

## Floating offers businesses long list of benefits

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One of the most frequently asked questions of the NZSE (and rightfully so), is: what are the benefits of listing?

There is not a single answer to this question - and it is important to state up front, that we are not "listing evangelists". Every company has unique needs, and depending on its individual circumstances, will value different elements of the capital markets differently. But there are some very fundamental reasons why companies choose to list, and some obvious benefits that derive from doing so.

This article will explore some of these issues, so you can decide for yourself whether listing represents a viable option for your company. In a study recently completed in Britain\*, 300 companies which recently joined the London Stock Exchange or the AIM stock market (the LSE's global market for smaller companies) were asked to comment on their reasons for deciding to float. The list below shows the main reasons for doing so, and the percentage of respondents who cited those reasons (some respondents gave more than one answer).

- \* Raise funds/best source of funds: 67 per cent.
- \* Increase company's profile and credibility: 23 per cent.
- \* Provide liquidity and exit strategy for original owners and investors: 21 per cent.
- \* Use shares for future acquisitions: 20 per cent.
- \* Increase credibility with existing and potential customers: 10 per cent.
- \* Provide share options for directors and staff: 10 per cent.
- \* Demerger from parent company: 9 per cent.

Despite the differences between the British and the New Zealand capital markets, the factors that motivate companies to pursue a public listing are very similar.

In fact, in my conversations with companies looking to list on the NZSE in the near future, we have identified almost an identical list of factors. It is no surprise that raising funds is the primary reason for companies choosing to float. Listing enables growth, by supplying companies with a stream of capital to pay for expansion of their operations - both locally and internationally.

To date, the trend in New Zealand has been for companies to borrow (typically from banks) as a source of capital, and for many companies this is the right choice. But for those companies likely to exceed \$5 million in market capitalisation, raising equity capital is often a more attractive financing strategy for funding growth than debt.

In a recent survey we conducted of companies in New Zealand which listed recently and have a market capitalisation of more than \$5 million, the average cost of capital was around 8 per cent. Moreover, this is capital that is free from the covenants which you find with bank debt, and does not require collateral.

A further compelling reason for becoming listed is that companies can use their shareholder capital as a means for further expansion. Twenty per cent of English companies in the British survey stated this as their main reason for listing. This is primarily due to the fact that mergers and acquisitions of businesses can fast-track a company's growth plans, and cash is rarely the best currency to effect this.

By offering shares as the means of acquisition, companies can harmonise the interests of shareholders on both sides of the deal during merger and acquisition negotiations, and enable growth without using precious resources generated internally (in other words, save cash).

The other main reasons are increased profile and credibility, and providing cash to owners. Becoming a listed company suddenly puts your business into the spotlight - with media, analysts, investors,

customers and suppliers. If you have a successful business plan, clear product differentiation and exciting growth prospects, listing is one of the main ways you will ensure you attract the awareness your company deserves. Attaining listed status enhances your company's marketing and expansion plans, and brings attention to your company's strategy and future growth prospects in a way that no advertising campaign could ever achieve. Listed companies also acquire creditworthiness in the eyes of banks and suppliers, who rely on information from the public domain.

The other reason, quite simply, is to provide cash to the owners who started the business, and sit on a lot of value that they find hard to realise. Listing is not right for every company. One of the most common fears people have relates to "loss of control".

In reality, this should be regarded as a trade-off. While it is true that ownership of the company becomes shared, ownership does not have to be so widely dispersed that it means loss of capital.

As mentioned before, listed capital comes free of covenants and operational restrictions - you are free to follow your strategy. Opening up the ownership structure also opens up the opportunities for additional funding and boosts growth.

The new AX market we will launch next year is being constructed to ensure that companies have access to equity capital while still retaining control. The AX requirements currently state that the company has a minimum of 200 shareholders owning 20 per cent of equity - the objective is to not significantly disturb existing shareholders' ownership entitlements, by becoming listed.

Companies considering listing should also consider their increased responsibilities, as they relate to corporate governance, and disclosure. These regimes are designed to ensure companies have transparent operations with respect to their stakeholders - the market, shareholders and those with an active participation in their business (including suppliers and partners). We believe these principles of good corporate governance should apply to all companies - listed or not.

Being listed simply provides an assurance to the market that your organisation complies with best practice globally - a seal of assurance if you like. It is, in fact, a good discipline that few companies would wish to relinquish.

In summary, there are significant benefits for listing, and for many companies, equity markets are the right choice for capital-raising. Relatively speaking, the cost is not that high, and we believe the benefits are relevant to a much larger number of New Zealand small and mid-size companies than we have listed on the capital markets today.

We are working to improve the process for unlisted companies to come on board, and for investors to access our market. By growing the overall pool of New Zealand companies that have growth opportunities through equity capital, we believe the New Zealand market and economy as a whole will benefit.

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\* Source: Going Public: A survey of recently floated companies, completed by the London Stock Exchange and Eversheds, December 2001.