Exchange

3 JANUARY 2017 (EFFECTIVE 2012)

NEX EXCHANGE GROWTH MARKET

PRACTICE NOTE ON WORKING CAPITAL FOR ISSUERS SEEKING ADMISSION

EMPOWERING MARKETS

Overview

Sufficient working capital is a vital component to the proper functioning of a business and the implementation of a credible business plan.

Many businesses have gone into administration, not because they were unprofitable, but because they suffered from severe shortages of working capital to settle their outstanding liabilities.

NEX Exchange Limited ("NEX Exchange") does not require companies to demonstrate a history of revenue generation. Nonetheless it has certain key requirements for admission including:

- the provision of adequate working capital;
- a credible business plan; and
- a credible funding plan.

Applicable NEX Exchange rule

The NEX Exchange Growth Market – Rules for Issuers (the "Rules") (Appendix 1, paragraph 40) require a disclosure in the admission document that:

> *"...in the opinion of the directors having made due and careful enquiry, the working capital available to the issuer and its group will be sufficient for the period of at least twelve months following admission".*

The Guidance Note to paragraph 40 states that whilst a working capital report is not required to be submitted with application documents, NEX Exchange may require a particular issuer (and frequently does in practice) to justify its compliance with the working capital requirement. It is a specific responsibility of a Corporate Adviser to review the adequacy of the working capital prior to admission.

Assessing working capital requirements

The required level of working capital should be considered taking into account various alternate risk scenarios to adequately reflect risk factors that may affect a company's ability to generate positive cash flows. These include, but are not limited to:

- delays in cash inflows;
- lower than forecast growth rates; and
- higher than expected bad debts.

Working capital assumptions must also take into account the costs of admission to the NEX Exchange Growth Market. The twelve month working capital requirement should be assessed after all costs associated with admission have been accounted for.

Acceptable forms of working capital may include bank and other lending facilities, but only to the extent that the committed facilities are available for the working capital period under review.

A personal guarantee may be acceptable provided a mechanism is in place allowing immediate access to the funds. A Corporate Adviser should seek guidance with NEX Exchange as to the suitability of a personal guarantee.

Available working capital will not include, for example, an overdraft repayable on demand within any forecast period; nor is it appropriate to assume any committed bank debt expiring in the forecast period will be rolled over.

If forecasts rely on bank facilities, a company must ensure committed facilities are available for the entire working capital period under review, (availability may be deemed to include a comfort letter from the lending bank stating they will not withdraw the facilities over the forecast period).

The CESR guidelines recommend the analysis underpinning a working capital statement should include:

> '*an assessment of whether there is sufficient margin or headroom to cover reasonable worst case scenario (sensitivity analysis)';* and:
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> '*where there is insufficient headroom between required and available funding to cover reasonable alternative scenarios it will not be possible for issuers to make a clean working capital statement*'.

In these circumstances an issuer will be unable to make a clean working capital statement unless it either; reconsiders its business plans or arranges additional financing.

Investment vehicles seeking to make acquisitions in the future do not necessarily need to have funding available at the date of admission, but need to have sufficient working capital for day to day expenditure, carrying out due diligence on potential investments and to cover the estimated transactions costs associated with the first acquisition.

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