise capital as a result of the financial impact of the COVID-19 pandemic and fluctuating share prices. This table provides an overview of the advantages and disadvantages of a selection of equity funding options for issuers to consider.

Option	Key features	Timing	Advantages	Disadvantages
1. Placing	**New shares issued for cash to a specific group of individuals (usually institutions)**	Documents can be prepared for launch relatively quickly. Once launched, usually completed within 1-2 days with settlement and admission a couple of days later, assuming no shareholder approval required. If shareholder approval is required, 14 clear days' notice of the general meeting will be required following launch.	• Shareholder approval will not be required if the issuer can use its AGM authorities to allot the new shares on a non pre-emptive basis. If no shareholder meeting is required, the timetable will be much shorter[1]. • No prospectus required if there is no offer to the public (e.g. the shares are offered only to qualified investors) and shares are not admitted to trading on a regulated market (or an exemption applies e.g. because shares being admitted to trading on the Main Market constitute less than 20% of the issuer's entire issued share capital). • Straightforward and minimal documentation (meaning lower transaction and administrative costs).	• Shareholder approval required if the directors do not have sufficient authority to allot the new shares on a non pre-emptive basis. Companies listed on the Main Market tend to have authority to allot 5% of their existing share capital on a non-pre-emptive basis (unless in connection with a specified acquisition or investment). AIM quoted companies tend to have authority in respect of between 5-10%. • No opportunity for smaller shareholders to participate unless combined with an open offer.
2. Cash - box placing	**New shares issued in exchange for preference shares in a SPV (usually incorporated in Jersey)**	Documents can be prepared for launch relatively quickly. Once launched, usually completed within 1-2 days with settlement and admission a couple of days later.	• Short timetable – no need for shareholder approval given that the cash box structure circumvents statutory pre-emption rights. This saves both time and money as no circular or shareholder meeting is required. • No prospectus required if there is no offer to the public (and shares are not admitted to trading on a regulated market; see 1 above).	• Historically controversial and not always viewed favourably by investors[2]. • More complex than a straightforward placing, with additional documentation, which would increase legal and other advisers' fees. • No opportunity for smaller shareholders to participate unless combined with an open offer.

[1] Note that the Pre-Emption Group has temporarily relaxed its guidelines in the context of the coronavirus pandemic. The Pre-Emption Group now recommends that investors, on a case-by-case basis, consider supporting issuances by companies of up to 20% of their issued share capital on a temporary basis, rather than the 5% for general corporate purposes with an additional 5% for specified acquisitions or investments. If issuers are able to obtain authority at their AGMs to allot new shares for cash on a non pre-emptive basis in respect of 20% of their share capital, they may be able to complete a substantial placing, rights issue or convertible loan note issuance without the need to seek specific authority from shareholders at a general meeting.

[2] Note, however, that in the current circumstances investors seem to be keen to ensure that the companies in which they invest have access to the capital they need in order to maintain their solvency.

Option	Key features	Timing	Advantages	Disadvantages
3. Rights issue	New shares issued for cash to existing shareholders pro-rata to their existing shareholdings	There is a relatively long lead-in time prior to launch, given that a prospectus is usually required to be prepared. Once launched, can be completed within 15 days if shareholder approval is not required. If shareholder approval is required, this would extend the timetable by 14 clear days, as the general meeting notice period and the offer period for a rights issue cannot run concurrently.	• Favoured by shareholders as offer made on pre-emptive basis and usually on preferential terms. • Shareholders have the option to sell or trade their entitlements ('nil-paid rights') if they do not take up their rights to subscribe for the new shares. • Shareholders have the right to receive a cash payment if the shares are sold in the market at a premium to the subscription price (and associated costs). • Shareholder approval not required if the issuer can use its AGM authorities to allot the new shares on a non pre-emptive basis.	• Longer timetable as an FCA approved prospectus is usually required (as the rights issue will likely involve an offer to the public[3]) and the offer period must be open for 14 calendar days once shareholder approval is obtained. • Shareholder approval required if the directors do not have sufficient authority to allot the new shares on a non pre-emptive basis. See 1 above. • Relatively high administrative costs required to implement rights issue and trading of nil-paid rights. • Additional documents required (such as prospectus), which would increase legal fees.
4. Convertible loan note	Loan notes issued for cash, with a right to convert the loan note into new shares at a certain specified time or upon the occurrence of a specified event	Documents can be prepared for launch relatively quickly. Funds will typically be received at the time the convertible loan note is launched. However, if shareholder approval is required, 14 clear days' notice of the general meeting will be required following launch.	• Shareholder approval not required if the issuer can utilise its AGM authorities to issue the notes. If no shareholder meeting is required, the timetable will be much shorter. • No immediate dilution of shareholders in the short term, but the issuer would require the loan note to be converted to equity on maturity (e.g. 12 months), so there would be dilution in the long term. • The convertible loan notes will generally not be required to be quoted/listed.	• Shareholder approval required if the directors do not have sufficient authority to issue the notes. • May not be welcomed by all investors, given that it is not pure equity. • Noteholders may require terms that are disadvantageous for the issuer, such as a high coupon, negative pledge or even security. • Investment is not linked to current share price and notes are not generally listed/quoted.

Key Contacts

Kate Ball-Dodd
Partner

kball-dodd@mayerbrown.com
T +44 20 3130 3611

Robert Hamill
Partner

rhamill@mayerbrown.com
T +44 20 3130 3558

Rebecca Bothamley
Partner

rbothamley@mayerbrown.com
T +44 20 3130 3681

Harriet Hainsworth
Senior Associate

hhainsworth@mayerbrown.com
T +44 20 3130 3604

[3] This is the case for both Main Market and AIM traded companies, unless an exemption to the requirement to prepare a prospectus can be relied upon.