NSX STOCK EXCHANGE OF NEWCASTLE LIMITED

An Exchange in IDEAS

Scott Evans
NSX general manager

The Stock Exchange of Newcastle (NSX) Limited has undergone a dramatic change since it was established in 1937. After being recognised as a Stock Exchange under Corporations Law in February 2000, the NSX has positioned itself as a viable means for SMEs to raise capital and grow their business.

If an SME was, for example, running a family business and needed money to expand and open more premises, but didn't have the cash to do so, the NSX offers a way for that business to raise capital.

Listing can also be a means of succession planning, unlocking the value that has been accumulated by the founders and the ability to issue shares can facilitate employee shareholder plans and position the firm for future growth by merger or acquisition.

Put simply, it goes something like this – the business owner/s decide listing might be a good way for them to grow their business, so they go speak with their advisers and also have a meeting with the NSX. That meeting will determine whether the company structure is appropriate (ie a partnership or proprietary company can not list because of restrictions under Corporations Law).

"Then we talk to them about how much they want to raise," says NSX General Manager Scott Evans.

"Really what we are looking at is companies in a growth stage, they have been trading for at least a couple of years (or longer in the case of well established family businesses or cooperatives), these businesses need more capital and the only way to do that is to sell some of the equity the owners have accumulated in their business."

Once listed, an SME can use their shares as currency, as a way to add value to their company if they are thinking about a merger or acquisition. Shares are easily transferable and tradeable and their value reflects the value of the firm.

"Firms can then contemplate looking to use equity in their firm to expand their business. They don't have to use up their cash reserves to do that."

The SME does need to meet certain requirements to qualify to list; having a minimum of 50 security holders with $2,000 in securities each (compared to 400 if planning to list on the ASX); at least 25 percent of the issued shares held by the public (can include employees); a two-year adequate track record; and a minimum of $500,000 market capitalisation ($10 million on the ASX).

Once that is sorted, a nominated adviser and a sponsoring broker is appointed. "Essentially what they do is make sure the firm is investor ready, arranging underwriting for capital raising, help trying to promote the company and get that company ready for listing."

That company is then ready to list if they are seeking a compliance listing (the issuer should not have raised capital at least three months before listing and may not raise capital three months after), or may issue a prospectus if looking at a capital raising listing. The compliance listing is obviously the quicker of the two examples, taking, typically about eight weeks compared to four to five months for a capital raising listing.

"When you raise capital ASIC [Australian Securities and Investment Commission] gets involved. They have a mandate to make sure investors are being protected by appropriate levels of disclosure."

ASIC makes sure the prospectus is up to standard and the document exposes all the risks associated with that company.

Someone who has recently undergone this whole process is Michael O'Brien, a director of the recently listed Australian Motor Finance (AMF) Limited. The idea behind AMF was first conceived in 1999: "Its objective is to provide [motor] finance for the non-conforming borrower," he says. This does not include people who are a genuine credit risk, but people who don't meet traditional stringent borrowing requirements, whether it be because they are not a home owner, are self-employed, haven't been employed for very long, are recent immigrants or have had minor credit defaults in the past.

According to O'Brien, prior to listing on September 30, AMF had a market capitalisation of about $25 million. "That puts us in the top 500 companies in the country."

So why not take the traditional route and list on the ASX? "We chose the NSX mainly because we felt that even at $25 million, any company with capitalisation under $100 million really does not get seen under the ASX. The NSX has got all the platforms there for trading and they are much more user-friendly with the fees they charge and the relationship with their customer. We found their approach to be exhilarating."

Since the concept for the company was formed, the people involved have undertaken extensive market research to ensure their business was positioning itself correctly in the marketplace. Once that was assured, the next step was working towards a listing.

"As far as the listing process is concerned, that has not been a major issue. The application that has to be put in is in a set format and you attach to that documents that prove what you are saying.

"The real issue is raising a prospectus, with all the due diligence that goes into that, it's an enormous task that is not to be taken lightly. The prospectus is going to be the main hurdle [for people looking to list] to overcome."

O'Brien says this because the prospectus is not only "massively time consuming" but also costly because of the amount of hours an outside professional has to spend on it.

He says one thing he would do differently if they went through the listing process again would be to spend more time planning and organising the information going into the prospectus before taking it to a professional.

INTERESTING INVESTMENT CONCEPTS

Thinking outside the square and taking an innovative approach to investing has led to some very interesting concepts in capital raising. One example of that would be the option of co-operatives trading their memberships, where the NSX provides a closed market surrounding the members, allowing the co-operative to approve members buying in or selling out. Others outside of the co-operative can invest, they wouldn't have ordinary voter rights, but they would have access to dividends and returns. "This makes it much easier for the co-ops to raise capital," says Evans. The same concept can also be applied to franchises, giving people looking to invest a clear indication of the franchise's worth.

And if you're looking to invest rather than list, another new approach being taken by the NSX is something called the Wine Exchange.

Wine makers normally have a lot of equity tied up in vintage wine which needs to be cellared for 12-24 months before being released on the market. The Wine Exchange allows investors to purchase the wine when it is cellared for 20-30 percent lower than the expected retailer price (including all storage costs), one preference share being equal to one case of the wine (prices range from $200 upwards). Those preference shares can then be traded during the cellaring period, and at the end, the person who holds the preference share, owns the case of wine. At the end of the cellaring period the owner can choose to sell the preference share, send the case off to auction, or keep the wine for themselves.

Evans says the price of the wine is based on the retail price of previous vintages, and that even though it may be risky in case the vintage is a dud, "the discount in the price is for tying up the money for that long".

For more information on the Stock Exchange of Newcastle, visit www.newsx.com.au

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