

# Technical Note

## Scientific research based companies

The Listing Rules offer a concessionary route to premium listing for scientific research based companies (SRBCs) that would not otherwise be eligible for premium listing under LR 6. In place of having to satisfy the historical financial information requirements in LR 6.2.1R(1) and/or the revenue earning track record requirements in LR 6.3.1R, LR 6.11.2R sets out five specific requirements that SRBCs must meet. The concession requirements seek to balance providing premium listing as an option for SRBCs at an earlier stage of development, in particular pre-revenue, but ensuring that the applicant has a sufficient track record and that the development of an identified product is sufficiently advanced such that commercialisation is a near-term possibility.

This concession was originally introduced into the Listing Rules by the London Stock Exchange in 1993. To date the concession has primarily been relied upon by pharmaceutical companies. However, it is open to companies coming from other sectors if they can fall within the Listing Rule definition of SRBC. Where the applicant or its sponsor have concerns about complying with any of the specific premium listing criteria, including the ability to rely on this particular concession, individual guidance can be obtained on the application of a particular rule in accordance with LR 1.2.5G and Chapter 9 of our Supervision Manual (SUP).

Applicants need to demonstrate an ability to attract funds from sophisticated investors prior to the marketing at the time of listing under LR 6.11.2R(1). 'Sophisticated investor' is not defined in the Listing Rules but when considering this requirement we are looking for the applicant to have attracted investment from institutional investors and occasionally will accept other investors that specialise in this sector. This is on the basis that this is a good indication that due diligence has been completed on the company and institutions have historically been willing to invest. It gives credibility to the applicant's proposition. There is also a question mark over when sophisticated investors will need to have invested in order to meet the requirement that funds must have been attracted 'prior to the marketing at the time of listing'. Pre-IPO fundraisings undertaken before the appointment of a sponsor in accordance with LR 8.2.1R will usually meet this requirement. If an applicant has raised any funds shortly before submitting an eligibility letter, we recommend that this is set out in the eligibility submission.

The requirement for an applicant to have as its primary reason for listing the raising of finance to bring identified products to a stage where they can generate significant revenues under LR 6.11.2R(4) is key to ensuring that SRBCs are sufficiently mature

and are seeking the last injection of capital before earning significant revenue. The financing should primarily be used to fund the final stages of research and development and commercialisation (depending on the business model) of an identified product before significant revenue generation. However, this does not prevent there being secondary reasons for listing. For example, a sell down by existing shareholders does not necessarily mean this requirement is not being met but broadly an applicant would need to demonstrate that this was a secondary rather than primary reason. An identified product can potentially include a platform technology.

When considering what constitutes 'significant revenue' we will have regard to the applicant's business model and whether it has historically generated any revenue. The fact that an applicant has already generated revenue is not an automatic bar to relying on the concession. However, if an applicant is already generating revenue from their products and no further products are in the pipeline this is potentially a concern. We will consider each applicant on a case-by-case basis and we will have regard to an explanation of whether or not any income will be accounted for as revenue under the relevant accounting standards. For example, for an applicant that does not plan to commercialise their identified products themselves but to out-license, then any ongoing royalties due under the out-licensing arrangements may constitute significant revenue. There are no requirements for generating 'significant revenue' within a specified time frame but applicants are required to disclose anticipated timelines in any prospectus.

Applicants are required to demonstrate under LR 6.11.2R(5) that they have a three year record in laboratory research and development. This requirement is partly to ensure that the products are already identified and that significant milestones have already been reached but it is also intended to indicate that the applicant has the expertise to progress the research and development.

For applicants that have operated for less than three years or where products have been acquired or in-licensed this can be problematic because the applicant itself may not have a three year record. In order to establish a three year record of research and development, we are willing to consider arguments to modify this requirement and to have regard to the experience of the applicant's management team, the extent of the applicant's rights over the products and who will be conducting the research and development. Where an applicant is outsourcing their research and development, for example to a contract research organisation, we will consider the identity and experience of the provider. In particular, we will need to understand if the applicant has sufficient control over the research and development in order to meet the requirements for an independent business and having operational control as set out in LR 6.4.1R and LR 6.6.1R respectively.