

The 2nd Annual Conference of PECC Finance Forum

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SessionIV: Financing SMEs: Issues and Options from the Ecotech Perspective

Capital Markets for Small and Medium Enterprises:

An Evaluation of Recent New Zealand Experience

Juliet Mckee

Coordinator
NZPECC

Capital Markets for Small and Medium Enterprises: An Evaluation of Recent New Zealand Experience

**Setting the context: SMEs in NZ
Why SMEs choose to list on the Stock Exchange ?
The New Capital Market Experience
The New NZX**

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PACIFIC ECONOMIC COOPERATION COUNCIL

SMEs IN NEW ZEALAND

International definition of SMEs

- **250 employees, \$US50 million turnover**

SMEs in New Zealand:

- Defined by FTEs 19 or fewer employees
- 96% of enterprises in NZ, contribute 39% to national output

New Zealand Economy

- **GDP** **\$US73 billion**
- **GDP per capita** **\$US18,600**
- **Population** **4 million**

Options for Funding Small and Medium Enterprises

- Stock Exchange – Equity funding
- Borrowing from banks - Debt funding
- Venture Capital Funds – Equity funding
- Angel money
- Owner/operator funds
- Leasing/HP
- Etc, etc

Why Do SMEs List on the Stock Exchange?

- Access funds outside traditional funders
- Spread the risk of high growth strategies
- Marketable shares to acquire other companies
- Exit strategy for founding family members
- Increase corporate profile

The New Capital Market

NCM designed to provide:

A structured, cost effective and fast IPO (initial public offering) mechanism

Concept based on

Junior Capital Pool – JCP

- “Start-up” financing, invented in Alberta, Canada.
- A corporate structure whereby companies issued shares to the public before actually establishing a line of business.

New Capital Market in NZ

- Total 13 companies listed, all below \$10 million market cap
- 6 companies moved to the Main Board
- 4 companies remain listed on NCM, all below initial listing price of 50c
- 3 companies into receivership

NCM to be replaced in August 2003 by AX

Lessons Learned

- Structural issues – requesting investors for initial investment without knowing “key transaction”
Suitable for Alberta, but for NZ?
- Purpose - low cost to list
But new company without systems had to incur large costs to provide information ?
- Conservative brokers
Not willing to support high risk ventures ?

Lessons Learned

- Acceptance by Stock Exchange based on reputation of directors and management

But how was this assessed?

- Valuation assessed on potential rather than track record or sound analysis

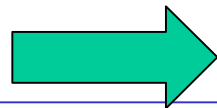
High risk and very subjective?

- Venture fund managers provide ongoing support; Stock Exchange lets market forces rule

Ongoing mentoring ?

Lessons Learned

- Entrepreneurs have exciting ideas
But is good business practice in place?
- Compliance requires sound business systems
Do small companies have skills, expertise and personnel to implement good systems?
- The timing of listing in a company's life cycle is crucial
Are small businesses forced to list to seek funding prematurely?



The new AX

Conclusions on NCM

- Continuous disclosure
- Best business practice
- Track record
- Sound core business
- Support of broking community
- Timing of listing
- Disciplines – disclosure, management, governance

Conclusions on NCM

- Integrity, accountability, transparency, Principles and business ethics to give credibility to reliable information
- Discretion for directors and management
- Cost of funding
- Continuous disclosure – volatility
- Structures tailored for each market