



## The Interview

*Pawan Sharma is a Partner at Stephenson Harwood. Stephenson Harwood had its origins in 1875, but is known as being in touch with modern business and has just been voted AIM lawyer of the year. We have asked Pawan questions about AIM, doing business abroad and what it means to operate as a partnership*

**Q.** You must be feeling pretty good about being voted AIM lawyer of the year. How does it feel to be singled out in this way and what practical advantages does it have?

**A.** As a firm we are proud to have been voted AIM law firm of the year. It reflects the contributions and commitment made by the lawyers and staff at the firm over the last year. It also forms the basis for our continued achievement over the forthcoming year.

Conversations such as this provide us with an opportunity to explain who we are, what we do, and what we can do for our existing and prospective clients.

**Q.** Please could you tell us a bit about what role a legal adviser plays in an AIM flotation?

**A.** Legal advisers to the Company are closely involved in a number of aspects of the process, including:

- helping to prepare a company for IPO: many businesses have key contracts which need to be formalised or improved or possible areas of exposure which need to be addressed before they are put under the spotlight of investors. These issues are often flushed out as a result of detailed legal and commercial due diligence;
- advising the company and its directors of their responsibilities and potential liabilities in connection with an IPO and how to comply with their continuing obligations once the company has listed;
- advising on putting in place an appropriate corporate governance framework;
- advising the company on the terms of engagement of their other advisers (in particular the investment bank);

- drafting the admission document or prospectus and other key documentation in conjunction with the investment bank;
- verifying all marketing material - i.e. ensuring that what is said is accurate, fair and not misleading;
- preparing all necessary corporate authorities to approve the flotation.

**Q. Do you think the market for AIM floats will be healthy over the next 12-18 months?**

A. Yes. There has been a flight to quality that is being witnessed across the board, however for companies with strong and sound fundamentals, be it management, assets, growth, the opportunity to admit to AIM, remains.

**Q. Do you think there are any things about AIM that could be improved - from the perspective of a company's management team and/or founders?**

A. The recent rule changes are a step in the right direction. We have seen a number of companies come to market prematurely, and which were thought to have good growth stories, but did not have the fundamentals of a strong business about them.

An area requiring further improvement is the increase in liquidity and institutional appetite for AIM listed stocks. Currently, though witnessing growth in numbers of companies admitting on AIM, institutional investor appetite for AIM stocks still shows signs of weakness. Greater analytical coverage of AIM stocks is required.

**Q. What do you think entrepreneurial companies have to offer stock market investors?**

A. Capital growth and appreciation.

**Q. What are your top tips for entrepreneurs looking to build a business that is going to float on AIM, or any other stock market for that matter?**

A. Good examples of growth business are those which not only demonstrate expansion, but also ensure reported earnings are supported by cash.

In order to achieve this, have strong convictions about your project, pick and retain your best team, focus on the task to hand. It is all too easy to try and be all things to all men, and fail at being anything to anyone at all.

Turning your attention the flotation process itself, don't underestimate the commitment required for the process. Make sure you have a management team that is focussed on developing and building the business through the flotation process. It is far too easy to divert attention from the business to the flotation, and risk losing both.

**Q. What advice can you give entrepreneurs, from a legal perspective, about building a fast growing business?**

A. Look to expand and drive your business harder and faster to extended commercial goals, however be aware of the pitfalls and risks that you are taking. There is no substitute for sound commercial advice before taking the plunge.

**Q. What do you think entrepreneurs have to offer the corporate world?**

A. Entrepreneurs have a natural ability to take complicated things and make them very simple. Most successful ventures have talent, investment, and intellectual property. Entrepreneurs continue to demonstrate how good rates for return can be achieved - entrepreneurs are the risk takers that constantly redefine the capability for achievement. Their example to the corporate world can be extremely valuable where corporates are looking to gain a quantum in performance.

**Q. What fascinates you about the SME market?**

A. It's agility and innovation.

**Q. You advise some of the largest global companies. What do you think they are looking for from the SME market?**

A. SMEs represent the largest aggregated employer market in the UK. They are crucial to the economy and the UK supply chain and for larger companies, they provide an excellent source of product, ideas and ultimately acquisitions.

**Q. Stephenson Harwood is a partnership. We understand that it might be more tax advantageous for some businesses to become partnerships rather than incorporated companies. What is your view of the advantages and disadvantages of being a partnership?**

A. In an ordinary partnership, there is no limited liability: each partner is liable for the business debts of the partnership. This can help ensure that the partners are committed to the business - but equally, it can be personally disastrous if the business fails.

Some key advantages of partnerships include:

- Relatively little time and expense required for creation.
- Relatively few required formalities and regulatory requirements.
- No separate income tax filing for the company - income and losses are reported on the owners' tax returns.
- Flexibility in establishing the responsibilities (capital, management, etc.) of the partners.

Disadvantages of partnerships include:

- Partners are personally liable for the debts of the partnership.
- Partners are responsible for the business-related actions of all other partners.

**Q. We understand that it can be more tax effective to trade as a partnership. Does this mean more entrepreneurial teams should be seriously thinking about trading as a partnership?**

A. Partners in a partnership pay income tax (and National Insurance contributions) on their share of the profits. Depending on how profitable the business is, and whether the partners want to reinvest in the business, this may be more or less tax-efficient than trading as a limited company.

In some cases, trading as a partnership is an attractive way for two or more people to form a business, particularly if the business risks are relatively low. But as the business grows, it is often a good idea to form a company: for increased flexibility, and to take advantage of limited liability. The main exception is in (the very few) businesses where you are required to trade as a partnership. In these cases, it is often advantageous to form a limited liability partnership.

**Q. Tell us a bit about what Stephenson Harwood can offer AngelNews companies**

A. Stephenson Harwood is an international commercial law firm offering clients a breadth of services - including corporate, dispute resolution, employment, environment, finance, pensions, projects, real estate and tax advice - combined with deep expertise in sectors such as financial services, real estate and transport.

Specific to AngelNews companies, we advise on private equity and venture capital deals right from seed funding through development capital to management buy-outs and other late stage refinancings across a broad spectrum of industry sectors. Our international client base includes private equity houses, high net worth individuals, management teams and debt providers. In addition to corporate lawyers, our private equity team includes tax, banking and employee incentives specialists.

**Q. Why should AngelNews companies or investors, based outside the UK, come to Stephenson Harwood?**

A. We aim to give sound practical commercial advice. Outstanding quality is what we deliver to our clients. Our people are approachable and highly attuned to client's needs and the commercial aspects of a deal.

**Q. What are the most common legal issues entrepreneurs come to your firm for help in addressing?**

A. Most common issues involve structuring deals, and advising on contracts, including strategic, financing, licensing and marketing agreements.

Introductions to investors, other business development groups in structuring deals. Sometimes pre-litigation counselling and evaluation and negotiation with business partners to resolve disputes, preferably without, but without fear of, litigation.

**Q. What is it about Stephenson Harwood that made you look to expand in India and the Far East?**

A. Historically Stephenson Harwood has strong ties with Asia. The founding partner of the firm signed the memorandum and articles of HSBC.

Today we have c20% of our headcount in Asia, spread across 3 offices in China and 1 in Singapore. In addition to this we have a network of best friends in the region with whom we work regularly with.

From a corporate perspective, the opportunity to assist Chinese companies list on AIM, for example, arises as a result of AIM marketing itself well. The fact that companies have to wait 3-4 years to list on a domestic exchange and Hong Kong now focussing on larger companies is an opportunity for us.

India itself is a great opportunity. A number of our partners have been and are continuing to advise in the region. We have recently recruited individuals in London, of which I am one, who have lived and worked in India.

**Q. What tips can you give entrepreneurs about trading in India and the Far East?**

- A.
1. Research the most suitable market.
  2. Identify a local partner - to ensure the marketing and brand strategy.
  3. Prepare for market challenges - The Far East and India are not easy markets. Commitment to the market and physical presence is really important.
  4. Be patient - these markets can be frustrating and volatile
  5. Understand the Far Eastern/ Indian customer.

**Q. You have lawyers experienced in the legal environment in different countries all over the world. Are there deep differences in the way commercial law works in different countries or are there various principles that hold true everywhere?**

A. The principles of commercial law differ country to country. For example, as a US lawyer if a subsidiary could give an upward guarantee, and the answer would be a resounding yes. Pose the same question today to an English lawyer, and the answer would be no.

The principles are there to guide you, recognising the legal issues to hand, the common goal is to find a practical solution to a client's problem, which is universal wherever you are in the world.

**Q. When are the crucial moments in a firm's life that it should use a firm such as Stephenson Harwood?**

A. From creation. A firm like Stephenson Harwood is there to be used and provide advice from the very beginning, be it merely incorporating the corporate entity, or preparing a draft partnership agreement, though to executing a material commercial contract, or raising venture capital or private equity. Our view remains, involving lawyers as soon as possible, provides you with the best opportunity to highlight potential issues earlier on and address them on a timely basis.

**Q. How do you run a legally watertight business, but also keep your costs under control?**

A. Like any other professional services business. Legal services are as prone to boom and bust cycles as any other, and as is the case with any organisation it is a matter of not extending yourself too thinly so that when there is a down turn, you have to retrench.

**Q. What tips would you offer an entrepreneur wanting to sell products or services to your industry?**

A. Develop products that aid the delivery of advice and reduce administration.

**Q. The legal profession has traditionally been a very profitable for its associates and partners. Do you think this will change now the internet is coming of age?**

A. Not really. The Internet and technology have aided our ability to service clients more efficiently and effectively. Clients today want senior level attention and a personal service - something the Internet cannot offer in whatever guise it creates. Clients ultimately seek solutions not blue letter legal advice.

**Q. Do you find yourself working weekends and bank holidays?**

A. Occasionally, when client and transactional commitments demand it.

**Q. What did you learn from your first great boss?**

A. Keep your advice simple. Do the obvious before it becomes obvious to everyone else because by the time it becomes obvious to everyone else it's too late.

**Q. How do you relax?**

A. Spending time with my daughter and seeing her exploring the world around her.

**Q. Who is your hero and why?**

A Being an adviser, I meet many people who have accomplished great feats with limited resources. You may call such people heroes.

Serial achievers are people I admire, who have a vision, personal and in business, and apply un-relenting energy to achieve it.

**Q. Lastly, what is your best legal story?**

A Ensure you seek local law advice on deals. There can be a tendency for clients to assume that hiring a lawyer means all legal issues are taken care of. Whilst that is true in most cases, especially where lead lawyers are able to bring in local law advisers, clients can be conscious of fees and in an effort to keep transaction costs down, disregard the need for additional advice.

A transaction I worked on a few years ago is an example in point. The client, embarking on their maiden acquisition outside of their country of operations, decided to structure a transaction and negotiate it to a point near to completion themselves. Bringing external lawyers in at the last minute, the client who was prepared to proceed to completion had overlooked the need to gain local law advice on whether the structure of the transaction breached local laws. If the client had completed, not only would the transaction have been void, but the client may have found himself facing criminal charges for executing documents which contemplated a transaction in breach of local laws.

There is no substitute for early practical legal advice!