

Listing your company – being investment ready

The listing of your company in Australia (ASX or NSX) is a journey which can be a business life changing exercise.

Listing becomes a significant event in 3 distinct cases

1. A small recently established company (start up) seeking new capital to expand the company's operations and potentially make acquisition.. Funds raised from such an IPO are substantially retained within the business for the stated objectives (brand development, marketing, acquisition, etc).
2. Where the business is well established, and the current directors/shareholders are seeking an exit, an IPO with new management identified can be an attractive proposition for retiring shareholders. It is typical that in such cases, commonly known as a management buy out will achieve a better result than a trade sale (the other option for non continuing shareholders/directors) where they buyer may well be an existing listed company.
3. A merger of two mature (non listed) businesses with part of the proceeds being earmarked for buy out of existing shareholders.

Focusing on cases 1 and 3, the journey to listing can be very rewarding if there is a clearly articulated plan and a realistic timetable put in place. The alternative can be expensive and disruptive to existing business and to shareholders.

Australia is well placed with the ASX being one of the key stock exchanges in the world. Australia ranks 4th in the world in number of floats but lower than 12th in the average float size. NYSE did a lesser number of floats (35 compared to 40 on ASX) but the average per float was \$US531m compared to Australia at less than \$US50m. This gives access to the Australian market not possible in other financial jurisdictions.

Set out in Appendix 1 are tables reflecting the number of IPO's and the proceeds raised.

The benefits of listing can be substantial

- Realisation of capital for acquisition/expansion
- Attraction of top quality people, executive packages, executive options, etc not possible in a private company.
- Access to further capital in the future.

To be successful and investment ready, our experience has shown the importance of the following

critical factors

1. **A clearly defined business plan** which makes the case for a listing (an actual requirement of NSX). This involves clearly showing how the capital raised will be spent in the initial period (say 2 – 3 years).
2. **A broad understanding and acceptance of the principles of Corporate Governance** given the new entity is dealing with people's money other than their own. Readiness to install and monitor internal control procedures in company operations, reporting both to a Board regularly and publicly twice per year are critical.
3. **3 years audited accounts for the private company** (or a reasonable expectation that an auditor would be able to issue a substantially clear audit report). This is a critical point as not only does an audit significantly increase the IPO timetable but be symptomatic of whether the group is in fact investment ready. A discussion with the current company accountant and prospective auditors can be invaluable in this regard.
4. **A solid diverse executive and key management personnel** should be in place, or contracted from IPO date.

For a listing, the company must be seen as moved on from the rainmaker, sole person company. Investors are not attracted because the risk is too high and the key man insurance type solutions are helpful but not sufficient. Again these issues would be addressed as part of item 1. Investors do not support the searching for a good idea. They will support the development and commercialisation of same. Typically, there is a substantially different skill set involved between the 2 stages.

5. **Avoidance of conflicts of interest.** Whilst related party transactions cannot be avoided, they need to be articulated clearly and simply and conflicts avoided. The company's business should be seen as the predominant activity of a founder/managing director and now significant shareholder. Their interest must be aligned with those of the shareholders (typically a rising share price). Conflicts relating to supply, customers, other business activities need to be avoided. Executive contracts provide for the full time efforts of such a person and a meaningful executive compensation package, bonuses, share options, etc give investors and regulators confidence that all stakeholder interests can be aligned.

The two main exchanges in Australia are the ASX and NSX.

Both exchanges have their benefits and in a further article, we will examine the differences in detail. In passing, one of the advantages of ASX is the supposed liquidity of the market. This has been the case in the past but its effect is diminishing. In the past 6 months, 4 significant broking firms have found the NSW IRESS platform for settlement, a critical element of liquidity and broker/shareholder interest.

For further information, including an Investment Ready check list, please call us on (02) 9200 4500.

Appendix 1

Top 12 stock exchanges in first-half 2018

By number of IPO's

Rank	Stock exchanges	No. of IPO's	% of global IPO's
1	Hong Kong (HKEx) and GEM	97	14.7
2	National (NSE and SME) and Bombay (BSE and SME)	94	14.2
3	Nasdaq	66	10
4	Australia (ASX)	40	6.1
5	Tokyo (TSE), Mothers and Jasdaq	38	5.8
6	Shanghai (SSE)	37	5.6
7	New York (NYSE)	35	5.3`
8	Nasdaq OMX and First North	34	5.2
9	Shenzhen (SZSE and Chinext)	28	4.2
10	London (Main and AIM)	22	3.3
11	Indonesia (IDX)	19	2.9
12	Euronext and Alternext	14	2.1

By proceeds

Rank	Stock exchanges	US\$b	No. of IPO's	Average per float (US\$m)
1	New York (NYSE)	18.6	35	531
2	Nasdaq	11.4	66	173
3	Shanghai (SSE)	10.1	37	273
4	Deutsche Boerse (Main and Scale)	8.9		
5	Hong Kong (HKEx) and GEM	6.1	97	63
6	Shenzhen (SZSE and Chinext)	4.7	28	168
7	National (NSE and SME) and Bombay (BSE and SME)	4	94	43
8	London (Main and AIM)	3.9	22	177
9	Nasdaq OMX and First North	2.9	34	85
10	Tokyo (TSE), Mothers and Jasdaq	2.7	38	71
11	Sao Paulo (BM&F Bovespa)	2.5		
12	Ho Chi Minh (Hose)	2.5		
	ASX	2.0 (assumed)	40	50

Source: EY Straits Times Graphics