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Specifics features, definitions and key terms for an IPO and issuer in Norway

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Introduction

If you have picked up this publication, the chances are high that you are working on or preparing for an *Initial Public Offering* (IPO) in Oslo. This publication has been prepared by Deloitte for management and board of companies contemplating a listing on the main market Oslo Børs in Norway, alternatively on Euronext Expand, which both are *regulated markets* for listing of mainly *mature companies* in Oslo. All terms set in *Italic* throughout this publication are defined in the definition list below.

The definitions are integrated, meaning that with many cross references any interested reader can easily read up on a subject, like what role in an IPO the *investment bank* has (a term that with relevant references will guide you towards key terms like *beauty contest, placing power, book runner, presounding, book building, pricing, allocation, aftermarket* etc). Included in some of the terms are also specific tips from our side. While we have endeavored to include all key terms, not all terms for an IPO may necessarily be included.

The definitions below are mainly relevant for an IPO on the main list in Oslo, being "Oslo Børs", or alternatively "Euronext Expand", hence this publication does not address any listing on Euronext Growth. Still some few references to a listing on Euronext Growth are nonetheless included.

Key feature for an IPO in Norway: The Nordic style offering is a simpler IPO process than for IPOs abroad

One key specific feature of listing on Oslo Børs is that there are two types of IPOs in the Norwegian market. While a *Nordic style of offering*[1] is the market practice for a listing in Oslo as this is a very efficient process, occasionally an IPO is done as an *International style offering*, this is when an international bank is involved and is a more complex process, see point 3 in the section below.

A second key feature of being listed on Oslo Børs: Issuers in Oslo raise equity fast through private placements

The listed companies (the *issuers*) on Oslo Børs raise equity more often than listed companies in foreign capital markets, and they do it efficiently through *private placements*, followed by a so-called *repair offering*. This way of raising equity is a unique feature for listed companies in Oslo, allowing the issuers to raise capital quickly when needed. This is explained further in point 15 below.

Disclaimer

This publication does not purport to address all matters of an initial public offering or all continuing obligations or other reporting requirements for a listed issuer on Oslo Børs or Euronext Expand. The publication is meant to provide a high-level overview only, and professional advice should be sought when dealing with an IPO or with any other matters set out in this publication.

Further, as this is the first version of the publication, not all matters may have been detailed correctly.

[1] A Nordic style offering is here defined by Deloitte to be an IPO in Oslo that involves both Norwegian and Nordic investment banks, but no other foreign banks. This is further explained in point 3 in the section below.

We have below set out 16 key areas for an issuer, with pointers to terms with detailed information

In addition to the two key features that differentiate Oslo Børs compared to foreign markets (see above), we have identified 16 areas where we provide you with pointers to key terms that will allow you read up on specific areas. This will provide you with a good understanding of key areas associated with the listing process and the life as a listed company, like the role of *advisors*, *continuing obligations* etc. Terms in *Italic* are hence explained in details in the definition list below.

1) See the term ***IPO*** for a brief summary of a listing process in Oslo. Further, see ***listing requirements*** for the formal listing criteria.

2) ***Investment banks*** play a key role when a company is being listed, this is so as they have ***placing power*** and can help sell the shares of the company to new ***retail*** and ***institutional investors***, see details around this key role in *Investment banks* below. See ***beauty contest*** for when it may make sense to broaden the syndicate of investment banks helping the company. Other advisors also play important roles in the IPO process, this is set out in the term ***advisors*** below.

3) As mentioned introductorily, there are two kinds of IPOs in Norway, ***International*** and ***Nordic style offerings***. The Nordic style offering is the main type used as it is best suited for Norwegian companies and less expensive. See the term ***International style offering*** for details about the two types of offerings for an IPO in Oslo. Note that in the glossary below all terms that relate to an ***International style offering*** are marked with an *, as these terms are quite technical and <u>will only apply for an international style offering</u>. As such all terms marked with an * can be disregarded in a Nordic style offering.

4) Should you also want to involve US investors to expand the universe of investors for your IPO? (US investors can be involved regardless of whether the IPO is a Nordic style of offering or an International style of offering – see point 3 above). If <u>no</u>, skip this point number 4. If <u>yes</u>, see the following: IPOs in Oslo are – with the help of the investment banks as set out above – usually subscribed by both Norwegian and international investors. However, to avoid registration of the IPO with the US ***Securities Exchange Commission*** any US retail investors will never be allowed to subscribe to an IPO in Norway. The only US investors allowed to subscribe in an IPO in Oslo will be ***QIBs*** (qualified institutional buyers), which by definition are professional US funds. Further, inviting QIBs to subscribe will only be allowed based on certain US legal exemptions for the IPO (these exemptions are ***144A*** and ***Regulation S***). See the term ***US Securities Act*** below for a description of the matters that have to be addressed when the IPO is subscribed by US investors (QIBs). To summarize this point number 4; US investors (the QIBs) can both subscribe to ***Nordic*** and ***International style offerings***, given that the exemptions ***144A*** and ***Regulation S*** are upheld as per the US Securities Act.

5) Upon listing a ***listing prospectus*** has to be prepared, setting out (among other things) the details of the ***business model, risk factors*** and the transaction whereupon the company will issue shares to new investors in the ***primary market***. See the term ***prospectus*** for the purpose and the main components of a prospectus. Your advisors will help you prepare the prospectus, which ultimately will be approved by the ***NFSA*** (Finanstilsynet - the Norwegian market regulator), just prior to the IPO.

6) The listing prospectus should of course also reflect the ***equity story***, which is explained below and which include some tips. A great equity story may be even better with a sound ***strategy***, with elements like barriers to entry, any competitive advantages that can provide the company with higher ***ROI*** than the peers. See below for advice on this, under ***equity story***.

7) Typical for listed companies in Norway is to have a transparent ***business model***, which often is referred to as a ***pure play*** investment case. See these terms below for best practice for a business model.

8) How unique is your business? While a good and transparent ***business model*** takes you a long way (see point 7 above), the business model can still be taken to the next level. There are many ways to make the business unique, and more so for a listed company. While a company will be compared to its ***peers***, the company should ideally try to offer unique value to its customers, in other words have a differentiated offering compared to its peers. See the terms ***strategy*** for how conceptually to best offer unique value, or at least how potential investors like Folketrygdfondet will consider this key concept. Further, see the term ***APMs*** for how a company can make its own financial metrics in order to report on its ***unique business drivers*** that are associated with its differentiated business model.

Also note that a business will need financial and other resources to run its business, so see ***warrants, options, preference shares*** for how to attract financing (equity/debt) as well as other resources (employees/vendors) to the business. Finally, see the term ***agent – principal*** for how to best align the interests of the shareholders with the interests of management, so that the company can deliver on its business model with all stakeholder's interests aligned.

9) Post IPO the company has to comply with Oslo Børs so-called ***continuing obligations***. See this term below for a very brief overview of these ongoing reporting requirements that the issuer will be subject to. Note that as the company is now issuing shares, we can then refer to the company as an ***issuer***.

10) One of the key continuing obligations for the issuer is to report inside information as soon as possible, see ***inside information*** for a brief summary of this key requirement, see also how the company can potentially opt for ***delayed disclosure*** of inside information in certain situations. Delayed disclosure is a formal exemption from the main rule of disclosing inside information immediately.

11) Another key continuing obligation is to report periodic financial information as an issuer, see ***periodic financial information*** below for mandatory and voluntary reporting, and when a ***responsibility statement*** has to be included in the financial reporting.

12) While environmental and sustainable reporting is not per itself a listing requirement, such reporting comes in play post IPO with EU's Non-Financial Reporting Directive (***NFRD***), which requires companies to report non-financial information along with their annual reports, such disclosures usually referred to as sustainability reporting. While this is a requirement post IPO, sustainable reporting will often also be a key part of the ***equity story*** in the marketing of the company. See terms ***NFRD, CSRD, double materiality*** and ***scope 3 emissions*** for reporting requirements and further details.

13) Post IPO the company also has to keep reporting on whether it complies with the ***NUES code***, and on the requirements of the ***Transparency Act***.

14) Delivering on your equity story is crucial post IPO, this is part of the good ***IR work*** that should be addressed in the IPO and post listing, where one of the aims is to achieve low ***cost of capital***, which can be achieved through good ***liquidity*** of the share trading. With a better, differentiated business offering than your peers (see point 8 above) and lowest possible cost of capital, the business may generate a ***ROI*** higher than your peers. And such higher ***ROI*** is a sign of a good ***strategy.***

15) Raising new capital post listing? After all, one of the benefits of being listed is to have easy access to the capital markets. And as mentioned introductorily, one key feature of the Norwegian equity market that sets it apart from foreign markets, is that listed companies are much more active in raising capital, and raise new equity through a ***private placement*** followed by a ***repair issue***. This can be done very fast, while still addressing the key principle of ***equal treatment of shareholders***. See these terms below for details.

16) Post listing the listed companies may be the target for a take-over, and the take-over of a listed company is highly regulated. See further details in the term ***take-over code*** below.

Note that wording in ***Italic*** refers to other defined terms. Terms that are marked with an * refer to specific terms and compliance that is required for a so-called ***International style offering***, and these terms can be ignored if the IPO is only a ***Nordic style offering***.

Key definitions and terms for an IPO in Norway

135 day rule*

Under the 135-day rule, the company's *statutory auditors* cannot give negative assurance (in a *comfort letter*) 135 days or more after the last balance sheet date for which the auditors have performed an audit or review. In practical terms, the 135-day rule creates windows during which the IPO typically would be completed.

The 135 day rule is only relevant for *International style offerings* in Oslo (as a *comfort letter* is prepared), and not for *Nordic style offerings*.

144A

See the *US Securities Act* for the main rule, which is that all share issues to US investors (also via an IPO in Norway) should be registered with the US *Security Exchange Commission*.

However, *Rule 144A* under *US Securities Act* provides an exemption from the registration of the share capital issue (of shares to US investors) to the *Security Exchange Commission*. In brief the exemption is that the offer to subscribe shares is done to *QIBs* (Qualified Institutional Buyers). Hence, Norwegian prospectuses would on the first page refer to the offer being made in reliance on the Rule 144A exemption, if US investors are targeted (being QIBs).

Note that the 144A exemption (set out prominently on the first page of the prospectus) will be relevant if QIBs are invited to subscribe, regardless of whether the offing is an *International* or *Nordic style offering*.

Advisors

The advisor team in an IPO is mainly made up of the company's *legal counsel* (a legal firm with experience with the capital markets), the *investment bank*(s), the financial and legal *due diligence advisors* and a professional communication agency, all parties with expertise within their part of the IPO process and with the capital markets. The company's *statutory auditors* should also be included as part of the advisors. All the big four audit firms have their own capital market department, which assists the audit team and the company in the IPO. This is because the *statutory auditors* will be involved in the IPO with matters like reviewing the *prospectus*, audit financial statutory statements going into the prospectus, occasionally provide audit opinions on *carve out/combined financial statements*, provide limited review on interim financial statements prepared in accordance with *IAS 34*, and in *International style offerings* prepare *comfort letters*. In major IPOs additional advisors may be involved.

See also *working group* and *working group calls* below for details.

Aftermarket performance

Aftermarket performance refers to how the share price develops after the shares begin trading on Oslo Børs. In an *IPO* setting, the aftermarket performance is an important measure of the success of the offering. If the share price rises, it indicates strong demand and positive investor sentiment. However, if the share price falls, it may suggest that the IPO was overvalued or that there were underlying issues with the company's financials or business model.

Factors contributing to a good aftermarket is where the right IPO price was set and the *allocation* of shares between *institutional* and *retail investors* is balanced. In a longer term perspective the aftermarket performance hinges on how the company delivers on the *equity story*, also impacted on whether the company is part of Oslo Børs sectors which the Norwegian market (investors/ analysts etc) is familiar with.

The aftermarket is also referred to as the *secondary market*, where already issues shares are traded (in contrast to when new shares are issued; the *primary market*).

Note that when choosing *investment banks*, any aftermarket activities that the banks can contribute to post listing (like coverage provided by *analysts*) are matters to consider in the *beauty contest* when selecting the banks.

The key purpose of having a good aftermarket performance is to maintain investor confidence and support for the company. A strong aftermarket performance can attract new investors and bolster the company's reputation, while a weak performance can erode investor confidence and lead to a decline in the company's share price.

Additionally, a good aftermarket performance can help the company raise new capital in the future or do other capital market transactions, as investors may be more willing to invest in a company with a proven track record of success. A relatively high share price also implies lower cost of capital. See also *analysts* for how these external parties contribute to the aftermarket liquidity, as well as how the company's *IR work* also can contribute positively.

See also how *lock up* for shares not sold in the IPO (by existing shareholders/founders) impact the aftermarket.

Agent – principal theory

With the advent of the modern company (VOC* in 1602 – see also the term *Euronext N.V*), the ownership of the business and the management doing the key decisions was split, leading to the agent-principal problem which has existed to this day.

The agent-principal problem arises when agents (managers) act in their own self-interest rather than in the best interest of the principal (shareholders). This creates a material weakness in the corporate model, as it can lead to inefficiencies, conflicts of interest, and ultimately, value destruction. Strong corporate governance (like *NUES*) and oversight are critical to mitigating this risk.

In order to create the best congruence between the managers' interests and the shareholders, three approaches may be considered:

i. Corporate governance, setting up internal policies that management and organisation should adhere to, so that decisions throughout the organization are aligned with the owners' interests. Such corporate policies also have the benefit of addressing required compliance with legal requirements. See *NUES*. Should not corporate policies be followed, this would have negative consequences for the persons involved.

ii. *LTIP*, set up financial incentives so that management take decisions that benefit them and shareholders financially (like shareholdings). Here *APMs* may come in and be relevant, as one key function of APMs is to steer behavior of the individuals.

iii. Create and maintain a corporate culture/corporate values that ensure that management and the organization through good corporate behavior take decisions and actions that benefit both the management/organization and shareholders.

While each of the above approaches have their merits, in reality a listed company will use a combination of the three approaches above.

See further details with the terms *LTIP, NUES, Euronext N.V.* and *Corporate governance*.

*) With the Dutch company Vereenigde Oost-Indische Compagnie (VOC) in 1602. In English also referred to as the Dutch East India Company.

Allocation

While the focus in the *book building* (see also *private placement*) has to ascertain the demand for the shares and the resulting pricing of the shares, the specific allocation of shares to different types of investors in the book building is also important.

As the investors subscribing to the IPO are not yet shareholders of the company, the allocation does not need to comply with the *equal treatment* principle, and the investment banks will recommend an allocation of the shares to retail investors versus institutional funds in order to achieve a balanced mix of investors for the company.

Institutional investor (funds) will be able to support the company post IPO with additional funding if needed, but are long term investors. On the other hand, *retail investors* may not have the deep pockets to provide additional capital post IPO if the company should need this, but retail investors are short term focused and will help with the *liquidity* (the active trading) of the shares. Hence, the *investment bank*(s) will just prior to the IPO recommend the board of the company for an allocation that will serve the company's interests best in the *aftermarket* in terms of active trading and long term committed institutional funds. The banks recommend an allocation based on the bank's experience with the investors.

See also *pricing* and *book building*.

Analyst

A key objective for an *investment bank* is to do valuations of financial instruments and companies, like when the bank is involved in an IPO. Hence, banks employ lots of research analysts (or analysts for short, alternatively also referred to as security analyst, investment analyst, equity analyst). A research analyst's job is to examine and understand the reasons (like *business drivers* and the industry and trends) for the *valuation* of shares (or other financial instruments) and companies. Hence, a large part of the business of investment banking is to understand what the *valuation* for something is. The analyst prepares investigative reports on financial instruments or assets for in-house use or for clients. Clients will be investors like *institutional funds*, companies and retail traders. The report an analyst prepares for its research of the valuation of a company will be concluded with a "buy," "sell," or "hold" recommendation.

Through providing valuations and research reports the bank will help keep up the interest and trading of shares among its clients, clients (*being retail investors* and *institutional funds*) who again will play a key role when new share offerings are placed in the market by the investment banks.

As part of an *IPO* it may be necessary for the company to educate the analysts of the *business model*, in some cases also regarding the company's industry if this is unfamiliar to the analysts.

The analyst coverage that analysts provide is important for the listed company in the *aftermarket*, as the research reports of the analyst will educate the investors and create news for the shares, helping the overall liquidity of the share trading. See *wall-crossing, aftermarket, CFO* and *IR work* for further details.

APMs

Alternative Performance Measures are financial measures of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified by *IFRS*.

Hence, an APM is an alternative, financial performance measure that is derived from IFRS. As such it should be reconciled to the nearest IFRS measure, and have comparable figures for the previous financial period.

ESMA has provided specific requirements for how to present and report APMs in the *prospectus* and post listing, usually as part of the *periodic financial reporting*.

Note that APMs are important for listed companies, as the APMs allows the company to report additional metrics in addition to the IFRS figures. Companies (*peers*) in the same industry typically report same APMs that are used throughout for the industry, like EBITDAR for airlines.

Beauty contest

Companies aiming for an IPO will early in the IPO process interview several investment banks for the prospective IPO, to see what the investment bank(s) can offer in terms of assisting the company with the IPO. Key criteria for choosing an investment bank will be the bank's perceived placing power (which is the function of the bank's expertise with the company's industry, earlier placements for IPOs in the sector), potential/expected pricing (see valuation) of the company's shares, success fee (percentage of the IPO proceeds that the bank will take for the IPO), additional services like whether the investment bank also can provide financing via its banking arm, analyst coverage post IPO.

Banks that are chosen through the beauty contest by the company, will be mandated to do the IPO for a success fee to the banks (can be from 4-6% of IPO proceeds, depending on how easy the bank(s) consider doing the IPO). See also *investment banks* and *aftermarket.*

Bid-ask spread

The bid-ask spread (also referred to as the buy/sell spread) is the difference between the highest price that a buyer is willing to pay for the shares, and the lowest price that a seller is willing to accept for selling his shares. The spread (i.e. ask minus bid) represents a transaction cost, which varies based on how liquid the shares are. The spread is a transaction cost because when the investor sells the shares, the investor will not recoup the spread, which will represent a loss. With a high spread the transaction cost can be material for illiquid shares. Compare this to shares of Equinor, where the liquidity is very high and spread is very low. When selling and buying Equinor shares the investors will incur only a very minor transaction cost in terms of spread.

Some will say that one purpose of good IR work is to reduce the spread. *See liquidity, market maker, IR work, consideration shares* and *allocation.*

Black out period

See *closed period.*

Book building

Book building is the process of generating demand and determining the price of shares in an IPO. Investment banks solicit interest over a two-week period from potential investors, who indicate how many shares they would like to purchase and at what price. Based on the demand aggregated from the various investors, the banks recommend to the board of the company the best price and the ideal allocation of shares to investors. The goal is to find the right balance between demand and price, maximizing the amount of capital to be raised and also achieving an ideal allocation between retail and institutional investors, as this will ensure a successful market debut and a good *aftermarket* for the share trading.

Should the share price coming out of the book building be too low, the company may not be able to sell a sufficient number of shares and the IPO will be called off.

However, if the investment banks have done a good job in the pre-marketing phase and uncovered a sufficient price range for the potential pricing of the shares prior to the book building, the book building should culminate with an acceptable price within this price range.

Book runners

In an IPO, a book runner is the *investment bank* that is the main *underwriter* or lead manager/arranger/ coordinator when the shares for the issuer is to be sold (placed with investors, see *placing power*). The book runner will run (be in charge of) the books during the issuance of new equity, contacting and registering the demand from each investor. The bookrunner often syndicates with other investment banks in order to lower its risk. (A company may also want to have several investment banks involved, in order to reach a larger universe of potential investors, see *beauty contest* and *International type IPO/offerings).*

When more than one bookrunner works with the placing of shares to investors, the other investment banks are referred to as joint bookrunners. The bank that runs the books is the closest one to the issuer and controls the allocation of shares to investors, holding significant discretion in doing so, which places the bookrunner in a very favored position. With more complex IPOs one of the investment banks in the syndicate may take the responsibility to address the compliance matters around an IPO, for example if the IPO involves an *International type offering.*

See *pricing, allocation* and *aftermarket* for further details.

Bring down comfort letter*

A bring down comfort letter is an additional *comfort letter* provided in an *International style offering*.

While a *comfort letter* (addressing financial information as agreed at the start of the IPO process between the *statutory auditors* and the *investment banks*) is typically provided by the *statutory auditors* to the *investment banks* prior to the pricing decision for the IPO, the bring down letter is used to re-verify, as of a later date just prior to the IPO and listing itself, that the original *comfort letter* is still valid.

Business drivers

Business drivers are the key factors driving the financial performance of the business. Some of these are under the company's control (like margins), while others are beyond the company's control (like the fuel price for airliners).

Setting out the business drivers is key for the *equity story*, as investors will want to see what factors that drive the financial performance. *Analysts* will also model the business (and *segments*) based on the business drivers. Business drivers will hence need to be measured (in line with the credo "if you cannot measure it, you cannot manage it"), by using relevant *APMs*. Business drivers is also a rich source of potential *risk factors* that can be disclosed in the *prospectus* and in the *risk register*, like an airliner with the volatility of fuel prices, as risk factors often impact the financial performance/business drivers of the company.

Further, if the company has a unique business model, this will often result in unique business drivers, which would then be measured with *APMs* that are different from the *peers'* APMs. (For the prospectus the business drivers are referred to as "significant factors, including unusual or infrequent events or new developments, materially affecting the issuer's income from operations").

See also *equity story, strategy, segment reporting, OFR* and *APMs*.

Business model

A business model is basically how a company makes money. The business model is validated every day when customers pay for the company's products or services (expect for *start-ups* which are yet not commercial).

Even with a new, unique product or service that earns the company a lot of revenue, the return on invested capital (*ROI*) from a new business model tend to be eroded away when competition kicks in, meaning that often the ROI over time will come down to the *cost of capital*. This concept is known as the "competitive parity" assumption, which suggests that in a perfectly competitive market, companies will earn a return on investment that is equal to the cost of capital.

As such, investors would want to know what *strategy* the company will have in order to keep earning more ROI than its *peers*. By thinking strategically the company can raise barriers, develop differentiated offerings and competitive advantages, so that the company can be in a position to earn more *ROI* than its *peers*.

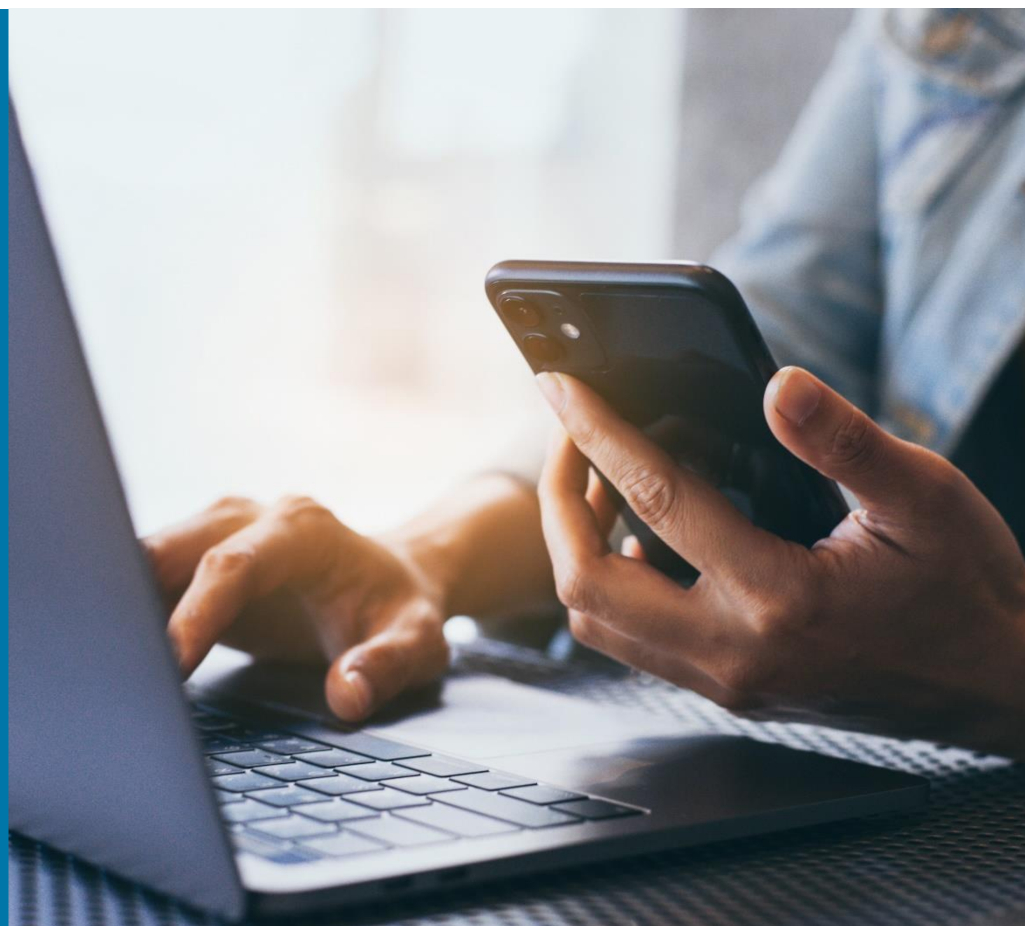
See *strategy* for further details and for what Folketrygdfondet emphasizes when this institutional fund invests in listed companies.

See also *pure play*.

Call option

A call option is a contract between a buyer and a seller to purchase a certain share at a certain price, up until a fixed expiration date. The buyer of a call has the right, not the obligation, to exercise the call and purchase the stocks. Options (including call and put options) are a subset of financial instruments.

See also *volatility, VIX* and *subscription rights*. See *pricing, allocation* and *aftermarket* for further details.



Capitalization tables

The capitalization tables are two tables (in the *prospectus*) setting out the capital structure of the Group. This information has to be updated with the most recent changes (like expected IPO proceeds, *refinancing* prior to IPO) in order to provide investors with relevant information about the capital structure of the *issuer* upon listing.

In the US a capitalization table ("cap table") also refers to a document, like a spreadsheet or a table, that details who has ownership in a company, which is usually a start-up or scale-up. It lists all the securities or number of shares of a company including stock, convertible notes, warrants, and equity ownership grants. The context is that over time the start-up has raised equity over several rounds, meaning that each round of new investors may have received shares with different rights (*warrants*, different kinds of preferential rights etc). The cap table will then allow the CFO to keep control over the various classes of shares and rights.

Upon listing on Oslo Børs such different shares classes will be collapsed (including exercise of warrants/options linked to the shares/capital structure prior to IPO) in order to have only one class of ordinary shares upon listing. While it is not a listing requirement to have only one class of shares, having different classes of shares with different rights will complicate the pricing of the company, hence all IPOs in Oslo is done with only *ordinary shares*. See also *preference shares, start-ups* and *scale-ups*.

Carve out/combined financial statements

Carve-out financial statements is a general term used to describe financial statements derived from the financial statements of a larger parent entity or group. Often a company seeking a listing will have to reorganize its financial history for the last three years, in order to comply with the prospectus rules that require 3 years of financial history. Carve out/combined financial statements are often prepared when the company has been through a *legal restructuring*. Users and regulators (the *NFSA*) often require companies to provide combined and/or carveout financial statements because such financial statements can provide meaningful, relevant and useful information to investors.

Carve out/combined financial statements are often prepared for the purpose of an IPO, if the consolidated financial statements (prepared for statutory filing to Brønnøysund) are considered insufficient.

See also *consolidated financial statements, pro forma financial information* and *pre-clearing memo*.

Cash flow forecast

One of the key *listing requirements* is that the company planning for an IPO must demonstrate that it will have sufficient liquidity to continue its business activities in accordance with its planned scale of operation for at least 12 months from the planned listing date. It is reviewed by the financial *due diligence* team.

CFO

Chief Financial Officer. The CFO will have a key role in the IPO, as he/she is usually the person in charge internally for the IPO process and involved directly with key work streams like the marketing of the shares together the *investment banks*, addressing the *prospectus* etc. With an IPO the CFO finds often himself in a new territory, where many new requirements and stakeholders have to be addressed and managed.

One such role is that the CFO is often the person in charge of the IR role. The reason is that the CFO will by default be on top of the figures and financial reporting, which for investors are the key areas of their interest. While the CFO often will delegate the IR role to another key member internally/externally, the *analysts* would like to hear relevant information directly from the source, being the CFO.

See *IPO Oslo Børs* and *IR work.*

CFO certificate*

A certificate provided by the CFO of the issuer in an SEC-registered offering or an unregistered offering under *Rule 144A* and *Regulation S* of the *US Securities Act,* to the *investment banks*, confirming certain agreed figures in a *prospectus*. The CFO certificate includes standard tick-and-tie of the financial figures (in the prospectus) where the *statutory auditors* are not in a position to provide comfort. Hence, the CFO certificate does not provide any comfort in relation to the *statutory auditors' comfort letter*, but comes in addition to the auditor's *comfort letter*. As such the CFO certificate provides the *investment banks* with less comfort than the *comfort letter* issued by the statutory auditors.

See also *Comfort letter, due diligence defence* and *International style offering*.

Change of control clauses

Loan agreements with banks providing financing to a company usually include a change of control clause to allow the lender to reassess the loan engagement in case the company comes under new ownership. The reason is that a key part for why the loan was granted in the first place, was a set-up where the existing (often industrial) owners would continue working with and for the company. With new owners of the business, the terms of the loan engagement have changed (seen from the bank), and the bank will therefore have the contractual option to have the loan repaid in full if the ownership changes (in effect a put option – where the loan can be put back on the company by the banks).

As the IPO will by definition cause changes in the ownership of the *issuer*, any change of control clauses (especially for loans granted to the holding company) will have to be addressed in the IPO process, and usually renegotiated. See also *financial restructuring*. See also *dividend restrictions*. Change of control clauses and *dividend restrictions* are examples of covenants that usually have to be renegotiated as part of having IPO compliant financing.

Chapter 11

Chapter 11 refers to a section of the U.S. Bankruptcy Code. Companies that file in accordance with Chapter 11 do so in order to obtain time to restructure the capital structure of the company, in order to make a fresh start (a chapter 11 thus involves so-called fresh start accounting).

Occasionally companies listed on Oslo Børs enter into (or exit) chapter 11, like Seadrill 2018 and 2022 (being a Bermuda company) and PGS (a Norwegian company) in 2003. Hence, in certain instances also Norwegian companies can enter into chapter 11 procedures.

Climate risk

UN's Intergovernmental Panel on Climate Change (IPCC) defines climate change vulnerability (or "climate risk") as "the propensity or predisposition to be adversely affected" by climate change. It can apply to humans but also to natural systems.

Climate risk can also affect the business model, especially within fossil industries that may not have a sustainable future. Lack of transparency on how the business model is impacted by climate risk can result in investors suing for damages (mainly in the US) due to misleading or lack of transparent communication.

See also *greenwashing*, *CSRD, double materiality* and *volatility*.

Closed period

The *MAR* closed period is the 30 days period before the announcement of an interim or year-end financial report which the company will report publicly. In this period persons discharging managerial responsibilities (referred to as *PDMRs*) are restricted from doing any transactions on their own account or for the account of a third party, directly or indirectly, relating to shares or debt instruments of the issuer or to related derivatives or other financial instruments, unless an exception is available. Outside of the 30 days closed period *PDMRs* still have to consider whether *inside information* exist, before carrying out any transaction in financial instruments.

Comfort letter*

Broadly speaking a comfort letter is a letter prepared by the company's *statutory auditors* to the *investment banks* stating that all accounting figures in the body of the prospectus (being the historical audited accounting figures, figures from the interim financial statements that have been subject to limited review, and figures reported through the accounting system) are confirmed by the company's *statutory auditors*. The financial figures are subject to tick-and-tie by the auditors.

The various figures confirmed by the auditors have different level of comfort, as some figures are audited, some only subject to limited review (interim reports prepared under *IAS 34*, and some only coming from the accounting system. Which accounting figures that can be "comforted" through a comfort letter, are addressed early on in the preparation of the prospectus, through discussions and negotiations between the *investment banks* and the company's *statutory auditors*.

This procedure will help establish the so-called *due diligence defence*, for the banks.

The comfort letter process involves the audit team and required experts from the statutory auditors, meaning that such a process – which comes on top of the regular process of preparing the prospectus and have it approved by the NFSA – is very costly. Note that neither the NFSA nor Oslo Børs are directly involved in the comfort letter process, and the comfort letter is only provided by the *statutory auditors* directly to the *investment banks* as requested by the banks, in order for the investment banks to build up their *due diligence defence* in an *International style IPO*.

Company events

Company events can be construed to be events leading up to *corporate actions*. Oslo Børs has set the following examples of corporate events (not exhaustive):

Any changes in the rights attaching to the *issuer's* shares, the issue of new loans, proposals and decisions by the board of directors, general meeting or other corporate body on dividends, mergers, demergers, increases or decreases in share capital, mandates to increase the company's share capital and share splits or reverse splits.

See also *continuing obligations* and *corporate actions*.

Communication policy

A communication policy for a company considering an IPO should focus on transparency, accuracy and consistency. The policy should outline what can and cannot be shared with investors, the media and employees. It should also address how to handle any potential risks or challenges that may arise during the IPO process. Overall, the policy should prioritize responsible communication that aligns with the company's equity story, values and goals. The policy should also set out who can communicate with media and stakeholders. The policy may also be aligned or incorporated with insider policies.

When the company heads into an IPO process the communication from the company should be tightly controlled, in order for the company (together with the advisors) to own the story and to avoid compliance issues. Most often the fact that the company is pursuing a listing will be kept confidential, in order to time the listing in view of the *market sentiment* (see *ITF*). Any lack of a clear communication policy may result in matters like:

- Unauthorized people in the organization discussing sensitive matter with media
- Key financial figures may be disclosed by authorized members of management, but so that the financial figures have not been vetted by *legal counsel* and which may be construed to be *profit forecasts.*
- Premature disclose of a potential IPO may remove the flexibility the company has to choose the time and place for the ITF, which also may mean that any IPO delays can open up for rumors and questions to why the IPO was delayed. Which next can create lingering doubts with the company/IPO.
- Without messaging the right *equity story* to the markets at the right time, potential investors may get an impression shaped by other forces than the issuer.

Only with a tightly managed communication policy can the company set the time and date of its own choosing for disclosing the proper *equity story* to the markets, and make a great first impression. Hence, usually a communication (IR) agency is mandated very early in the IPO process, along with the other advisors, to help with the communication for the company in the IPO process.

All investor presentations and communications to the media should be vetted by the legal counsel of the company in order to avoid any issues with *profit forecasts*.

When working with an IPO (or with specific projects) a *project name* should be used, in order to keep the transaction under wraps. A communication policy should also plan for any corporate crises coming up.

See also *IR work, ITF and advisors.*

Complex financial history

Complex financial history (CFH) is part of the *prospectus* rules. An *issuer* has a CFH if the underlying business for the issuer has existed for three years but under a different legal structure and/or in other entities, and the *issuer's* financial statements do not reflect the full underlying business for the 3 years. Hence, investors would want additional financial information to take into account for their investment decision, and such financial information may be required for the prospectus.

See also *pro forma financial information*.

Compliance

Compliance is how the company's internal set of policies and procedures (see *corporate governance*) are put into place in order to comply with laws, rules, and regulations or to uphold the business's reputation. Occasionally some companies hence have a dedicated compliance officer.

Good compliance is achieved through good corporate governance, a transparent business model, and a good alignment of the interests of agents and principals (see *agent principal theory*).

Compliance associated with being a listed company is costly, but is the price to be paid to have access to the capital markets. As Paul McNulty, a former U.S. Deputy Attorney General stated, "if you think compliance is expensive – try non-compliance".

Non-compliance for a listed company will result in *reputational risk* and hence higher *cost of capital.*

Consideration shares

Consideration shares are the shares a buyer will issue directly to the shareholders of a company the buyer will acquire. One example will be to acquire smaller, family owned and thus unlisted companies, and pay with the listed company's own shares issued for the acquisition. This will turn the illiquid shares of the family-owned business into liquid shares of the acquiring company. However, the seller will consider how attractive the pricing is of the listed shares, i.e. the exchange rate of issuers shares vs acquired shares.

Corporate actions

A corporate action is an action carried out by the *issuer* and which materially impacts its shareholders or creditors. Payment of dividends, share splits, and mergers & acquisitions are common corporate actions. Corporate actions have to be reported to shareholders and to the capital markets at large, see *continuing obligations*. Prior to these matters being corporate actions, these matters are often *corporate events*. See also *continuing obligations*.

Such corporate actions should be reported as a share notice both when decisions are made (by the Board or management – like a proposal for dividend payments being a *corporate event*), and when the corporate action is being executed (dividend paid).

Corporate governance

Corporate Governance is simply explained the internal policies that underlies how a company is organized and manages its operations with the aim of being able to exercise effective management that ensures long-term progress, while being compliant and achieve best possible agent-principal alignment.

See also *NUES*, *agent-principal theory, Transparency Act, compliance* and *SOX.*

Consolidated financial statements

The consolidated financial statements refer to the reporting of financial information for a group where the legal structure is in place, and where the entities are controlled by the parent company. Hence, in consolidated financial statements the parent entity has a controlling financial interest in the other entities of the group. In contrast to this; with carve-out/combined financial statements (prepared due to the issuer having *complex financial history*) the parent company has not been in control of the other entities. See also *Combined/carve out financial statements* and *complex financial history.*

Continuing obligations

Post listing the *issuer* has to report to Oslo Børs via stock exchange notices (usually via *NewsPoint*), on the following areas:

- *Inside information* to the public as soon as possible, unless the company can opt for *delayed disclosure*
- *Period financial information*
- *Corporate events*
- *Corporate actions*

Note that *corporate actions* are the manifestations of the foregoing *corporate events*. Hence, a proposal of the board to pay dividend is a corporate event, while the actual dividend payment is the corporate action. Note that a stock exchange notice of proposed dividends (the company event) may impact the share price, and the actual payment of dividends (the *corporate action*) will certainly impact the share price, as shareholders buying the shares without the right of dividend will pay less for the shares.

All stock exchange notices with *inside information* should be disclosed on the issuer's website. All notices sent directly to shareholders should also be distributed via stock exchange notices. Note also that a key principle is that the issuer treats its holders of *financial instruments* (shares, bonds) equal, see *equal treatment.*

Below is a link to Oslo Børs' continuing obligations (as of 24 October 2023), see section 4. Note that the table of contents provide a quick overview of key reporting areas (below is in Norwegian):

https://www.euronext.com/sites/default/files/2023-10/Oslo%20Regelbok%20II%20-%20Utstederregler%20%28Norwegian%20version%29.pdf

See also *newsweb* and *NewsPoint*.

Cost of capital - COC

In finance and accounting, the cost of capital is the cost of a company's funding (taking into account both debt and equity). Usually calculated using WACC, weighted average cost of capital, i.e. the average cost of a company's financing sources, including debt and equity, weighted by their respective proportions. The cost of equity is usually calculated with the Capital Asset Pricing Model (CAPM), which is the financial model that estimates the expected return on an investment based on its risk. The risk in CAPM is calculated by measuring the *volatility* of the company's shares (or peers) traded relative to the overall market.

Cost of capital is also the minimum rate of return (like *ROI*) a company must earn before generating value for its shareholders. In industries where there are no barriers to entry, the ROI tend to come down to COC over time, as competition intensifies. Further, in some industries with especially unfavorable characteristics, the economy professor Michael Porter has demonstrated that the combined return on invested capital (*ROI* or ROIC) for the companies competing has been lower than the calculated *cost of capital*, hence delivering no financial value to investors.

See also how *analysts* and good *IR work* with regards to the *aftermarket/secondary market* can contribute to lower *cost of capital*.

CSRD

The Corporate Sustainability Reporting Directive. On 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force in EU. This new directive modernizes and expands the rules (and replacing *NFRD*) concerning the social and environmental information that companies have to report. A broader set of large companies, as well as listed small and medium sized companies (SMEs), will now be required to report on sustainability.

The CSRD directive is in force in Norway from January 2024 for 2025 financial reporting. See timeline below:

2024	2025	2026	2028
LARGE EU PUBLIC INTEREST ENTITIES	**LARGE EU UNDERTAKING**	**EU SMES UNDERTAKING**	**NON-EU PARENT COMPANY**
Reporting financial year starting Jan 1st 2024	**Reporting financial year starting Jan 1st 2025**	**Reporting financial year starting Jan 1st 2026**	**Reporting financial year starting Jan 1st 2028**
Must be a large EU undertaking which is a public interest entity and has more than 500 employees	Must meet 2 of the following criteria: • Balance sheet total of EUR 25 Million • Net turnover of EUR 50 Million • Average of 250 employees during the financial year	Must be listed on a regulated EU market and meet 2 of the following criteria: • Balance sheet total of EUR 5 Million • Net turnover of EUR 10 Million • Average of 50 employees during the financial year	Must have net turnover of EUR 150 million in the EU for the past 2 years and meet at least 1 of the following criteria: • At least one subsidiary that meets the criteria for Large EU SME undertaking • At least one branch with a turnover of more than EUR 40 million

The new CSRD adopts a *double materiality perspective*. This means that in the future the users of financial statements will be provided with also non-financial information that is material either for the success of the business financially or from an environmental, social or governance point of view. The CSRD requires specific information in reporting on:

- Sustainability goals
- The role of the executive and supervisory boards
- The most significant adverse impacts of the company, and
- On intangible resources not yet recognized in the balance sheet

With CSRD relevant companies would be required to report *scope 3 emissions* regarding their value chain. These indirect emissions result from the company's upstream and downstream activities.

Just as with auditors auditing financial information, the *statutory auditor*s will also provide review and audit reports (in due time) for the company's non-financial information. The proposed audit requirement aims to enhance the credibility of sustainability data submitted by companies operating in EU-regulated marketplaces. EU has allowed for a gradual approach to the audit requirement. Initially, auditors will provide an opinion based on a "limited assurance" involvement with the sustainability reporting's compliance with the CSRD's criteria, including relevant reporting standards. The audit requirement will evolve to a "reasonable assurance" at a later date.

As such the intention is that CSRD will end *greenwashing*, strengthen the EU's social market economy and lay the groundwork for sustainability reporting standards at global level. See table above for the *statutory auditors'* role.

See also *double materiality*, *NFRD*, *greenwashing* and *climate risk*.

Data room

A data room is a secure place that is used to store confidential information, usually for mergers and acquisitions or for an IPO. Historically this was a physical room where the legal and financial due diligence teams came to inspect documents and information, however, the data room is now a VDR, a virtual data room.

A *request list* from the legal and financial *due diligence* teams are used to populate the data room, when a legal and financial due diligence is carried out.

Delayed disclosure

Delayed disclosure provides an exemption from main rule regarding disclosure of *inside information* (the main rule is covered in *inside information* below).

A company can opt for delayed disclose in certain cases, if all three below criteria are fulfilled:

a. immediate disclosure is likely to prejudice (harm) the legitimate interests of the issuer,
b. delay of disclosure is not likely to mislead the public, and
c. the issuer is able to ensure the confidentiality of that information.

ESMA has provided further guidelines on the above criteria. The company's legal counsel should be involved when the company decides on delayed disclosure. It is the company's responsibility to decide whether the conditions for delayed public disclosure are satisfied, and any such delay will only be permissible for as long as the conditions continue to apply. Hence, Oslo Børs or NFSA will not approve or disapprove this beforehand, but accept the company's decision. However, the company needs to inform Oslo Børs' market surveillance of any decision ahead of delayed disclosure of inside information, including the background for the decision to delay disclosure of inside information. Oslo Børs will not overrule the company's decision, but may check it retrospectively whether the company's decision was made on the right, legal basis.

It should be noted that the company is not required to inform Oslo Børs of delayed disclosure of financial information in annual reports, half-yearly and quarterly reports published in accordance with the *issuer's* financial calendar.

When a company has decided on delayed disclosure, it should remember to keep *insider lists*, as *inside information* per definition exists. Further, any information leakage would cause Oslo Børs to ask for lists and inside information to be released to the markets.

When in due time the *inside information* has been released: The company should submit a notification to Oslo Børs (not to the public, only to Oslo Børs). The notification shall be submitted through the functionality in NewsPoint. This allows the market surveillance department at Oslo Børs to no longer monitor the trading of the company's shares on the basis that inside information exists.

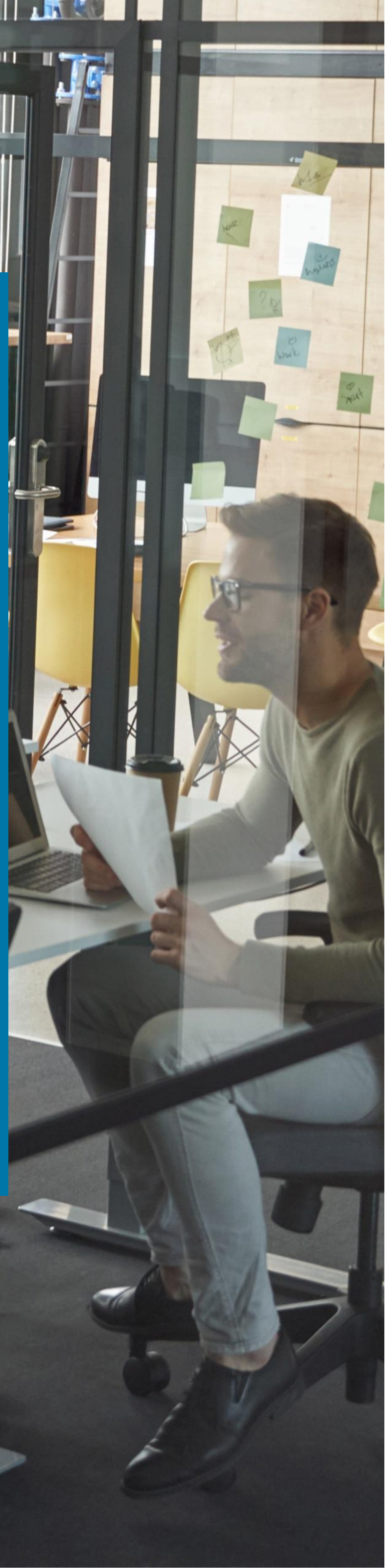
Dilution

Often referred to in the context of *preferential rights issue* vs *private placement*, where the preference rights issue is non-dilutive as all shareholders keep their relative ownership (if they subscribe with the subscription rights), while the *private placement* is in contrast dilutive in terms of ownership. See these terms.

Further, dilution can be considered in terms of dilution of *voting control* (as discussed above), or dilution in *financial value*. This last part is important for *start-ups* or *scale-ups*, where the founder (primarily in the US) keeps the *ordinary shares* with the voting rights, while management/venture capital backers get shares with no voting rights, but instead with better financial rights (i.e. *preferential shares*). Hence, for a start-up the discussion of dilution is not only on voting rights and keeping control, but also on the use of financial rights, as the start-up can use future value (from future growth) by conferring such values to relevant investors today with *preference shares* or by the use of *warrants*. This is done in order to obtain financing or management talent.

While this perspective of financial versus control dilution is something a start-up can make use of, this is usually not a relevant discussion for listed companies. as they typically have one class of ordinary shares, where every share has one voting right and same financial rights to dividend etc. *Issuers* can however, still have two or more share classes with different voting rights, but this is rare in the Norwegian market. While the use of *warrants* (and convertible debt) is tools also a mature, listed company can apply.

See also *equal treatment, private placements* and *repair offering*.



Dividend case

Dividend case is an informal term for a company that do an IPO not primarily to raise cash, but to be an attractive investment for investors due to paying out dividends. Often though, the company will raise equity proceeds in the IPO to reduce the overall financial leverage (see financial restructuring) in order to use the financial capacity to not service debt, but to use future earnings for dividend purposes.

Dividend cases are typically *mature companies* with a high financial capacity (meaning the company can take on a high financial leverage, or alternatively have a low financial leverage and instead pay out dividends). For such a company the loan agreements should have no major dividend restrictions and the company should set out a clear *dividend policy* in its *equity story* and *prospectus*. The contrast to a dividend case is a *growth case*. See also *equity story, mature company, growth, volatility*, *multiples* and *financial restructuring*.

Dividend policy

A company that aims to pay dividends post listing (a *dividend case* – typically a *mature company*). Dividend capacity is often increased through the IPO, as the company will use IPO proceeds to reduce financial leverage and increase capacity for dividend payments. The loan agreements will often need to be renegotiated to take out dividend restrictions, and a clear dividend policy should be prepared. Such a policy may be tested by the investment banks by checking with the *business model*/forecast for the next five years post IPO. The dividend policy may for instance state that 50% of free cash flow will be paid out as dividend going forward. Note that free cash flow is an *APM*.

Double materiality assessment

The *CSRD* requires companies to disclose sustainability information based on:

- the impact the business model has on people and the environment (positive or negatively)
- how sustainability risk and opportunities financially affect a company's business

These two perspectives are an innovation of *CSRD* reporting and is hence referred to as double materiality. A first step towards compliance with CSRD is to do an assessment of the two perspectives.

See also *CSRD, NFRD, greenwashing* and *climate risk.*

Dry run

A dry run is when the CFO/management of the company rehearses the investment presentation together with the *investment bank*(s) prior to meeting investors, often also involving the investment bank's research *analysts*. The purpose is to shake out any inconsistencies with the *equity story* or unsolved questions. The rehearsal of the investor presentation may then also result in the *investment bank* setting up frequently asked questions, that the *CFO* should have under good control.

Due diligence defence*

Investment banks are not experts on IFRS, US GAAP or financial statements. In order to be protected against investors that may sue the investment banks for false or misleading information in a prospectus and where financial figures are key (for example on the basis of *Rule 10b-5*), the investment banks in an *International style offering* will follow international *compliance* requirements and ask the company's *statutory* auditors for a comfort letter, i.e. that all accounting figures in a prospectus have been vetted by the auditors to varying degree.

By having such a *comfort letter* in place upon *IPO*, the *investment banks* build a so-called due diligence defense that allows the investment banks to avoid liability (post IPO from unsatisfied investors) if the investment banks can show that they conducted a reasonable investigation (being the comfort letter prepared by the *statutory auditors)* prior to concluding that the *prospectus* is accurate and complete in all material aspects.

See also *due diligence, international style of offering, Rule 10b-5, comfort letter* and *bring down.*

Due diligence, financial and legal

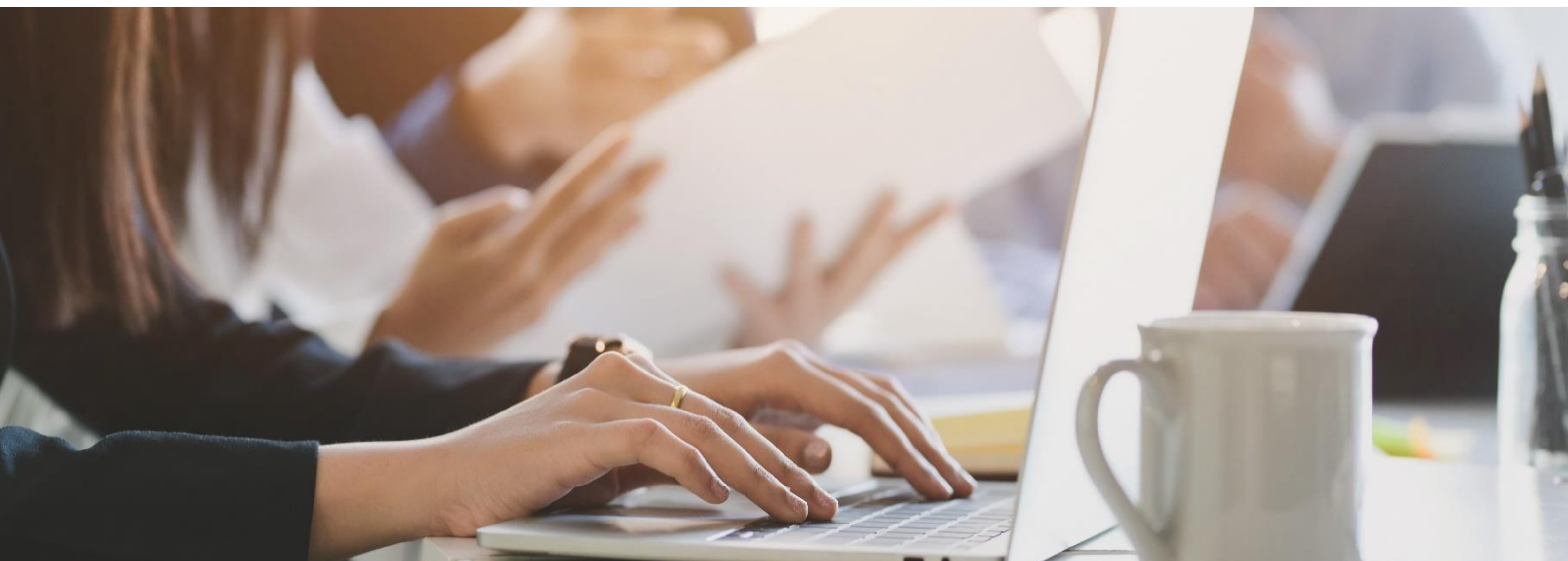
Due diligence in relation to an IPO is a comprehensive and exhaustive analysis of the business of the company, where documentation and agreements are reviewed, and management has to confirm matters in questionnaires. It is started by first mandating an independent legal and financial due diligence team. These will provide two separate *request lists*, which the company will use to populate a data room (*VDD*). This will be followed up with meetings and requests for more information. Financial due diligence will focus (among other things) on the company's *cash flow forecast* for the 12 months post listing and financing (see fex *Change of control clauses*).

By the end of the process the two due diligence teams would have each prepared its own report to the *investment banks*, before the reports are presented to Oslo Børs.

A financial and legal due diligence by independent parties is required by Oslo Børs' *listing requirements*. Such a due diligence process is focused on compliance, and not on *valuation* (which is the focus on financial due diligence – i.e. not a financial *IPO* due diligence).

In an *International style offering* the scope of the due diligence as set out above will be expanded by the banks to include also a *bring down* due diligence. In a setting with an *International style offering* also a *comfort letter* will be requested by the *investment banks*, to be issued by the company's *statutory auditor*s.

Due diligence may also have an impact on the *pricing* of the company in an IPO, as findings from financial and legal due diligence can be disclosed in the *prospectus*, including also as a *risk factor.*



Dual listing

A dual listing is when a company lists on two markets. Oslo Børs has for example a cooperation with the Singapore Stock Exchange, so that a company listed in Oslo can also benefit from a listing in Singapore. Thus, a dual listing may be associated with the benefit of tapping into two pools of shareholders.

However, dual listings require the company to follow up with two regimes of *continuing obligations*, hence the risk of *compliance* issues is higher, which may again lead to *reputational risk*. Further, in practice the main trading will take place on one of the two markets, with relatively low trading in the junior market.

Disruptive innovation

Disruptive innovation is in business theory the idea that when a product or service is introduced into an established industry and performs better or costs less than existing offerings, it can displace the market leaders and even transform the industry. Professor Clayton Christensen popularized the idea of disruptive innovation in the book "The Innovator's Dilemma", which was a follow-up to groundbreaking book "The Innovators Dilemma" published in 1997. Disruptive innovations have been the use of steam, electricity, computers, smart phones and artificial technology to deliver new or cheaper products and services.

While Michael Porter could explain why some industries and companies created superior financial performance (see *ROI* and *strategy*), Clayton Christensen took the strategic thinking one step further, and explained how customer centric companies that had thrived for decades (like Kodak) suddenly went out of business, due to disruptive new innovations in technology. Kodak was disrupted twice, first in the 1980s by digital photography (which Kodak in fact itself had invented), and again in 2012 by the rise of smartphones. The company failed to adapt to new technologies in both instances, leading to a decline in market share and profitability.

Disruptive innovations tend to be produced by outsiders and entrepreneurs in *start-ups*, rather than existing market-leading (*mature*) companies. The business environment of *mature companies* does not allow these companies to pursue disruptive innovations when they first arise, because they are not profitable enough at first and because their development can take scarce resources away from sustaining innovations (which are needed to compete against current competition).

See also *strategy, business models* and *start-ups*.

Dividend restrictions

Companies considering an *IPO* will often have loan financing that is not IPO compliant, typically the loans may have *change of control* clauses that would hinder a listing (as existing shareholders will dilute its control – see also *dilution*), and/or other restrictions on dividend payments.

In order to prepare for a listing such financing has to be renegotiated with new loan terms (be IPO compliant).

See also *change of control clauses* and *equity story*.

EBITDA

EBITDA, or earnings before interest, taxes, depreciation and amortization, is the most commonly used *APM*, i.e. an alternative performance measure to IFRS figures.

EBITDA is an alternative financial measure of underlying profitability of the company. By adding back depreciation and amortization as well as taxes and debt payment costs, EBITDA is a proxy representing the cash generated by the company's core operations. Note that by adding back debt payment costs, EBITDA can be used to compare companies in the same industry while also disregarding the capital structure, or more specifically the different financial leverage for the various peers. It is often used in combination with EV (enterprise value), as EV is also a financial metric which disregards the financial leverage of the company.

While EBITDA is often a useful metric, it is also criticized for (among other things) not taking into account capital investments that may be required, and growth in working capital for companies growing their industry.

EEA

The European Economic Area (EEA) unites the member states of EU and the three states of Iceland, Liechtenstein, and Norway into an internal market.

EFRAG

European Financial Reporting Advisory Group. The EFRAG Sustainability Reporting Board is responsible for all sustainability reporting positions of EFRAG including technical advice to the EC on draft EU Sustainability Reporting Standards and amendments to the Standards.

ESRS

The European Commission has published European Sustainability Reporting Standards (ESRS) for sustainable reporting, for non-financial information. This is to some degree analogus to IFRS (reporting for financial information). See below the most notable requirements of the ESRS:

- Comparability: The ESRS aims to bring specificity and comparability to externally reported sustainability information—by doing so, it raises the bar for sustainability information to the same level as financial information.
- Detail: It increases the level of detail and scope relating to sustainability topics that companies can be assessed against.
- Double materiality: It requires firms to assess whether each disclosure requirement is material based on a double materiality assessment. covers both an organization's environmental and financial impacts. See *double materiality.*

ESG

Environmental, Social and Governance.

See *NUES* and *Corporate governance.*

ESMA

The European Securities and Markets Authority, EU's capital markets regulator and supervisor. ESMA is an independent EU authority whose purpose is to improve investor protection and promote stable, orderly financial markets, this is mainly done on the basis of MAR, see *MAR* for details.

In many ways ESMA similar to the *SEC*, however, in EU the capital markets are primarily supervised at national level by local regulators (like the NFSA – which are referred to as National Competent Authorities), as ESMA has no direct authority over local capital markets. ESMA takes, however an active role in promoting consistent and effective coordinated supervision of all EU's national regulators. (This is known as supervisory convergence).

See also *NFSA* and *SEC.*

Equity story

In short an equity story is all the compelling arguments the company can come up with, for investors to invest in the company. Paramount for any IPO, meaning that the equity story should be reflected in investor presentations, prospectus, IR etc. Keywords are what issue the company aims to solve for the customer, who are customers, how the company makes money on the business offering, the industry, total addressable market (TAM), *business drivers*, the *peers*, how you will grow through scaling up the business etc. Should be supported with industry analysis and total addressable market (TAM).

It also helps to have a transparent *business model* and a good executed *strategy*, see these terms.

Oslo Børs has provided a guide on how to tell a powerful equity story:
https://www.corporateservices.euronext.com/blog/equity-story

See also *mature companies* and *dividend case* for types of equity stories.

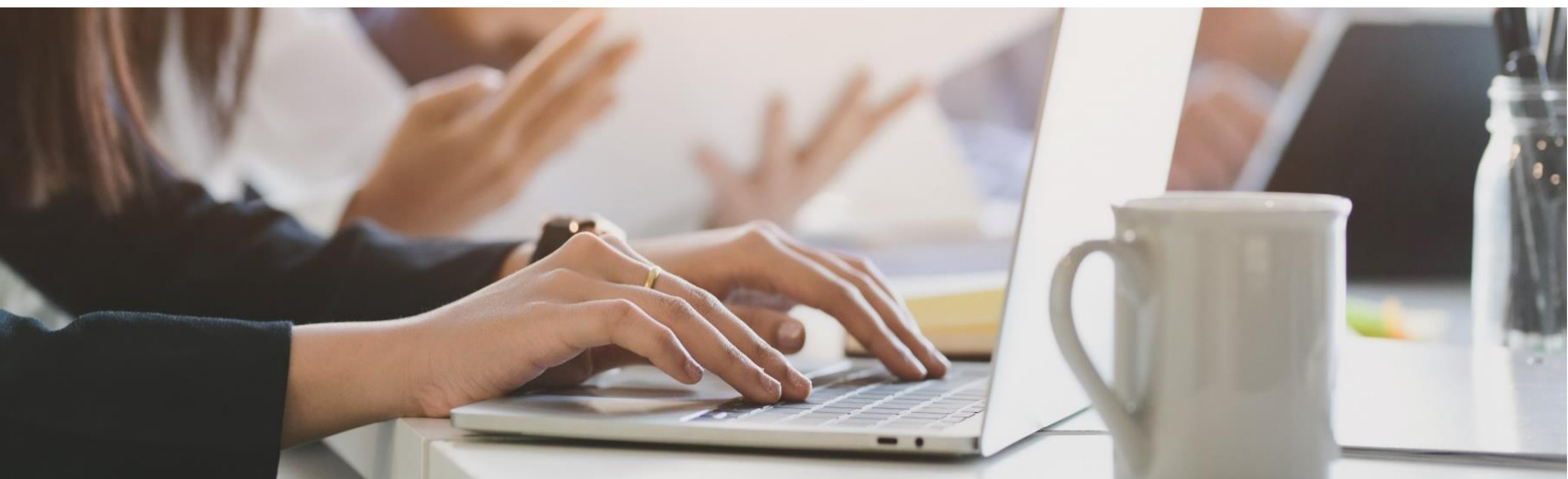
Euronext Growth

Oslo Børs' list for *start-ups* and *scale ups.* For this list the *NFSA* is not involved and *IFRS* is not required. Instead of a *prospectus* a so-called Information document is prepared, which will be reviewed by Oslo Børs. In contrast to an *IPO* (as set out in this publication) a company will raise the proceeds early on in an EG listing, and wrap up the formalities (listing application, Information document) after equity proceeds have been raised. Listing is a much quicker process than a listing on the main list Oslo Børs or on Euronext Expand.

Euronext N.V.

Euronext N.V. is the pan-European bourse that provides trading and post-trade services for a range of financial instruments. Traded assets include regulated equities, exchange-traded funds, warrants and certificates, bonds, derivatives, commodities, foreign exchange as well as indices. It acquired Oslo Børs in 2019.

Euronext N.V. can trace its roots back to the Amsterdam stock exchange that was established shortly after the incorporation of the Vereenigde Oost-Indische Compagnie (VOC) in 1602. VOC is also considered as doing the very first *IPO*, the initial public offering was carried out to the general public in Holland in August 1602, when shares began trading on a regular basis on a *secondary market.*



EU prospectus – the types of prospectuses

An EU prospectus (also referred to as EEA prospectuses as the EU prospectus rules also covers EEA countries) is a listing or offer prospectus prepared in accordance with the EU prospectus regime. The EU prospectus regime harmonizes requirements for the drafting, approval, and distribution of the prospectus to be published when securities (shares, bonds) are offered to the public or admitted to trading on a *regulated market* in an EU Member State, including also Norway.

Finanstilsynet (*NFSA*) is the competent prospectus authority in Norway and responsible for the operative control and approval of EEA prospectuses.

The prospectus rules are complex, below are the main types of prospectuses as per EU's prospectus regulations (the details are summarized on the following page):

Type of prospectus	Comments
Listing prospectus (content very similar to an offer prospectus, see below)	According to the EU Prospectus Directive, a listing prospectus is required when a company seeks to offer financial instruments to the public or to have its financial instruments admitted to trading on a *regulated market* in the European Union. This includes initial public offerings (*IPOs*), secondary offerings (*preferential rights issues*), and other types of securities offerings. Required for all companies doing an IPO, the purpose is to give new investors all relevant information upon listing. Also post IPO a listing prospectus may be required if the capital to be raised is above 20%* of the company's equity calculated over the last 12 month period.
Offer prospectus (content very similar to listing prospectus, see above)	An offer prospectus has to be prepared, if a listed or unlisted company invites 150 investors or more to subscribe in the offering, and the amount the amount of equity to be raised is 8 million EUR or more, calculated over the last 12 month period.
Frequent issuer: Universal Registration Document (Simplified content requirements and review process)	A frequent *issuer* is a company that issues shares frequently on a *regulated market* or an multilateral trading facility (MTF). An *issuer* that has filed and received approval for a Universal Registration Document (URD) for two consecutive years is permitted to file its subsequent URD without prior approval by the regulator (*NFSA*). The *issuer* is then described as a 'frequent issuer'. A frequent issuer will also enjoy a faster review process with the *NFSA*.
EU Growth prospectus (Simplified content requirements)	The EU Growth Prospectus is a tailored prospectus for small and medium sized (SME) companies, as defined by EUs prospectus directives, and provided that they have no securities admitted to trading on a regulated market.

*) The *issuer* has to take into account conversion rights to share capital.

Further: Exemptions from listing or offer prospectus (for shares)

While the main rule is that offering to subscribe in a company for shares triggers the requirements for a prospectus, there are some key exemptions as set out below, where a prospectus is not prepared or only a more limited document that does not need to be subject to NFSA's review (list below is not exhaustive):

- Shares are issued to professional investors
- Shares are issued to employees (instead a more basic document is prepared)
- Consideration shares are issued (instead an equivalent document is prepared)
- General rule: If a listed company does a share issue inviting less than 150 investors (hence, in reality a private placement and hence used when listed companies do a private placement) and the amount of new share capital is less than 20%* calculated over the last 12 months.

Prospectus rules are complex, and the company should seek professional advice before taking for granted that an exemption from a prospectus is available, or not. Note that prospectus rules also apply for bond issuance.

*) The *issuer* has to take into account conversion rights to share capital.

EU prospectus – the content

An EU (EEA) prospectus typically includes information about the company's history, *risk factors*, management team, *business model* and *strategy*, competitive landscape, the last three years of financial history, *operational and financial review* (OFR) and a *working capital statement*. It will also include information about the shares being offered or listed, such as the number of shares being issued, the price of the shares, and any conditions or restrictions associated with the offering.

The presentation of risk factors in the prospectus is a key matter for the investors, so see the term *risk factors* for further detail.

See also *pro forma financial information* and *carve out/combined financial statements* (which may be required under the prospectus rules).

EU prospectus – the review process

In a typical IPO process the following steps will be carried out regarding the listing prospectus:

1) A *pre-clearing memo* will usually be prepared by the *advisors*, to address relevant historical financial information for the prospectus and any *pro forma financial information* and/or *carve out/combined financial statements*.

2) Advisors and the company will prepare a draft prospectus over a period of 4-6 weeks, while the pre-clearing memo is addressed.

FINANSTILSYNET

EU Taxonomy

A classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050.

Equal treatment

As defined by the Norwegian Securities Trading Act (section 5-14), which also corresponds with Oslo Børs' *continuing obligations*: Issuers of *financial instruments* admitted to trading on the Norwegian *regulated market* shall treat the holders of their financial instruments equally. The issuer must not subject the holders of the financial instruments to differential treatment that is not factually justified based on the common interest of the issuer and the holders.

Further, in connection with the sale or issue of financial instruments or rights to such, the *issuer's* governing bodies, shop stewards or senior employees must not take measures that are suitable to give themselves, certain holders of financial instruments or third parties an unreasonable advantage at the expense of by other holders or issuers. The same applies to sales or issuance of financial instruments or rights to such within a group of which the issuer is part.

Equal treatment is often a contentious topic when an issuer does a *private placement*, which by definition is in breach with the equal treatment principle and hence the Board of the company has to argue why differential treatment has been undertaken.

Execution phase

The IPO execution phase.

See *IPO Readiness review, work streams* and *working group.*

Fast track

Oslo Børs offers three *IPO* processes, where fast track is the one that takes the less time. The flexible process involves all the elements of the standard listing process, but is more costly and requires that the company is very well prepared. Hence, this is the least used listing process of the three processes offered by Oslo Børs.

See also *ordinary* and *flexible* process.

Financial instruments

Financial instruments are mainly shares, bonds, *options, warrants*, futures issued by the Issuer. (This is a non-exhaustive list of some financial instruments, please refer to section 2-2 in the Norwegian Securities Trading Act for a full definition and list of financial instruments).

See also *inside information, ordinary shares, private placement, repair offering* and *equal treatment*.

Financial restructuring

Financial restructuring involves modifying a company's capital structure, primarily to reduce the financial leverage. There are several components involved in a financial restructuring, including reducing debt (debt forgiveness), debt to equity conversion etc. Often a financial restructuring is necessitated by having covenant that are IPO compliant (see change of *control clauses* and *dividend restrictions*).

See also *refinancing* and *legal restructuring*.

Financial model

Investment banks want the company to prepare a financial model prior to the *IPO*, to help them better understand the company's financial performance, *business drivers*, projections and potential *risk factors*. The financial model typically covers historical financial statements for the past three to five years, as well as forward-looking projections for the next three to five years. This allows the banks to assess the company's financial health, growth potential and overall valuation. It also helps them to identify any potential issues or risks that may need to be addressed before the *IPO*. The model will set out how the company can grow its business (*growth case*) or pay dividends (dividend) as suggested by its *equity story*.

See also *cash flow forecast*.

Flexible process

Oslo Børs offers three IPO processes, where flexible track is the most popular as it offers more flexibility than an ordinary (standard) listing process, albeit at a higher fee to Oslo Børs. With a flexible process the date of Oslo Børs' admission meeting to consider the issuer's application will be set to suit each specific IPO process by holding an extraordinary meeting to approve the listing. A flexible process will still be carried out over 8 weeks (as an ordinary process), but is more flexible on the date on filing the listing application, as it will be public from that moment that the company has applied for listing.

The other two listing processes are *ordinary (standard) process* and *fast track*.

Float

See free float.

Follow-on (share) issue

A follow-on issue is when a public company issues more shares after its initial public offering (IPO). This is an international term, in the Norwegian markets the terms are usually either being a *preferential rights issue* (the legal main rule – see this) or a *private placement* followed by a *repair offering* (being the market practice - see this). Norway has a much more active capital market where the issuers raise capital relatively often post IPO, compared to foreign capital markets where such follow-on share issues for listed companies are rare.

Internationally the follow-on issue can be dilutive or non-dilutive, which is comparable to the Norwegian *repair offering*. See also *dilution*.

Free float

Free float, also known as public float, refers to the number or percentage of shares of a company that can be publicly traded and are not restricted (i.e., held by insiders). Oslo Børs sets a minimum of 20% free float upon listing, but can exempt from this listing requirement in certain situations.

GHC

Greenhouse Gas Protocol provides standards, guidance, tools and training for business and government to measure and manage climate-warming emissions.

Greenwashing

An informal term. Greenwashing is the process of conveying misleading information about how a company's *business model* and/or product offering is sustainable and environmentally sound. *SEC* in the US has probably come the longest in addressing green washing for companies seeking a listing in the US, and defines greenwashing as "the act of exaggerating the extent to which products or services take into account environmental and sustainability factors".

The context is that some institutional investors have a mandate to invest in green businesses, and if the company the investor has invested in through the IPO is not as green as set out in the *prospectus*, such investors may (especially in the US) sue the company for misleading information. This may especially be the case if the share price post IPO has fallen, and the fund wants a way out. Climate risk is at the othe end of the specter, see this.

See also *CSRD*, *double materiality*, *climate risk* and *Rule 10b-5.*

GRI

The Global Reporting Initiative standards are a set of guidelines that provide a framework for sustainability reporting. They cover a wide range of economic, environmental and social topics and are used by companies around the world to report their sustainability performance and impacts.

Growth

While "growth" may not seem to be a specific IPO term, it is nonetheless important in the capital markets, as it is a key driver for many companies and the *pricing* of these companies. Especially relevant for start-ups and scale-ups, which should have ample potential for growth. This in contrast to dividend cases where the potential for growth is less. Growth potential is also key for the use of *warrants*, where a start-up/scale-up company (which often has little cash flow available) still can use warrants to pay vendors/employees and secure capital from capital providers with future upside/value.

See *multiples, growth case* and *mature company*.

Growth equity

Growth equity is equity provided to *scale-ups* (or early *mature companies*) that still have the potential for significant growth. One example has been Autostore Holding Ltd, where Softbank invested prior to the IPO of the company. This company had a high growth potential for scaling up its business and may also be considered as a disruptor.

See *scale-ups* and *disruption*.

Growth case

A growth case is a financial model that outlines the potential growth trajectory of a company. It typically includes forward-looking projections for revenue, earnings, and other key financial metrics over a period of several years. The growth case is often used in an investment context to assess the potential return on investment if the company is successful in achieving its growth objectives. A strong growth case can be a valuable tool for the *equity story* and supporting a successful *IPO* or other fundraising efforts.

Home state

Home state regulation is the EU regulations for how EU resolves conflicting capital market regulations and company law matters between its member states. A different take on this is that a company coming from one EU country (like Denmark) but will be listed in a different EU country (like Sweden), will still abide by Danish capital market rules, even when listed in Sweden. Denmark will be its home state, and Sweden its host state. Danish rules will then take precedence over Swedish rules.

Third country companies (i.e. companies coming from outside the EU/EEA) and gets listed in an EU country, will have that EU country as its "home state", meaning that this EU country's rules will regulate its actions in the EU country's capital market.

Should the foreign company do capital market transactions in another EU country, then this second EU country will be the host state, hence the host state regulations will be subjugated vis-à-vis the home state rules.

IAS 34

IAS 34 Interim Financial Reporting is the IFRS standard for how an interim statement (like quarterly or half year report) has to be set up. Should the company include an interim financial report in the listing *prospectus*, Oslo Børs' require the (latest) interim financial report to be subject to a limited review by the statutory auditors. Note that IAS 34 allows for a condensed format compared to the annual reporting, but for prospectus purposes this should be avoided, in order to be able to compare figures line by line. See also *periodic financial reporting.*

ICFR

Internal control over financial reporting (ICFR) is a requirement stemming from the enactment of the US Sarbanes-Oxley Act of 2002 (SOX). Internal control over financial reporting is required by the SEC for public companies listed in the US, in order to comply with SOX. ICFR is important in order to establish public trust in the capital markets and issuers of financial statements.

In a broader context; with *the US Securities Act* of 1933 the *SEC* required US listed companies to report *periodic financial statements*. However, this act did not state how such financial reporting should be prepared internally by the company.

The issue of having sufficient control over financial reporting came to a head with the Enron scandal in 2001, out of which came the SOX requirements enacted by US Congress for US listed companies.

SOX Section 404 mandates that all US publicly traded companies must establish ICFR over financial reporting and must document, test, and maintain those controls and procedures to ensure their effectiveness, further that the CEO and CFO confirm annually that the company has such ICFR. The auditors are required to attest to and report on the assessment of internal controls provided by company management.

European and Norwegian requirements are, however, not so strict. For listed companies in Europe (including Norway) a *responsibility statement* to be issued by the persons in charge of the financial reporting is sufficient.

See also *SOX* and *ICSR.*

ICSR

Just as a company should have internal control over financial reporting (*ICFR*), a new and similar concept is ISCR, where the companies should have Internal Control Over Sustainability Reporting.

This is achieved with COSO's globally recognized COSO Internal Control-Integrated Framework (ICIF). Its use is intended to build trust and confidence in ESG/sustainability reporting, public disclosures, and enterprise decision-making.

See *greenwashing, ICFR*.

IFRS

International Financial Reporting Standards. The financial reporting language for companies listed on "regulated markets" in Europe (see also *NGAAP*). For an IPO in EU/Norway the IFRS needs to be as "approved by the EU".

See also *APMs*.

Institutional investors

An institutional investor is a company or organization that invests money on behalf of other people. Pensions funds and insurance companies are examples. Institutional investors tend to be long-term investors, and are important to the *issuer* as such investors have the funds to assist an issuer with new forthcoming capital market transactions (like providing more funds if the issuer will raise capital in a private placement for further growth). An example of an institutional investor is Folketrygdfondet. Institutional investors have usually a long-term view on its investments, in contrast to *retail investors*. See *strategy* for what Folketrygdfondet takes into consideration when doing an investment in a company.

See also *QIBs* and *retail investors*. See the term *allocation* for an explanation to why both institutional and retail investors are important in the *aftermarket* (or *secondary market*) performance of the shares.

Inside information

Inside information that (as defined by *MAR*) is information of a precise nature, which has not been made public, relating, directly or indirectly, to the issuer or to its financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

An *issuer* shall inform the public as soon as possible of inside information which directly concerns that issuer, as the main rule. The company can opt for so-called *delayed disclosure* provided certain conditions are met, see this term for details.

Financial reporting which includes inside information should be released when the board has approved the financial statements, without delay. As a practical rule Oslo Børs accepts that when the Board approves financial statements after the closing of the trading, the company has the time until the morning after (prior to the opening of the trading starts again) to release the reports, provided that the information is kept confidential and not leaked.

Note, if the company intends to release a stock notice which is particularly share price sensitive during the opening hours of Oslo Børs, see section 4.2.1.5 in rulebook II ("duty of prior notice when publicly disclosing particularly price-sensitive events", like profit warnings, take-over offer etc), Oslo Børs should be informed in advance of the public release of the notice.

Some companies set an internal policy where all new contracts above a certain threshold will be disclosed, regardless of being considered inside information or not.

Inside information will by definition only exist when the company has opted for *delayed disclosure* of such information. In such circumstances *insider lists* have to be maintained.

See also *insider lists* and *MAR*.

Insider

While technically not defined by *MAR*, an insider is a person who is in possession of *inside information*, inside information as defined by *MAR*. Typically when company management or external advisors are assisting with an upcoming M&A transaction that will impact the price of the company's shares. When inside information exists, the company is obliged to keep an *insider list*.

An insider is to be informed that he/she is included on the list. The company is also responsible for ensuring the individual that he/she acknowledges the responsibilities this brings with it, that criminal sanctions that can be brought if the individual is found to have unlawfully shared inside information or if he/she is have participated in insider trading. Not to be confused with a *primary insider*, see this.

See also the *closed period*.

Insider lists

When *inside information* (as defined by *MAR*) exists, the company is obliged to keep insider lists. Such a list is a record of the individuals (the *insiders*) who have been given access to inside information related to a company's *financial instruments*. Specific details should be given in such lists.

Note that with the listing *prospectus* all relevant information – also inside information – should have been disclosed, so that both the company, management and investors start on the same level playing field when the shares are listed and traded. With the *continuing obligations* the issuer will then keep the capital markets informed about developments, through reporting of inside information, see this above.

Insider policies

A company should establish its own insider policies to ensure that all *insiders* are aware of their obligations and responsibilities related to trading in the company's shares. By setting clear rules and procedures, the company can help prevent insider trading and ensure compliance with relevant laws and regulations. This can help maintain investor confidence and avoid potential legal and reputational risks for the company. Additionally, having well-defined insider policies can demonstrate to investors that the company takes *compliance* and ethical behavior seriously, which can help support a positive corporate culture and reputation – and hence avoid *reputational risk*.

See *communication policy, corporate governance, primary insiders* and *insiders*.

International style offering*

For an *IPO* in Norway an *International style offering* means that a non-Nordic bank is involved in the syndicate of investment banks that will assist the company with the *IPO*, primarily with the *placing power*.

Why would an international bank be involved by the company? Often because the international bank will provide access to even more foreign investors, even though Norwegian/Nordic banks will also provide great access to foreign investors. Alternatively the foreign investment bank can have access to a segment of investors, i.e. can reach potential investors that the Norwegian/Nordic banks cannot reach.

In any case, with the larger universe of investors that a foreign bank can provide, it may be easier to achieve the relevant balance of investors and an higher pricing. However, the downside with having an international bank as part of the bank consortium, is that the international bank will require that the *IPO* is done on the basis of international *compliance* requirements, meaning that a *comfort letter* has to be prepared, see this for details.

Such a *comfort letter* process is – in addition to the significant costs with the comfort letter – also associated with higher legal fees as the international bank will often come along with its own, external legal counsel. In all such a process will usually entail many more advisors. Also the listing prospectus will often be shaped by this process.

See also *Nordic style offering* and *due diligence defence.*

Investment banks

Listed companies, companies contemplating an IPO as well as private, unlisted companies will occasionally need to approach the capital markets, for raising capital (shares or bonds) for the IPO or to sell existing shares in order to have sufficient *float*. However, executing these kinds of transactions requires special expertise, from *pricing* of the shares in a way that will help set the right price for the sellers of shares and the company (and ensure a good *aftermarket*) to navigating the regulatory requirements like *listing rules* and *comfort letters*. The investment bank also has access to a pool of investors the investment bank has worked with in the past and to whom new shares can be issued to. (The bank has *placing power*). It's in these circumstances the investment bank comes into play, as an intermediary between the company seeking capital market services and the investors.

More specifically an investment bank has three key priorities in an IPO:

a. To help the company raise proceeds (i.e. sell existing or new shares of the company to new investors by using the banks *placing power*)
b. help establish the *pricing* of the shares (which is interlinked with the above)
c. to ensure the company with a good *aftermarket*

For a listing in Oslo the investment banks can assist the company through either a *Nordic style offering*, or an *International style offering*.

See also *underwriters, book runners* and *analysts*.

IPO

Initial Public Offering, which is how a company lists on a *regulated market* like Oslo Børs. Note that a listing on Euronext Growth is not technically an IPO, as the company early in the process raises equity in a private placement (see *private placement*) and then lists a few weeks later. An IPO is essentially a fundraising method used by large companies, in which the company sells its shares to the public for the first time. The IPO process can be seen to entail three phases:

1. *IPO Readiness assessment*
2. The *IPO execution* phase
3. And the life as a listed issuer, complying with *continuing obligations* and ESG reporting

IPO execution phase

Following the *IPO readiness phase* the company embarks on the IPO execution phase, where the company kicks off the IPO process with all its *advisors* and marketing of the shares culminating with a *prospectus* and *book building*.

Below are the main work streams in the IPO execution phase:

Typical work streams in an IPO execution phase	Comments
Formal listing process with Oslo Børs	8 weeks process (unless *fast track* is chosen), starting with an introductory report to Oslo Børs, ending with a listing application and a formal approval by Oslo Børs for listing.
Prospectus prepared	The company and *advisors* will over several weeks prepare the *prospectus* in line with the *equity story*, supported with 3 year of audited historical financial figures (issues arising may be *complex financial history* and *pro forma financial information*, which should be addressed with a *pre-clearing memo*). Next the *NFSA* will review the prospectus over five weeks.
Marketing	The *Investment banks* will *presound* the *equity story*/investment case with some investors as part of the *price discovery*, before launching the marketing of the company with the company management, culminating in the *book building* process, *pricing* and *allocation* of shares.
Preparation of financial statements	Not all financial statements will be available early in the IPO process, hence often an *interim financial report* has to be prepared and reviewed by the auditors, and which will be attached to the listing *prospectus*. *Carve out/combined* or *pro forma financial information* may also be required, if the company has a *complex financial history*.
Due diligence	Financial and legal *due diligence advisors* will review relevant documentation and provide input to risk factors to the *prospectus*, and present any findings to the investment banks and Oslo Børs.
Legal/financial restructuring	Often a *legal restructuring* will take place to achieve the right legal structure prior to listing. Often also a *financial restructuring* may be warranted.
IPO readiness	Often there are remaining matters from the IPO readiness phase that needs to be addressed also in the IPO execution phase.
Corporate matters	Board meetings and shareholder meetings (annual general meetings as well as extraordinary general meetings) have to be held as appropriate, like for converting from AS to ASA.

Note that each IPO is different, and some IPOs have fewer work streams. While for instance an *International style offering* will also have a separate *comfort letter* process. Internally at the company the IPO process should have one person in charge of the process, which often is the CFO. Of course, while all the different work streams are addressed, the company should not forget to focus on the business performance. It would not be good for the equity story if the financial performance dipped just before the *roadshow* and *book building*.

See also *working group* and *working group calls*.

IPO Oslo Børs

Oslo Børs offers three alternative admission processes, *ordinary admission process*, *flexible admission process* and *fast-track admission process*. Both an ordinary process and a flexible process takes about 8 weeks (only counting the formal process and not any IPO preparations or prospectus review which will to some degree take place simultaneously with the formal process with Oslo Børs).

Market practice is the flexible process, as this allows the company applying for a listing some flexibility to set key dates in the process, most importantly when the listing application is to be sent, hence allows the company to better time the publication of the IPO. However, a flexible process is more costly than an ordinary process.

A flexible process compresses the overall listing process, meaning that it is only an offer for very well prepared companies, and is hence not used much in practice. Also because a listing prospectus in any case will have to run its own course with at least 5 weeks of review by the NFSA. It is also the most expensive listing process. See *listing requirements* for key listing criteria.

A strong IPO leader should be clearly identified in the company (usually the *CFO*) as he/she becomes the point of contact for the IPO process, both internally and externally. will drive the whole process, achieve milestones, liaise with stakeholders, and take critical decisions.

IPO proceeds

The funds raised in an IPO. More specifically, the Proceeds = proceeds to the company (from shares issued in the IPO, being the *primary component*) + proceeds from existing shares sold by the existing shareholders* (being the *secondary component*).

Only proceeds from the newly issued shares (the *primary component*) will go the company, and these proceeds will be netted with the success fee to the banks for placing the shares, and net of fees to other advisors and to the stock exchange. The *secondary component* will be sale of already issued shares from existing shareholders and hence will not provide any proceeds to the company. Of course, new investors buying shares in the IPO will not see any difference with regards to whether the shares they buy are newly issued (the *primary*) or are from sale of existing shareholders (the *secondary*). A *green shoe option* may come in addition and impact the IPO proceeds.

*) The IPO is likely the only occasion where the shareholders can sell the shares without raising any concerns from the capital markets, since such a sale is necessary to achieve *free float*. Any subsequent sale of shares by founders/key shareholders post IPO will raise the concern of the capital markets, as a sale will be construed as the insiders have more sense of the direction of the company. In the IPO not all shares may be sold by the existing shareholders, as it is good for the equity story that existing shareholders are still involved post IPO. In order to avoid any additional down-sale of the shares by existing shareholders just post IPO, a *lock up* is usually in place for these shares.

IPO readiness assessment

This is the first phase of contemplating a listing (if the company does not go unprepared directly to the *IPO execution* phase). In this first phase the company with the help of advisors do a gap analysis of what is needed to become a listed company, and how the various gaps should be addressed, like for instance converting from *NGAAP* to *IFRS*.

By doing a good job with the IPO readiness assessment, the company will be well prepared for the IPO, and can address early on any *risk factors* that may impact the *pricing* in the IPO. Doing an IPO Readiness assessment also provides the company and the company Board with a great "outside-in" view of the company, by the advisors doing the IPO Readiness assessment. Being well-prepared will also reduce the *transaction risk.* This phase is followed by the *IPO execution phase*.

See *IPO execution phase* and *listing requirements*.

IR work

An IPO is a critical moment for any company. A successful IPO can mean the difference between a company's long-term success or failure. That's why it is important to have a sound investor relations (IR) strategy in place to ensure that the IPO is a success.

One key aspect of the IR strategy should be hiring a professional Investor Relations (IR) firm, another key aspect would be deciding who the person to be in charge of IR at the company. This often the *CFO*. An IR firm will usually assist the company with managing the relationship with investors, both before and after the IPO, and be part of the *advisor* group.

Here are some reasons for using an IR firm:

1. The IR firm has experience with IPOs. An experienced IR firm will have a deep understanding of the IPO process and help with *communation policy*.
2. An IR firm can help the company craft a compelling story that will appeal to investors, along the way prepare marketing documentation and *APMs* to report on (this work is, however, often done by the *investment banks*).The IR firm can next help the CFO tell the *equity story*.
3. The IR advisors may also have relationships with investors, relationships which can be used in the fundraising process.
4. The IR firm will help the company manage the investor relations on an ongoing basis, like responding to investor inquiries and organize investor roadshows and conference calls.

Post IPO the IR work should include keeping good contact with investors (for both equity and debt) and stakeholders, with the aim of having good *liquidity* of the share trading and have a good communication policy.

Hiring an IR firm is usually a smart move as the CFO is often new to the game of good IR work. When the CFO has gained experience with IR work, the IR work is often internalized by the company.

See also *communication policy, liquidity, spread* and *bid-ask*

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ISSB

The International Sustainability Standards Board (ISSB) is an independent, private-sector body that develops and approves IFRS Sustainability Disclosure Standards (IFRS SDS). The standards intend to be a global baseline of sustainability disclosures.

Issuer

Companies which issue *financial instruments* in the *IPO* or post IPO. In this publication such financial instruments are mainly shares (see also *ordinary shares*), but can be for instance also be bonds or derivatives like *warrants* (derivatives are a subset of financial instruments).

ITF

Intention to float. The ITF is a key point in time in the IPO process, because with the ITF the company makes public the plans to do an IPO. The ITF will often be timed with the market sentiment, or to put it in another way, should a positive market sentiment be lacking, the ITF will not be made and the IPO process would be kept confidential. By timing the ITF the company is in a position to do a great first and favourable impression on the company's own terms, avoiding situations where rumours and leaks allow media to present a different story (good or bad) for the company.

See also *Communication policy* and *IR work*.

Joint book runner

See book runner.

Legal counsel

Legal counsel is usually the legal firm taking care of the interests of the company seeking a listing. Such a legal firm will have expertise within capital market regulations like MAR and the Norwegian Securitities Trading Act, and often within US Securities law.

See also *advisors* and *due diligence*.

Legal restructuring

Legal restructuring is the restructuring of a legal group. Typical restructurings in an IPO context are the following:

- New holding company on top in order to achieve a holding structure
- New domicile
- Carve out of segment for listing

See also *financial restructuring, carve out/combined financial statements,* and *complex financial history*.

LTIP

Long term incentive plan. It is important to incentivize the management of the company to stay with the company post IPO, and also so that the interests of the management are aligned with the interests of the shareholders. See *agent-principal theory* in that regard. Usually a LTIP is implemented prior to the IPO, and which is set out in the *prospectus*. See also *lock-up*.

Liquidity

A simple definition of liquidity is how easy it is to convert (in this context) shares into cash. The market for a share is liquid if the shares can be quickly bought and sold and the trade has little impact on the share price, i.e. that the *bid-ask spread* is low. Hence, a low bid-ask spread indicates a liquid share.

On the other hand; low liquidity will reflect a high bid-ask spread, and this is in effect a high transaction cost when the shares are traded. This again translates into higher *cost of capital*. Hence, one purpose of good *IR work* is to ensure high liquidity that next will result in low bid-ask spread, which again translates into relatively lower *cost of capital.*

Shares traded on major exchanges are typically considered liquid, but this is different for the various listed companies. For instance, shares of Equinor can be converted into cash with almost no loss (no spread), while Norwegian, smaller savings banks typically have low liquidity and high transaction costs.

See also *allocation* for the ideal combination of *retail and institutional funds, see also IR, market maker* and *analyst* coverage.

Limited review

Oslo Børs requires that the latest interim financial statement prepared by the company prior to listing – see *IAS 34* (if such an interim financial statement is prepared) will be subject to simplified auditor control according to the rules in ISRE 2410, hence this is not a full audit and will usually be carried out by the *statutory auditors* within some days. The limited review report issued by the auditors will be included in the Listing Prospectus.

There is no requirement that any interim financial statements issued post IPO will need to be subject to such limited review.

Listing application

One of two formal filings to Oslo Børs, in a standard process. (Initially a *pre-listing* report is submitted by the legal counsel of the company to Oslo Børs).

See also *listing requirements, pre-listing report*, and *due diligence*.

Listing requirements

Oslo Børs listing requirements for the main list (EG listing not addressed here) are summarized below:

- Market capitalization of minimum MNOK 300
- Company to be an ASA (a public company), or similar for foreign companies.
- Minimum number of relevant shareholders: 500 (each owning minimum NOK 10,000 worth of shares and not associated with the management of the company)
- Three years of activities (reflected with three years of annual, financial figures)
- Three years of existence (an exemption may be provided if underlying activity has existed for three years)
- The most recent interim financial statement (usually prepared in accordance with IAS 34) should be subject to limited review
- Accounting standards: IFRS as adopted by EU, US GAAP and standards equivalent to IFRS as adopted by EU. (First 2 years can be in NGAAP, and last 2 years in IFRS, with one year overlapping – however, this way the issuer does not have three years of consistent figures).
- Three years of audited, consolidated financial statements in line with accepted accounting standards (see above)*
- Capacity and competence to report financial reports post IPO
- A *financial and legal due diligence* performed by independent parties required prior to IPO
- Comply with the Norwegian code of corporate governance (NUES) or similar foreign code for foreign issuers.
- Prepare a cash flow forecast that supports that it has sufficient liquidity post IPO (see *cash flow forecast* for details).

*) See also *carve-out/combined financial statements, complex financial history, pro forma* and *preclearing memo.*

See *due diligence* and *cash flow forecast* (both key listing requirements) for further details.

See also Oslo Børs listing requirements (as of 24 October 2023), section 3 for full details.

Listing prospectus

See *Prospectus*.

Lock-up

A lock-up agreement (between company insiders/shareholders/management/founders and the investment banks) temporarily prevents the company insiders from selling shares following an IPO. Some shares may have been sold in the IPO (see the *secondary component*) to secure free float, while remaining shares may be subject to a lock up. Such a lock up is used to protect investors against excessive selling pressure by insiders post IPO, a selling that could impact negatively the aftermarket for the trading of the shares.

In the Norwegian market such a contractual lock up is usually for 6 months. This provides for a better *aftermarket* for the share trading of the company. The listing prospectus will set out any details about any lock up. The hare price may often decline following the expiration of a lock-up agreement.

See *IPO proceeds* and *LTIP*.

M&A

Mergers and Acquisitions. Often a company may consider a consolidation strategy when getting listed, and where the peers in the industry (as set out in the industry description of the *prospectus*) in reality make up the targets that the issuer over time may acquire (roll up). Growth through M&A is a type of non-organic growth.

See also the *take-over code*.

MAR

Market Abuse Regulation 596/2014. MAR is EU's comprehensive regulations on how issuers, investment banks and investors should act in the securities market.

The Market Abuse framework is intended to guarantee the integrity of European financial markets and increase investor confidence. The concept of market abuse typically consists of insider dealing, unlawful disclosure of *inside information* and market manipulation. The regulations came into force in the EU on 3 July 2016 in order to harmonise the capital market regulations in EU, as part of EU's work to secure free movement of capital in EU. (The other four freedoms of EU to create one single common market are free movement of goods, freedom to establish and provide services and free movement of people).

MAR contains prohibitions regarding insider dealing, market manipulation and illegal disclosure of *inside information*. MAR also sets out measures to prevent and detect these kinds of illegal activities. MAR was implemented through the *Norwegian Securities Trading* Act on 1 March, 2021.

ESMA (EU's financial markets regulator and supervisor) is following up on MAR vis-à-vis the National Competent Authorities, which are the local/national regulators in EU, like *NFSA* in Norway.

See also *inside information* and *black out period*. See *ESMA* and *NFSA*.

Market maker

A market maker or *liquidity* provider is a specialist company that quotes both a buy and a sell price in shares, and buys and sells at these prices. A market maker seeks to profit off of the difference in the *spread* of the bid-ask price.

An issuer may enter into an agreement with a market maker, where the market maker is paid a fee by the issuer, in order to provide such market maker services to the trading of the issuer's shares in the *secondary market*. The purpose of a market maker is then to help create *liquidity* for the issuer's shares.

Market sentiment

The market sentiment is crucial when executing the IPO, and implicitly to time the listing in accordance with the market sentiment. In other words, preparing for an IPO when the market sentiment is right, is key.

The following two key factors should be taken into account for the IPO:

- The broad market sentiment in general, often reflected with the overall share market doing well, often reaching new highs. And where other IPOs take place. Often with the *VIX* being low for longer period.
- The outlook for the specific industry the company is in. For example seafood companies may still list if the overall equity market is depressed, if listed peers are doing fine and have a high pricing.

Note that while the *primary market* (ie. for issuance of new shares in an IPO) has to be timed in terms of positive market sentiment, the *secondary market* (i.e. when a listed company wants to raise equity) is in a way "always" open for new share issues, see explanation as set out for the term *subscription rights*.

Mature company

A mature firm is a company that is well-established in its industry, with a well-known product and loyal customer following. Mature firms typically face steady competition and exhibit slow and steady *growth*, hence it has limited growth potential. Mature companies also tend to pay dividends (are *dividend cases*) and can boost profits through cost cuts and efficiency improvements, hence focus is very much on margins.

See *start-up, scale-up* and *equity story*.

Multiples

Multiples is the term used when a company is valued in terms of various financial metrics, like multiples expressing the price-to-earnings (P/E) ratio. Companies valued with higher multiples will usually have a greater *growth* potential. Typically *peers* will be *valued* in an interval of multiples. Should a company in an industry be valued higher or lower than its peers in the industry, this should raise some questions to why the company's valuation is an outlier.

National prospectus

Companies raising equity through offers for subscription or purchase of shares with a total consideration of between EUR 1 million and EUR 8 million calculated over a period of 12 months, do not need to prepare an EU *prospectus* but only prepare a so-called National prospectus in accordance with the rules of *Norwegian Sectirities Trading Act* Section 7-5, and with only using NGAAP. Such a prospectus will not be reviewed by the *NFSA*, and will only need to be registered with the Norwegian Register of Business Enterprises in accordance with section 7-8 of the Norwegian Securities Trading Act. See *prospectuses* for when issuing or listing prospectuses for offerings above EUR 8 million calculated over a period of 12 months.

Newsweb

Newsweb (website newsweb.no) is EU's Officially Appointed Mechanism (OAM) for Oslo Børs. An Officially Appointed Mechanism (OAM) is the term used throughout Europe to describe national databases for regulated financial information. OAMs are found in each member state of the European Union and serve as the mechanism for companies to submit their financial reports to their regulatory authority.

In reporting regions subject to ESMA (European Securities and Markets Authority), there is a mandate for reporting format of annual reports known as ESEF (European Single Electronic Format).

See also *Newspoint*.

Newspoint

Newspoint is Oslo Børs distribution service that Oslo Børs offers for listed companies, based on a subscription. Through this service stock exchange notices from the issuers are distributed all over EU. Other third parties (offer similar subscription services as Oslo Børs do, i.e. such services are similar with Newspoint.

See also *newsweb*, which is where stock exchange notices are reported regardless of Newspoint.

NFRD

The Non-Financial Reporting Directive (NFRD) was adopted in 2014 by the European Union (as an amendment to accounting directive 2013/34/EU), requiring certain companies to include non-financial non financial disclosure documents (often referred to 'sustainability reports') in their annual reports or in a separate filing, including information on environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery, and diversity on company boards

This directive applies to *PIE* companies with more than 500 employers in the EU. It recommends the use of international standards such as UN Global Compact, OECD Guidelines, ISO 2600, or Global Reporting Initiative (*GRI*).

NFSA – Finans-tilsynet i Norge

The Norwegian Financial Supervisory Authority (NFSA) is the regulator and supervisor of the participants in the Norwegian capital markets, including the listed companies who have Norway as their *home state*.

The NFSA oversees financial reporting by Norwegian-registered entities that are listed on a regulated market in Norway or in another EEA member state, as well as certain foreign entities that are listed on a *regulated market* in Norway. NFSA's supervision aims to contribute to confidence in the financial reporting among investors who invest in these companies.

NFSA has a policy to review all issuers' financial reporting over a 5 year period, and may contact the issuer if there are matters with the financial reporting the NFSA wants clarified. Should the NFSA require the issuer to change its financial reporting, this may be described in a letter to the company, a letter that will be made public after a foregoing confidential process with the company.

The NFSA annually sets out publicly what areas it will focus on in its review of financial reporting, often in conjunction with what ESMA has provided of focus areas. The NFSA will also review and approve *prospectuses* issued by listed as well as unlisted companies, and will also follow up on the auditors of listed companies.

The NFSA has a role equivalent to *SEC* in the US. See also *ESMA* and *Oslo Børs.*

NGAAP

NGAAP means Norwegian Generally Accepted Accounting Principles; which are all requirements and principles established by the Norwegian Institute of Public Accountants. All companies listing on the main list Oslo Børs or Euronext Expand, will, however, have to report in their *periodic financial reporting* in accordance with *IFRS*, including any half year reports in line with *IAS 34.*

Nordic style offering

A Nordic style offering/IPO is market practice in Norway, where Norwegian/Nordic banks are involved but no *comfort letter* procedures are required from the *investment bank's* side. This facilitates a smoother and less expensive listing process than an *International style offering*, which is the other kind of IPO in Oslo.

Norwegian Securities Trading Act

The Norwegian Securities Trading Act ("NSTA") mirrors to a great degree the EU capital market directives, like *MAR* and the *Prospectus Directive*.

The key concept of NSTA is to secure orderly and efficient markets, capital formation and investor protection (on par with the *US Securities Trading Act*).

NUES

"Norsk utvalg for eierstyring og selskapsledelse" (NUES), in English the Norwegian Corporate Governance Board. NUES issues the recommendation on *corporate governance* for companies listed in Norway. Companies have to report on the NUES code on a comply or explain basis, so either the company complies with the code, or any deviations have to be explained.

See also *corporate governance* and *agent – principal theory*.

Offer prospectus

See *Prospectus* and *National prospectus*.

Oslo Børs

Oslo Børs was established by a law of September 18, 1818. Trading of commodities commenced on April 15, 1819. In 1881, Oslo Børs became a stock exchange, meaning that shares were traded. The stock exchange was privatized in 2001, but was acquired by Euronext consortium of European stock exchanges in June 2019. It has later changed name to Euronext Oslo Børs (in this publication referred to as only "Oslo Børs").

Oslo Børs offers three kinds of listing platforms to companies; the main market «Oslo Børs», «Euronext Expand» (both of these are so-called *regulated markets* – the difference is that Euronext Expand does not require three years of activity) and Euronext Growth.

Euronext Growth is not a regulated market but a multilateral trading facility, hence this market is mainly regulated by Oslo Børs' own rules (listing rules, continuing obligations). See *listing requirements* for an overview of Oslo Børs' listing requirements, and *ordinary process, flexible track* and *fast track* for variances of listing processes for «Oslo Børs» and «Euronext Expand».

See *listing requirements* and *IPO Oslo Børs*.

OFR

Operational and financial review. This is the section of a *prospectus* where management and the board of the company discussed the historic financial performance of the group the last three years.

Options

Options are financial derivatives (a subset of *financial instruments*) that give buyers the right, but not the obligation, to buy or sell an underlying asset (often shares) at predetermined price and date. *Call options* and put options form the basis for a wide range of option strategies designed for hedging, income, or speculation. The option to buy a share is a *call option*.

Note that option and *warrants* programs (which in many ways resemble options) would need to be set out in detail in the *prospectus*, so that investors are informed about the potential *dilution* of the company's share capital from issuing new shares. Oslo Børs has penalized companies for not disclosing such matters.

Options is the only financial instrument that increases in pricing with higher volatility. The reason is that when there is high volatility in the market, the price of the underlying asset is more likely to move significantly, which increases the potential profit that can be made by exercising the option (and likewise, the potential loss for the counterparty). As a result, options can be more valuable in high volatility environments, as they provide greater potential upside for investors (and are more costly for the counterparty, who then needs to set a higher price, akin to a higher insurance premium).

See also *volatility, VIX, subscription rights* and *call options*.

Ordinary process

Ordinary process is the standard process offered from Oslo Børs for an *IPO*, the process takes place over 8 weeks.

It starts with a prelisting/introductory report to inform Oslo Børs about the potential listing, and continues with Oslo Børs reviewing the company's eligibility for listing. After about 4 weeks a meeting will be held with the legal and financial due *diligence teams*, and if no major findings are reported, the company will submit its second formal filing to Oslo Børs, being the listing application. (The application will be withheld if there are major issues arising from the due diligence).

Shortly after the Board of Oslo Børs would then approve the company for listing, given that any pre-set conditions for listing is fulfilled (like raising a minimum of *IPO proceeds*).

Oslo Børs also offers a flexible track for listing (being the market practice for IPOs in Oslo due to the flexibility it offers – which comes with a higher listing fee).

See *also Oslo Børs*, *listing requirements* and *IPO.*

Ordinary shares

Ordinary shares are the shares in a company that are owned by the shareholders who have a right to vote at the company's meetings and to receive part of the company's earnings.

A company listing in Oslo will usually only have one class of shares, being the ordinary shares, as this is better corporate governance and also makes it easier to price the shares and the company. However, Oslo Børs may accept for listing also companies with several share classes. Still, all shares in one share class have to be listed.

In a *start-up* (usually in the US and not so frequent in Norway) ordinary shares are held by the founders, while *preference shares* are issued in new financing rounds to investors to obtain new financing, as preference shares allow the founder to raise more capital through financing rounds.

Ordinary shares contrast with *preference shares*. See also *NUES, options* and *dilution*.

Passporting

Passporting is EU's rules regarding prospectuses which allow a *prospectus* that has been approved in one EU Member State, to be valid throughout the EU (single passport for the issuers). In a broader context; EU has the four freedoms, and one is the free movement of capital. Such free movement of capital also means that a company raising capital in its EU-country can also use the same prospectus to raise capital in another EU country, without having the prospectus to be reviewed again by the other EU country's regulator.

See *prospectuses*.

Peers

Peers (or peer groups) refer to companies that are in the same industry or business. These are therefore usually regarded as competitors. Peer groups are often set out in *analyst* research reports.

The prospectus for an IPO will present the industry the company is working within, and implicitly also the *peers* and hence the likely the company's competitors, often with the associated market share of each peer.

In an *M&A* strategy the peers can be considered as targets the company may acquire in order to consolidate the industry.

Periodic financial information

Period financial information is the requirement to report periodic financial reports to the capital markets and Oslo Børs. For a listing in Oslo only half year end and full year annual reports have to be filed. However, market practice is also to report voluntary quarterly reports for Q 1, 3 and often also Q 4.

The full year audited, financial statement is due no later than end of April, while the half year report is due no later than two months after end of half-year. The board should approve the financial reports after closing of the Exchange, as otherwise the company may need to file the report during the opening hours of Oslo Børs, should the report include *inside information* that per the main rule should be reported immediately to the market. (See also *delayed disclosure* in that regard).

Only the annual report has to be subject to an audit, there is no requirement to have any interim financial reports (see *IAS 34*) subject to limited review post IPO. However, it is recommended nonetheless that the issuer lets the *statutory auditors* read through the interim report before publication, to avoid any accounting matters coming up in the yearend audit of the full financial statements. Note that for the full and half year report a *responsibility statement* has to be included in the periodic financial report. ESEF is required only for the yearend reporting.

The above only applies to companies with Norway as *home state*.

PIE

A public interest entity (PIE) is a company that is of significant public interest because of the nature of the business, the size or the number of employees. This will be companies listed on a *regulated market* in EU, all credit institutions and insurance undertakings in the EU irrespective of whether listed or not. These EU regulations sets out strict conditions for the *statutory auditors* on how to carry out the statutory audits of public interest entities,, like the maximum amount of non-audit services (NAS*) allowed for a PIE, mandatory firm rotation (MFR) of auditors for PIEs, the preparation for taking on an audit etc. Such rules are in place in order to ensure that the statutory auditors are independent of the company and not conflicted when doing the audit.

The *audit committee* is an important interface between auditors and the PIE, when the statutory auditors take on an perform the audit and do any non-audit services.

**) NAS: A cap on permissible non-audit services of maximum 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, its controlled undertakings and of the consolidated financial statements of that group of undertakings.*

Pilot fishing

Pre-marketing of an IPO where investment banks test out the company's *equity story* with potential investors to receive feedback on how the market/investors may respond to an actual *business model*. See *presounding* for more details. This is part of the process of *price discovery*. See also *investor presentations, wall-crossing* and *book building*.

Placing power

The ability of the *investment bank* to sell (place) new issues of shares or other securities, using its own client lists and relationships. Refer also to *book building* and *allocation*.

See also *price discovery*.

Pre-clearing memo

A memo prepared early on in the IPO process to the NFSA, to ascertain and agree the financial information that the NFSA and the prospectus rules will require for the prospectus (can be relevant not only for the listing prospectus, but also for an offer prospectus). Such a memo is prepared to reduce the transaction risk.

See also *carve out/combined financial statements* and *pro forma financial information.*

Preference shares

Preference shares is a class of shares where the shares are granted certain preferential rights compared to *ordinary* shares. Usually the rights granted with be better financial rights and/or better ranking in a bankruptcy, than ordinary shares. As different rights can be conveyed to these shares, there company can in reality make its own share class with specific rights for these shareholders. Hence, a multitude of different classes of preference shares can be prepared in theory, hence start-ups will often (in the US) have a *cap table*.

Typically preference shares will have the preferential right to have dividends paid out to shareholders in this share class, before dividend is paid to ordinary shareholders. Likewise, in a bankruptcy, preferred shareholders will typically be entitled to be paid in a liquidation of the company prior to ordinary shareholders.

Preference shares are often used by US start-ups (not so much in Norway); as new funding is achieved from issuing preference shares where these shareholders get preferential financial rights (more secure dividends and higher ranking in a bankruptcy) compared to ordinary shares held by the founders, while the preference shares may on the other hand not have voting rights. This way the founders keep control of the start-up while still getting funding.

The preference shareholders will mainly be interested in the financial gains from their investment, while having any control on the start-up may not be so important (see *dilution*).

The use of preference shares is a good example on how a company can tailor its shares (different share classes, *warrants* etc) in order to secure financing.

In an IPO any preference shares will, however, be converted to *ordinary* shares, as typically a company will only have one class of ordinary shares upon listing. See also *ordinary shares, start-ups, capitalization tables* and *warrants*.

Preferential rights issue

A preferential rights (or share) issue is the main rule from a legal perspective for issuers in the Norwegian capital market. The share issue is typically carried out through a subscription rights (or just rights) issue, where existing shareholders are given the right to purchase new shares in proportion to their existing ownership. This way the shareholders can keep their relative ownership without being *diluted*, i.e it is non-dilutive.

The shareholders are granted subscription rights in such an issue, the rights will have a *call option* element that is in the money, as the subscription price is set to a discount to the current market price of the shares. The fact that the rights are “in the money” is necessary or else the shareholders would not subscribe, on the other hand the fact that the rights are in the money will incentivize existing shareholders to participate in the offering. As the rights legally have to be listed (in a parallel market with the continuous trading of the shares), the shareholders can opt to sell the rights if they do not want to subscribe, like if they do not have sufficient capital to subscribe.

As the rights have an embedded, financial value (as they are in the money) almost all rights are exercised and hence shares are subscribed to. Rights that are not exercised, will imply a loss to the right’s owner.

Further, as a preferential rights issue will be done with subscription rights that by necessity have to be “in the money”, the equity market for secondary offerings is “always” open for listed companies. This is in contrast to IPOs, where the company has to have a good *market sentiment* for raising capital.

While a preferential rights issue is the legal rule, market practice on Oslo Børs is a private placement, as a private placement is faster. See *private placements* for details.

See *private placements, dilution, follow-on share issue, market sentiment* and *equal treatment*.

Presounding

Presounding (also referred to as market sounding) is in this context interactions between the *investment bank* (on behalf of a company that will issue shares or shareholders looking for sale of his shares) to one or more potential investors, prior to the announcement of a transaction (here; the IPO), in order to gauge the interest of potential investors in the upcoming IPO and its pricing, size and structuring.

Market soundings could involve an initial or secondary offer of relevant securities, and are distinct from ordinary trading. Market sounding is a highly valuable tool for the *investment banks* to gauge the opinion of potential investors, assess potential investor interest in order to determine the terms (mainly pricing) that will make up a transaction;, enhance shareholder dialogue, ensure that deals run smoothly, and that the views of issuers, existing shareholders and potential new investors are aligned. They may be particularly beneficial when markets lack confidence or a relevant benchmark, or are volatile. Thus the ability to conduct market soundings is important for the proper functioning of financial markets and market soundings should not in themselves be regarded as market abuse.

However conducting market soundings may require the investment banks to disclose to potential investors *inside information* (for companies with listed shares or bonds). There will generally only be the potential to benefit financially from trading on the basis of *inside information* passed in a market sounding where there is an existing market in the financial instrument that is the subject of the market sounding (or in a related financial instrument). However, prior to an IPO there will usually not be a market where the shares are traded, in some instances however, bonds may already be traded and the issue of *inside information* may arise.

Before engaging in a market sounding, the investment bank (on behalf of the company and any selling shareholders) should therefore assess whether the market sounding will involve the disclosure of inside information, if so the rules regarding sharing inside information will have to be followed (i.e including *insider lists*).

See *investment banks, inside information, wall crossing.*

Price discovery

Price discovery in an IPO refers to the process of determining the price at which the shares of a company will be sold to the public for the first time. This process involves evaluating market demand for the shares, as well as the company's financial performance and growth prospects, in order to determine a fair and reasonable price for the shares, culiminating in the *book building*. The price discovery process is important for ensuring that the shares are priced appropriately and that investors are able to make informed decisions about whether to invest in the company.

As many companies starts life as a start-up, the following table profiles the different ways a company can be priced:

Where the company is in its life cycle	Pricing mechanism	Issues
Start-up	Pricing each time a new round of financing is achieved.	Only priced when a new round of financing takes place. Pricing can be complicated due to different share classes with shares with different rights (preference shares) and potential warrants
IPO	Book building (market practice in Oslo), alternatively an auction.	The *book-building* process is subject to market volatility, which can affect the final price of the shares.
Post IPO	Shares are priced continually through trading. Continuous disclosure of relevant information (*inside information, periodic financial information, corporate actions* as reported to the markets) will mean that the shares are in theory always (in theory) efficiently priced.	Illiquid trading (see liquidity) can raise questions to what is the right price. Should the company chose *delayed disclosure* of inside information, the shares may not be correct priced for a period until *inside information* is released to the market.

See also *pricing* and *valuation*.

Pricing

Based on the results from the *book building* and how the *investment banks* consider is the best *allocation* to the investors (*retail and institutional funds)* subscribing to the share offering, investment banks recommend to the Board of directors what the pricing should be for the shares, before the first day of listing.

Hence, the IPO price is the price the investment banks will recommend the company and existing shareholders to sell the shares to institutional and retail investors, or to issue of new shares. The banks may set a pricing with a slight discount, so that the share price will have a tendency to increase post listing and that way help the company’s shares perform well in the *aftermarket*.

Primary component

The primary component of an IPO refers to the sale of new shares by the company, which allows the company to raise capital to fund its growth and expansion. This in contrast to the *secondary component*, which is the sale of existing shares in the *IPO*.

Primary insider

Persons discharging managerial responsibilities (*PDMRs*, or "primary insiders") at an issuer. *MAR* sets up specific obligations for PDMRs. PDMRs (and persons closely associated with the PDMRs) have to notify the company and the competent authority of all transactions conducted on their own account relating to shares or debt instruments of the issuer, or to related derivatives or other financial instruments.

The Company is obliged to maintain a list of primary insiders at all times at Oslo Børs, this list is public. This list should not be confused with the *insider list*, which is set up based on an ad-hoc basis when inside information has come up.

Primary insiders should not be confused with ordinary *insiders* (see this). While any individual can become an insider by having inside information (like when financial advisors assist a company with a confidential transaction), primary insiders is a defined group of individuals, where there is the assumption that these individuals at the company will routinely be exposed to inside information. Hence, specific obligations are put in place for the primary insiders, mainly that they have to report their trading publicly.

Primary market

The shares issued by the company in the IPO, which provide the company with new capital, in contrast to shares traded in the *secondary market*.

See also *primary component* and the *secondary component*.

Private equity

The term "private equity" refers to shares in companies that are not (or not yet) listed on a stock exchange, in contrast the term "public equity" refers to shares of companies that already trade on a stock exchange. An *IPO* is often the exit for a company owned by a private equity fund.

See also *growth equity*.

Private placement

As a *preferential rights issue* (see this) is the legal rule and which will ensure equal treatment of shareholders, market practice on Oslo Børs is private placements. Typically an investment bank is mandated to do an private placement from one day to the other (which is, however, planned ahead). The private placement will be done with a discount of typically 5% to the share price before the placement. As the group of investors (larger retail and institutional investors) the offer is placed with is professional and limited, there would not be a requirement to prepare an offer prospectus, hence the placement can be done quickly (overnight and without the costs and regulatory requirements associated with a public offering. Should the offer be difficult to place by the investment banks, the discount may be substantially higher, reflecting possibly significant financial stress with the company. However, a private placement can also be done based on good news, i.e. when a company wants to benefit for an opportunity.

Private placements raise significant issues, as the rule of equal treatment is violated since existing shareholders are diluted. This is aggravated the larger the discount is. Hence, the board will need to argue for why it was still necessary to do the private placement, and also usually follow up with a *repair offering*. It should be noted that while a *preferential rights issue* will require the company to list the *subscription rights*, technically speaking the company is not required legally to list any subscription rights for a private placement, still, this would be good *IR work* and mitigate the dilution.

See also *preferential rights issue, subscription rights, repair offering* and *follow-on (share) issue*.

Profit forecast

A company considering an *IPO* should avoid issuing profit forecasts due to legal and *reputational risks*. Profit forecasts are subject to a higher standard of liability (see *Rule 10b-5*), and inaccuracies can lead to legal action or damage investor confidence. Instead, companies should focus on providing transparent information on their financial performance, b*usiness model,* and *growth* prospects.

If a company has inadvertently made a profit forecast before an IPO, it should disclose the forecast in the prospectus. This disclosure should include details of the forecast, the assumptions and methods used, and any material risks or uncertainties that could impact its accuracy, or alternatively disavow the forecast.

Pro forma financial information

Pro forma financial information may in some instances be required by the *prospectus* rules. Pro forma financial information may be required for transactions carried out by the *issuer* for current/previous year (or commits to a future transaction), if transaction is 25% or more of issuer's revenues, net result or total assets. Also applies for divestures.

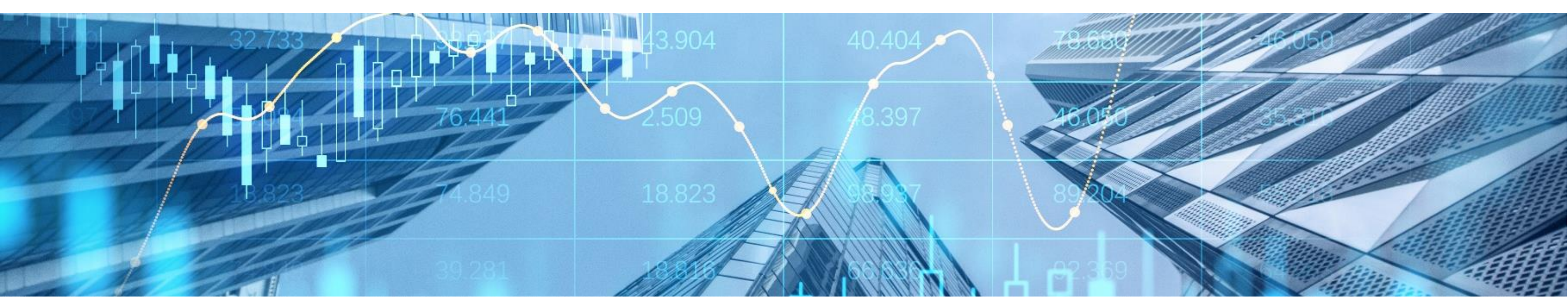
See also *carve out/combined financial statements and pre-clearing memo.*

Prospectus

Depending on how much the company raises in the offering, the following prospectus rules will apply:

Type of prospectus (in brief)	Comment
EU (EEA) prospectus Being either an *offer prospectus* (an offer provided to more than 150 investors) or a *listing prospectus* (for an IPO, or when an issuer issues more than 20%* of new equity, calculated over the last 12 months. The NFSA will review the prospectus.	When a private or listed company raises equity or bonds, and/or lists shares/bonds, for more than 8 MEUR or the offer is to more than 150 investors. See *EU prospectus* for main rules, content, NFSA process and exemptions.
National prospectus Content for a national prospectus follows Norwegian rules. Will be filed to Brønnøysund without any NFSA review.	When the amount offered or raised by the company is in the interval 1 to 8 MEUR, calculated over a period of 12 months. See *National prospectus* for preparation and filing.
No prospectus	If the amount of equity offered or raised over 12 months is less than 1 mill EUR

**) Adjusted for conversion rights*



Project name

To keep a listing confidential (see communication policy) the advisors will use a project name. The project name should be non-descript, and be used when referring to the IPO. Hence, the calendars and invitations should only refer to the project name. See also *ITF* and *communication policy*.

Public equity

The term "public equity" refers to shares of companies that already trade on a stock exchange. In contrast the term "private equity" refers to shares in companies that are not (or not yet) listed on a stock exchange. See private equity and growth equity.

Pure play

Many listings in Oslo are very transparent business models which are often referred to as pure play. A pure play is a company that focuses solely on one type of product or service, like chemical tankers.

QIBs

Qualified Institutional Buyers. These are large, US institutional investors that must have at least USD 100.0 million invested in securities or under management. Qualified Institutional Buyers are the permitted purchasers of securities in *144A* offerings, without the company being required to register the offering with the *US Security Exchange Commission*.

Quarterly report

For companies listed in Oslo, the *Norwegian Securities Trading Act* and *continuing obligations* only require half and full year financial reporting. Both such reports need a responsibility statement. However, market practice is to also report Q 1 and Q 3, and usually also a Q 4 interim report. Such voluntary reports will usually be reported in accordance with *IAS 34*, but this is not a requirement. See also *IAS 34*.

Quiet period

This refers to a US requirement: After a company files registration for newly issued securities (stocks and bonds) with the SEC, its management team, investment bankers, and lawyers go on a roadshow. During a series of presentations, potential institutional investors will ask questions about the company to gather investment research. Management teams must not offer any new information that is not already contained in the registration statement but can provide some level of informational gathering.

The reason for why a company does not need to register share capital offers to *QIBs*, is that the US Security Exchange Commission considers QIBs to be professional investors that do not need the level of investor protection which a registration at US Security Exchange Commission would offer retail investors.

Hence, in the Norwegian capital market it is customary to involve QIBs (which by definition are US institutional, professional investors) when raising capital in IPOs. It should be noted that QIBs can sell the shares among the QIBs, but not to US retail investors.

See *Rule 144A, Regulation S, US Securities Act, Security and Exchange Commission* for further details.

R&D

Research and development. As *growth* and growth potential is a key driver for higher *pricing* of an *issuer*, companies can achieve better pricing in the IPO by having fueled growth through R&D. R&D can also be the basis for various segments, which can support the equity story.

The development part of R&D (but not research) can be capitalized by the company under *IAS 38 Intangibles* under certain circumstances.

R&D activities (and an R&D policy of for instance spending 5% of revenues in new technology/ products) can be a great way to create a unique business offering and distance the company vis-à-vis the peers, and also act as a signaling policy. R&D can also be considered to create *real options*.

Real options

Real options are that a company has an exclusive position (which can be patents stemming from R&D, or geographical segments, or contractual rights but not requirements to build more vessels in a newbuilding contract) that the peers do not have, that can provide the company with financial gain by making a decision or not. A different way to see it is that real options constitute an exclusivity that other parties (or peers) do not have.

Real options are in contrast to financial derivatives and commodity derivatives not traded in a market, but are impacted by the same value drivers, like degree of volatility in the underlying instrument, length of the option, and interest rate.

For the equity story any segments can provide a real option for the company, as the segment can represent an exclusive possibility that other peers do not have.

Refinancing

A refinancing is the replacement of existing loans with new financing with better terms. A refinancing takes place when the terms of an existing loan, such as interest rates, payment schedules, or other terms, are revised to the better for the company. Companies tend to refinance when the general interest rates fall. Or when the company's terms of business improves so that the interest cost can come down due to lower associated risk with the loan engagement. See also *financial restructuring* for a contrasting view.

Regulation S

Regulation S provides an exclusion from the Section 5 registration requirements of the US Securities Act of 1933, as amended (the "Securities Act"), for offerings made outside the United States by both U.S. and foreign issuers. A securities offering, whether private or public, made by an issuer outside of the United States in reliance on Regulation S need not be registered under the Securities Act. Hence, regulation S of the US Securities Act provides an exemption from the registration requirements to the US Security and Exchange Commission of any offer to US, if the offer is done "offshore" (i.e. outside the USA) and does not involve US investors.

In other words, when enacting this exemption US Congress had realized that non-US investors should not be offered the same level of investor protection (through registration at US Security and Exchange Commission) as US investors. Hence, the US Security and Exchange Commission is ok with US companies raising capital from non-US investors offshore.

Most Rule 144A transactions also refer to the Regulation S exemption to allow for offshore sales. Rule 144A/Regulation S transactions do not have to be registered with the SEC because the purchasers are either QIBs buying pursuant to Rule 144A or are foreign investors outside the US and buying pursuant to Regulation S.

See also *QIBs*, *Rule 144A, US Securities Act, Security and Exchange Commission* for further details.

Regulated markets

Regulated markets is a EU term, applied to designate capital markets throughout EU and that EU set specific requirements for (more specifically, EU has provided regulations for such markets through the MiFID directive). Some key features/EU requirements to markets in financial instruments in the EU countries, are the requirement for IFRS, a prospectus, review by national competent authorities (like NFSA in Norway).

In contrast the junior market “Euronext Growth” is not a “regulated market”, but only a multilateral trading facility. Hence, there is not a requirement for financial reporting in accordance with IFRS, and an prospectus is not required (instead an Information document which is less regulated).

Regulated markets are those markets in financial instruments (shares, bonds, derivatives etc) which are recognised by national competent authorities and function in accordance with the provisions of MiFID rules.

Repair offering

Repair offering is the informal name for a share issue by a listed company to the shareholders not invited into the private placement. The purpose of the repair offering (or repair issue) is to compensate (repair) the dilution of the shareholders that were not part/not invited in the private placement. Hence, the pricing of the repair offering will be the same price as for the private placement. This way the listed company addresses the principle of equal treatment of its shareholders.

However, while the pricing is the same, the number of shares that the shareholders in the repair offering may subscribe to, may be capped, hence the repair issue may still not fully compensate the shareholders for the dilution stemming from the initial private placement.

A repair offering requires a *prospectus* as the repair offering involves a high number of shareholders which in effect makes the repair offering into a public offer (in contrast to the initial private placement), hence the repair offering may take place several weeks or even months after the private placement has been carried out, while the prospectus is prepared and approved. As the pricing of the repair offering is fixed (as it has to be the same as the private placement), a repair offering will have an element of a *call option*, and if the share price has over time moves higher than the pricing in the private placement, the call option element when subscribing to the repair offering will be even more in the money for the subscribing shareholders.

Typically the company will raise most of the proceeds in the *private plac*ement, while the repair offering only provides perhaps 10-15% of the overall proceeds. Hence, the issuer should strive to raise the required cash primarily from the private placement.

See also *equal treatment* and *private placements.*

Reputational risk

Reputational risk is the threat or danger to the good name or standing of a business or entity. Such a risk is higher for a listed company, due to the higher profile for such a company. This risk can take place in the following ways:

- Directly, as the result of the actions of the company (board or management's decisions)
- Indirectly, due to the actions of an employee or employees
- Through the actions or decisions of joint venture partners or suppliers

Reputational risk for a listed company can f.ex be failure to report in accordance with Oslo Børs' listing requirements, which may result in investor's losing trust in the company. Which next will result in lower share pricing and a higher cost of capital the next time the company will do a capital market transaction.

In addition to having good governance practices and transparent business model, companies need to be socially responsible and environmentally conscious to avoid or minimize reputational risk. See also compliance.

Request list

A request list is the list of documentation (contracts, financial statements, employee agreements).

See *due diligence*.

Research analyst

See *analyst*.

Responsibility statement

Listed companies have to include a so-called responsibility statement in the annual and half year reports (not in any Q 1, Q 3 or Q 4 voluntary financial reports). This is a requirement in accordance with the Norwegian Securities Trading Act.

With the responsibility statement the persons who are responsible for the half-yearly financial statements and the half-yearly financial report at the company, confirms (among other things) that information disclosed by the company to the public is accurate, complete, and not misleading.

The *NFSA* regularly issues an overview of which companies that have not released a proper responsibility statement for the half and full year report. See also *periodic financial reporting*.

Retail investors

A retail investor, also known as an individual investor, is a non-professional investor who subscribes for shares* in an IPO or buys and sells shares* post IPO. Retail investors typically buy and sells much more frequently than institutional investors, and in lower volumes. Retail investors play an important role in that they create liquidity with their frequent trading of the shares, in contrast to institutional investors which are associated with different benefits for the issuer.

*) This may also be the other *financial instruments* issued by the issuer. See also *institutional investors*.

Rights issue

A rights issue is an invitation to existing shareholders to purchase additional new shares in the company. This type of issue gives existing shareholders securities called rights. With the rights, the shareholder can purchase new shares at a discount to the market price on a stated future date.

The discount is important, as otherwise the shareholders would not subscribe in the offering (you would not subscribe to a high share price and then sell it to a lower, going market price). Thus, the discount represents a call option element in the rights as it has a financial value, incentivizing the rights holder to use the right, alternatively sell it to other investors.

Note that the trading of subscription rights and the trading of the shares mean that there are to venues of trading taking place.

See also *private placements, repair offering* and *equal treatment*.

Risk factors

Investors in an IPO need to be informed about the risk factors for investing in the company. Risk factors provide both a downside and an upside, as a potential higher return is the flip side of higher risk. As such investors will usually not have an issue with risk factors. Though, what investors of course dislike is when the company has not disclosed risk factors that post listing turn up, since any undisclosed risk factors would have not been taken into account by the investors in the pricing of the shares. Thus, a key role of the *IPO due diligence* is to identify all relevant risk factors.

In the *prospectus* the risk factors, included in a distinct section of the prospectus, are split into two types: Risk factors relating to the issuer of the shares and risk factors relating to the shares themselves.

Regarding risk factors related to the issuer, the following risks will typically be addressed:

i. risks related to the issuer's financial situation,
ii. risks related to the issuer's business activities and industry,
iii. legal and regulatory risk,
iv. internal control risk and
v. environmental, social and governance risks.

It is recommended by ESMA that no more than 10 categories and sub-categories of risk factor are used. ESMA also states that risk factors should be:

- specific to the issuer and/or to the securities;
- material to an investor's informed investment decision; and
- corroborated by the rest of the prospectus (including documents incorporated by reference)

In addition the risk factor should be comprehensible for the investors.

See also *prospectus, volatility, VIX, due diligence, risk register.*

Risk register

A risk register is a document that is used by a company as a risk management tool, in order to identify *risk factors* within the company (or alternatively to a specific project). The process of identifying risks aims to collectively identify, analyze, and address risks before they become problems.

Looking to *business drivers* is a great source for identifying business risk factors.

Roadshow

See *pilot fishing/presounding* for the pre-marketing phase. With the roadshow the company enters into the active marketing phase, where the CFO and management meet the investors and do the presentations (see IR). Pre-covid the investment banks would hit the road with the management in tow, to met investors locally, in Stockholm, London and New York (depending on the size of the IPO). Post COVID most of the meetings are done on teams, with investor meetings bumper to bumper on the most active days.

An IPO is a significant event for any company, and the roadshow is a key part of the process. The roadshow is an opportunity for the company to tell its story to potential investors and to generate interest in the offering. The roadshow is also a chance for the investment banks to get a better sense of investor interest and to gauge demand for the offering. This information is used to set the final price of the offering.

The roadshow typically lasts for two weeks. The company will meet with hundreds of potential investors during this time, physically or by Teams.

A successful roadshow will result in strong demand for the offering and a high price per share. A weak roadshow can lead to a lower price per share and a less successful IPO.

Subsequent to the roadshow the *book building* will start. See also *price discovery.*

ROI

Return on Investment. A company's return on the capital it has invested (ROI) has to be more than the *cost of capital*, in order to create value for its investors. Hence, Folketrygdfondet as one key *institutional investor* wants listed companies to report ROI (or similar return metrics) so that shareholders (as *principals*) can see how the company management (as *agents*) manages the capital provided to the company. However, only a minority of listed companies report on ROI, in contrast to EBITDA which is reported by most listed companies. A somewhat similar term is ROIC, return on invested capital.

ROI as calculated by the Company is also an *APM*. See also *strategy, cost of capital* and *EBITDA*

Rule 10b-5*

This is one of the most important rules (promulgated by the U.S. Securities and Exchange Commission) targeting securities fraud, pursuant to U.S. Securities and Exchange Commission's authority granted under § 10(b) of the *US Securities Exchange Act* of 1934.

Rule 10b-5 in the US states that it is illegal for any person to defraud or deceive someone, including through the misrepresentation of material information, with respect to the sale or purchase of a security, also in relation to abuse of inside information.

Under this rule investors can in an IPO sue the investment banks or the issuer for any false or misleading information set out in a prospectus.

In order to build up a due diligence defence against false or misleading information set out in a prospectus, *investment banks* in *an international style of offering* are building a *due diligence defence* with a *comfort letter*.

Rulebook

Oslo Børs Euronext sets out its *listing requirements* and its *continuing obligations* in two rulebooks. The first rulebook is the rules (listing and continuing obligations) that are harmonized among all stock exchanges in the Euronext group, the second rulebook (listing as well as continuing obligations) is the rules that are specific for a listing/issuers listed on Oslo Børs Euronext.

Scale-ups

Scale-ups are start-ups where the technical and commercial issues have been fixed, hence scale-ups have a business model that is working as customers pay for the company's services or products each day. Scale-ups have, however, a big growth potential as the business can be scaled up with new customers/new regions. In other words, a scale-up is a successful startup with growth potential.

While start -ups will have to prioritise its available cash and get financed through new financing rounds with its investors to fund its development, scale-ups have a cash flow that together with growth capital will help the business scale up. Scale-ups with a huge growth potential may also be associated with companies that have the potential to disrupt their respective industries.

See also *start-up, growth equity, dividend case* and *equity story*.

Scope 3 emissions

Under CSRD the companies in due time have to report on their emissions of Greenhouse gases (GHG).

In brief scope 1 emissions are those direct emissions that are owned or controlled by a company, while scope 2 and 3 are indirect emissions which are a consequence of the activities of the company, but occur from sources not owned or controlled by it. More specifically; Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. According to study by Deloitte Scope 3 emissions can account for more than 70 percent of a company's emissions.

See *NFRS, CSRD, double materiality*.

Secondary component

Se

The secondary component in an IPO refers to the sale of shares by existing shareholders, such as company founders, early investors, or employees. secondary market. See *primary component*.

SEC

The US Security Exchange Commission, being the US regulator for capital markets in the United States. Comparable to the NFSA (Finanstilsynets) role in Norway.

Objectives of SEC is a) capital formation, b) investor protection and c) to maintain fair, orderly and efficient markets. See further details in US Securities Exchange Commission.

Segment – operating segments IFRS 8

Segment reporting is required for listed companies.

IFRS 8 Operating Segments requires companies with publicly traded securities to disclose information about the company's operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on the company's internal management reports, both in the identification of operating segments and the measurement of disclosed segment information.

Reporting of segments is a key part of the equity story. This is so because different operating segmetns are typically impacted by different business drivers (like more affluent customers in a geographic segment in the US, compared to for example an emerging economy), and analysts would want to model the growth prospects differently.

Segments (including different segments due to patents/products stemming from *R&D*) may provide the company with certain exclusivity compared to other similar companies, and may be considered as *real options* that can be the source for future growth and hence higher multiples.

SFDR

The Sustainable Finance Disclosure Regulation is regulation that is part of the European Union's Action Plan to reorient capital flows towards sustainable investments to achieve sustainable and inclusive growth. This action plan sets the scene for a more stringent regulatory environment, introducing new regulations and adding amendments to existing directives.

SOX

The Sarbanes-Oxley Act, which after Enron increased reporting requirements.

See also *ICFR, responsibility statement* and *audit committee.*

Sources and uses

When presenting the IPO transaction to potential investors, and how the IPO proceeds will be spent, the investment banks will in the investor presentations often set up a table with how the capital raised from the IPO plus external debt raised will come from/amount to (the sources) and what this capital will be used for (the uses), which may be for the investment program.

Spread

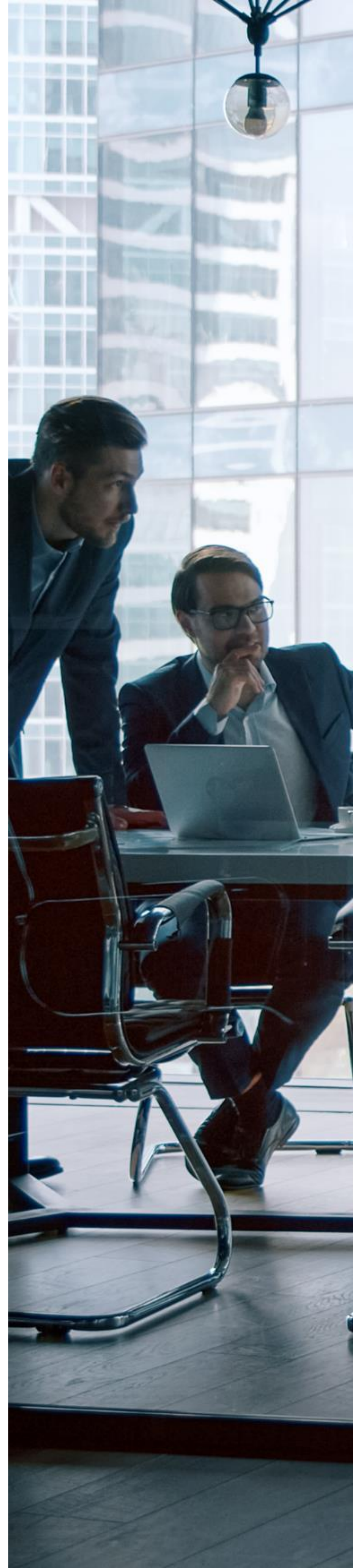
See bid-ask spread.

Start-up

A start-up is a company that's in the initial stages of its life cycle and business, where the technical and commercial issues may not be fully sorted out, and there is still some doubt to whether the company can achieve a viable *business model*. Hence, the failure rate of start-ups is high.

Start-ups will usually need to have growth potential to be successful. And while start-ups have no material cash flow available, start-ups can pay with future value/future growth, see *warrants* and *options*. Start-ups may cause disruptive innovation. Netflix, Uber, AirBNB, Tesla, Apple, Amazon are examples of start-ups that through *disruptive innovation* took over as market leaders in an industry, or even created a new industry.

See *disruptive innovation*, scale-*ups, equity story, growth equity, capitalization tables, preference shares* and *mature companies*.



Statutory auditor

The company's elected, independent auditors doing the annual required audit of the Company's financial statements. In an IPO it is important to involve the statutory auditor in the IPO process, as the auditors will have to review the listing prospectus (a consistency check with the audit the auditors have performed), the statutory auditors will likely have to issue a limited audit report for any interim financial report that will be included in the prospectus, issue a report for the prospectus that any pro forma financial information is set up in accordance with prospectus rules. The financial due diligence team will also want to meet with the statutory auditors in order to assess the audit of the company's financial statements etc.

The involvement of the statutory auditors will in a *international style offering* be very high, when the auditors have to prepare a comfort letter to the international banks.

Steering committee

For larger or more complex IPOs, an IPO steering committee is usually formed, with key participants from advisors and company management. The steering committee will provide guidance to the Board on the development of the IPO process, especially in *the execution phase*.

Stock

Stock is the term the US capital markets use for shares, which is more a European term.

Stub period*

The "stub" period is the period subsequent to the date of the latest quarterly report. The comfort letter provides different levels of comfort for the accounting information in a prospectus; highest degree of comfort is provided for the three years of audited, financial figures, less comfort is provided for the latest interim/quarterly report and which has been subject to limited review by the auditors, and which the company includes in the prospectus. Even less comfort is provided by the auditors for the stub period, for accounting information for the stub period (for the period from when the last quarterly report was closed to the day before the *pricing*), the auditors can only confirm that certain figures have been reported from the company's accounting system.

Strategy

The term strategy is often used when a company refers to long time plans or key objectives it wants to achieve. However, as defined by professor Michael Porter strategy is (and for this publication) when a company through a unique offering achieves a ROI higher than peers in the same group.

Note that Porter can explain by the use of his five forces theory why some industries have very good returns for the companies in the industry, while other industries provide very low return for the companies competing because vendors, customers and competitors end up with the profits (like the airline industry where the airlines end up with subpart financial return). Further, Porter can explain how some companies in an industry with low returns (like the airline industry) still excel, like the US airline Southwest Airlines which has reported consistently an annual profit for every year since 1970, in an industry where other peers like American Airlines have gone in and out of *chapter 11*. The factors that should support a good strategy should ideally be a key part of the *equity story*.

While a *business model* is proved every day when customers pay for the company's offering, a good strategy initially is only a hypothesis. It is first when any barriers to entry (patents), switching costs, comparative advantages etc over time has provided the company with a ROI higher than its peers, that the strategy has been proved (see Southwest Airlines above, or IKEA, Lego, and Zara). Hence, a good strategy is only recognized over time.

See how Folketrygdfondet wants to have the companies where it invests to report ROI and have a strategic focus in line with the above:

https://www.folketrygdfondet.no/sites/default/files/2023-01/Veiledning%20til%20selskaper.pdf

While Porter could explain why some companies could position themselves to achieve superior returns in both attractive or unattractive industries, Clayton Christensen could explain why some well-run companies suddenly where outcompeted, with the concept of *disruptive innovation*.

See also *ROI* and *Cost of capital.*

Subscription rights

Subscription rights are rights provided to shareholders in a *preferential rights issue*. Will have include a call option element, as subscription price is set lower than the going share price in the market. (If not no subscriptions).

Take over rules

The take over rules sets out the legal requirements for how an offeror* may take over the control a company listed on Oslo Børs. (No such rules regulate the take over of companies listed on Euronext Growth).

Norwegian take-over rules distinguish between voluntary and mandatory offers. A voluntary offer is an offer that, if accepted by shareholders of the issuer (the target), triggers a mandatory obligation for the offeror to give all the targets's (remaining) shareholders a cash offer for their shares. Such a mandatory offer is triggered if the offeror (either through a voluntary offer or otherwise) becomes owner of more than 1/3 of the voting rights in the Company (with repeat triggers at 40% and 50%). A voluntary offer can be based on conditions and can be offered with other settlement than cash.

The take-over supervisory authority is Oslo Børs. The take-over rules are very similar throughout EU, due to EU's Takeover Directive (Directive 2004/25/EC) implemented throughout EU, and also by Norway. Note that the take-over rules do not apply for a listing on Euronext Growth. Further, in the US similar take-over rules do not exist, instead the listed companies have poison pills that will force the boards of target and offeror to agree on the take over, without no such agreement the poison pill will result in the target diluting the offeror's shareholding to avoid the offeror taking control.

*) The take over rules apply regardless of whether the offeror is Norwegian or foreign, listed or unlisted.

Transaction risk

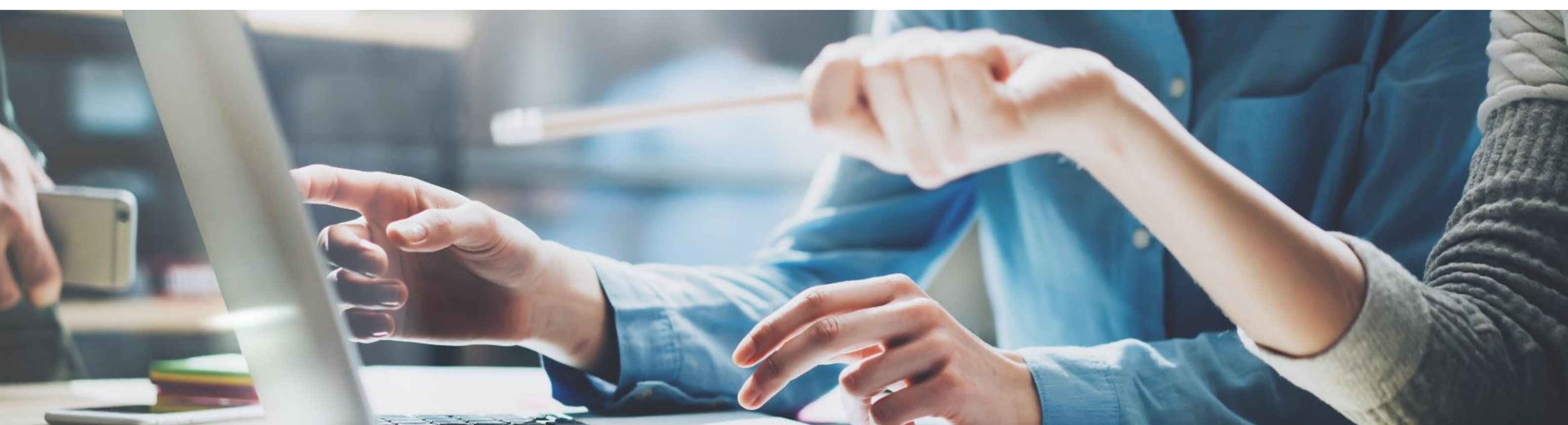
The transaction risk is (in this publication) defined as the risk that a transaction would fall through, due to unforeseen circumstances. More specifically, for an IPO it is the risk that the IPO is delayed or shelved due to matters arising in the listing process. This risk can be reduced by doing a good *IPO Readiness assessment*, pre-clear matters with the NFSA (see *pre-clearing memo*) and Oslo Børs, and use advisors relevant expertise and track record.

See also *reputation risk*.

Transparency Act

The Norwegian Transparency Act which came into force on 1 July 2022. Businesses must regularly carry out due diligence assessments related to basic human rights and decent working conditions and take measures to stop, prevent or limit negative consequences.

See also *corporate governance* and *continuing obligations*.



Underwriters

The investment banks. Internationally the banks will underwrite (guarantee) the offering in the IPO, hence be the underwriters. In the Norwegian market the term investment banks is more used, as the investment banks in an IPO in Norway will not underwrite the IPO.

US Securities Act

The US Securities Act was enacted in 1933 by US Congress, after the 1929 share crash had uncovered fraud with securities and led to the realization that the capital markets had to be regulated better. The US Securities Act has since been revised/amended. Also the Security and Exchange Commission was set up as a consequence of share crash of 1929.

The dual purpose of the Act was to ensure that issuers selling securities to the public disclose material information, and that any securities transactions are not based on fraudulent information or practices. Investor protection is achieved by requiring companies to prepare prospectuses (registrations) and report financial statements, to ensure that investors have accurate information so that they can make informed investment decisions. Further, investor protection is secured under this at with the requirement any offer of shares to US investors will need to be registered with the Security Exchange Commission (then becoming a SEC-registered offering), for review by the Security Exchange Commission.

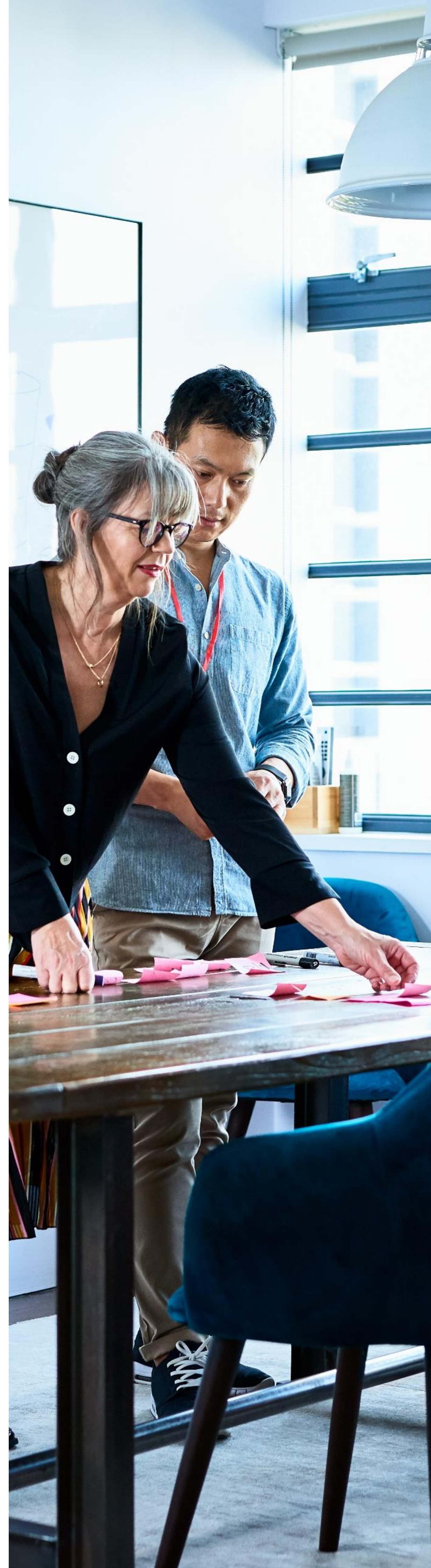
The registration requirement with the Security Exchange Commission is entirely relevant also outside USA, meaning that companies (Norwegian or not) being listed in Norway and which offers shares to US investors, can only do so to *QIBs* as the QIBs are by definition US institutional investors, to whom the share issue does not need to be registered, by way of *144A exemption*.

Most Rule 144A transactions also refer to the *Regulation S* exemption to allow for offshore sales. Rule 144A/Regulation S transactions do not have to be registered with the SEC because the purchasers are either QIBs buying pursuant to Rule 144A or are foreign investors outside the US and buying pursuant to Regulation S.

In Norway the US Securities Act is in concept equivalent to the *Norwegian Securities Trading Act*.

See also *QIBs, Rule 144A, Rule 10b-5, Regulation S, US Securities Act, Security and Exchange Commission* and *SOX* for further details.

NB: The exemptions as set by US Securities Act requirements from registering the offer with the Security Exchange Commission may be relevant for the IPO in Norway, regardless of whether the IPO is a *Nordic style* or *International style offering*.



US Securities Commission

The US Securities and Exchange Commission (SEC) is a federal agency responsible for regulating and overseeing the securities industry in the United States. The SEC's primary mission is to protect investors, maintain fair and orderly markets, and facilitate capital formation through the enforcement of federal securities laws and regulations. The SEC is responsible for overseeing the registration and regulation of securities exchanges, brokers, investment advisors, and other market participants, as well as enforcing laws related to insider trading, fraud, and other securities violations.

The US Securities and Exchange Commission was established in 1934, as a result of the Securities Exchange Act of 1934, which was passed in response to the stock market crash of 1929. The SEC was created to restore investor confidence in the securities markets and to provide a regulatory framework for the securities industry in the United States. Its role is similar to the NFSA, being a regulator in the capital markets.

Valuation

Aswath Damodaran, a professor of Finance at the Stern School of Business in the US, distinguishes between pricing and valuing. Pricing is based on supply and demand in the market place, while valuing involves assessing the intrinsic worth of a business, often done by *analysts*.

VDR

Virtual Data Room, these days this is equivalent to a *data room*.

Verdipapir-handelloven

See the *Norwegian Securities Trading Act*.

VIX

The Volatility Index, or VIX, is an index created by CBOE Global Markets, with the purpose of reflecting the capital market players expectations of near term volatility (share price changes). A relatively high VIX indicates that investors expect the capital market expects high volatility, which is bad for shares and market sentiment.

Hence, VIX is often seen as a way to gauge the *market sentiment*, and especially the degree of fear among market participants if the VIX index shoots up indicating much expected volatility.

Volatility

Volatility is a proxy for risk in the capital markets. High volatility in the markets can be detrimental for several reasons, here a few: High volatility is often associated with increased risk, as share prices can fluctuate rapidly and unpredictably. This can make it difficult for investors to accurately value the shares and can lead to significant losses. Further, high volatility can erode investor confidence in the capital markets, as investors may become hesitant to invest in shares that are highly volatile. This can lead to lower trading volumes and reduced liquidity in the markets.

In uncertain times growth companies will tend to have higher volatility in the share pricing (these companies have a higher so-called beta) than more *mature companies*.

Volatility also plays a key role for the issuer's own business model, as the company can experience volatility with regards to both input factors (input to be bought on the commodity markets) and output (products and services), including also volatility in foreign exchange. With global warming it may be expected that volatility on the global commodity markets will increase, leading also to volatility for finished goods. Issuers may handle volatility through hedging activities, any such policies of hedging (or not) should be set out in the prospectus.

While all financial instruments will react negatively on higher volatility, the exception is *options*. (See options).

See also *risk, call option, VIX*.

VPS

VPS – Verdipapirsentralen – is the previous name of the Norwegian Share certificate depository. Its brand name is Euronext Securities Oslo.

Wall-crossing

As explained above; *market sounding* refers to the communication of information to potential investors before the announcement of a transaction, in order to gauge the potential investors' interest and assess the potential demand for the shares.

Wall-crossing, on the other hand, is the process of sharing confidential or inside information with select individuals, who are then considered "wall-crossed" and subject to specific restrictions and obligations under MAR.

The context is that Chinese wall or ethical wall is an information barrier protocol within an investment bank designed to prevent exchange of information or communication that could lead to conflicts of interest. A Chinese wall is commonly employed in investment banks, between the corporate-advisory area (advising on the IPO) and the department that advises clients about buying shares and researching the equities themselves, to avoid a situation where inside information could be used for inside trading. Hence, a Chinese will be established to separate people who make investments from those who are privy to confidential information that could improperly influence the investment decisions, as investment banks are required by law to safeguard insider information and ensure that improper trading does not occur.

Wall crossing is the act of making a person an *insider* by providing them with *inside information*. As a company pursuing a listing is not traded, it can be discussed if inside information is available, but in some cases bonds may already be listed. Often an investment bank will involve its research analysts (see analysts) to provide insights and opinions on the valuation of the company the investment bank is working with, and also participate in dry runs of the company's management/CFO doing presentations internally at the investment bank. In such situations the investment banks wold have wall-crossed the research analysts, and will follow up on insider requirements if applicable.

Post listing wall-crossing may also be relevant, in relation to for instance *private placements*.

Warrants – (frittstående tegningsretter)

Warrants are similar to *subscription rights* as they provide the warrant holder the right but not the obligation to subscribe in shares in the company. The exercise of warrants will (just like subscription rights) mean that the company will issue new shares/new share capital, hence this will provide the company with new equity, just as with *subscription rights*. (Note that this contrasts to options, where the option holder has the right but not the obligation to acquire shares in the company, hence for *options* the shares are already issued, and the exercise of options will not lead to new equity capital for the company in contrast to warrants and subscription rights).

Warrants are derivatives as they derive their value from the underlying value of the traded shares, and have a *call option* element embedded (the right but not obligation to subscribe for the shares). While warrants are similar to subscription rights in the sense that new shares have to be issued (if the warrants are exercised), there are some key differences. Warrants are provided in a longer perspective than subscription rights (which exist just for a few weeks), the warrants are usually "out of the money" (while subscription rights are by necessity "in the money"). Warrants are "out of the money" when awarded as the company will grow its business and hence over time increase the value of the shares and warrants. Ultimately the warrants would then (of course not always) be "in the money" for the warrant holder. Further, typically warrants are mainly provided to non-shareholders, in contrast to subscription rights. Occasionally though, warrants may be provided also to shareholders.

Warrants are thus excellent for companies with a *growth* potential, and warrants are typically used for payments to employees/vendors and as sweeteners (additional upside) when raising new shares or debt financing, or in financial restructuring cases (where the share price may be considered to be temporarily depressed) and where there is a future, financial upside that can result warrants being "in the money" over time. As warrants are usually used for payments to non-shareholders, warrants have to be accounted for as a cost in line with IFRS 2 Share based compensation, as the exercise of warrants followed by the company issuing the shares would dilute the shareholders. Note also that when the company issues warrants, this may in the future oblige the company to issue shares, hence initiating such a warrant program has to be approved by the shareholders.

NB, note that ordinary banks also often institute a warrants program for larger listed companies and offer investors to buy traded warrants. This kind of warrant program will, however not result in new equity for the company, as the banks will buy shares in the market if the warrant holders exercise the warrant and demands delivery of the shares. Hence, such warrants are not obliging the company to issue shares, and in reality the company is not involved in the bank's warrants program at all.

See *volatility, options, growth, subscription rights, private placements* and *preferential rights issue*.

Working capital – WC

A *prospectus* must include a declaration of the issuer (in reality the board of the issuer) stating whether the issuer has sufficient working capital to meet its present requirements during the next twelve months.

The working capital statement will for an IPO usually be unqualified. ESMA sets up certain requirements for preparing working capital statements (unconditional or qualified working capital statements).

The working capital statement needs to be consistent with the audit opinion of the last financial statement, and also with the cash flow forecast presented to Oslo Børs as part of the IPO and the financial IPO due diligence process.

Working group

The team of *advisors* (investment banks, legal counsel to the company, financial and legal due diligence advisors, the statutory auditors) that together assist the company in the execution phase of the IPO. Often a list of the advisors is circulated with all contact details, in order to make sure that all parties have the relevant contact details and to avoid disclosing information to unauthorized parties with the advisor firms.

Working group calls

Usually weekly calls set on the same week-day/time, where members of the working group calls in to report the status of the various work streams. The intention of these calls is to coordinate the overall IPO process, and any issues that may derail the process.

These calls are usually coordinated by the investment banks. Any matters that arise should ideally not be discussed at length in the call, but followed up bilaterally by relevant parties, in order to move the weekly call forward efficiently within half an hour or less.

Work streams

The typical work streams in an IPO process in Oslo are set out with the term *Execution phase above*.

The work streams involve all the advisors and hare hence usually coordinated via weekly group calls. See also *project name*.

Appendix

A comparison of start-ups* with a mature company, along key dimensions
(mainly from a US perspective)

Company at which place in life cycle/ Characteristics	Start-up Not listed	Mature company Listed
Business model	Not proved. Technical matters may need to be solved to have a viable business offering/product. Commercial matters may need to be solved prior to making money (like converting "freemiums" into cash paying customers for a social media start-up). A start up with an innovative idea can lead to disruptive innovation.	Business model proved each day, as customers pay for services and products.
Cash flow from operations	No. Dependent on venture capital funding (equity).	Yes. Through positive cash flow from operations the company is generating its own, internal funding in contrast to start-ups.
Financing	Founding of equity through series of rounds, each round of financing resulting (ideally) in higher share price as milestones are met for each round. Each round of new shares may imply different rights to the new shares (preference shares), mainly in the US.	Self-funded via operational cash flow. May raise new financing in relation investment plans, M&A or when (rarely) in distress.
Bank debt available?	No. Banks do not provide bank financing as risk is deemed too high and no collateral.	Yes. Can increase financial leverage, in order to pay dividends or to acquire peers.
Sharing of sensitive information	Not regulated. Inside information shared only prior to raising new round of financing with investors (new and old).	Highly regulated; inside info should as a main rule be disclosed immediately to the market.
Suitable for trading in secondary market?	It should be noted that generally speaking there is no developed OTC market for trading of shares in start-ups. This is likely due to information asymmetries, as the founders of the start-up has the unique insight into the business/intellectual property. However, new venture capital owners may become new shareholders by financing through new financing rounds.	For a listed, mature company the information asymmetry issue is not so dominant, and with the listing on a regulated market all relevant information would first have been disclosed in a listing prospectus, and later new information disseminated to the market through stock exchange notices.

Company at which place in life cycle/ Characteristics	Start-up Not listed	Mature company Listed
Raising capital in distress	Raising new equity in a round to lower pricing than previous round will result in a so-called down round. Which is a negative signal on momentum of the value creation of the start-up.	Often handled with a private placement by a mature company in distress, usually with a discount to share price before news of distress was broken. If subscription rights are used; the fact that subscription price is set lower than the going share price in the market means that the subscription right has a call option element embedded that is in the money, incentivizing existing (or new investors acquiring the rights) to invest new equity. This feature will allow a listed company to "always" raise new equity.
Corporate governance	Not required. Note also the fact that the founders want to keep control through having ordinary shares with voting rights, while other equity providers and management gets preference shares with financial rights but no voting rights	Required. One share, one vote, for just one share class, as per NUES code that should be complied with (on a comply or explain basis).
Shares	Potentially many share classes, ordinary shares, preference shares as well as warrants, often set up in a capitalization table to keep tally of the rights.	One set of ordinary shares.
Pricing (in the meaning that a price comes out of a transaction between independent parties)	Priced only when a new round of financing is carried out (see "Financing" above). Difficult to value the company based on share structure, as different shares with different rights. I.e. one cannot just take number of shares and multiply with price from last founding round.	Priced continuously as sensitive/inside information is disseminated to the market. Easy to price the company based on one share class, where you can multiply one share with the trading price.
Growth potential	High, the future is ahead of the company. Hence, will be valued on high multiples that would reflect expected growth.	Low growth potential, as growth is mainly exhausted, hence business is priced on lower multiples
Equity story for investors	Focus on growth, total addressable market, monetizing business model. Growth case. Needs funding. Founder is often visionary.	Focus on margins in the past, and how to maintain/grow margins. Financial capacity. Dividend case. Has to articulate dividend policy. Focus more on the CFO as a numbers guy.
Risk of failure	High, due to technical and/or issues with commercialization to be solved. Of a portfolio of start-ups a relatively high number may succumb.	No one expects a listed, mature company to go under.

*) Scale-up companies not included for the sake of brevity.

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