

EXPLAINING FOLLOW ONS



IMPORTANT INFORMATION

We've written this guide to give you useful information about follow-ons and Initial Public Offering (IPOs), but it doesn't include any personal advice or recommendations to buy, sell or hold any investment. Investing in individual companies isn't right for everyone. Shares are for people who understand the increased risk of investing in individual shares. If the company fails, you risk losing your whole investment.

You should make sure you are informed about the companies you're invested in. What they do, the risks involved and that your shares are part of a diversified portfolio.

Past performance is not a guide to future returns. Yields are based on past income, which means they aren't a guide to the income you'll receive in future. If you're not sure whether a share is right for your circumstances, please seek personal advice.

When buying shares please be aware that on rare occasions shares can be delisted from the stock market, without warning. If this happens it may be difficult and costly, or even impossible, to sell your shares.

The information in this guide was correct as of 1 March 2024.

WHAT IS A FOLLOW-ON?

A follow-on is the offering of shares once a company has completed its Initial Public Offering (IPO) and is publicly traded on an exchange. These can be new or existing shares.

You may also come across a 'secondary' follow-on, which is when only existing shares in a publicly listed company are offered to investors.

An IPO is when a private company makes shares available for the public to buy for the first time. It allows a company to raise equity capital from public investors.



FOLLOW-ONS: A BREAKDOWN

Follow-ons can come in a range of different forms. Most of the time, the differences lie in who can purchase new shares. This could be existing shareholders, non-shareholders, or both.

1. Pre-Emptive Offering

This is where the issuer (company) gives existing shareholders the right to buy more shares to prevent their original shares being diluted (reduced in value). They are allowed to purchase a number of new shares, proportional to the amount they own.

2. Rights Issue

In this instance, the company offers existing shareholders the “right” to buy new shares at a set price. Shareholders can buy a certain number of shares dependant on their existing shareholding but can also sell their “right” if they don’t want to participate. For example,

if a shareholder owns shares at £2 a share, and the company offers them new shares at £1.20, they can sell the “rights” to this purchase. The price of these “rights” would usually be the difference between the existing share price and the discounted one, so in this case, roughly 80 pence per share.

3. Open Offer

Existing shareholders are offered the opportunity to purchase additional shares in proportion to how many shares they already own, however shareholders are not able to sell the ‘rights’ to receive those shares.

4. Non-pre-emptive offering.

This is when a company issues new shares, but existing shareholders are not offered the opportunity to purchase new shares in proportion to their existing shareholding.

5. Placings

These are issuance of shares to a specific group of investors, usually institutions, and can be simpler and cheaper for the issuer than an open offer or rights issue as they are usually structured to avoid the need for a prospectus.

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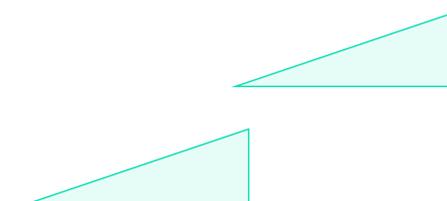
TYPES OF FOLLOW-ONS				
	Placing	Open offer	Rights issue	
Pre-emptive offer	No	Yes	Yes	
Prospectus	No	Yes	Yes	
Tradeable rights	No	No	Yes	
Size	Upper limit of 20% of company's issued share capital	Requires on EGM if more than 20% shares are to be issued	Not capped at 20% but typically will require an EGM	
Speed and complexity	Can be executed quickly and relatively inexpensively	Expensive and long process (3 weeks)	Timetable is even longer than for an open offer	

*EGM – An Extraordinary General Meeting is a shareholder meeting called by a company other than its scheduled annual meeting. These are usually utilised to deal with urgent matters that arise between annual shareholder meetings.

Large amounts of capital can be raised through rights issues and open offers, but they require the company to produce a prospectus to do so. A prospectus is a document containing information about the company and offer, enabling investors to make more informed decisions. Rights issues and open offers can be very time-consuming and costly. In contrast, placings can be

completed quickly and at a much lower cost to the issuer. Placings may also run alongside an open offer or rights issue. In the capital raising market, companies are encouraged to deliver “soft pre-emption”. This means that issuers should, where possible, first allow existing shareholders to participate in the share offering, and if willing, buy proportionally to their existing shareholding.

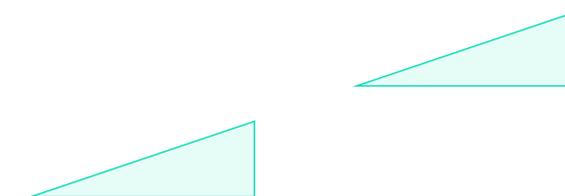
Typically, not all existing shareholders will want to participate, which provides issuers with the opportunity to further diversify their share register by allowing new retail shareholders to subscribe to the offer.



WHAT'S THE DIFFERENCE BETWEEN A FOLLOW-ON AND AN IPO?

Whilst still high risk, investing in a follow-on can be lower risk than an IPO. This is because they already have experience of the company's management, business practices, and potential growth.

The pricing of a follow-on is market-driven. Usually, shares are sold at a discount to the current closing share price before the deal is launched.



Follow-on	Initial Public Offering (IPO)
The company is already publicly listed	The company is going public for the first time
Companies use them to raise capital	Companies use them to raise capital
Shares are often sold at a discount to the current share price	Shares are sold at a price determined through market research
Investors have access to annual, half-yearly and quarterly updates and AGM recordings	Investors only have access to the company prospectus



WHY DO COMPANIES LAUNCH FOLLOW-ONS?

Follow-ons raise additional capital which might allow a company to:

- Repay debt
- Expand by increasing capital expenditure
- Fund acquisitions



HOW DOES A FOLLOW-ON WORK?

Follow-ons are most frequently conducted by means of an accelerated bookbuild (ABB).

An accelerated bookbuild involves offering shares over a short time period. The bookbuild – taking of orders – is done very quickly, often in a matter of hours or days. The price of the offer is decided during this book-building period, and the offer price can move depending on changes in demand. After a predetermined period of time, the investment bank taking the orders closes the ‘book’ and evaluates the demand from investors. The final price is also decided at this point.

Follow-ons: an example

Company A, a FTSE 100 company, conducted a follow-on to allow retail investors the opportunity to purchase new ordinary shares (Retail Shares). An example is Company A who raised approximately £500m at a price of £7.95 per share. Compared to the last share price available before the offer (£8.77), this represented a discount of over 9%.

Company A raised the additional cash to ensure it had enough capital to fund medium-term growth opportunities. The company invited retail investors to take part in the transaction, allowing existing retail shareholders the opportunity to avoid dilution of their current holdings, and new retail investors to build a position at a discounted price.

We'll explore 'dilution' in more detail as we look at reasons to participate in a follow-on.



The price of the offer is decided during the book-building period





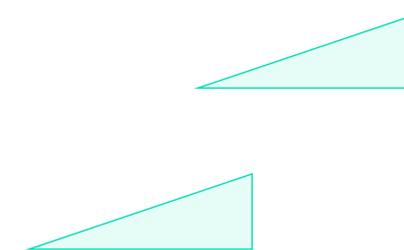
FOLLOW ONS: WHAT TO CONSIDER

1. Participation in a follow-on may help to mitigate the “dilution” of an existing shareholding, often at a discount to the current share price.
2. Investors can benefit from zero commission and no stamp duty/stamp duty reserve tax (SDRT) when they subscribe for new shares in a follow-on.
3. Follow-ons are often priced at a discount to encourage participation. As a result, follow-ons can be a beneficial time to consider buying shares if they are right for you.
4. The capital that a follow-on provides can result in a better outlook for the company. This could allow it to reduce debt and lower financial risk, or accelerate growth through increased capital expenditure or acquisition. This in turn, may cause a positive share price reaction.

The pricing of a follow-on is market driven. Usually, shares are sold at a discount to the current closing share price before the deal is launched. However, there are no guarantees. You could still make a loss and investments are intended to be held for the longer-term.

Before participating in a follow-on, check you are informed about the companies you’re invested in, have checked your shares are part of a diversified portfolio and understand the risks associated with investing in follow-ons.

This guide is not personal advice. If you are not sure whether an investment is right for you please seek advice.

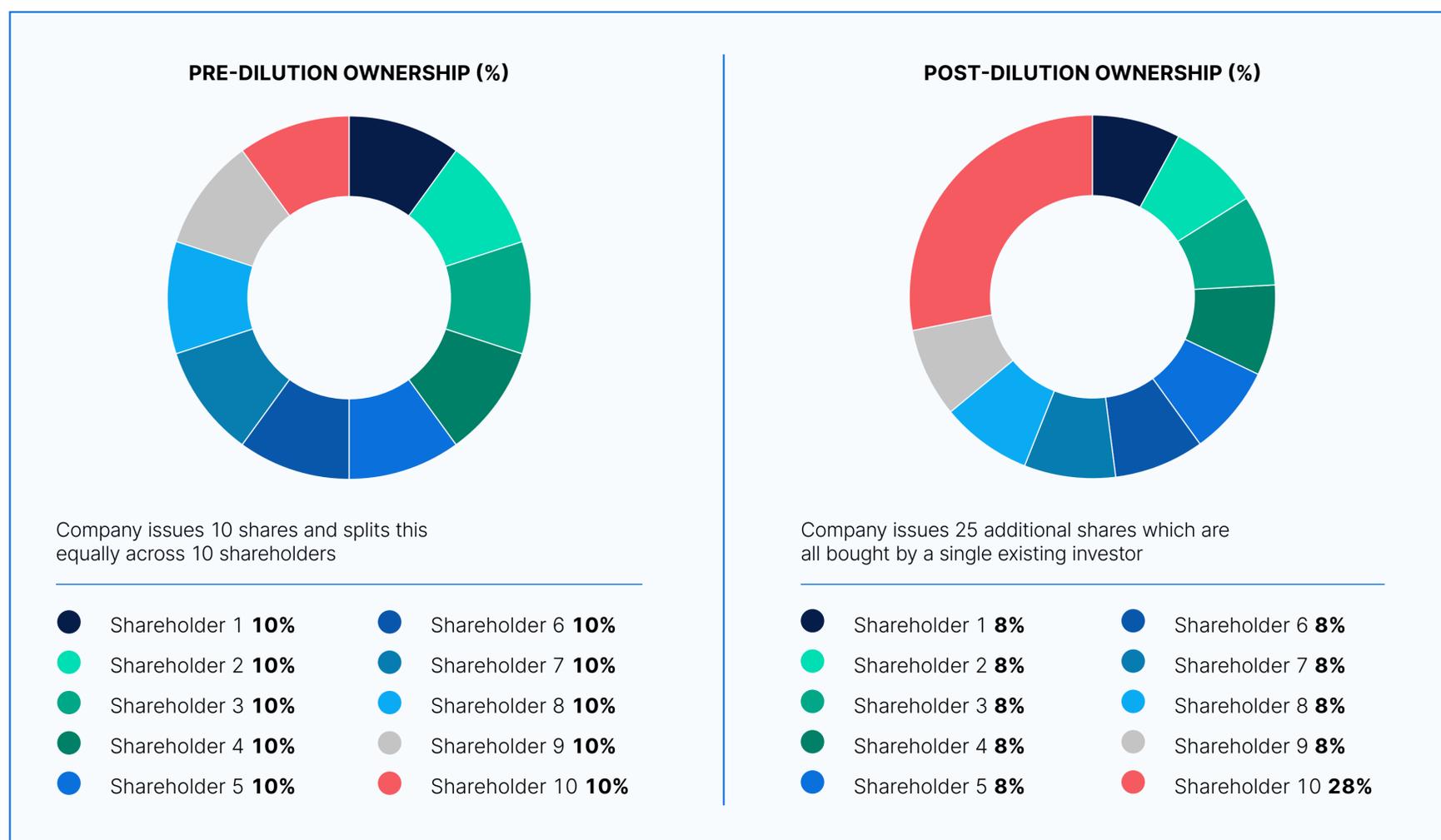


SHARE DILUTION: A FOLLOW-ON EXAMPLE

Assume a company has 10 shareholders and each shareholder owns 10 shares, or 10% of the company. If investors receive voting rights for company decisions based on share ownership, then each one would have 10% of the votes.

The company issues 25 additional shares and a single existing investor buys them all. This means there are now 125 total shares and so the percentage share of ownership has changed for all investors. The purchaser of the new shares now owns 28% of the company, while the other original investors now own just 8% of the company. Their shareholdings have been 'diluted' from their original 10%. See diagrams.

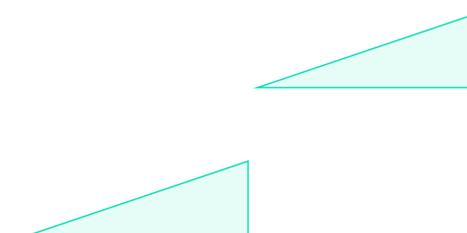
If everything else remains the same, the issuance of new shares in a follow-on will decrease the earnings per share (EPS) of a company as the same earnings are now being split by a greater number of shares. Earnings per share is a metric



used by investors to measure how profitable a company is 'per share'.

Not only does share dilution impact your earnings as an investor, the amount of shares you own in a company determines your voting power. The more shares you own, the more influence you have. If your percentage of stock ownership decreases while the number of shareholders increases, your voting power diminishes accordingly.

However, as companies use the capital (funds) they raised through the issuance of new shares, they can expand. This may perhaps be through increases in production capacity or improved efficiency. Hence, revenues and earnings may increase, therefore the shares that were issued can grow in value, possibly becoming more valuable than before the dilution.





WHAT ARE THE KEY RISKS OF INVESTING IN FOLLOW-ONS?

- 1.** Like any investment, always consider why a company is issuing new shares. One of the ways to do this is to look at the “use of proceeds” found in the regulatory news services (RNS) announcement. Sometimes the sale of additional shares can be a sign that a company is having financial problems or a signal that the company cannot complete its growth plans.
- 2.** Follow-ons can lead to share price volatility at the time of the deal, since companies will often issue new shares at a discount.
- 3.** Depending on the structure of the follow-on, there may be very little time to decide whether or not to invest. For example, an investment decision may need to be made within a matter of hours. Remember to always read the relevant offering documents before making an investment decision.

If you would like to find out more about follow-ons, you can contact our Primary Markets team by calling our helpdesk on **0117 900 9000**.

Investing in individual shares isn't right for everyone. That's because it's higher risk, your investment depends on the fate of that company. If that company fails, you risk losing your whole investment. Share price can do down as well as up and there's always a risk you could get back less than you invest.



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