AIM Advisers, Inc.
Maximizing Present & Future Value

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LoopUp Raises $11 Million in AIM IPO

Overview

San Francisco, California and London, England-based LoopUp Group PLC raised $11 million in its recent IPO on the London Stock Exchange's AIM and commanded an opening market capitalization of $54 million. The Company was founded in 2003 and generated the equivalent of $13 million of revenue during its most recent financial year. Revenue and EBITDA have been growing at 30% and 100+% over the last two years. The trailing pre-money revenue and EBITDA multiples were 3.20 and 29.35.

LoopUp is a global software-as-a-service (SaaS) provider of remote meetings. The product is designed to eliminate common frustrations associated with conference calls. The Company has over 2,000 enterprise customers, including Alcatel-Lucent, Cable & Wireless, Travelex, National Geographic, Planet Hollywood, Subaru, LateRooms.com and Kleinwort Benson. LoopUp has won numerous awards, including Frost & Sullivan's 2015 European Conferencing Services Price/Performance Value Leadership Award, scoring nine percentage points higher than the next competitor. The Company delivers its SaaS solution from data centers in London, Chicago, Hong Kong and Sydney, is ISO 27001 certified and holds three patents for technology elements within the product, providing substantial competitive defensibility.

The Company was transatlantic from the outset. The Co-Founders and Co-CEOs, one American and the other British, met at Stanford Graduate School of Business in Silicon Valley in the mid-1990s. The team in San Francisco focused on building the initial product and the team in London focused on securing initial angel investment and finding early proof-of-concept customers, which included securing a major licensing deal with British Telecommunications in 2008 that provided significant credibility and drove early professionalization of LoopUp's information security systems and processes. The Company now has 96 employees in six offices; San Francisco (46), London (33), Boston (8), New York (6), Hong Kong (2) and Barbados (1). LoopUp generates 45% of its revenue from the U.S., 41% from the UK, 11% from Europe and 3% from the rest of the world. The Company's established revenue base in the U.S. will be an important foundation for future growth since the U.S. accounts for 59% of global remote meeting demand.

Conference calling and remote meetings have become big business, accounting for 165 billion minutes of business activity in 2015, forecast to grow to 286 billion minutes by 2019, a CAGR of 15%. The addressable market for outsourced conferencing services was worth approximately $6 billion in 2015. While remote meetings have become an essential part of daily business, the typical user experience is perceived to be frustrating. Common frustrations include: issues with tracking down dial-in numbers and access codes; not knowing who has joined the meeting and who is speaking; distracting background noise and difficulties sharing documents and presentations. A survey conducted in 2015 by Research Now found that business professionals waste approximately 13 minutes – roughly a third of a typical meeting – which amounts to approximately $18 billion of wasted time each year in the U.S. and UK alone.

LoopUp's SaaS solution emphasizes simplicity rather than overwhelming users with specialist features that distract from the core meeting experience and is designed to not require user training. The product philosophy is to 'naturally guide' users to richer, more visual collaboration without compromising the quality, security and reliability expected by global blue-chip enterprises. The existing market consists of audio conferencing services (54%), web conferencing products (35%) and conferencing capabilities that are found within unified communications products (11%). By design, LoopUp's SaaS solution does not fit neatly into any one segment but rather straddles audio and web. The ability to provide a single, seamlessly-integrated remote meetings solution offers a competitive advantage against both segments.

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For a typical LoopUp meeting, the host creates meeting invitations directly from Microsoft Outlook with two clicks. A ‘call start’ alerts the host on their desktop and mobile/tablet device as soon as the first invited guest joins the meeting (this feature is patented). The host is provided with a real-time readout of all meeting guests and access to their public LinkedIn profiles. When the host is ready to join, LoopUp calls out to the host on the phone of their choice, rather than requiring them to dial in with access codes. The host can identify who is speaking at any given moment, who has distracting background noise and mute their line, click-to-record on demand, share their screen with guests with a single click of a button and allow other guests to share their screens. The user experience for guests includes clicking to join the meeting from a link in the invitation, entering their name and phone number (which is remembered for future use), which LoopUp uses to call out to them, and guests have the same meeting visibility as the host but without the host’s control rights.

Since 2013, the Company has used a ‘Pods’ sales strategy which accelerated revenue growth. A typical Pod consists of a mix of business development (three), sales (two) and account management (one) members. There are currently six Pods; two in London, two in San Francisco, one in New York and one in Boston. Bonus payments are made solely on each Pod’s – rather than individual – performance, solely based on recurring revenue growth. All but two of the Company’s 36 Pod members were hired via new graduate recruitment channels, therefore, the supply of future recruits for additional Pods is both plentiful and cost effective. LoopUp plans to increase the number of Pods to eight in 2017 and 11 in 2018.

The Pods’ sales strategy has been an important driver of the Company’s capital efficient growth metrics. Every $1 invested in sales and marketing during 2015 yielded $1.06 of first-year revenue, which is 25% more efficient than the SaaS industry benchmark of $0.85. This first-year revenue then goes on to recur. In addition, after considering all losses, shrinkages and growths, revenue from all customers at least one year old actually grew in net value during 2015 rather than eroded – resulting in ‘negative net churn’. This net growth was 6.7% compared with the SaaS industry benchmark of 4.0%.

It’s important to note that the Company’s historic growth has been accomplished with little-to-no investment in inbound lead generation. Business development to date has been driven by word-of-mouth, customer referrals and targeted outbound reach by the sales Pods. The Company believes there is an opportunity to introduce outbound marketing, with an emphasis on digital channels, to increase brand awareness and engage decision-makers and end users. In conjunction, LoopUp is launching an online fulfillment channel where prospects will be able to trial the product and sign up by credit card.

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Key Financial Metrics

(in GBP millions)	Y/E 12/31/13	Y/E 12/31/14	Y/E 12/31/15	Δ '13 - '14	Δ '14 - '15
Revenue	£6.0	£8.0	£10.1	+33%	+26%
COGS	1.7	2.1	2.6	+24%	+24%
Operating Expenses	6.2	6.6	7.9	+6%	+20%
Interest Expense	0.4	0.8	0.7	+100%	-13%
Income Tax Benefit	0.3	0.3	0.5	+0%	+67%
Net Loss	2.0	1.2	0.6	-40%	-50%
EBITDA	-0.9	0.3	1.1	+133%	+267%
Cash	0.1	0.1	0.4	+0%	+300%
Debt	2.6	4.0	7.7	+54%	+93%
Accumulated Deficit	13.5	14.7	15.3	+9%	+4%

During 2015, the Company generated 45% of its revenue from the U.S., 41% from the UK, 11% from Continental Europe and 3% from the rest of the world. As of December 31, 2015, LoopUp had 1,850 customers with the largest customer only accounting for 3.6% of total revenue and the top 100 customers accounting for 60%.

During the six months ended June 30, 2016, the Company generated revenue, EBITDA and net income of £6.4 million, £1.3 million and £0.1 million, respectively. Compared to the six months ended June 30, 2015, these figures were up 33%, 150% and 112%, respectively. LoopUp added over 200 new customers during the first half of 2016.

Key Listing Metrics

- $11.23 million gross was raised, $9.91 million net of offering costs, to be used as follows:
  - $5.29 million to drive further growth by:
    - Increasing the number of direct sales Pods
    - Initiating inbound lead generation marketing via digital channels
    - Launching an online fulfillment channel for trials and sign up by credit card
    - Continuing to innovate the product with enhancements and new capabilities
    - Scaling the platform and network operations to keep up with customer growth
  - $4.62 million to recapitalize the balance sheet
    - The remaining $5.61 million of debt was converted to equity concurrent with IPO

- Offering costs amounted to 11.75% of the gross capital raised
  - The offering was undertaken on a 'best efforts' basis, as opposed to being underwritten

- Opening market capitalization of $53.87 million
- Dilution to existing shareholders of 20.85%
- Free float of 32%

- Trailing pre-money revenue multiple of 3.20
- Trailing pre-money EBITDA multiple of 29.35

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Shareholder Base

The Company had 32.3 million shares outstanding prior to the IPO and issued 8.5 million new shares for cash in the IPO, leaving the Company with 40.8 million shares outstanding. The table below details those who held 3% or more of the Company prior to and after the IPO, along with other holdings of interest.

Shareholder	Pre-IPO %	Post-IPO %
New Zealand-based Angel Investor	39.85	31.54[1]
Spain-based VC	24.90	19.71[1]
Co-Founder and Co-CEO (London)	8.39	6.64[1]
Co-Founder and Co-CEO (San Francisco)	8.39	6.64[1]
Private Investor	3.04	2.41[1]
Directors	0.23	0.18[1]
Other Historic Investors	15.20	12.03[2]
London-based Venture Capital Trust	-	3.92
Other UK-based Venture Capital Trusts	-	4.52
UK-based Enterprise Investment Scheme Investors	-	3.82
Other New UK Investors	-	8.59
Totals	100.00	100.00

The Company's AIM IPO was underpinned by tax-advantaged Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors who, in aggregate, invested the maximum of £5 million ($6.61 million) allowed under UK tax law of the £8.5 million ($11.23 million) raised. In addition to the immediate capital injection, LoopUp's AIM listing will enable further access to the public capital markets, if required, to support the Company's long-term strategic objectives.

LoopUp adopted three Share Option Plans so as to enhance its ability to attract, retain and incentivize high caliber individuals. One plan is for its UK employees, the other is for its U.S. employees and the third is for non-employees (i.e. consultants and Board members). The total number of options outstanding after the IPO amounted to approximately 11% of the total shares outstanding and the average strike price of these options was approximately 30% below the IPO price.

The Company's employee option plans, in aggregate, are subject to a couple limitations; the maximum number of options outstanding at any given time cannot exceed 15% of the total shares then outstanding and the maximum number of options that have already been exercised over the previous 10 years plus those that are still outstanding cannot exceed 30% of the total shares then outstanding. The second limitation excludes options issued prior to the IPO.

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1 Subject to a 12-month lock-in and customary orderly market provisions for a further 12 months.

2 Only 73.26% of these investors are subject to the abovementioned lock-in and orderly market provisions.

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Board of Directors and Corporate Governance

The Board consists of seven Directors; three executives (both Co-CEOs and the CFO) and four non-executives, all with solid resumes and a good blend of complementary experiences and skill sets. The non-executives consist of an Independent Non-Executive Chairman (NEC), two Independent Non-Executive Directors (NEDs) and a NED who is not independent.

Companies listed on AIM are not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council, which is mandatory for companies listed on the Main Market of the London Stock Exchange. AIM-listed companies typically comply with, and the Company intends, in so far as is practicable given its nature and size, the main provisions of the Quoted Companies Alliance's Corporate Governance Guidelines for Smaller Quoted Companies. The overarching principle of corporate governance on AIM is to ensure that companies are managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the long term.

The Board will meet regularly to review, formulate and approve the Company's strategy, budgets and corporate actions and oversee the Company's progress towards its goals. In accordance with best practice, the Company established Audit, Remuneration and Nomination Committees with formally delegated duties and responsibilities and written terms of reference.

One of the two Independent NEDs serves as the Chairman of all three Committees while the other Independent NED serves as a member of all three. The NED that is not independent serves as a member on the Audit Committee and the Co-Founder and Co-CEO based in London serves as a member on the Remuneration and Nomination Committees. The Audit and Remuneration Committees will meet not less than twice a year and the Nomination Committee will meet not less than once a year.

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Accounting Considerations

The Company is incorporated in the UK; therefore, it is required to report using IFRS. The Group is structured with a wholly-owned UK subsidiary below the Company which has wholly-owned subsidiaries in the U.S., Hong Kong and Barbados. The UK and U.S. subsidiaries are the main operating companies. Given the legal structure and for historical reasons, the Company considers the UK subsidiary to be the principal operating company. Since the UK is the primary economic environment in which the Company and the subsidiary deemed to be the principal operating company operate, British pounds Sterling is the functional currency and was also chosen as the reporting currency.

The UK Member Firm of an international accountancy network acted as Auditor and Reporting Accountant. Since the IPO completed within nine months of the latest audited financial statements, unaudited, comparative stub period financials were not required, however, the Company chose to provide them for the six months ended June 30, 2016 and 2015.

An unaudited pro forma statement of net assets is never required in connection with an AIM IPO but was provided to illustrate the recapitalization of the balance sheet by way of paying off a portion of the debt with some of the net proceeds from the IPO and the conversion of the balance to equity and the remainder of the net proceeds from the IPO added to the Company's cash resources.

Legal Considerations

Notwithstanding the fact that the U.S. subsidiary generates more revenue than the UK subsidiary and has nearly double the number of employees, the UK is considered to be the 'place of central management and control' since one of the Co-CEOs, the CFO and the COO are based in London with only the other Co-CEO and the Chief Architect based in the U.S. As such, the three significant differences between U.S. and UK corporate law automatically apply as follows:

1. Pre-emption rights (i.e. anti-dilution) – Shareholders may participate in, or the Company must obtain approval from at least 75% of them for, the issuance of shares for cash of more than 10% of the then outstanding shares during any 12-month period.[3]

2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

3. Takeovers (i.e. mandatory offer) – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

The IPO was not subject to Regulation S of the U.S. Securities Act of 1933. Since the Company is incorporated in the UK, the shares are eligible for dematerialization and trading within CREST, the most common electronic system for the holding and transfer of shares in the UK. As such, it was not necessary to appoint a Depository and create Depository Interests, as would be the case for a company incorporated outside the UK or one of its Crown Dependencies, the Channel Islands and the Isle of Man.

[3] This is the typical level at which AIM-listed companies seek an annual standing authorization from their shareholders for the issuance of additional shares for cash. This flexibility increases the certainty and speed of small capital raises during the year and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.