

Minibonds - an alternative source of finance?

April 2011

Until recently most unquoted companies considering raising finance would turn to their banks or possibly to venture capital. However a new trend may be emerging which involves the issue of minibonds by unquoted companies. Historically bonds were only issued by large and upper mid-sized businesses and this is illustrated by the statistics contained in the Government's 2010 Green Paper "Financing a private sector recovery".

Now it seems that companies with a strong customer base are accessing retail demand directly to raise debt finance. The higher yield typically offered on a minibond will appeal to retail investors struggling to earn a decent return on their cash. This is a new trend in the UK market and it will be interesting to see whether the use of this structure gains momentum in the current low interest rate environment. The key issues which a company needs to consider before

launching a minibond are whether there will be sufficient interest from retail investors and whether they will be prepared to invest in illiquid and unlisted securities.

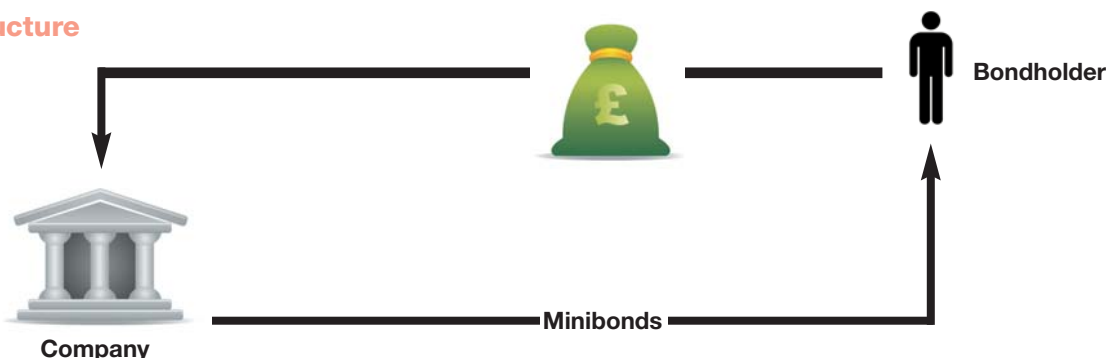
The purpose of this note is to provide some background information on minibonds.

What is a minibond?

A minibond is an unsecured bond issued by a company to an investor. The company promises to pay a fixed rate of interest to the investor for the life of the bond. At a set date in the future, the bond will become repayable by the company. It is another way of structuring an unsecured loan to a company.

Companies have launched minibonds to raise between £5 and £10 million. However in February 2011 John Lewis plc used this structure to raise £50 million.

Structure



How is this different from any other bond issue?

The key differences between a minibond and other bonds which have been issued by several quoted companies in recent months for retail investors are that minibonds are:

- not transferable and therefore cannot be bought or sold during the life of the minibond; and
- not admitted to listing or trading.

This means that companies offering minibonds are not required to produce a prospectus. Instead a company issuing minibonds must comply with the requirements of section 21 of the Financial Services and Markets Act 2000 relating to financial promotions. The offering materials are

therefore short form when compared with the much fuller disclosure documents required for a bond which is listed. Companies will therefore make a significant cost-saving. In addition, no fees will be payable to intermediaries in relation to the issue of the minibonds as there is no arranger or manager.

It also means that minibonds:

- cannot be held within Individual Savings Accounts (ISAs); and
- will not be tradeable on the London Stock Exchange's Order book for Retail Bonds. This contrasts with recent retail bond issues by Lloyds TSB Bank plc and Provident Financial.

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Who is involved?

Organisation	Role
Issuer	Issuing the minibonds and preparing the issue documents.
Financial adviser	Approving the issue documents for the purposes of section 21 FSMA 2000
Lawyer	Advising the Issuer on compliance with all applicable legal requirements and drafting documents including the Trust Deed/Loan Note Instrument and, together with the Issuer, drafting the offering materials.
Registrar	Processing hard copy application forms, receiving funds from investors and dealing with anti-money laundering requirements.

Some issuers which have used this structure

Issuer	Target amount	Term	Interest rate	Customer benefits
The King of Shaves Company Limited	£5 million	3 years	6%	Yes
The Chocolate Tasting Club plc	£10 million	3 years (Initial Term)	Chocolate Return	-
Ecotricity Bonds Plc Guaranteed by Ecotricity Group Limited	£10 million	4 years	7%	Yes. The bond was structured so that Ecotricity customers were offered a higher return.
John Lewis PLC	£50 million	5 years	4.5%	Yes. 2% Gift Vouchers

If you would like any further information on minibonds please speak to your usual contact at Burges Salmon or:



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