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Going small the route to going public

Companies listed on regional stock exchanges offer slices of emerging businesses, reports **James Dunn**

On a roll: Michael Sherlock says Brumby's Bakeries gets everything it needs out of the BSX Picture: Renee Nowytarger

MOST investors know it is a rite of passage of many smaller companies to "go public" — to list on the stock exchange.

What they may not know is that growing companies face the choice not only of whether to list, but also on which stock exchange?

Every investor would know of the Australian Stock Exchange, formed in 1987 from the six capital city exchanges.

But Australia actually has three other stock exchanges, with two being reconstituted this decade, and one opening earlier this year.

Two exchanges have been brought back into operation this decade. The first of these was the Stock Exchange of Newcastle (NSX), which reopened in March 2000 (it operated between 1937 and the late 1970s).

It was followed by the Bendigo Stock Exchange (BSX) — founded in the 1850s — which came back to life in mid-2001.

In January this year, the NSX listed on the ASX, and in April it took over the BSX.

The fourth stock exchange, the Australia Pacific Exchange (APX), opened in January.

The APX has only one stock listed, photo-luminescence technology and product developer Visionglow Global Limited (its other listing, Becton Property Group, moved to the ASX in July.)

All four exchanges compete for the listings of small-to-medium-size (SME) Australian companies.

NSX and BSX market themselves as "feeder exchanges", where SMEs can get used to the disciplines of a listed environment before eventually moving up to the ASX.

NSX has 37 companies listed, worth about $250 million, while BSX has 32, worth about the same amount.

Firms listing on NSX only need 50 shareholders, compared with 400 for the ASX, and a market capitalisation of $500,000, compared with $10 million for the ASX.

BSX listings need 50 shareholders and $500,000 of profit in the past three years.

The BSX has three boards: one for company stocks; one for property funds; and a third "community" board, for shares in co-operatives and companies that operate community banks in a joint venture with Bendigo Bank (it hosts 20 such listings).

Brumby's Bakeries managing director of Michael Sherlock spearheaded the listing of that company on the BSX in December 2003.

He says Brumby's wanted a marketplace where shareholders could trade their shares and where new capital could come in.

However, he knew an ASX listing would be cost-prohibitive for a company valued at less than $20 million and making about $2 million a year in profit.

"We were — and we still are — encouraged to go to the ASX, because we're a household-name brand," he says.

"We don't need to raise capital and we wouldn't qualify at this time for an ASX listing because we don't have enough spread — you've got to have 500 marketable parcels of over 3000 shares."

Sherlock says the company gets everything it needs out of the BSX.

"We're under the same discipline, we've got to apply all of the principles of corporate governance, and continuous disclosure."

Currently, the company is a tightly held, thinly traded micro-cap.

This is typical of companies listed on these exchanges, therefore investors implicitly take a higher risk compared with investing in a large (more liquid) stock listed on ASX.

Visionglow Global managing director Cedric Williamson is happy with the company's APX listing, for much the same reasons as Brumby's is with the BSX.

"We did a compliance listing, we raised $2000, and we did that with a word-processor document as a prospectus," he says.

"On the ASX we would have needed to raise $1 million, and the process — underwriting, prospectus, listing fee — would have cost us closer to $500,000."

Williamson says it is "a little bit more difficult" for investors to trade shares, as it can't be done online; but he claims the benefit is that the share price is less volatile.

Nor does being the only stock listed on the APX worry him.

In fact, he says, it has provided "good publicity and marketing attention".

"We're valued at about $15 million. Most companies of that size on the ASX are friendless."

That is, brokers don't research them and they are ignored.

Under the APX business model, a sponsoring broker must provide a high level of research support, before and after listing.

"We pay for that, but it means there is a lot of updated information on us available to prospective investors."

For these reasons, APX sees itself as a viable alternative to the ASX for companies valued at $20 million to $50 million, so may be a sector for investors interested in smaller companies to watch.

"About 60 per cent of companies on the ASX by number are valued at less than $50 million," APX general manager of operations Warren Lester says.

"It's impossible for most of them to get on the radar of brokers, and thus investors. Nobody knows they're alive.

"We believe APX can be a more efficient market for those companies, because the business model is very information-rich for investors."

NSX chief executive Michael Cox says its plan, having taken over BSX, is to have the NSX for CHESS-registered companies, and the BSX for certificated companies — those that retain paper share certificates.

"Essentially, we expect NSX to act as a feeder exchange for the ASX."

SMALLER EXCHANGES AND MAJOR LISTINGS

Newcastle Stock Exchange
Major Stocks
Bidgee Financial
Betta Electrical
Pioneer Permanent Building Society
Pacific Turbine Brisbane
Sugar Terminals
Active Brokers
Findlay & Co.
Macquarie Equities
Martin Place Securities
Pritchard & Partners
Reynolds & Co.
Tonkin Scorer Menzies
ABN AMRO Morgans
Bell Potter
Cameron Stockbrokers

Newcastle Stock Exchange
Major Stocks
Brumby's Bakeries
Capilano Honey
Queensland Paulownia Forests
APN Regional Property Fund
FPA Diversified Property Trust
Active Brokers
AAA Shares
ABN AMRO Morgans
Stratagem Financial Group

Australia Pacific Exchange
Active Broker
Austock Securities