THINKING OF GOING PUBLIC?

1.0 EXECUTIVE SUMMARY

Companies are constantly seeking for growth and expansion so as to increase shareholders' value. Listing of company's shares or simply going public is one of the ways through which companies can achieve their growth objectives at a lower cost. Taking loan will in most cases costs more than public offering. Going public require time and of course some money but the advantages of going public have been proved to be of value adding to the company in a long run. This paper intends to give an overview of the IPO and listing Process and should not be taken as an advice to the IPO and Listing process. For more information please contact the Tanzania Securities Limited Advisory Team.

Companies which seek for a higher growth, or which wish to enhance their profile and visibility would definitely want their shares to be listed and traded on an Exchange. Some companies may opt for external finances such as bank loan - which involves internal stretching in terms of cash flow, and cost cutting to enable them serving the loans. Bank loans expose shareholders to more risk due to higher leverage. Capital market on the other hand provides a way through which company can raise capital through Initial Public Offer (IPO) to finance large projects without increasing their debt and distort their cash flow or without shareholders having to take more risk.

Trend in East Africa shows that firms are now going for equity finance rather than bank loans which most of them have been of short term finance. Currently there are 18 listed companies on the Dar es Salaam Stock Exchange (DSE) with a total market capitalization of about TZS 16,464.30 billion (DSE report, 31st Dec 2013). This represents a growth of about 236% from TZS 4,895.47 billion reported on 31st December 2010. Nairobi Securities Exchange has over 50 companies listed with market capitalization of over TZS 37,2334 billion (NSE Report). Investors have managed to pocket in billions of money as a result of price appreciation of their holdings. The growth in value could not have been easily measured if the shares were not listed on the Stock Exchange. The listing of shares on the Stock Exchanges enables investors to know the value of their holding and provide them with an easy exit mechanism should they wish to do so.

The improvement in transparency through reporting has enabled companies to improve their business relationship with customers, suppliers and even government agencies. However, before going public Issuer has to evaluate their company and future potential from an investor's perspective. Issuer should be ready to undertake the process and comply with after listing obligations.

2.0 ADVANTAGES AND DISADVANTAGES OF LISTING

Being listed on a stock exchange has many advantages that a business owner of any size might consider as part of a business's strategic plan. Moreover, when expansion and leveraging are on the business agenda, stock exchange listing can cast a wider net into the capitalization pool i.e. the potential sources of equity funding. In business every decision has its disadvantages but if the advantages outweigh the disadvantages we are always better off.

2.1 Advantages of listing

The following are some of the advantages a company can obtain from listing its shares on the Exchange.

2.1.1 Access to capital

Going public provides opportunity for growth and expansion of business by offering a wider range of sources of capital. A company may want to finance key acquisitions, retire existing debt, buy out existing shareholders, open up more branches, invest in research and development, or move into larger and more diverse markets.

2.1.2 Improved financial status

Listing enables company to increase its base and creates more leverage for financing growth. It also improves the company's debt to equity ratio, which can help the company to borrow additional funds as needed and at more favorable terms.

2.1.3 Higher visibility - enhanced profile

Going public involves selling of shares to a wide range of individuals and corporate through Initial Public offering (IPO). The distribution of shares to a wider, more diverse investor base can create greater public awareness of the company's products and services. The visibility gives a company more competitive advantage over privately held companies in the same industry-investors will normally tend to buy services/products of their own company. The higher visibility through listing can make it easier for the company to expand nationally or internationally.

2.1.4 Higher Valuation

Listed companies have chances of achieving higher valuation than private enterprises because of the greater disclosure of information and improved governance which reduces uncertainty around performance and increases value. For instance compare the value of listed Banks against those which are not listed.

2.1.5 Provides Exist window

When a company is listed its shares can be bought and sold on the Exchange. That is the shares can exchanges hands without restrictions. This feature provides a potential exit strategy and liquidity for strategic investors, owners and (or) shareholders who wish to diversify or ripe the benefit of the higher valuation.

2.1.6 Increased employee motivation and retention

A listed company can provide an enhanced stock-based compensation strategy for attracting and retaining managers and key employees. A stock-based compensation plan is a way to give employees an opportunity to share in the financial success of the company through an equity compensation component.

2.1.7 Enhanced wealth and liquidity for the owner

Creation of a public market for company's shares increases liquidity, and provides a market benchmark for calculating the wealth and net worth of shareholders. Subject to Capital Markets and Securities regulations, a company may sell its shares through IPO and list them on the DSE. Since the market value of shares will then be publicly known, owners can use their shares as collateral for bank loans. Several banks in Tanzania and now accepting listed shares as collateral.

2.1.8 Lower reliance on venture capital firms and debt financing

The potential for increased capitalization through wider market exposure may also reduce the need and reliance upon alternative sources of funding such as venture capital firms. This lower reliance for alternative sources of financing may improve negotiating leverage when obtaining financing from venture capital firms whether it be through less liability protection as determined by the stock ownership terms or lower cost of capital. In other words, if the market exposure gained through listing is positive, the effects on financing can also be positive.

2.1.9 Improves accountability of the board, transparency and Corporate governance

A listed company will be required to comply with acceptable principles of Corporate governance. Management will also be required to publish report about performance of the company making its operations more transparent. The Directors and officers of the company will be subjected to increased fiduciary duties and responsibilities.

2.2 Disadvantages of Listing

2.2.1 Increased scrutiny and accountability

Listing may cause the company to disclose some information relating to business operations, competition, executive compensation, material contracts, and litigation matters which may be sensitive. However, the decision to list may put a company in a more advantageous position compared to its competitors who are not listed.

In addition, the management/board will be under constant pressure to meet market expectations and explain the decisions made and actions undertaken to the company's' shareholders and different players in the market.

2.2.2 Require time and resources

Going public creates some new reporting requirements, including publishing annual and interim financial statements. Conducting Annual General Meetings and distribution of reports to a large number of shareholders may add up some cost to the company. Nonetheless, the countries the use of technology has made distribution and publishing of reports easier and less expensive.

The Listing process involves the use of various advisers and professional who will charge some fee for providing the services.

2.2.3 Reduced flexibility in decision making

Corporate decision making for major activities, which may have been informal and flexible, will now require approval of the board of directors and shareholders. Obtaining director or shareholders’ approval can be a lengthy process.

For example, if a special shareholder meeting must be convened, appropriate advance notice must be provided to all shareholders and proxy-filing requirements must be satisfied. The management team must consider the public shareholders’ rights in any major decisions.

2.2.4 Volatility of Share price

Company's share price may go up or down depending on the information available to investors and their perception about the future performance of the company. Management may be aggrieved by a price fall (if it happens) and shareholders may impose queries to the board and management as to why the share price falls. Nonetheless, the work of management is to deliver earnings, i.e. maximize earnings. The price of the share will be determined by the market which depends on the level of demand and supply as well as the efficiency of the exchange. Managers of company usually have little control over share price.

3.0 INITIAL PUBLIC OFFER AND THE LISTING PROCESS

Listing process starts from obtaining shareholders/board approval, writing prospectus, doing analysis and submitting the prospectus to the regulator for approval. In general the listing process follows the stapes below:

Preparation of the IPO	**Preliminary Valuation**	**Analyst Presentation**	**Investors Education**	**Book building**	**Aftermarket**
→					
Engage Lead Adviser	Set Initial Valuation range	Completing due diligence	Publication of research	Management road show	Investor relations
Engage other Advisers	Existing shareholders' view of the price and size	Writing Presentation	Target key investors	Investors' meetings	Reporting
Kick-off meetings		Analyst briefing	Analyze feedback and resize the offer		Continuous obligations
Due diligence					
Writing Prospectus					
Corporate Housing					
Management and Advisers		**Regulator, DSE and Lead Adviser**		**Management, Potential Investors, Media**	

3.1 Duration of the Listing process

The length of the IPO process, from the day the management engage advisers to the day the IPO transaction is closed vary significantly. The timeline will depend on several factors, including how well the whole process is planned, the experience of the Lead Adviser, Company's management team, and the professional advisers involved in the process. The time taken by the regulator to approve the Prospectus will depend on the compliance level to which the Prospectus is prepared and the extent to which the company complies with listing requirements. In this regard, the IPO transaction may take between 2 to 3 months.

3.2 Listing Requirements

The following are some of the key listing requirements.

	Some of the Listing Requirements under Main Investment Market (MIM)
1	**Issuer to be duly constituted** Duly incorporated as a public company under the law of United Republic of Tanzania (URT) or in other jurisdiction whose laws have similar requirements to that of the URT. MEMARTS should permit issuing of shares to the public.
2	**Minimum Paid Up Capital** A paid up capital at least TZS 500 million
3	**Minimum Value of Securities to be listed** An applicant must list securities with the value of at least TZS 2 billion (for first listing). DSE may admit securities of a lower value provided that they are satisfied that adequate marketability of the securities can be expected.
4	**A Company's Period of Existence** A company must have published or filed annual accounts covering a period of three years preceding application for listing. In exceptional cases, the DSE may accept a shorter period if that is desirable in the interests of the company or of investors and the Council is satisfied that investors will have the necessary information available to arrive at an informed judgement on the company and the securities for which listing is sought.
5	**Financial Information** ▪ The annual accounts must have been drawn up in accordance with the Companies Act, 2002 and must be prepared and independently audited in accordance with the standards regarded by the DSE as appropriate for companies of international standing and repute. ▪ Indication of compliance with this requirement would be accounts prepared, in all material respects, in accordance with Tanzania Financial Reporting Standards or other standards as may be prescribed by NBAA and Auditing Guidelines published by the National Board of Accountants and Auditors both of which incorporate International Accounting Standards. ▪ The auditors must have reported on the accounts without any qualification which in the opinion of the DSE Council is material for the purposes of listing.
6	**Audit Committee** The applicant company must have in place an Audit Committee established as per the CMSA Guidelines on Corporate Governance for Listed Companies.

3.3 List of Advisers Involved in the IPO and Listing Process

Adviser	Function
Lead Adviser	Arrange the IPO transaction and coordinate activities of other advisers.
Sponsoring Broker	A licensed dealing member of the Dar es Salaam Stock Exchange. Advise the Issuer on compliance with the Prospectus requirements. Submit application for approval of the IPO and listing to the regulator, DSE and maintain continuous communication with the regulator during the evaluation process. Coordinate the marketing of the offer to potential investors.
Legal Adviser	Undertake a due diligence investigation to establish whether the company is a legal entity having the required licenses to carry out the business; and whether has the board's approval to undertake the IPO. Provide opinion on the extent of compliance and other legal aspect of the transaction. Review of material contracts, legal documents-titles, pending litigations, existence of valid licenses; check compliance to companies Act, CMS regulations and DSE rules.
Lead Receiving Bank	Maintain the account dedicated for the collection of funds during the selling of shares and provide feedback on the subscription level. May act as collecting agent through its wide spread network/branches. Make payments to advisers and the net amount to the Issuer.
Reporting Accountant	An audit firm licensed by the NBAA. The firm provides independent opinion on the financial statements to be included in the Prospectus. Normally the Reporting Accountant is a separate firm (different from the financial statement auditor).
Underwriter (not mandatory)	Provide the issuer with the required fund should the subscription fall below the targeted amount. This will depend whether or not the issuer chose to engage the Underwriter.

Tanzania Securities Limited
Stock Brokers | Investment Advisers | Fund Managers

7th floor IPS Building
email: info@tanzaniasecurities.co.tz
Tel: +255 22 2112807