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Bucharest

BVB - Capital for Companies

Why Stock Exchange?

- It is customary that in Romania ambitious companies look for the following providers of capital:
 - Private equity funds or similar;
 - Strategic investors;
 - Banks for leveraging shareholders' equity;
 - Public investors through stock exchange;
- Each of them has its role in the economy; there are cases when one may be in a privileged position vs. others;
- These days, with all known constraints, the stock exchange might be **one of the few** sources of fresh capital for **selected** types of companies;
- BVB (Bucharest Stock Exchange) is capable of easily absorbing new equity issues in the range of EUR 10-60 mil.; recent experience with Transelectrica (EUR 36 mil.) is just a proof;
- At present, local institutional investors would see new quality issues of EUR 10-25 mil.; first issuers would maximize the chances of overall success at the best prices possible.

Comparative View

Availability of Funds

- Stock exchange vs. professional equity funds:
 - Funds may have limitations in allocation, regardless of opportunities;
 - By contrast, stock exchange could offer successive rounds of capital increase (e.g. initial public offering – IPO, followed by secondary public offerings –SPO);
- Stock exchange vs. strategic investor:
 - A company may not be ready to be ‘married’ to a strategic investor, or strategic investors are not yet ‘ready’;
 - In the same time additional **equity** resources may be needed to strategically increase the equity value, placing the stock exchange as the preferred choice;
- Stock exchange vs. banks:
 - Fundamentally a different type of financing, equity vs. debt;
 - Debt may be limited: leverage and/or risk of the company;
 - New debt may be prohibited within current environment.

Control

- Investors at a stock exchange require liquidity (e.g. free-float of min. 25%) and transparency of results and significant decisions; most often control is not an issue;
- By contrast, a strategic investor requires control in most cases.

Valuation

- It is subject to specific drivers, including profitability, growth rate, risks, control and transparency;
- Right timing (e.g. first IPO in the current circumstances) may improve valuation.

Investors' Preference

Ground criteria:

- Size
- Age in business and proven business model
- Sound strategy – relatively easy to grasp
- Scalable – new money turns into business expansion
- Favorable industry
- Mandatory profitable
- Leadership **and** corporate governance in place
- IFRS reporting in place

Fine-tuning criteria:

- Has a 'story' that attracts investors
- The IPO represents an intermediate financing step, not a major sell of current shareholders
- Size of the new issue – premise for subsequent liquidity
- Free-float min. 25%
- Adequate capital structure in place, before and after:
 - Leverage
 - Cash position
 - Dividend policy

The IPO Process and Players

- An IPO requires a real commitment and a consistent effort from shareholders, board and the executive management;
- Once a decision is made and basic requirements are met, a multidisciplinary team needs to be created, in order to help the issuer in preparing and carrying out the offering and the listing, which can include:
 - Key departments and management of the company
 - Investment banker (brokerage firm) – one entity or a consortium;
 - Independent external auditors;
 - Legal advisers of the issuer and of the investment banker;
 - Tax advisers (optional);
 - Investor Relations Agency (IR) / Public Relations (PR) (optional);
- Most companies where Private Equity Funds are already shareholders should not have major difficulties matching the requirements in a period shorter than the average.

Tentative IPO Timeline

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Plan	Board Decision, Kick Off					Reserve for delays
	Internal Assessment of the issuer, short presentation					
	Recruit lead manager, consortium, advisors, approx. 1 month					
Structure		External due-diligence (3-4 weeks)				
		Equity story, presentation, management training				
		Get financial audit ready				
Marketing		Prepare prospectus (12 weeks)				
		Presentation to research analysts				
		Pre-marketing, road shows				
		Prospectus approved				
Offer				Final preparations		
				Public offering (up to 2 weeks)		
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6

BVB and Securities Commission's Costs

IPO/Listing Fees owed to CNVM and Bucharest Stock Exchange		
Fees owed to CNVM (RON)		
	Initial	After closing the offer
Commission applied to the IPO value	0	0.10%
Approval of the Preliminary Prospectus	2,500	
Approval of the preliminary announcement ad	1,000	
Registration of the IPO-related securities	1,000	
Fee for maintainance to trading (per year)	350-4.000	
Fees owed to the Bucharest Stock Exchange (RON)		
Commission for the IPO Tier trade (applied to the seller in the IPO, applied to IPO value)	0.135%	
Fee for processing the listing file (exemptions applicable)	1200	
		<u>Tier I</u> <u>Tier II</u>
Fee for admission to trading (exemptions applicable)		11.100 - 21.000 3.600-7.500
Fee for maintainance to trading (per year, paid beginning 1 year after IPO)		11.100 - 21.000 3.600-7.500

What To Expect As A Listed Company

- It is advisable to have a dedicated **Investment Relations Officer**, who would act as a liaison between the company and the outside investment/regulatory community, on investment and legal issues;
- Alternatively, the tasks could be carried out by designated persons within financial and legal departments, possibly under the supervision of the CEO/CFO;
- It is also necessary to create a web site section that could be named Investor Relations with financial reports and other company' info;
- The company has reporting obligations:
 - **Quarterly** - release financial reports (desirable/optional in Romanian and English and along with analysts' earnings conference calls and investors' presentations);
 - **Annually** – release GSM' decisions and Annual Report;
 - **Occasionally** – Release Current Reports on price sensitive information (example: M&A projects, insolvency, buy/sale of assets representing more than 10% of total assets, major changes in ownership or management, major litigations and other);
 - **Occasionally** – meet investors or potential investors.

Conclusions

- BVB offers the right solution not only for a company's expansion capital, but also access to further opportunities and an enhanced strategic position on the market;
- For a successful IPO process, the company needs a set of 'ingredients' as well as a fully-committed management team;
- Costs involved in the process and after are worthwhile the benefits;
- Mandatory, investors expect the company to fulfill the projects taken on in the Prospectus;
- Transparency and predictability enhance considerably relationships with investors;
- A corporate governance in place ensures the long-term success as a listed company.

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