

## From small listings, mighty firms grow

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By GEOFF BROWN

Capital markets can seem complex but the purpose of a stock exchange is actually very simple. It is a place where businesses can raise capital to establish themselves and grow, and where people can invest their money in expectation of good returns. Both of these things are critical to increasing national wealth.

A stock exchange helps businesses to flourish, people to accumulate wealth and the economy to grow - that is its job. So how good is the New Zealand Stock Exchange as a place to raise capital and invest in companies? And how can our capital markets really contribute to economic growth? Such questions are critical for the newly forming NZSE company and, indeed, for everyone with a focus on the economy's future.

New Zealand has huge potential. Look around and you see we have no lack of enterprising people or capacity to profit from human ingenuity and hard work. We have a vibrant business sector with plenty of potential for growth. That potential extends from the more traditional land-based and agricultural industries through to areas such as computer software and boat-building.

Time and again, we see that Kiwis can succeed on international markets from humble beginnings. The wine industry, with export sales up 200 per cent over just five years, is a good example. Marine services are another. Technical prowess, hard work and a keen eye for market opportunities are making a cluster of small firms much bigger.

We are a nation rich in small enterprise (around 275,000 business units, not including farms). While most have fewer than 10 employees, thousands have excellent growth potential. These companies will propel the country forward. Diverse business structures are another feature of our landscape. Co-operative ownership, for instance, predominates in primary product processing.

Kiwis have no particular reticence about investing either. The 1980s certainly demonstrated that we can be a nation of enthusiastic share investors. While many people were "burnt" then, it was not by any fault of the market but by ill-advised investment strategies. Few people were diversified and there was an incomplete understanding of risk and reward (how many people bought oil exploration stocks?)

Given all this and the exciting potential of many businesses, surely we have the fundamentals for a lively, growing stock market. Yes, but the potential is not yet a reality.

While we are seeing more companies look at raising investment capital, few look to the Stock Exchange as a place for doing so. For example, the current group of listed companies excludes many that are at the heart of the economy - or could be if their growth potential was realised.

Of New Zealand's export earnings, almost half come from agriculture and horticulture. On the exchange today, companies in those sectors account for just 2 per cent of the total investment value. There is a stark gap. Notwithstanding the importance of companies that are listed today, our market has become somewhat distant from New Zealand's productive base.

We also have a way to go when you compare our investment rates per head of population. Our market value per capita is only half Australia's and a third that of Ireland (a country of our size and agricultural tradition). Kiwis are far less inclined today to invest in shares.

In short, the New Zealand marketplace is in need of some overdue changes. That is the reality facing the NZSE. However, we like to look at it as an opportunity.

Our commitment is to get many more businesses - large and small, new and old - on to the market for capital raising, robust trading in their shares and greater investment in this country's economic growth. Of course we cannot achieve this alone - we will lead by raising market knowledge and confidence. And we will ensure the right market structures are in place to serve enterprising people and investors, and so feed growth.

It seems clear that a priority is to put in place structures that make it relatively easy and productive for businesses to join the market.

In 2000, the New Capital Market was launched with such objectives for start-up companies seeking small amounts of capital. Experience since suggests that market was too narrowly focused and its rules too complex. People were frightened off or found it too costly a route to raise capital.

Over recent years, the exchange has also facilitated share trading in unlisted companies. This is not a policy we intend to continue - market governance is of primary concern to us. Certainly the main board provides an effective market for larger, established companies but we find that some smaller listings lack real investor recognition and trading liquidity.

For these reasons, the exchange is proposing a new "alternative market" or AX structure - a place designed for smaller companies or other newcomers with a non-standard structure, to complement the main board. The AX will serve the capital-raising needs of enterprises with a growth orientation. By introducing the AX concept, we will simplify the marketplace and provide a clear structure - a main board and a well-g geared alternative board (AX). We believe the AX market will go a long way to building a market infrastructure, from which growth will naturally occur. We are working now to finalise the structure, incorporating feedback from recent public submissions. Revised and more detailed proposals will be circulated soon, and more feedback is welcome.

Whatever its final shape, we will have a new market structure operating from early next year. And longer term, we are confident economic growth will benefit.

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