

Listing on the Belgrade Stock Exchange Belgrade

A guide to listing equity securities on the Belgrade Stock Exchange



Thinking of raising capital on the Belgrade Stock Exchange (BELEX)?

The Belgrade Stock Exchange, as an organizer of regulated marketplace and multilateral trading platform, represents a part of regional marketplace of Central and Eastern Europe. In order to secure protection of interests of investors, as well as other members of the market, activities of the Belgrade Stock Exchange are aimed at ensuring fair, efficient and transparent trading of securities on the Serbian capital market. Activities of the Belgrade Stock Exchange are regulated according to the laws regulating functioning of the capital market, numerous by-laws and internal business rules. Republic of Serbia Securities Commission performs direct supervision over the activities of the Belgrade Stock Exchange. The Stock Exchange ensures infrastructure and formal conditions for matching of interest for buying and selling of specific securities, thus enabling transparent determination of a fair trade price of financial instruments.

In order to ensure the highest quality services for all players on the market, the Belgrade Stock Exchange continuously works on improving BELEXFIX trading system, business processes, internal rules and procedures, while special emphasis was put on development of cooperation with leading global and regional exchanges.



Strengths

- Transparency, efficiency and liquidity
 - Broad investor base
 - High operating standards and strong legal framework
 - Fast, flexible and secure transaction system
 - Easy, automated clearing and balance process
 - Competitive commission and low trading costs
 - Listing criteria adjusted to the local companies needs
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Why go public?

Initial public offering (IPO) refers to the process of offering equity shares of a company for the very first time to public, i.e. a broad group of potential investors. This is a turning point in the development of a company, by which a company starts a new phase in its life cycle. This implies a big step forward in terms of further intensity, growth dynamics and business development, all initialized with the owner's decision to offer part of the ownership to investors.

When selling shares through initial public offering, share capital of the company increases, which is necessary for financing organic growth of the company and further business development. However, IPO represents much more than a simple process of raising capital. It is about transforming a company into a public stock company that trades its shares on the stock exchange. This is a high-profile transitional process that leads to improvement of governance process and operations, as well as implementation of a new system of values, thinking patterns and activities aimed at the long-term growth, development and prosperity from all operational aspects. Besides raising capital through IPO, this process can be used also for selling existing shares of the company, which enables current shareholders to offer their share of the company for sale. This way, current shareholders solve the problem of inheritance and can exit the company, while at the same time securing that the company continues operating and developing, under the control of different owners. The existence of dispersed ownership structure, as well as the difference between ownership and management functions, enable companies to continue their operations and development.

Debt vs equity?

Before deciding to go public, it is necessary to carefully consider financial strategy of the company regarding the definition of the optimal capital structure. Only after formulating such a strategy, it is possible to make decisions regarding the company's further development and sources of finance. If the company decides to finance its future business through offering securities, there are two available options – bonds issue (leveraging) or shares issue (capital increase).

When financing through share issue, there are no liabilities and repayment period for the capital raised, meaning that the capital raised through share issue does not have to be repaid to investors, but investors decide on their own if they are going to sell their shares on secondary market and thus retrieve the money, or hold shares for a longer period of time. Besides mentioned advantages being flexibility, reputation enhancement and company credibility, it is necessary to consider possible additional liabilities, which come together with share issuance and which need to be considered at the beginning of the whole process.

Benefits of IPO:

- Alternative capital raising process for financing capital intensive projects regarding the modernization of production processes, new products development, expansion and conquering new markets, new equipment purchases, capacity building etc.
- Capital raised is not considered liability and is not encumbered by debt principle and interest payments
- Easier and faster access to sources of finance in the future
- Increased liquidity of shares for existing shareholders
- Enhancing the company's reputation and credibility, increased visibility of the company
- Coherent corporate structure and transparency of operations
- Brand visibility has a direct effect on attracting and retaining managers, employees

+ SHARES ISSUE

- Theoretically, unlimited access to sources of capital
- Improved reputation of the company
- Enhanced credibility with business partners

+ BONDS ISSUE

- Deadlines for debt principle and interest payments defined in advance
- No collateral required in some cases
- Periodic interest payments with principal repaid at maturity

- Higher reporting requirements
- Right for new shareholders to participate in shareholders assembly
- More requirements on transparency of operations and higher level of regulation
- High rate of return expected by investors

- Only financing of specific projects is possible
- Coupon may be sometimes higher than interest on bank credit, plus high issuing costs
- Liabilities in relation to bond issuance can not be postponed in case of poor performance of the company
- Bondholders do not have management rights in the company

IPO process

In order to conduct a successful and efficient implementation of public offering, it is necessary to transpose clearly defined objectives into an action plan for the implementation, together with definition of a timeframe necessary for successful implementation of each phase and activity. Properly structured action plan can lead to significant savings in terms of implementation time and necessary expenses of the whole process in later phases. It usually takes between six and nine months from making the formal decision to go public, to the date of the shares listing. IPO requires taking a number of legal and other steps in order to facilitate organising the IPO process.

Issuer's preparation	Public offering preparation	Public offering execution and listing
<ul style="list-style-type: none">• IPO decision• Initial legal steps, defining offer structure and planning of allocation of raised resources• Advisors' selection• IPO diagnostic and conducting necessary changes in the company	<ul style="list-style-type: none">• Defining so called "Equity story", based on business operations and issuer's development plan• Preparation of Issuer's Prospectus• Final decision on offer's structure, size and timetable• Legal steps (i.e. Decisions of Shareholders assembly)• Preparation of the reports for analysts and brokers	<ul style="list-style-type: none">• Public offer (promotion in front of investors- roadshow, bookbuilding)• Shares registration• Admission to the stock exchange and listing

Equity story

The success of the IPO is largely defined by the existence of perspective growth plan and improvement of company's operations (Equity story), which clearly and unequivocally indicate why should investors invest in company shares. Equity story goes far beyond simple presentation of a strong balance sheet, financial position, growing revenues and profits, and new product ideas.

Equity story must be a coherent and compelling message showcasing the company's mission, growth strategy and advantages compared to competition. It should clearly identify and explain unique features of the company and articulate objectives of the offer and purpose of the raised capital, as well as the way in which the future investors will benefit from it.



Whom to involve in your listing process?

Conducting public offering, developing an equity story, drafting the issuer's prospectus and obtaining the approval from regulatory bodies, require the support of a team of experienced specialists. The team composition should be decided as soon as possible, preferably immediately after making the decision to go public. It will help to avoid problems that could delay the whole process and, consequently unnecessarily increase costs. Selection of a good team of advisors is one of the key factors determining the IPO's ultimate success.

Auditors:

Audit / review of financial statements
Report on profit forecast
Financial business plan
Support in preparation of the issuer's prospectus
Additional reports addressed to the issuer / authorized bank (comfort letters, other reports)

PR Advisor:

Promoting IPO
Communication strategy

Legal advisor:

Legal due diligence
Preparation of corporate documents
Support with legal aspects of an IPO
Preparing key parts of the issuer's prospectus
Advices in the regulatory approval process
Advisor in the process of issuing new shares

Authorized bank / brokerage house / underwriter:

Financial due diligence
Coordination of promotional activities and offering to institutional and other investors (book building)
Drawing up the unique prospectus
Placement of shares to investors and settlement of the transaction

Financial / strategic advisor:

Pre-IPO analysis
Support in developing strategy and equity story
Coordinating other advisors' work and the IPO process as a whole
Post-IPO support for continuing obligations

Issuer's Prospectus

Issuer's prospectus is a document which has all the relevant information about the company and securities which are going to be issued during the IPO, which enables investors to conduct objective estimation of assets and liabilities, financial health, business results and potential for future growth. Prospectus is a document that gives a well-rounded picture of company's operations, as well as the purpose of the funds collected during the process of initial public offering.

Preparing and getting the prospectus approved by the regulatory authority is a prerequisite for launching the initial public offering.

The issuer is responsible for the completeness and reliability of information in the prospectus, and must include all information that is essential for a potential investor to make an investment decision.

CONTENT OF ISSUER'S PROSPECTUS

Summary

Risk factors

Registration document / registration part comprising information relating to:

- Issuer's financial standing and financial results
- Business operations and issuer's history
- Issuer's organizational structure
- Management and key employees
- Shareholders
- Key contracts / agreements
- Capital reserves
- Dividend policy

Offering document / offering part comprising information relating to:

- Shares offered
- Principles of shares admission to trading
- Terms of the offering
- Offering costs
- Use of the capital raised

Appendices

Prime, Standard or Smart Listing?

Companies that wish to list on BELEX, depending on their size, degree of development and need for capital can choose to list on the Prime, Standard or Smart Listing segments.

The company decides which segment listing it should apply for with the help of chosen advisors, where higher segment listings bring about bigger commitments, but also a wider investor base and better company reputation in the market.

	Prime Listing	Standard Listing	Smart Listing
Business operations	Minimum 3 years	3 years (or less under circumstances prescribed by Law on capital market)	3 years or less
Opinion of the authorized auditor	Unqualified opinion	Unqualified or qualified opinion	Unqualified or qualified opinion
Business result	Positive	-	-
General conditions during the period of listing	Minimal capital required for listing		
	EUR 3 million Issuer's webpage - created both in Serbian and English language	EUR 2 million	EUR 1 million
Special conditions for shares and depository receipts on shares of issuers	Report on the audit of the Annual Financial Report with expressed unqualified or qualified opinion		25% of total shares issued in the free float Minimum amount of market capitalization EUR 150 K
	<p><i>1. 25% of total shares issued in the free float or alternatively:</i></p> <ul style="list-style-type: none"> - Shares of minimal amount of capital of EUR 1 million in the ownership of at least 250 shareholders - Shares in the ownership of at least 500 shareholders <p><i>2. That the dividends per preference shares have been paid, if issued - in the way prescribed by the decision on their issue</i></p> <p><i>3. The minimal level of market liquidity of share or alternatively:</i></p> <ul style="list-style-type: none"> - The average value of daily turnover min. RSD 500,000 - The average daily number of transactions – min. 5 (five) - Agreement on market making operations conclude - More than 1,000 shareholders - Shares of minimal amount EUR 2 million in "free float" 		
Special conditions for debt securities	The issuer hasn't operated with a loss at the last annual financial report		- Only shares and depository receipts on shares can be listed
	The value of the issue		
	At least EUR 3 million That the issuer's account has not been blocked in the last 180 days	At least EUR 1 million That the issuer's account has not been blocked in the last 60 days	

Continuous reporting requirements

The issuer whose shares have been admitted to listing shall undertake actions to meet requirements of increased transparency and quality of disclosure to the public, and shall execute its disclosure obligations duly and in a timely manner and shall timely deliver to the Exchange all reports and other information that have impact on trading in given securities, in accordance with the Law on Capital Markets, By-Laws, rules and regulations of the Exchange.

Key continuing obligations binding for BELEX regulated Market issuers and relating to financial information, Issuer's profile and corporate governance reporting are summarized below.

Report name	When	Note
Annual Report	until 30 th of April	Available to the public for a minimum of 5 years on the company's website Financial accounts – audited
Semi-Annual Report	until 31 st of August	Available to the public for a minimum of 5 years on the company's website No obligation to review/audit
Quarterly Report	until 15 th of May until 15 th of August until 15 th of November	Available to public for minimum 5 years on the company's website Report for 4th quarter not required No obligation to review/audit
Issuer's Profile	until 31 st of March	At least once a year, updated with the financial data for the previous business year
Corporate Governance Practice Questionnaire	until 30 th of April	

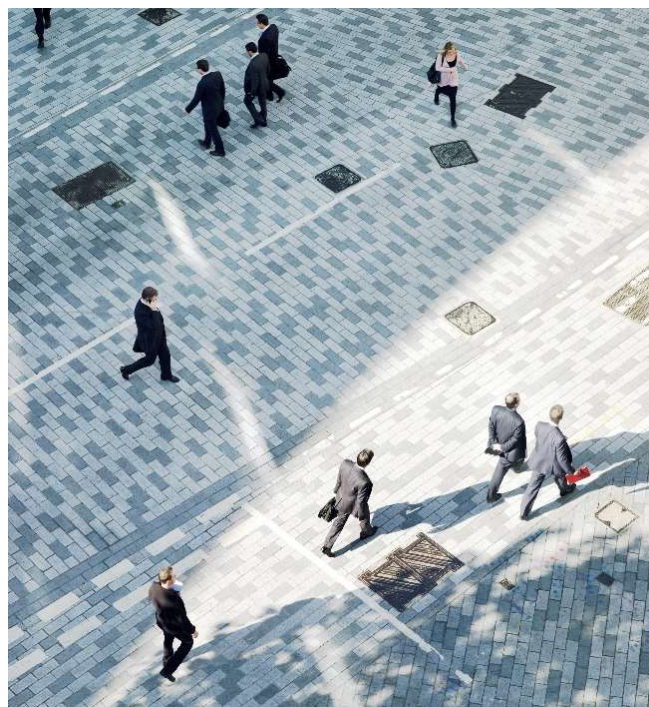
In addition to regular reports, information, decisions and other prescribed data on which it reports as a public company whose securities are included in the regulated market the issuer have to deliver:

(i) In case of circumstances that could significantly affect business operations of the issuer and the price of securities when circumstances are not generally known to the public, the issuer shall inform the Exchange of such circumstances without a delay,

(ii) Report on the meeting of issuers' authorities at which decisions were made on: financial reports (unaudited and/or audited, unconsolidated and/or consolidated); annual reports, semi-annual reports; quarterly reports for the first and third quarters of the current operating year; payment of dividend and interim dividends (including the proposal on which competent body is deciding on); changes in the issuer's capital; acquisition/disposal of treasury shares,

(iii) Additional reports and information at the request of the Exchange in case when the Exchange estimates that it is necessary in order to provide fully and timely information to the investment public,

(iv) Other reports and information specified in the contract which issuer has concluded with the Exchange.



Corporate governance

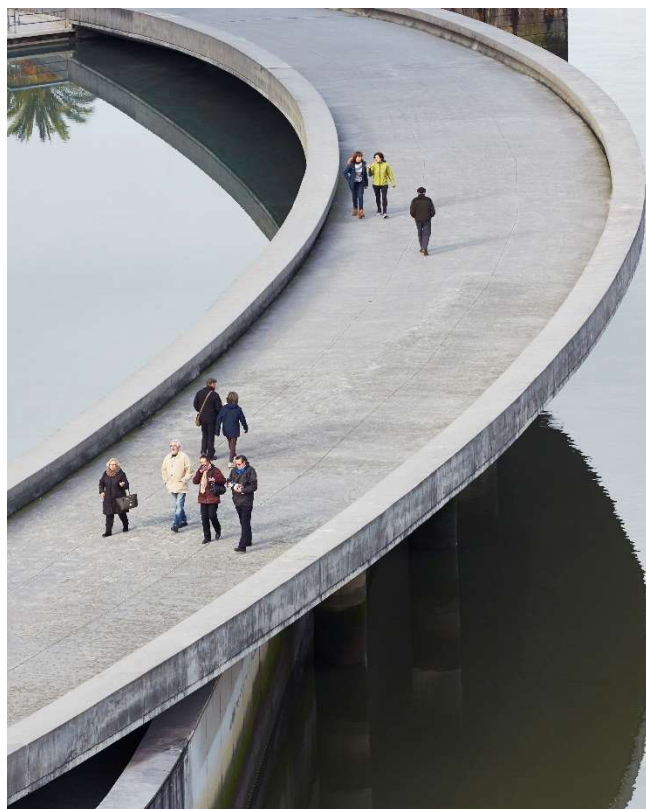
A process of investment decision making on a modern securities market is almost impossible without a broad implementation of corporate governance quality indicators. Namely, clearly defined corporate relations and procedures in accordance with the best-practice principles are recognized by investors as factors defining the level of protection of their interests; as such, they play a significant role in the process of investment risk assessment. Therefore, it is in the best interest of all private entities that wish to utilize the full potential of capital markets to continuously improve relations with investors and strengthen their trust in the issued securities.

All stock exchange listed companies are obliged to adhere to the Code of Corporate Governance, as defined by the Belgrade Stock Exchange, or apply another organisation's code of corporate governance.

In order to enhance their attractiveness and competitiveness, listed companies are encouraged to comply with best practices as defined by the Belgrade Stock Exchange. The "comply or explain" principle applies, meaning that a company is obliged either to abide by the rules or clearly inform the market of specific corporate governance guidelines it does not follow and why.

Selected best practices for BELEX – listed companies

- Companies should adopt their own Code of Corporate Governance (or apply a code developed by another organisation).
- Companies should clearly define dividend policy and the procedures and deadlines for its distribution.
- A mechanism for prevention and settlement of possible conflicts between its shareholders and the company should be established.
- Shareholders should be enabled to exercise their rights to unrestricted participation in the Shareholders' Assembly activities and decision-making.
- A transparent and publicly available remuneration policy for the Board of Directors members should be adopted; remuneration of the Directors should depend on their contribution to attaining corporate financial and non-financial results and business goals.
- The external auditor should attend the meetings of the Shareholders Assembly where the reports on performed audits and company's financial reports are reviewed.
- A company should have a clearly defined and publicly accessible disclosure policy which defines principles, rules and procedures of reporting to shareholders, relevant authorities, public, and other interested parties.
- All relevant investment information should be published in English language (besides in Serbian).



*based on BELEX Questionnaire on corporate governance practice for issuers

About the IPO Go! Project

Serbia: IPO Go! is a Belgrade Stock Exchange project financed by Special Shareholders Fund of European Bank for Reconstruction and Development (EBRD) and implemented by PwC.

The goal of this project is to support capital market development in Serbia by raising awareness on the possibilities that companies from Serbia have in raising capital via listing on the Belgrade Stock Exchange, as well as providing the necessary expertise for companies to list on the Stock Exchange.

Project implementation has been entrusted to renown global audit-consulting firm PwC, that has significant experience in advising companies during the process of IPO, i.e., entering the stock market.



Having in mind the growing demand among Serbian companies for new investments in order to finance their strategic development, activation of the capital market brings numerous new opportunities for the growth of the Serbian economy. European Bank for Reconstruction and Development recognised this and decided to finance this project during which financing advantages of being listed on Belgrade Stock Exchange will be presented to Serbian companies. Furthermore, a certain number of interested companies will have support from experts from PwC company, in order to successfully go through the process of IPO.


All companies interested in listing on Belgrade Stock Exchange will be able to apply to participate on this project. Among the companies that have applied, those that meet BELEX technical and financial criteria for IPO, will be selected.


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