

# Technical Note

## Eligibility for premium listing – financial information and the track record requirements

### Financial information

As per LR 6.2.1R and LR 6.2.4R, an applicant for premium listing must present three years of audited financial information.

This financial information must represent at least 75% of the applicant's business, and must be presented in the issuer's GAAP and accounting policies.

### How to calculate the 75% requirements

The 75% requirement is intended to ensure that audited financial information covering at least 75% of the business to be listed is presented to investors. Where an applicant has acquired other companies during the relevant period, additional financial information relating to those acquired entities may be needed to meet this requirement.

The relative size of the acquired businesses needs to be assessed. The class tests in Chapter 10 of the Listing Rules provide a useful starting point, which can be supplemented or replaced by other metrics which provide a more accurate assessment of the relative size of the acquired businesses.

The tests should be performed using the latest available figures for the business that has been acquired against the enlarged group as it will be listed. However, where the acquired entities can no longer be separately identified in the enlarged group, class tests can be used which reflect the size of the acquired business at the time of its acquisition.

### Acquisitions need to be aggregated

It is also necessary to consider whether there are any gaps in the financial information presented when considering whether it is sufficient for establishing the eligibility of the business to be listed. For example, where a company acquired by the applicant had a different financial year end from the applicant itself, there may be a gap between the date of the pre-acquisition financial information and the point at which the entity had been acquired, for which additional financial information should be presented.

The financial information requirements are intended to ensure that financial information for at least 75% of the business to be listed is presented. Where an issuer has acquired assets (rather than a business), additional financial information will not normally be required. However we will consider the substance of the transaction, rather than its legal form, when assessing whether additional financial information is required.

## When we may accept modifications or qualifications

The three years of financial information must be audited and the last year must be reported on without modification or qualification.

An issuer may be eligible where a going concern modification in relation to the final year of its financial information is cured at the time of listing, for example where there is a concurrent fundraising used to repay debt that would otherwise fall due.

## Track record

An applicant should be able to demonstrate a track record that puts prospective investors in a position to make an informed assessment of the business that is to be listed (LR 6.3.1R).

In some cases an applicant will have three years of financial information which does not properly reflect the applicant's business, as the information does not demonstrate a revenue earning record that is representative of the business to be listed. In such cases the applicant does not have a compliant financial track record.

LR 6.3.2G sets out five factors that may indicate that a track record is not representative. These factors will be especially relevant for companies that are very early stage, or that have otherwise changed significantly, such that the financial information does not allow a meaningful assessment of the future prospects of the business for which listing is sought. This may be the case where a business has changed fundamentally during the track record period by exiting one industry and entering an unrelated one, or where a business is reliant upon products or lines of business that have just been, or have yet to be, developed.

A consistent record of losses can also indicate that a company may be at too early a stage of development. However, we will also take account of the impact of financing structures that may be replaced ahead of IPO, in order to assess the genuine maturity of the underlying business.

Significant investment may also indicate that a company is at a relatively early stage, though again we will consider the overall maturity of the business.

It is not necessarily the case that a high valuation multiple makes a company ineligible. However, a high multiple may be evidence that the company's valuation is based on future changes in the business that are not related to the information presented in the track record (for example where a company is in its infancy, and is only just about to scale up its operation, and is hoping to experience rapid growth).