

# Bulletin

LAWYERS NEWSLETTER APRIL 2012



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## NewConnect



### Alternative trading systems and NewConnect in Poland

For small and medium-sized companies alternative trading systems are a great way to raise capital for further development and expansion. This is primarily an opportunity for innovative companies with high growth potential who are not able to obtain significant funding from other sources. A sub-market permits smaller companies to participate with greater regulatory flexibility than applies to the main market, including no set requirements for capitalization or the number of shares issued. Alternative trading systems in comparison to the main markets are characterized by lower costs and fewer barriers to entry, as well as more liberal formal obligations and information requirements. These are usually non-regulated markets, but professionally organized and with a high transparency of trading.

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NewConnect, the alternative trading system of the Warsaw Stock Exchange, is one of the largest markets in Europe for smaller and expanding companies. It fills an important gap that had existed in the domestic market and is proving to be an important element of the financial system. Companies eager to use this form of financing, through the issuance of a public or private offering, are able to obtain several thousand to several million Złotys.

NewConnect's success is built on a simplified and flexible regulatory environment which has been specifically adjusted to the needs of smaller companies. The shape of the market has been designed in a similar format to the Alternative Investment Market (AIM) organized and regulated by the London Stock Exchange – the leading alternative market in Europe, with over 3,000 companies listed.

NewConnect's growth comparison to other European systems should be compared with the AIM market, as it has by far the strongest position on the old continent. At the end of 2011 1143

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companies were trading on the AIM market , while in January 2012 on the NewConnect there were 355 companies – which, when considering the 12 year difference between the systems, is an impressive result. It decreases when we look at the total capitalization of the two markets (NewConnect – 8,523.36 million Zlotys, equivalent to 1,623,618 million Pounds, as of 27 January 2012, AIM – 62,212.7 million Pounds at the end of 2011).

AIM is at a different stage of development: the number of listed companies is falling (from 1694 companies in 2007 to 1143 companies in 2011). The decrease in the number of companies listed on AIM is due to the fact that more firms have decided to merge or move on to the main market. In the first quarter of 2011 28 companies left the AIM market, while in the second quarter of 2011 the number increased to 42.

A different situation is taking place on NewConnect, because nearly half of the listed companies debuted in 2011. British experience shows that the number of debuts cannot continue to grow so rapidly and at some point the number of companies listed on the market must be revised, thereby raising the credibility and transparency of the market from the perspective of potential investors. The number of debuts in London last year ranged from 1-10 per month (total 90). In December three companies launched their shares on AIM, while at the same time on NewConnect six times more debuted. In 2011 in this respect (number of debuts) the NewConnect market took second place in the world. On the other hand, it has very low liquidity – on January 27, the total turnover amounted to 3,792.82 thousand Zlotys, which at the capitalization level mentioned above is very low. For comparison, on AIM on 29 December daily turnover amounted to 1,110.93 million Pounds.

Another "small market", established in 2005 – the Entry Standard in Frankfurt, has 130 listed companies, which shows that not every young alternative trading system has such high growth as NewConnect. The situation is similar in the case of the Vienna Dritter Markt. Although the number of listed companies has been increasing, this rate has been much slower than NewConnect. Three years ago the Dritter Markt had 24 companies listed and at the beginning of 2012 – 87. First North, targeted to medium-sized companies in the Nordic countries, although started in the same year as NewConnect, currently lists the shares of 134 companies.

The most important alternative trading system in the world is the NASDAQ, the OTC regulated stock market in the United States, with subsidiaries in Canada and Japan. Entrance to the

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NASDAQ is easier and cheaper than launching shares on to the traditional stock exchange, and its importance has grown so much since the first quotations, that large corporations prefer to remain listed on NASDAQ, giving up the transition to the NYSE. It is difficult to compare NASDAQ to NewConnect because when considering its background, even large European exchanges look small. Furthermore, it is not an exchange in the traditional sense, but rather an electronic stock trading system. NASDAQ has been operating since 1971, making the European alternative trading systems look like newcomers.

The Polish "small market" certainly has reason to rejoice: more and more companies and investors are debuting. However it should be kept in mind that such a dynamic increase in the number of companies cannot last forever and at some moment the companies will be naturally verified, i.e. investors will look in greater depth into achieving the aims of share issue and what potential newcomers are promising. This should be seen as the next stage of market development, which will allow us to become one of the most important alternative trading systems in Europe and worldwide.

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