



AeRO

BVB Market for Equities

Finance your growth through the Bucharest Stock Exchange

by issuing shares or bonds
on BVB's Main Market or AeRO

BSX BUCHAREST
STOCK
EXCHANGE

WHY CONSIDER CAPITAL MARKETS AND THE BUCHAREST STOCK EXCHANGE?

The main role of the stock exchanges is to facilitate the flux of money between investors – those in possession of capital – and entrepreneurs, who are in need of capital for development. The benefits of becoming a listed company are however much more sophisticated than just gaining access to capital as once listed, companies simultaneously benefit from enhanced profile, free and constant publicity, improvement of corporate governance, extra visibility towards clients, business partners as well as the community as a whole. Any Romanian or international company with ambitious growth and development goals should consider listing on the Bucharest Stock Exchange (BVB) as a manner of raising its profile.

Bucharest Stock Exchange offers a financing alternative to both: mature companies, which can raise capital through the Main Market, as well as start-ups and Small and Medium sized Enterprises (SMEs) for which the AeRO market was created. Both of the markets are able to accommodate shares and bonds issuances. Only in 2016, new offerings of shares and bonds of a total value of RON 2bn were absorbed by the Bucharest Stock Exchange investors, both institutional and retail and most of the offers were oversubscribed. 2016 has thus proved that the Romanian capital market and its investors have sufficient appetite to welcome new offerings, both in the form of shares and bonds.

By issuing new shares and listing them on the stock exchange, an entrepreneur sells part of his company to the public, the stake depending on the amount of money the company needs to raise as well as the percentage of the company the stakeholders are comfortable selling. As opposed to bonds, when issuing shares, there is no debt that has to be repaid to the investors. Once listed on the stock exchange, the company can also benefit from other gains, which are explained on the further pages.

SHARES OR BONDS? MAIN MARKET OR AeRO?

Bucharest Stock Exchange operates two markets – Main Market and AeRO. When it comes to issuing shares, Main Market targets more mature companies that have at least 3 years history of financial reporting, minimum EUR 1 million anticipated market capitalization and at least 25% free-float, meaning that at least 25% of shares must be in investors' portfolios, freely transferable. AeRO market has more relaxed admission criteria, all in order to match the needs of SMEs, which do not yet fulfill the size or the length-of-operation criteria necessary for listing on the Main Market. In order for a company to be listed on AeRO, it has to have an anticipated market value/equity of at least EUR 250,000 and a 10% free-float or at least 30 shareholders. In cases of both Main Market and AeRO, a company has to transform to a joint-stock company (SA) prior to the listing.

Listing requirements for issuing shares on the BVB markets



Main Market

Dedicated to bigger companies, that meet the following criteria:

- are a joint-stock company (SA)
- have minimum EUR 1mn equity/anticipated market capitalization
- have minimum 25% free-float
- have minimum 3 years history of financial reporting

Who are the investors?

Big local and foreign investment and pension funds (institutional investors) as well as local and foreign individual investors.



AeRO market for SMEs

Dedicated to Small and Medium sized Enterprises that meet the following criteria:

- are a joint-stock company (SA)
- have anticipated market value/ equity of at least EUR 250,000
- have 10% free-float or minimum of 30 shareholders

Who are the investors?

Specialized and smaller investment funds targeting SMEs, individual investors.

There are two manners in which companies can issue shares on the stock exchange. The first one is through the sale of new shares carried out by the company in order to attract financing for its development, and a second one, which implies a sale of a part of the stake held by one or more of the shareholders. In the second case, the funds raised are received by the seller and are not directed into the company. It is important to remember that either way, the company's shareholders have to adopt the decision regarding admission of company's shares to trading on the stock exchange. This decision has to be made by the company's statutory body – the Board of Directors or during the General Shareholders Meeting.

Bonds on, the other hand, involve borrowing capital from investors in exchange for periodical interest rate payments. Bonds are an attractive instrument for entrepreneurs as issuing them does not affect ownership of the company or how the company is operated, while, at the same time, offering the company exposure and publicity granted by accessing financing through the stock exchange. The money borrowed from investors has to be repaid at maturity, or in tranches. The funds can also be rolled over through an issuance of new bonds, replacing the previous issuance. Alternatively, bonds can be converted into shares at maturity, or even at certain given moments prior reaching it, thus reducing the amount of money that has to be paid to bonds holders at maturity (these instruments are referred to as convertible bonds).

When it comes to issuing bonds, the list of requirements is much shorter and basically only covers the value of the bonds issuance. For the Main Market, the bonds have to be issued for at least EUR 200,000 however exceptions can be granted by the Romanian Financial Supervisory Authority (ASF). For AeRO, there is no minimum value of issuance imposed.

Listing requirements for issuing bonds on the BVB markets:



Main Market

The minimum value of the issuance must be the equivalent in RON of EUR 200,000. If the value is lower, ASF may issue a special approval for listing.

Who are the investors?

Depending on the type of issuance: local and foreign investment and pension funds (institutional investors), local and foreign individual investors.



AeRO market for SMEs

There is no minimum value of the issuance.

Who are the investors?

Specialized and smaller investment funds targeting SMEs, individual investors.

WHAT CAN THE COMPANY GAIN FROM BECOMING LISTED?

In the USA, about 80% of the companies' funding is raised on the capital market and only 20% through bank loans. In Europe, these numbers are reversed, meaning that the capital market finances about 20% of private initiatives and bank loans represent the remaining 80% of the funding methods. It is important to understand that there are many benefits that can be obtained from becoming a listed company. These benefits can be grouped into four categories – financial, marketing, credibility and governance benefits. They are outlined in detail below.

Expand your business and enter new markets, launch new products – the most obvious reason for a company to go public is to obtain the financing necessary for the development and further growth.

Fund the M&A projects – in cases of takeovers, lack of easily accessible capital is usually one of the biggest obstacles. Using company's own shares is one of the fastest and cheapest manners of acquisitions as own stock will always remain the cheapest to obtain currency. Ropharma (RPH), a company listed on BVB's Main Market since 1997, successively expands its network by absorbing smaller pharmacies whose owners, in exchange for their business, receive Ropharma shares that are issued by the company every time a merger is carried out.

Receive a fair market valuation and liquidity – obtaining a market valuation is of a vital interest to any entrepreneur and is crucial when looking for a strategic investor. Additionally, in order to be able to apply modern management methods and improve the effectiveness and the value of the business, it is necessary to know the company's value. Being a listed company solves the question about the market valuation and provides liquidity as it is easier and faster to buy or sell a company listed on the stock exchange. Studies show that when comparing two companies with identical economical and financial indicators, one of them being unlisted and the second listed, the latter will receive at least a 10%-15% better valuation.

Offer financing diversification & additional leverage when issuing debt instruments – apart from gaining an easier access to bank loans, issuers of shares or bonds benefit from the shareholders-bondholders transmission effect and have an opportunity to gain an established group of potential investors. What it means in practice is that if a company had a good track record after the first issuance, it is easier for it to find the buyers for a second round of financing. Bittnet Systems (BNET), a company listed on the AeRO market since April 2015, managed to raise through the Bucharest Stock Exchange a total of RON 4.9mn - through issuing of new shares of estimated value of RON 700,000 (10% of the company's shares) and RON 4.2mn by issuing bonds on AeRO with a 3-years maturity.

Manage the debt-equity ratio – the debt to equity indicator highlights the proportion of debt to finance versus the company's total equity account. A low indicator reflects a high self-financing capacity on a short-, medium- and long-term. A high debt-equity ratio may be a warning signal to the company's creditors. Once listed, it is easier for the issuer to access the needed capital without raising the debt-equity ratio since a listed company can attract capital either by issuing new shares or bonds, or it can convert part of its debt into shares – a process through which the creditors become the shareholders of the company. This can be best illustrated through the example of Cemacon (CEON), a leader in production of ceramic blocks from Cluj-Napoca, listed on the BVB's Main Market. Following company's long-term financial distress, 3 main shareholders got involved in the company's restructuring. Package of bank credits that has put huge pressure on company's financials and was affecting company's working capital was converted with the shareholders support into shares, which helped the company adjust its financial position. In 2015, Cemacon registered profit for the first time following years of losses.

Gain publicity and long-term visibility with the media and the general public – an IPO process as well as the first day of trading are cornerstones in each company's life that attract much attention. The value of free advertising provided to companies prior, during and right after listing can be counted in tens to hundreds of thousands of euros.

The appearances in the media can be converted into money equivalents based on the media space and audience points, through a measure called the Advertising Value Equivalency (AVE). AVE gained by MedLife (M) shortly prior, during and following its IPO on BVB's Main Market in December 2016 was estimated at EUR 230,547 and the overall audience reached though the coverage was estimated at over 5,3 million persons.¹ Apart from the coverage surrounding the listing, once quoted, the company gains further, constant visibility as the information provided by it through press releases as well as current reports are picked up by both generalist and financial media. On top of that, thanks to the interest of the media and the constant collaboration with the Bucharest Stock Exchange, companies can benefit from broader and constant exposure when their representatives are invited to conferences, workshops, interviews and other media events to share their experiences as listed companies.

EUR 230,547

ADVERTISING VALUE
EQUIVALENCY OF
MEDLIFE IPO

1. Numbers based on the estimates provided by media monitoring agency, including all the news about Medlife that appeared in the time period from October 6th, 2016 until December 31st 2016.

Brand loyalty – studies show that individual shareholders are more likely to buy listed companies' products and have greater brand loyalty², which is higher when compared with that of the non-shareholders. There is a 74.4% probability that when making purchasing decision, the buyer who is also a shareholder, will chose the brand of company he owns. Additionally, individual shareholders are less likely to issue negative comments on products of the company in which they own shares³ and are often better company and brand ambassadors than non-shareholders regular customers. Interestingly, brand satisfaction also impacts the decision to buy company's shares, which means that your current clients are probably interested in becoming your shareholders.

74.4%

THE PROBABILITY THAT
YOUR SHAREHOLDERS
WILL BUY YOUR PRODUCT

Gain exposure to new audiences - through listing on the stock exchange, companies can get on the radar of institutional investors, private equity, venture capital, sector specialists, business partners, index providers and international media. If a company is covered by financial analysts, its reports and financial results have a wide distribution base. As an example, in 2016 Banca Transilvania (TLV) was included in STOXX Eastern Europe 50 index, which follows the Easter Europe's biggest companies and as a result, increased the bank's exposure. In 2016, Banca Transilvania was the most traded company on the Bucharest Stock Exchange.

Improve reputation and prestige – as listed companies have to adhere to certain standards such as those of corporate governance and transparency, credibility of companies significantly increases after the listing. Becoming a listed company means joining a prestigious circle of issuers, which further transmits into ability to attract new clients, suppliers and business partners. Being a listed company has also a significant impact when trying to access different kinds of grants, including non-refundable European funding, as well as participating in tender offerings since listed companies are considered more transparent, credible and reliable when compared to private ones thanks to the applicable reporting obligations and corporate governance rules.

Facilitate access to other funding sources - for financial institutions, reporting obligations as well as adjustment to highest ethical standards by listed companies mean that the partnership with them is fraught with a lesser commercial or credit risk. Thanks to this, issuers generally receive better conditions when trying to access different financial products, such as lower interest rates, commissions or simply access the needed funding faster when compared with unlisted companies.

"As Ascendia targets the expansion of its eLearning products and services onto the international markets, credibility and media exposure are both aspects that we take into account. The fact that we are a listed company on the AeRO market of the Bucharest Stock Exchange helps us better present the company to our potential international partners. Many of our eLearning clients are corporate companies searching to improve employees' performance. For them it is of paramount importance that the supplier companies are credible, tangible and with a good track history. The fact that Ascendia is a listed company endorses all these existing attributes of our company."

Cosmin Malureanu, CEO,
Ascendia (ASC)

2. Based on: Building brand loyalty through individual stock ownership by D. Schoenbachler, G. Gordon and T. Aurand
3. Based on: Are shareholders more loyal by S. Cerpicki and S. Rundle-Thiele

Improve corporate governance and transparency – once a company becomes listed, transparency naturally becomes part of the day-to-day activity, all in order to provide the shareholders and the potential investors a level playing field when it comes to the information about the company's development. Additionally, subjects that could have been pushed into the background, such as corporate governance, become an interest to the issuers, since they have the power of convincing the investors to buy the shares of specific companies. The improvement of the corporate governance can also be motivated through the support for it of one of the strategic investors. In Romania, the European Bank for Reconstruction and Development (EBRD) as well as the International Finance Corporation (IFC) have been involved in the shareholder structures of several listed companies including Bucharest Stock Exchange (BVB) and Banca Transilvania (TLV), thus supporting the positive evolution from within.

Attract new talents and motivate current employees – in Romania, stock option plan is a salary reward that is available only to listed companies. By offering stocks to top or potential employees, companies gain not only an advantage towards the non-listed companies but also, in conformity with the studies, improve the productivity and performance of the employees who, having a direct financial benefit from participating in company's successes, are more motivated. Many listed companies use this method in order to recruit and retain current employees. As an example, in October 2016, Teraplast (TRP) – company listed on BVB's Main Market – finalized the buy-back of 2 million shares worth in total RON 1mn. The purchased shares were used for implementing the remuneration system in order to ensure the compliance with the principle of long-term performance and for the employee's loyalty program.

COMMON FEARS AND MISCONCEPTIONS

Many entrepreneurs do face fears when they consider listing their company on the stock exchange. In some cases, the prevailing fear can even stop them, or at least, postpone their listing ambitions.

Obligation to disclose all information – some potential issuers worry that once listed, their competition will have access to important information. There are clear indications on the information that an investor is entitled to have access to. In cases when a listed company signs a contract, only basic information such as the value, the counterparty, period of time for which the contract is signed and other technical details have to be provided. There is no need to provide sensitive information that remain between the counterparties. The contracts are announced only after they are signed, thus the market remains informed about the company's business development, but not about the current internal affairs. As the access to information as well as business intelligence is becoming more widespread, it is almost impossible to prevent the confidential information from reaching the market. Therefore, in such situations it might be better to pass to the market properly edited and commented information in a prospect, current report or during meetings with the investors.

Risk of losing control over the company – there is a simple way to preclude this from happening by listing a minority stake on the stock exchange. In case of Main Market, there is a requirement of minimum 25% free float and in case of AeRO 10% free-float or at least 30 shareholders. Additionally, investors are obliged to report their share in the shareholding structure every time their voting rights reach, exceed or fall below any of the above ceilings of 5%, 10%, 20%, 33%, 50%, 75% or 90% of the total voting rights. As long as you retain a comfortable majority of the shares and voting rights and you are not willing to sell more, then there is no risk of losing the control of your company.

Idea of being too small for stock exchange – many entrepreneurs consider that stock exchange is for big companies only. As a matter of fact, vast majority of stock exchanges have developed dedicated markets that are primarily for SMEs, so that thanks to the capital markets, they manage to develop at a faster pace. For such companies, small but with big ambitions, Bucharest Stock Exchange has launched in February 2015 AeRO market, where the listing requirements are more relaxed as the market is designed specifically for companies with a big growth potential, such as start-ups and SMEs.

Romanian market is too small to invest in my company, I prefer to list abroad – only in 2016, new offerings of shares and bonds of a total value of RON 2bn were absorbed by the Bucharest Stock Exchange investors, both institutional and retail and most of the offers were oversubscribed, meaning the interest of investors was larger than the instruments available for purchase. It thus proved that the

Romanian market and its investors have sufficient appetite to welcome new offerings, both in the form of shares as well as bonds. When entrepreneur lists his company on the domestic stock exchange, meaning where his company originates from and its main operation is based, it benefits from a recognition from the investors as well as better accessibility to purchase the instruments by the local investors. Additionally, meeting the listing requirements as well as the collaboration with the necessary parties (intermediaries, auditors, the Financial Supervisory Authority, institutional investors etc.) is easier and more straightforward if done locally and, what also matters, is cheaper. Not to mention that in the large pool of companies listed on major foreign exchanges, a Romanian company might simply not be sufficiently known or interesting to foreign investors to conclude a successful listing process. At the same time, the Romanian capital market is being followed by international investors who are interested to invest in the Romanian companies.

RON 230mn

AMOUNT RAISED
BY MEDLIFE DURING
A 8-DAY IPO ON THE
BUCHAREST STOCK
EXCHANGE

LISTING PROCESS: SHARES

Equity story

In order to attract investors, a company needs to have an equity story. Equity story goes far behind a balance sheet and product idea. It is the vision, ambition and the business model that has the potential to create real value for investors and an idea they can believe in. Investors understand that the probability of success increases when working with experienced team who realistically understands the risks. Therefore, companies prior, during and following their listing, should work with a number of experts that on one hand, help them come up with coherent and convincing equity story and on the other hand, help them transmit their message to the investors. That's why picking a good broker or Authorized Advisor to handle your listing is a cornerstone of your future success.

"I invite Romanian entrepreneurs to consider listing their businesses on the stock exchange if they want to become business leaders and to remain business leaders. If you do not take this step you will sooner or later be swallowed by a large player in the market. It is a step that will allow you to remain in the company for many years because with a company, investors are also buying the entrepreneurs, they are buying their story. (...) It is important to be authentic. Do not try to sell what you are not. Try to give the investors what you really are because they will immediately understand your authenticity and if your story has potential for growth."

Mihail Marcu, Chairman, MedLife (M)



Whom to involve in your listing process

In order to become a listed company, you will have to engage and collaborate with different types of external entities that will provide you all the necessary support and expertise in order for your offering to be successful and for your listing goals to be met.

Intermediary (in case of the Main Market) – intermediaries are brokerage houses and major banks that are authorized by the Romanian Financial Supervisory Authority to conduct companies' offerings. An intermediary has a crucial role in any offering as since they maintain regular contact with the investors who are active on the market and therefore, they have an ability to assess the parameters necessary for a successful offering. Intermediaries assist the company in its valuation process, prepares or manages the preparation of the prospectus as well as manages the process of the subscription to the shares or bonds.

Authorized Advisor (in case of AeRO market) – Authorized Advisors (AAs) have an indispensable role in listing of a company on AeRO market. AAs are companies experienced in the field of company financing and are nominated by the Bucharest Stock Exchange. The role of an Authorized Advisor is to carry out analysis of the company's listing opportunity and the company itself, offer advice on drafting the documentation required for the listing on AeRO, prepare, together with the company, the presentation document for listing, support the company in finding investors and after the listing, provide assistance to the company for complying with the regulatory reporting obligations.

Auditor – the role of an auditor is a significant one as the company's financial statements and potential results forecasts are part of the prospectus that is of the key interest to investors. It is therefore important that the auditor is respected, with experience in adjusting the financial statements to the needs of the prospectus.

Legal advisor – involvement of a legal advisor is not obligatory and depends on the complexity of the offering. Intermediary or the Authorized Advisor assisting your listing process will provide you details should the involvement of a legal advisor be necessary.

Financial advisor – the role of a financial adviser can be carried out by the brokerage house in case the latter has a dedicated department responsible for carrying out market analysis. The role of the financial advisor is to prepare the vital part of the prospectus that outlines the plans as well as development perspectives of the potential issuer.

How to list: types of offerings

There are three distinct methods through which you can list shares of your company on the Bucharest Stock Exchange markets:

Initial Public Offering (IPO) – a public offering of shares, which requires preparation of a prospectus that has to be approved by the Romanian Financial Supervisory Authority and the fulfillment of all the legal and regulatory proceedings.

Private Placement – an offering addressed directly to a limited number of potential investors, maximum 149. There is no need to provide a prospectus for approval of the Romanian Financial Supervisory Authority. A prospectus will be needed for shares to be admitted on the Main Market. In the case of listing on AeRO, only memorandum has to be provided.

Technical Listing – no offering takes place before listing, which means that the shareholder structure of the company is not impacted in any way and the shareholders simply decide to take advantage of the benefits of becoming listed (additional visibility, credibility, transparency etc.). A prospectus will be required for the company to be admitted to trading on the Main Market. In the case of listing on AeRO, only memorandum has to be provided.

Steps for issuing shares



Main Market

1. The company stakeholders/shareholders decide to list shares on BVB's Main Market
 2. Company transforms into a joint-stock company (if needed)
 2. Shareholders adopt the decision regarding admission of company's shares to trading on BVB's Main Market, followed by the public offer. This decision has to be made during the General Shareholders Meeting and, should the admission be preceded by a public offering, has to include the main features of the issue.
 3. The company selects the intermediary (brokerage company or a bank), authorized by the ASF. The company enters into agreement with the intermediary stating that the latter will handle procedures related to the offering and, if case, admission of the issuer to BVB
 4. The company together with the intermediary decides on the type of prospectus to prepare, which will differ depending on the type of offering:
 - Prospectus for admission to trading, in case admission is not preceded by a public offering;
 - Prospectus for public offering of shares, in case the admission is preceded by a public offering.
 5. Intermediary, based on the information provided by the company, prepares the admission or the public offer prospectus that includes, among others:
 - Presentation on the issuer, the intermediary and the persons involved in the preparation of the prospectus;
 - Information about the issuer (identification data, the nature of the activity carried, capital and information regarding other issued shares);
 - Activity of the issuer (operations, economic and financial performance, office location, research and development, legal proceedings, employees, investments, funding sources);
 - List of affiliated companies and the participation owned in such companies (if the case);
 - Account statements (financial reporting, indicators);
 - Company valuation;
 - Information regarding the management, future prospects and risk factors.
- The prospectus must be authorized by the ASF
6. The intermediary conducts the offering process, when the investors are able to subscribe to the shares offered by the company, through an intermediary. Depending on the needs, this process can take between few days to a couple of weeks. At the end of the subscription period, if the offering was a success, the intermediary closes the book, the investors receive the shares and the company receives the money raised
 7. In case of a successful IPO, ASF approves the closure of the offer and the shares are registered at the ASF;
 8. Company registers the shares with the Central Depository, in order to ensure the clearing and settlement for exchange transactions and to keep the company's shareholders registry;
 9. Intermediary submits to Bucharest Stock Exchange the following documents:
 - Application for admission to trading;
 - Prospectus accompanied by ASF's approval thereof; for Premium Category, summary of the prospectus in English;
 - The decision of the statutory body of the company regarding the admission to trading;
 - Articles of incorporation;
 - A copy of the Securities Registration Certificate issued by ASF;
 - Contract for admission and maintenance to trading;
 - Statement of the issuer, providing names of persons designated to remain in contact with BVB (at least two persons).
 10. Bucharest Stock Exchange Board of Directors approves the company's admission to trading
 11. Company's first trading day



1. The company stakeholders/shareholders decide to list shares on AeRO market
2. Company selects the Authorized Advisor (AA) to work with
3. Company transforms into a joint-stock company (if needed)
4. Company shareholders adopt a formal decision regarding the intention of listing on AeRO and the shares they want to sell to new investors, in case of the capital increase. This decision has to be taken during the General Shareholders Meeting and, should the admission be preceded by a public offering, has to include the main features of the issue
5. Company together with the AA prepares the necessary documents:
 - Data regarding the issuer (identification data, activity description, share capital, management, stakeholders etc.);
 - Information regarding the issuer's activity and the development plans;
 - List of litigations in which the issuer is involved (if the case);
 - List of affiliated companies and the participation owned in such companies (if the case);
 - Financial reporting, financial indicators (at least for the last year, if any);
 - Company valuation;
 - Other relevant documentation.
6. Company together with the AA selects the type of offering and prepares it:
 - Through offer without prospectus (Private Placement) – addressed to a limited number, of up to 149 potential investors, requires the elaboration of a documentation for potential investors that will be added to the memorandum for admission on AeRO (presentation document, by far smaller than prospectus);
 - Through an initial public offer of shares (IPO) – requires the elaboration of a prospectus and therefore, the completion of the relative legal and regulatory procedures (including having the prospectus approved by ASF)
7. The company together with the AA conducts the Private placement or the IPO process, during which the investors are able to subscribe the shares offered by the company, through an intermediary. Depending on the needs, this process can take between few days to a couple of weeks. At the end of the subscription period, if the offering was a success, the intermediary closes the book, the investors receive the shares and the company receives the money raised
8. The shares are registered with the Financial Supervisory Authority
9. Company registers the shares with the Central Depository, in order to ensure the clearing and settlement for exchange transactions and to keep the company's shareholders registry
10. The company submits to Bucharest Stock Exchange the following documents:
 - Application for admission to trading;
 - Prospectus / Memorandum (depending on the type of offering);
 - The proof regarding the closing of the contract with the Central Depository;
 - A copy of the Securities Registration Certificate issued by ASF;
 - A copy of the Certificate of Registration with the Trade Registry Office;
 - The annual and quarterly financial reports, at least for the last financial year (if any);
 - The decision of the statutory body of the company regarding the listing;
 - A contract signed with an Authorized Advisor.
11. Bucharest Stock Exchange CEO approves the company's admission to trading
12. Company's first trading day

Valuation and price evolution

Valuation is one of the most important steps in the company's journey to the stock market. Before listing shares, your company will receive a market valuation carried out by a professional - investment bank or a broker, using tools which are widely acknowledged, like assets and multiples. Also, a comparison with similar companies in Romania and in the region should be provided.

The evaluation report will contain a descriptive part, a commercial and an operational analysis - one legal and one financial. For applications based on income approach, the report will also contain a description of the strategy linked to the future business development and assumptions in explaining and justifying parameters considered in the financial model of evaluation based on income.

Based on this valuation, intermediary together with the company's shareholders will decide on a price at which the company will be sold to the investors (in case of shares), or the interest rate offered to investors (in the case of bonds). In case of listing of shares, the price should ideally be set-up as the best price, not too low (so the company is not undervalued) but also not too high (so that the company is not overvalued).

After the listing, the valuation of a company will be done by investors, based on the demand and supply of the company shares. Investors decide to buy or sell stock based on the information they receive from the company as well as the information they read in the media, the current economic environment etc. In short, the evolution of a stock can be influenced by events such as, inter alia:

- Earnings and sales growth
- New product releases
- Management and transparency
- Sector evolution
- Changes in regulatory framework
- Macroeconomic developments

Investor Relations activities of a listed company are designed to assure the good relation between the issuer and the shareholders/potential investors by providing complete and accurate information to the investors community. The better these activities, the higher the interest of analysts and investors will be, which can ultimately lead to an increase of both trading activity and the share price.

LISTING PROCESS: BONDS

How to list: types of offerings

Public Offering - the most popular way to attract a broad investor's base is through a public offering, dedicated to all investors, both retail and institutional. Public offering is the first sale of bonds to the public and listing of these bonds on a stock exchange. A prospectus approved by the ASF is mandatory and will serve both the public offering and the admission of bonds to the Main Market.

Private Placement - is an offering of bonds directed to a limited number of investors, which may be used to distribute newly-issued bonds prior to listing. A set of conditions must be met in order to perform private placement, one of which is the maximum number of investors targeted by the offering equal to 149 or less. Prospectus is not necessary for this operation however, a listing prospectus will be required at a later stage, when the company submits the request for listing the bonds on the Main Market.

Whom to involve in your listing process

Intermediary - the bond issuer needs the assistance of an intermediary or, in case of bigger offerings, group of intermediaries (a consortium) that will assist it in the process of drafting the prospectus, determining the structure of the offering, the offering price and the timing of execution.

Auditor - in case of bigger offerings, it might be necessary to also involve auditor in the process of preparation of the prospectus's chapter dedicated to the company's financial statements. Intermediary assisting your listing process will provide you details should the involvement of an auditor be necessary.

Steps for issuing bonds

1. Shareholders adopt the decision to issue corporate bonds during the company's General Shareholder's Meeting as well as agree on the main features of the bonds
2. The company selects the intermediary authorized by the ASF to work with. The company enters into agreement with the intermediary stating that the latter will handle procedures related to the offering.
3. After consultation with the intermediary, the company determines the following characteristics:
 - the overall value of the credit;
 - the nominal value as well as number of bonds issued;
 - interest rate offered;
 - maturity period and frequency of payments;
 - duration of the offer;
 - type of bonds: non-convertible or convertible (bonds that change into shares on the maturity date), conversion rate and, if applicable, the type of collateral.
4. The company together with the intermediary prepare the prospectus (in case of the Main Market) or the memorandum (in case of AeRO). The prospectus for the admission to trading of bonds on the Main Market has to be approved by the ASF
5. The company together with the intermediary (Main Market) or the AA (AeRO) conducts the public offering or the private placement process, when the investors are able to subscribe the bonds offered by the company. Depending on the needs, this process can take between few days to a couple of weeks. At the end of the subscription period, if the offering was a success, the intermediary closes the book, investors receive the bonds and the company receives the money raised
6. Bonds are registered with the Financial Supervisory Authority
7. Company registers the bonds with the Central Depository, in order to ensure the clearing and settlement for exchange transactions and to keep the records on the holdings of issuers' securities
8. The submission of the documents to the Bucharest Stock Exchange:



For Main Market, the intermediary submits:

- Application for admission to trading of bonds;
- Prospectus, accompanied by ASF decision approving it and summary of the prospectus containing the public offer, translated to English;
- Notification from the intermediary providing results of closing the public offer;
- A copy of the Securities Registration Certificate issued by ASF;
- The decision of the statutory body of the company regarding the listing;
- Statement of the issuer, providing names of persons designated to remain in contact with BVB (at least two persons).

For AeRO, the company submits:

- Application for admission to trading of bonds;
- Memorandum, the presentation document;
- The proof regarding the closing of the contract with the Central Depository;
- A copy of the Securities Registration Certificate issued by ASF;
- A copy of the Certificate of Registration with the Trade Registry Office;
- The annual and half-yearly financial reports, at least for the last financial year (if any);
- The decision of the statutory body of the company regarding the listing.

9. Bucharest Stock Exchange Board of Directors (in case of Main Market) or the CEO (in case of AeRO) approves the company's bonds admission to trading.

POST LISTING

Listing on the stock exchange represents a new stage in the life of any company. There are several aspects to keep in mind after the listing:

Initial promises fulfillment – public company needs to build investors' trust from the very beginning. In case the company raised the money for own specific projects, investors need to know that the funds were spent in line with the company's prospectus.

Mandatory reporting obligations – transparency is a key issue for any public company. Investors need to be updated and informed regarding important events in the company's life. The key is to pass to the market, through current reports, reliable and rich in content information that will allow investors to assess the impact of a particular occurrence on the company. This means that major contracts, acquisitions, new product releases, litigations or other key developments should be communicated to the market as they have an ability to influence the stock price. This also includes negative information. Companies listed on the Main Market have to submit financial reports on a quarterly basis and it is recommended to it in both Romanian and English languages. For companies listed on AeRO, only half-yearly reports are obligatory, while quarterly reports are recommended.

Financial Reporting – financial results are some of the most significant news to share with the public. Investors appreciate detailed information such as the key drivers of revenues, operating results, net results or total assets. Best practices suggest that quarterly financial reports should be accompanied by earnings conference calls or meetings with analysts and investors. On the Main Market, financial reporting must be carried out according to the IFRS standards.

Investor Relations – once company issues shares or bonds, a contact point has to be established in order to carry out a communication between the company and its shareholders and investors. That communication is carried out by the Investor Relations Officer (IRO) whose role is to provide knowledgeable information about the company to investors. Investor Relations duties can be also carried out by the CEO or the CFO however this solution might not be sustainable for all the companies. Apart from communication with the investors, IRO should maintain relationship with the financial analysts in order to bring the company on the radar of the major financial institutions. Additionally, investors and analysts value the participation in regular meetings as well as access to all the relevant information right on the company's website.

Corporate Governance – companies listed on the Main Market have to adhere to certain, highest standards of governance, as defined in the Bucharest Stock Exchange's Code of Corporate Governance. BVB's Code was developed by the Bucharest Stock Exchange in cooperation with the European Bank for Reconstruction and Development and is in force since January 2016. The Code focuses on provisions regarding the responsibilities of the management, the risk management and the internal control systems, fair rewards and motivation and the responsibilities of the Investor Relations function. For companies listed on AeRO, BVB has developed a separate set of Principles of Corporate Governance that are better adapted to this type of a market.



"Since the very beginning of our company we have seen listing on the stock exchange as a natural step to come at a point in the company's development. This is partly due to the 'American model' that we have adopted from the management books and publications. We believe that the successful listing of a company is a maturity exam for everyone involved in its growth story. We also believe that transparency and win-win partnerships are a key factor to a long-term success so becoming a public company has had no disadvantage on this front – we were already very transparent. 2 years in, we see that the listing of Bittnet on AeRO was a good decision for a number of reasons that include different areas of the daily operation. We have sent a strong message of transparency and differentiation, which has turned us into a 'choice destination' for employees, which is an immensely important aspect in our industry. We were also able to diversify and strengthen our financing – having raised EUR 150,000 in equity through listing in 2015, EUR 900,000 through a bond issue in 2016 and currently aiming to raise some additional EUR 180,000 in equity. We believe that the stock exchange is the perfect platform for businesses in need of capital and liquidity, to meet investors in need of better returns than the bank deposits."

Do you want to find out more about listing your company on the Bucharest Stock Exchange? **Contact us!**

Zuzanna Kurek
Deputy Director
Business Development
& Marketing Department
zuzanna.kurek@bvb.ro
0742 431 111

Stefan Musgociu
Business Development & Marketing
Specialist
stefan.musgociu@bvb.ro
0730 255 030

Mihai Logofatu, CEO
and **Cristian Logofatu**, CFO,
Bittnet Systems (BNET)