

## **MyCelx Technologies Raises \$20 Million in AIM IPO**

### **Overview**

Gainesville, Georgia-based MyCelx Technologies raised \$20 million in its recent IPO on the London Stock Exchange's Alternative Investment Market (AIM).

MyCelx is a clean water technology company focused on the oil and gas, power, marine and heavy manufacturing sectors. The Company's system consists of equipment (a coalescer and/or a polisher) and consumable filtration media infused with an organic chemical polymer that creates cohesion, as opposed to provoking separation. The footprint of MyCelx's system is 25% that of competing technologies, is cost-effective and achieves better results by permanently and immediately removing free, emulsified and dissolved hydrocarbons from water upon contact to levels of 0 - 10 parts per million at any flow rate.

The Company was co-founded in 1994 by the scientist who invented the polymer and an experienced oil industry executive. Current and proposed water quality standards are a key driver for the Company, which relies on know-how, trade secrets and 36 patents. MyCelx currently has 18 employees, one temporary employee and five sub-contractors, mainly engaged in engineering and product management.

### **Key Listing Metrics**

- \$19.7m gross was raised, \$16.7m net of offering costs, intended to be used for:
  - \$7.5m – Sales and marketing
    - Expand sales force and technical sales team
    - Rollout global marketing program to increase general awareness
    - Establish sales offices in key locations, the Middle East and Houston
  - \$4.4m – Operations
    - Increase engineering headcount
    - Expand equipment rental program
    - Expand plant and equipment for manufacturing of consumables
    - Fund R&D for potential new applications of the technology
  - \$4.4m – General working capital
  - \$0.4m – Repay bank loan
- Offering costs amounted to 15.2% of the gross capital raised for the Company
  - The offering was underwritten, as opposed to being undertaken on a 'best efforts' basis
    - Broking commission of 4.0%
    - Undisclosed corporate finance fee
    - Five-year warrant over 1.5% of the enlarged share capital at the IPO price
- Opening market capitalization of \$44.3m
- Dilution to existing shareholders of 44.5%
- Free float of 53%
- Trailing pre-money and post-money revenue multiples of 5.7 and 10.3, respectively
- Trailing pre-money P/E ratio of 82.0<sup>1</sup>
- Trailing pre-money EBITDA multiple of 49.2<sup>1</sup>

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<sup>1</sup> Not particularly meaningful given the relatively small denominators.

### **Key Financial Metrics**

(in USD millions)	Y/E 12/31/08	Y/E 12/31/09	Y/E 12/31/10	Δ from 2008	Δ from 2009
Revenue	\$2.7	\$2.6	\$4.3	-4%	+65%
Cost of Goods Sold	0.9	1.0	2.0	+11%	+100%
Operating Expenses	1.4	1.4	2.0	+0%	+43%
Net Income	0.4	0.2	0.3	-50%	+50%
EBITDA	0.4	0.3	0.5	-25%	+67%
Accumulated Deficit	5.4	5.3	4.9	N/A	N/A
Cash and Cash Equivalents	0.1	0.0	0.2	N/A	N/A

The Company's revenues are concentrated with a small number of customers; with 53%, 51% and 33% of 2008, 2009 and 2010 revenues, respectively, earned from five, six and three customers, however, these customers pose very low non-collection risk. Since the IPO completed within nine months of the latest audited financial statements, unaudited, comparative stub period financials were not required and the Company chose to not provide updated management accounts.

### **Shareholder Base**

The Company had 6.5m shares outstanding prior to the IPO, issued 0.4m shares in exchange for a \$1.5m IPO bridge loan from one of the Founders of the Company, issued 0.2m shares in connection with the Company's Performance Incentive Plan and issued 5.8m shares for cash in the IPO, leaving the Company with 12.9m shares outstanding. The table below details those who held 3% or more of the Company prior to and/or after the IPO, along with the collective ownership of the Other Historic Investors, the Other Directors and the Other New U.K. Investors.

Shareholder	Pre-IPO %	Post-IPO %
Founders	35.18	20.63 <sup>2</sup>
Chief Executive Officer	15.27	7.46 <sup>2</sup>
Private Investment Company	9.96	5.05
Former Director	7.00	3.55
Family Office	3.94	1.99
Family Trust	3.09	1.57
Other Historic Investors	19.10	10.60
Other Directors	6.46	4.72 <sup>2</sup>
London Institutional Investor (Fund Manager)	-	16.95 <sup>2</sup>
London Institutional Investor (Fund Manager)	-	7.41
London Institutional Investor (Fund Manager)	-	5.53
London Institutional Investor with a U.S. Parent (Fund Manager)	-	3.68
Edinburgh Institutional Investor (Fund Manager)	-	3.68
Other New U.K. Investors	-	7.18
Totals	100.00	100.00

The Company was closely held by the Founders and "Friends and Family". All of the pre-IPO investors retained their shareholdings and were simply diluted as a result of the new shares issued in the IPO.

An important element of MyCelx's IPO was its ability to raise \$5.8m of the \$19.7m from tax-advantaged Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors. In order for the

<sup>2</sup> Subject to a 12-month lock-in and customary orderly market provisions for a further 12 months.

Company to become eligible for VCT and EIS investors, MyCelx had to, amongst other things, create a permanent presence in the U.K., which was achieved by appointing a U.K. Business Development Manager with the authority to enter into binding contacts on behalf of the Company. This individual will be focused on developing business opportunities in the U.K. (i.e. the North Sea) and servicing projects in the Middle East. Until appropriate permanent office space is identified and contracted, the Company's 'permanent establishment' will be located within their U.K. lawyers' offices.

Beyond the obvious benefit of raising growth capital, the Company now has a more diversified shareholder base from which to create post-IPO liquidity and new U.K.-based investors to diversify the risk of any future financings. As a public company, MyCelx's corporate standing and profile will be raised and its Performance Incentive Plan will be more attractive to existing and prospective employees and Board members.

### **Board of Directors and Corporate Governance**

The Board of Directors consists of three Executive Directors (one of the Founders, who is also the President and Chief Science Officer, the CEO and the CFO) and six Non-Executive Directors (an Independent Chairman, two Independent NEDs, two non-Independent NEDs and the other Founder as Vice Chairman); all with solid resumes and a good blend of complementary experiences and skill sets. The Board is required to meet at least four times per year.

Companies listed on AIM are not required to comply with the U.K. Corporate Governance Code, which is mandatory for companies listed on the Main Market; however, AIM-listed companies typically commit to complying with its main provisions, where practical, and/or the Corporate Governance Guidelines for Smaller Quoted Companies published by the Quoted Companies Alliance. While the foregoing is commonplace, even for AIM-listed companies that do not re-domicile into the U.K., MyCelx chose to remain subject to the corporate governance requirements of the State of Georgia.

The Company has established an Audit Committee, a Compensation Committee, a Nomination and Governance Committee and an Executive Committee. Each committee consists of two or three members with the only representation from the Executive Directors being the CEO on the Executive Committee.

### **Accounting Considerations**

Since the Company remained incorporated under the laws of the State of Georgia and did not re-domicile into a European Economic Area country, which includes the U.K., they chose to report using U.S. GAAP. While, not required, a summary of the relevant differences between U.S. GAAP and IFRS was provided.

The U.K. Member Firm of an international accountancy network acted as Reporting Accountant while the U.S. Member Firm of another international accountancy network audited the 2008 - 2010 financials. Since the 2010 financials were less than nine months old, unaudited, comparative stub periods were not required and the Company chose to not provide updated management accounts.

An unaudited pro forma statement of net assets is never required in connection with an AIM IPO and was not provided in this instance since the Company only repaid a small bank loan and satisfied a small IPO bridge loan from one of the Founders via the issuance of shares; therefore, the effect of the net proceeds from the IPO and the debt/equity swap on the net assets of the Company is obvious.

### **Legal Considerations**

While the Company remained incorporated under the laws of the State of Georgia, its constitutional documents were amended to incorporate two of the three most important elements of English corporate law as follows:

1. 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.
2. 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 other important element of English corporate law that was not amended in the Company's constitutional documents relates to pre-emption rights (i.e. anti-dilution). English companies typically provide shareholders with the right to participate in the issuance of shares for cash of more than 10% of the then outstanding shares during any 12-month period; however, obtaining the required 75% shareholder approval waiving such right is commonplace. As a middle-ground solution, the Company intends to consult with its Nominated Adviser, as to whether or not its shareholders should be provided with the opportunity to participate, any time it proposes to offer new shares for cash.

The Company relied on the safe harbor afforded by Regulation S of the U.S. Securities Act of 1933 so as to not have to file a registration statement with the U.S. SEC. Shares subject to Reg. S (generally, those issued in the IPO for a period of one year, issued within one year of the IPO and/or held by affiliates) are not eligible for dematerialization and, as such, are always held and traded in certificated form.

Since the Company did not re-domicile into the U.K. or one of its Crown Dependencies, the Channel Islands and Isle of Man, its shares that are not subject to Reg. S are not eligible for trading within CREST; the most common electronic system for the holding and transfer of shares in the U.K., however, a Depository could be appointed and Depository Interests (DIs) could be created, allowing for the immediate trading of these non-Reg S. DIs with CREST. The Company has, however, arranged for its registrar, in its capacity as Depository, to issue DIs for the shares issued in the IPO, a subset of the Reg. S shares, upon the expiration of the one-year distribution compliance period and upon the provision of proper instructions from the shareholder(s) to the transfer agent and registrar.

### **Other**

Given the nature of the Company's business, clean water technology largely focused on the oil and gas sector, two Experts' Reports were prepared; one of a commercial due diligence nature, a market assessment for oil and gas produced and the treatment of waste water, and the other on the Company's intellectual property position.