

Listing alternatives to a full IPO

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FAQs: What's in a listing for me?

Why list instead of staying private: What are the benefits of a listing?

Traditional benefits are easier access to wider capital raisings, credibility, higher profile, and improved liquidity as a result, on the basis of a long-term plan for growth. The annual cost comparison between a growth focussed sophisticated private company and a listed entity should not be significant, and would be substantially outweighed by the advantages.

With respect to capital raisings, a key benefit is having access to the "cleansing notice" regime, which becomes available 3 months after listing (maybe longer for reverse listing). Therefore, not doing an IPO, does not mean you forgo the ability to raise capital.

The advantage of the regime is that listed issuers can effectively rely on their continuous disclosure and financial reporting requirements to make public offers in New Zealand, if they confirm they are compliant with them (hence cleansing notice). This means that a full PDS, and the work associated with them, are not needed. Further, if structured as a renounceable rights issue, there is no size limit, and the cleansing notice liability regime is also not as extensive.

Is a listed entity better than a private entity to achieve growth?

A listed entity has a number of benefits that make it easier to achieve faster growth. These include that the listed structure:

- is efficient from a number of perspectives;
- provides flexibility in difficult periods (e.g. the various COVID capital raises);
- allows alignment of management team through incentive schemes;
- a liquid and transparent market enables better use of scrip as currency; and
- transparency tends to lead to better outcomes by improving credibility.

FAQs: What's in a listing for me?

Why should I list instead of doing a trade sale as an exit?

- Trade Sale Multiple determined at a discount to listed peers
- Trade Sale Buyer will likely be a listed entity who by definition cannot acquire unless the acquisition is at a discount to its trading multiple (EPS Accretive)
- Private Equity Option
 - Buy Low
 - Achieve 33% internal rate return through to exit
 - Exit via IPO
 - Control the Business/ Vendor/ Timeline
- To maximize value similar costs as IPO for trade sale
 - Audit
 - Forecast
 - Contract
 - Financial due diligence
 - Legal due diligence
- IPO event regarded as day one – look at exit value over 5 years
- Opportunity to add scale/ increase 'Arbitrage' on Day 1
- Maintain control – Management/ Board/ Outlook

Example: TIL Reverse Listing

	\$ million
TIL	100
Move	35
NZL	10
Costs	5
	150
'Arbitrage'	50
TOTAL	200

FAQs: Gatekeeping matters

We're not a big company, are we ready for listing?

You may have heard that entities that seek a listing tend to be at least NZ\$200m market cap. While this tends to be true for entities seeking a full IPO, the same does not necessarily follow for direct listings where the technical threshold is a NZ\$10m market cap.

The focus should instead be on whether the company has the people and processes (governance and financial reporting) in place like a sophisticated private company, such that it is efficient to list given its growth plan. As a rule of thumb, the ongoing cost of being listed should essentially be the annual listing and registry fees. So, in asking yourself if you're ready for listing, you should be asking:

- Do you have Independent Board members with governance experience, and an experienced senior management team?
- Do you have the people and processes to prepare and audit Tier 1 IFRS full year financial statements, along with unaudited half year financial statements?
- Do you have corporate governance mechanics in place that can be adapted to meet NZX corporate governance requirements, such as escalating material information to the Board, Board and Committee charters, a Code of Conduct etc.
- Have you considered your business' climate change risks and opportunities?

What if we don't have 100 non-affiliated shareholders?

If you don't meet this threshold, NZX will look for there to be an appropriate spread of shareholders to ensure a sufficiently liquid market. Options include capital raisings or major shareholder sell downs in the future, or liquidity support facilities. Therefore, it may still be possible to direct list if a credible path to shareholder spread can be shown, otherwise a reverse listing will be required (see further below).



FAQs: Listing timing and access to capital

Is the listing window open?

In terms of timing, it is true that the market has been quieter for IPOs, including on ASX. With higher interest rates, the upcoming election, and other disruptions it is harder for price expectations to be met. So IPOs are more likely in the first half of next year, but the exact timing is hard to predict – the trick is to be investor ready.

However, that is the market for IPOs. A direct listing is not out to raise capital, and so is less susceptible to capital markets in dictating listing timing. That said, to obtain broker coverage and secure greater liquidity requires a successful growth plan and to scale with time. So a listing needs to be part of that wider strategy and growth story for the company, and not an end in and of itself.

How accessible is capital for a smaller listed entity?

For a smaller listed entity, a balanced approach is generally more appropriate as the cost of raising capital tends to be disproportionately higher for small entities. This tends to result in debt being more favoured and is generally suited to direct / reverse listing activity. That said equity can be available at a price, but it is also important to note that the listed structure can be used to grow with scrip used as currency for acquisitions.

When should I be thinking about an ASX listing?

Practically, to make use of an ASX dual listing will require more significant scale (>\$250m market capitalisation) and substantive and long term engagement with Australian institutional investors to raise stock profile. Otherwise, the deeper capital pools and greater coverage prospects will not be realised, and an NZX only listing should be maintained.

FAQs: The listing process

What is actually involved in non-IPO listing?

There are two options, a 'Direct Listing' or a 'Reverse Listing', and we explain each below together with their pros and cons. Both options require a 'Profile Document' to be prepared explaining the company's business, its opportunities, and its risks, but there is **no need** to provide prospective financial information unlike in most IPOs.



Direct Listing

This option involves just listing your own entity.

- **Key advantage:** is cleaner and easier than a reverse listing, and there are no legacy shareholders of a prior failed business.
- **Key disadvantage:** unless the entity is already widely held or has arrangements to achieve shareholder spread post-listing, it will not meet shareholder spread requirements. Therefore, a reverse listing will need to be pursued.



Reverse Listing

A listed shell company with no existing business acquires a target in exchange for shares, and thereby lists the target.

- **Key advantage:** will meet shareholder spread requirement.
- **Key disadvantage:** if the target value is low compared to the listed shell, legacy shareholders will have more of the target business. So you give up more value. Further, due diligence on the shell will be required given its past, and legacy shareholders will be adopted.

Do I need shareholder approval to direct or reverse list?

In general, yes. Both options will require shareholder approval, albeit for different reasons.

- A direct listing may only require shareholder approval to update the company constitution to meet NZX requirements.
- A reverse listing will involve various shareholder approvals.

FAQs: The listing process

How much work am I saving by not doing a full IPO?

It is true that whether pursuing an IPO or direct listing, due diligence will be required to prepare the listing documentation (albeit direct/reverse listings have a lesser liability regime). However, the true cost saving is not having to prepare prospective financial information (i.e. forecasts). Preparing this information and properly vetting it requires significant management and adviser input. It is also the most likely area to attract liability if it transpires not to be based on reasonable grounds.

Once listed, an issuer can use the cleansing notice process to raise capital publicly, without preparing a PDS. As noted earlier, this process is more simple than preparing a PDS and the liability regime is also not as onerous.

We've prepared a PDS before, is direct listing Profile process different?

In short, no. The due diligence process is substantially the same between the two as the disclosure requirements do not substantially change and the NZX listing process is fairly straightforward. Prior processes should also yield efficiencies if they are recent.

However, a new difference is the introduction of mandatory climate reporting for entities that meet size thresholds. Therefore, the climate statements ultimately produced and Profile disclosures should align in their disclosure of material climate risks and opportunities, transition plans, and key assumptions thereunder.



FAQs: Day-to-day life as a listed entity

How much control do the Listing Rules have over my business?

The purpose of the Listing Rules is ultimately to protect minority shareholders. To achieve this, the Listing Rules have three key areas:

- **Disclosure** (continuous disclosure and annual / half year financials) and **governance** (Board composition etc);
- **Anti-dilution** (share issuances, buybacks and financial assistance); and
- **Related party** (material transactions with associated persons and $\geq 10\%$ shareholders, amongst others) and **major transactions** (change in nature of business or $>50\%$ market cap transactions).

This may sound like a lot, but day to day the impact is not significant. The matters directly regulated by the Listing Rules will not be happening on a day to day basis, such as issuing shares or having material related party dealings or transactions worth more than 50% of market cap.

The Listing Rules focus more on significant events, where a company would naturally have more compliance obligations. Therefore, your ability to transact and conduct business will not be inhibited by the Listing Rules.

I've heard that continuous disclosure is a burden, is that right?

The obligation only applies to and requires disclosure of 'price-sensitive' information (as a rule of thumb, information that is likely to move the share price by more than 5-10%). However, it is not absolute as there are safe harbours to disclosure, such as for confidential incomplete proposals/negotiations. While the company will need to have processes to filter information to the Board so it can assess whether disclosure is required, for a smaller listed entity the pool of material information is also likely to be smaller and more clear.

NZX Listing Requirements

Set out below are some of the key requirements of being an NZX listed entity. Where a potential issuer cannot meet spread requirements, NZX can consider if there are alternative spread arrangements e.g. founder sell downs to bring in new shareholders.



Market capitalisation

At least \$10 million.



Ongoing reporting

Issuers are required to release full year audited financial statements and half year unaudited financial statements, as well as climate statements if market cap / equities are worth more than NZ\$60m at the last two balance dates.

Issuers also have to comply with the continuous disclosure regime to ensure the market is kept informed on an ongoing basis.

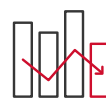


Board committees

Issuers are required to have an Audit Committee, which must:

- be comprised only of directors;
- have a minimum of three members;
- have a majority of Independent directors; and
- have at least one member with an "accounting or financial background"

The NZX Corporate Governance Code sets out further information on what type of board committees are considered best practice.



Investor spread

Unless appropriate alternative arrangements exist, securities are held:

- by at least 100 members of the public; and
- where those securities that are held by "members of the public" represent at least 20% of the securities on issue.



Board of directors

- A minimum of three directors.
- At least two directors must be ordinarily resident in New Zealand.
- At least two directors must be "Independent directors". It is recommended that this is a majority.
- The Chair should be independent, and should not be the CEO.



Constitution

Issuer constitutions are subject to prescribed content requirements, which can be either set out in the constitution or incorporated by reference.



Governance recommendations and reporting

Issuers will be required to report against their compliance with recommendations set out in the [NZX Corporate Governance Code](#).

