Funding opportunities on the stock exchange for agricultural companies

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Abstract
The paper aims to prove how agricultural companies can practically exploit internal and external funding sources available in the capital market. These sources are seen as an alternative dynamic capitalization / lending to companies' projects investments, meaning both lower costs than traditional alternatives and also image benefits through share issues / public offerings or bond issues. This type of opportunities are recoverable in a bad economic context for agriculture companies, mainly due to the limitations imposed on bank lending and laborious access to funds. The methodology used in the paper is the comparative method and financing alternatives will be compared to "stock exchange – private equity", "stock exchange vs. strategic investor" and "stock exchange vs. banks", and the analytical method by describing minimum criteria required by the market operator, deducted from analyzing agricultural companies access to financing through the capital market methods (exposure, case study and conclusions). The overall result of the work lies in the awareness of the opportunities and benefits of capital market funding system. Once one company knows the outcomes, this leads to practical ways an agricultural companies can access the stock exchange, (here including practical steps that they have to follow and the criteria to perform), leading eventually to understanding how practically works a listed company, beneficiary of the grant funding system.
Keywords: Romania agriculture, Stock exchange funding, IPO agriculture

Agriculture's growth and development is critical to Romania's overall economic and social development. Agriculture plays an important role in Romania because of the size of the rural population and because it is a significant source of employment, making it central to Romania's European integration and social cohesion goals Romania has one of the best resource endowments in Europe (15 million hectares of agricultural land, of which about 5 million hectares are highly productive arable land) and was once widely considered a breadbasket for Europe, but the sector remains underdeveloped. Despite the highest proportion of rural population (45 percent) in the EU, Romania has the highest incidence of rural poverty (over 70 percent), the largest gap in living and social standards between rural and urban areas, and one of the lowest rates of agricultural competitiveness. Although almost 30 percent of employment is in agriculture (compared to some 2 percent in the EU15 and 3 – 14 percent in the EU8), Romania imports an increasing amount (approximately 70 percent) of its food needs.

Taking in consideration the abobe mentioned hypothesis, the stock exchange may enable agricultural companies to gain access to long-term investible funds by issuing company shares and debts securities to the public.

The main role of a stock exchange in any economy is to mobilize resources and directs them to the productive sectors of the economy. It offers relatively cheap sources of capital for investment and working capital requirements compared to the traditional financial intermediaries.

The stock exchange enables the business community to access long term capital for investment through shares, bonds and debentures. All listed companies have issued shares as a way of raising long-term investment capital. Apart from facilitating the Initial Public Offering (IPO), the stock exchange serves another function: it facilitates Secondary Public Offering

(SPO) and transfer of securities. By so doing, shareholders are accorded an avenue through which they can relinquish their ownership of the company and new ones can come in.

A quoted company enjoys a lot of benefits, for example: the market acts as a constant value of its worth so when the shareholders want to sell their shares, the market price provides a real basis for valuation. By comparing the previous approach with lengthy, laborious process and hard bargainning that it takes the shareholders of a private company to dispose of their ownership, the arguments are obviously better for the first approach.

The stock exchange can enhance the development of agricultural companies by enabling those wishing to raise cheap and long-term capital to do so. Agriculturla business should take advantage of this to raise financial resources to expand their business and diversify into other areas. The common tendency is for the agricultural companies to rely on commercial banks credit for business expansion or to delay their investments plans until they generate sufficient funds internally. Both approaches are quite expensive, because bank credit can be costl as has been witnessed in the local market.

Besides the attitude of financial institution toward the agricultural sector has proved wanting despite Romania's financial sector being dynamic, it failed to target clients in the agricultural sector. Company savings through retained profits, particularly for a sizeable project, often take long to build up. At the same time, by waiting to finance business or investment through internally generated savings, a company may lose business opportunities or fail to undertake the unvisaged expansion due to cost escalation.

In short provided the companies operating in various sections, including agricultural business, are efficient and well managed, they can benefit immensely by using the exchange to raise long-term investment capital. There are some companies' management and pioneer shareholders who know the benefits of listing but are afraid of loosing control of their companies to newcomers.

This need not to be so as a company can issue any proportion of its ownership in a public issue provided is it at least 30%. One does not necessarily lose control by going public. Secondly, other securities such as bonds, debentures and loan stocks can be issued instead of shares. Even the most conservative shareholders or management, therefore, has the opportunity to enter the market and raise investment capital.

Differences between publicly- and privately-held companies

Privately-held companies are - no surprise here - privately held. This means that, in most cases, the company is owned by the company's founders, management or a group of private investors. A public company, on the other hand, is a company that has sold a portion of itself to the public via an initial public offering of some of its stock, meaning shareholders have claim to part of the company's assets and profits.

One of the biggest differences between the two types of companies deals with public disclosure. If it's a public company, which means it is trading on stock exchange it is typically required to file quarterly earnings reports (among other things) with the Romanian Financial Supervisory Authority (ASF). This information is also made available to shareholders and the public. Private companies, however, are not required to disclose their financial information to anyone since they do not trade stock on a stock exchange.

The main advantage public companies have is their ability to tap the financial markets by selling stock (equity) or bonds (debt) to raise capital (i.e. cash) for expansion and projects. The main advantage to private companies is that management doesn't have to answer to stockholders and isn't required to file disclosure statements with the ASF. However, a private company can't dip into the public capital markets and must therefore turn to private funding, which can boost the cost of capital and may limit expansion. It has been said often that private

companies seek to minimize the tax bite, while public companies seek to increase profits for shareholders.
The popular misconception is that privately-held companies are small and of little interest. In fact, there are many big-name companies that are also privately heeld.

Comparative approach on the availability of the funds

•Stock exchange vs. professional equity funds:
Funds may have limitations in allocation, regardless of opportunities. By contrast, stock exchange could offer successive rounds of capital increase (e.g. initial public offering – IPO, followed by secondary public offerings –SPO);
•Stock exchange vs. strategic investor:
A company may not be ready to be 'married' to a strategic investor, or strategic investors are not yet 'ready'; In the same time additional equity resources may be needed to strategically increase the equity value, placing the stock exchange as the preferred choice;
•Stock exchange vs. banks:
Fundamentally there is a different type of financing, when we analize equity vs. debt. Debt may be limited: leverage and/or risk of the company; New debt may be prohibited within current environment.

Control

Investors at a stock exchange require liquidity (e.g. free-float of min. 25%) and transparency of results and significant decisions; most often control is not an issue; By contrast, a strategic investor requires control in most cases.

Valuation

It is subject to specific drivers, including profitability, growth rate, risks, control and transparency; It is very important for potential issuer to choose the right timing (e.g. first IPO in the current circumstances) may improve valuation.

Ground criteria for investors' preference

The investor will analyze size, age in business and proven business model, sound strategy (relatively easy to grasp), scalability (new money turns into business expansion, favorable industry, mandatory profitable, leadership and corporate governance in place, IFRS reporting in place

Fine-tuning criteria

It is important if the company has a 'story' that attracts investors. The IPO represents an intermediate financing step, not a major sell of current shareholders, thus for investor is important the size of the new issue as premise for subsequent liquidity. It is recommendable for an issuer to generate a free-float of min. 25% and also has an adequate capital structure in place, before and after the process, looking for leverage, cash position and dividend policy.

The IPO process and players

An IPO requires a real commitment and a consistent effort from shareholders, board and the executive management. Once a decision is made and basic requirements are met, a multidisciplinary team needs to be created, in order to help the issuer in preparing and carrying out the offering and the listing, which can include:
–Key departments and management of the company
–Investment banker (brokerage firm) – one entity or a consortium;
–Independent external auditors;
–Legal advisers of the issuer and of the investment banker;
–Tax advisers (optional);
–Investor Relations Agency (IR) / Public Relations (PR) (optional);
Most companies where Private Equity Funds are already shareholders should not have major difficulties matching the requirements in a period shorter than the average.

Expectations from a listed company

It is advisable to have a dedicated Investment Relations Officer, who would act as a liaison between the company and the outside investment/regulatory community, on investment and legal issues. Alternatively, the tasks could be carried out by designated persons within financial and legal departments, possibly under the supervision of the CEO/CFO;

It is also necessary to create a web site section that could be named Investor Relations with financial reports and other company's info. The company has reporting obligations:

–Quarterly - release financial reports (desirable/optional in Romanian and English and along with analysts' earnings conference calls and investors' presentations);

–Annually – release GSM' decisions and Annual Report;

–Occasionally – Release Current Reports on price sensitive information (example: M&A projects, insolvency, buy/sale of assets representing more than 10% of total assets, major changes in ownership or management, major litigations and other);

–Occasionally – meet investors or potential investors.

IPO Timeline

TIMELINE	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Plan	Board Decision, Kick off Internal Assesment of the issuer, short presentation Recruit lead manager, consortiun, advisors					Reserve for delays
Structure	External due-dilligence (3-4weeks) Equity story, presentation, management training Get financial audit already					
Marketing	Presentation to research analysts Pre-marketing, road shows Prospectus approved Final preparations				Prepare prospectus (12 weeks)	
Offer	Public offering (up to 2 weeks)					

Listing Fees owed to ASF and BVB

IPO – Listing Fees owed to ASF and Bucharest Stock Exchange			
Fees owed to ASF (RON)	**Initial**	**After closing the offer**	
Commision applied to the IPO value	**0**	**0,10%**	
Approval of the Preliminary Prospectus	**2,500**		
Approval of the Preliminary Announcement ad	**1,000**		
Registration of the IPO – related securities	**1,000**		
Fee for maintainance to trading (per year)	**350-4.000**		
Fees owed to the Bucharest Stock Exchange BVB (RON)			
Commision for the IPO Tier trade (applied to the seller in the IPO, applied to IPO value)	**0,135%**		
Fee for processing the listing file (exemptions applicable)	**1200**		
		Tier I	**Tier II**
Fee for admission to trading (exemptions applicable)		**11.100-21.000**	**3.600-7.500**
Fee for maintainance to trading (per year, paid beginning 1 year after IPO)		**11.100-21.000**	**3.600-7.500**

Case study

The issuer NUTRICOM S.A. runs business in the field of raising of swine, chiken and feed production. It is traded on BVB under symbol NUTE on exchange segment RASDAQ, Tier III R, main market XMBS. The company registered market capitalization of 28,977,742.28

RON. The total number of shares is 93,476,588 on a nominal value of 0.1000 RON and the share capital is 9,347,658.80 RON. For the period of last 52 weeks the total number of trades is 171 while the issuer registered the total value of 51,729.5100 RON. The average price for last 52 weeks (10/29/2012-10/25/2013) is 0.2970 RON.

Conclusions

The stock exchange offers the right solution not only for a company's expansion capital, but also access to further opportunities and an enhanced strategic position on the market. For successful IPO process, the company needs a set of 'ingredients' as well as a fully-committed management team. The costs involved in the process and after are worthwhile the benefits. The transparency and predictability enhance considerably relationships with investors and the corporate governance in place ensures the long-term success as a listed company.

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