



DEVELOPING REGIONAL STOCK EXCHANGES

*The National Stock Exchange (NSX) has been formed from the Newcastle and Bendigo Stock Exchanges. Itself listed on the ASX, the NSX is aiming to work with local business groups and councils to establish regional exchanges which will match providers and users of capital in the SME market. By **Richard Symon***

I spoke recently at the Local Government Economic Development Conference in Melbourne about the formation of the National Stock Exchange (NSX) and the opportunities that exist for local exchanges to be formed as sub-exchanges under the NSX.

From the response that I received, and in subsequent discussions, it is clear that this strikes a responsive chord with many people involved in promoting and assisting businesses at the local level. Economic Development Managers within councils often work very closely with their local business chambers and it is apparent to me, as it is to them, that there is a real problem which is a lack of a financial mechanism to easily allow capital providers – often successful business owners who have retired or are close to retirement – to provide funding for growing businesses within their region.

The lack of such a mechanism often means that capital will leave the area for investment in listed companies on the ASX or in other investments such as property trusts.

The benefits of developing local exchanges in partnership with councils and bodies that support regional development, allows regions to:

- promote the growth of their SME business sector
- promote the growth of community-based organisations
- support regional economic sustainability
- introduce local businesses to local investors via local business advisers
- provide a consolidated view of regional investment opportunities, and
- create a forum for educating local business about the benefits of an IPO.

The SME business sector represents 95 per cent of businesses. It is estimated that 880,000 SME businesses are worth over \$3.5 trillion (RMIT), and of these, 91,000 turn over between \$1-10m annually, representing 12 per cent of Australian GDP (Ibis World Research). The SME sector in regional economies is often significant both in number and also in contribution to regional employment levels. Strategies that encourage growth of this sector are often highly complementary with the economic development policies of councils and regional development bodies.

The National Stock Exchange is a fully operational and fully regulated main board stock exchange. It is focused



Richard Symon, CEO of the National Stock Exchange

on listing SMEs as there is a great need for growth companies to have a capital market where they can raise further capital. NSX operates Australia's two premier alternative stock exchanges. The NSX Corporate Exchange (www.nsx.net.au) specialises in the listing of SMEs and the NSX Alternative Exchange (www.bsx.com.au) has attracted the listing of community-based organisations such as community banks. Both of these exchanges are able to support the listing of regional enterprises.

Regional Exchanges can only be to the advantage of regions and to successful businesses looking to grow and expand and to local investors seeking the opportunity to invest their dollars locally.

Regional Exchanges may also provide solutions to other regional challenges as illustrated by the development of the Victorian Taxi Market which was engaged by the Victorian State Government to provide a centralised, regulated and transparent trading system for the transfer and assignment of Victorian Taxi Licences. Other regional issues such as water scarcity may see the concept of regional markets further developed through the regional Exchange model.



Wollongong Exchange

In October last year, NSX established its first Regional Exchange, the NSX Wollongong Exchange, as a partnership with Wollongong City Council and the Illawarra Business Chamber. This partnership has seen the creation of a sub-market of the NSX (www.wollongongexchange.com.au), to facilitate the public listing of companies based in Wollongong and the surrounding regions.

For local SMEs, the NSX Wollongong Exchange offers solutions to problems that many growing companies face, including: funding succession planning; enabling maintenance of control; accessing capital (particularly when additional debt is inappropriate and venture capital too difficult) and placing a transparent market value on a business. The local exchange also creates a central forum for local businesses to be introduced to local investors, and is a highly effective method of raising local capital.

Solutions for Businesses

There are many common myths that surround listing a business as a public company. Many businesses make the assumption that a public listing is beyond them or not relevant to their needs and that the process is cumbersome and cost prohibitive. These assumptions are often misplaced.

For businesses driven by succession issues for example, the Exchange provides an opportunity for its owners to create a strategy that permits their gradual exit with the release of capital to them. By admitting additional shareholders, business owners can realise their capital without having to sell up or close down, and this does not have to involve a loss of business control. As only 25 per cent of the shares are required to be held by the public, business owners as majority shareholders can still

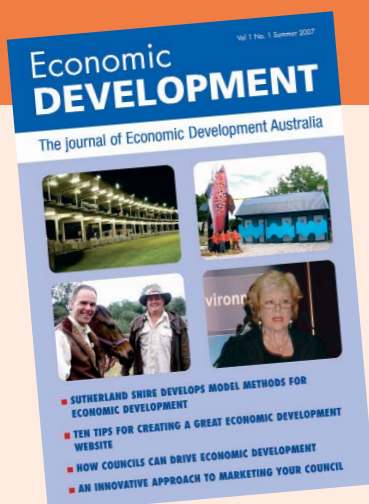
maintain a controlling interest in the listed entity. Businesses can also introduce employee share ownership in such a way that business control is preserved.

For growing and innovative companies, the NSX provides another potential mechanism to raise capital along with debt, private equity and venture capital. As the NSX market is designed for SMEs, its entry criteria are set at levels that SMEs can meet (minimum market capitalisation is \$500,000 to list on NSX, and the minimum number of shareholders is only 50). Similarly, the cost structure for an NSX listing has been targeted at SMEs and therefore the cost is usually not such a big barrier to listing as many imagine. For many businesses, the best potential source of capital will be investors within their own region, and by working within the region with advisers and brokers, a local Exchange provides a platform for local businesses to connect with local investors, and that means the region investing in itself.

NSX invites further discussion with regions where the creation of a local Exchange complements regional economic initiatives and where regional stakeholders ie SMEs, Advisory firms, Business Chambers, Business organisations, Business Clusters and Innovation Centres are willing to become partners in developing a Regional Exchange.

Richard Symon has recently been appointed CEO of NSX Ltd. Prior to joining NSX, he was the CEO of the Property Investment Association of Australia Ltd. His career spans stockbroking, corporate advisory, capital management, initial public offers (IPOs), mergers and acquisitions and professional development of industry participants.

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