Introducing the benefits of the capital markets to small and medium-sized enterprises
SMEs - enterprises at the heart of the economy

Small and medium-sized enterprises (SMEs) are the backbone, or perhaps the beating heart, of many economies. The vast majority of companies within the European Union are SMEs and most would actually be classified as micro enterprises, as they generally employ fewer than ten persons, and have a turnover, or balance sheet value which is lower than €2,000,000.

Typically, such businesses are family-run operations. Like any other enterprise, they need access to finance to sustain and grow their operations, and continue to generate employment and value for all stakeholders. In reality, however, small businesses find it difficult to access alternative sources of finance and tend to rely primarily on bank finance, family funds and their own retained earnings. Such constraints severely limit their potential and the greater role they could play in growing the economy.

The ‘risk capital’ which fuels the growth and expansion of larger businesses is simply not available to SMEs, which thus face a ‘financing gap’. Whilst entrepreneurial spirit is the dynamo that keeps SMEs going, such businesses need access to finance, particularly for growth and expansion.

Succession statistics are stark. Though estimates vary, in many countries, a third of businesses do not successfully make the transition from the third generation to the next. Given the high incidence of family-run businesses, this reality raises a number of concerns about why businesses do, or do not, survive and the owners’ attitude to proper succession planning.

Access to Capital Markets

Larger SMEs already have access to capital markets; for example, almost half of the organisations listed on the Malta Stock Exchange (MSE) are entities of this size. The benefits of listing are evident – in fact, listed organisations out-perform their unlisted counterparts in terms of turnover, employment and profitability as a result of better corporate governance, efficiency and brand value.

In most countries, the traditional route taken by companies to access the capital markets has been through the regulated market, which entails compliance with a number of criteria.

Prospects – a new tool to access capital markets

The development of Prospects is in line with the MSE’s commitment to open up new capital market opportunities, create economies of scale and to afford businesses more competitiveness and sustainability.

There is another, equally important, benefit; greater investor access to the capital market leads to more efficient utilisation of capital resources. Experience clearly shows that there is significant demand for IPOs, and there is, therefore, space for additional investment opportunities throughout Europe.

Prospects creates an opportunity for SMEs to access capital markets relatively easily and efficiently, and to benefit from the advantages which, so far, have only been available to much larger entities.

Small and medium-sized businesses will now be able to raise capital by issuing bonds, issuing new shares, or selling existing shares to a pool of investors far greater than their own family or business partners.

In a tangible and practical way, Prospects, therefore, offers many businesses growth opportunities which have hitherto been simply out of reach. This new market has been designed specifically for SMEs and, therefore, reflects their particular needs and circumstances.

Prospects’ key features:

- There is no minimum value for the IPO, though the MSE envisages IPOs of between €1 million and €5 million
- Any number of shares may be floated - there is no requirement for a minimum percentage of shares to be held by the public
- This product is not passportable within the EU
- Securities admitted on Prospects will benefit from the MSE brand and reputation
- Corporate Advisor by the MSE ensures that transparency and corporate governance efficiencies are achieved and retained, thus instilling greater investor confidence.
- Prospects will also help in succession planning - admitted equities may be traded on the secondary market, thereby unlocking value for existing shareholders.

Prospects provides cost-effective access to capital – there is no need for security or collateral, though investor and market confidence are required for success.

Companies considering admission to Prospects require the services of a Corporate Advisor, both before and following an admission process. The involvement of a Corporate Advisor by the MSE ensures that transparency and corporate governance efficiencies are achieved and retained, thus instilling greater investor confidence.

Application process

The Corporate Advisor will be responsible to ensure that the company achieves the right levels of corporate governance and transparency. The Corporate Advisor will also assist with applying for admission to Prospects through the completion of the relevant application forms, business plans, and other disclosure documents. These can be found and downloaded through the Prospects website.

Initial Public Offerings (IPOs) made under the Prospects Rules, which are lower than €5 million, and have fewer than 150 investors from any single jurisdiction shall be approved by the MSE.
Entities eligible to apply for financing through Prospects

Any company which falls within the EU definition of a small to medium-sized organisation (SME) is eligible to apply for access to Prospects. This also includes start-up businesses. The company must be a public limited company (plc) with a minimum issued and fully paid up share capital of €46,588.

<table>
<thead>
<tr>
<th>EU criteria for SME categorisation</th>
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<tbody>
<tr>
<td>Company Category</td>
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<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Medium</td>
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<tr>
<td>Small</td>
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<tr>
<td>Micro</td>
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Benefits of Prospects for investors

The market will:
- have access to all relevant issue information available through the Prospects website – both before and after the issue of the equity and bond to the public
- enjoy the benefits of participating in small business growth
- be the venue where the SME shares and/or bonds may be traded, creating an exit route for investors
- ensure transparency and continued good corporate governance through the role of the Corporate Advisor who will continue to play a fundamental role for such time that the instruments remain admitted to Prospects

Whilst SMEs generally enjoy very strong growth potential, and levels of profitability, the risks of investing in the SME market should not be ignored. As SMEs are, by their very nature, more susceptible to adverse market conditions, this particular market involves a different level of risk to the potentially better capitalised, larger organisations listed under the Prospectus Directive.

Investors are, therefore, encouraged to take the necessary advice in order to build a well-balanced and appropriate investment portfolio, reflecting their own personal circumstances and investment objectives.

How much will it cost to be admitted to Prospects?

8.1 Application Fee

ALL APPLICATIONS

€5,000 applicable for admission of equity or debt securities to Prospects

Where the MSE requires additional skills and resources in order to process an admission application, additional costs may apply.

8.2 Annual Fees

ALL TYPES OF SECURITIES

<table>
<thead>
<tr>
<th>Market Capitalisation</th>
<th>Annual Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first €15,000,000</td>
<td>0.1% - with a minimum of €5,000</td>
</tr>
<tr>
<td>On the next €35,000,000</td>
<td>0.05%</td>
</tr>
<tr>
<td>Above €50,000,000</td>
<td>No additional fees</td>
</tr>
</tbody>
</table>

Market data services

Currently included in the Annual Fee

Example of Annual Fees applicable:

| Market capitalisation of €5,000,000 or below | €5,000 |
| Market capitalisation of €15,000,000 | €15,000 |
| Market capitalisation of €50,000,000 or above | €32,500 |

Good Prospects for SMEs

Potential benefits of Prospects include:

Access to capital formation, through the issue of equities and corporate bonds

Admission to Prospects will raise brand awareness, and prepare for the issue, or sale, of equity as part of a succession planning process

SMEs will enjoy the benefits of good corporate governance, and the enhanced efficiency and effectiveness which this brings

Admission to Prospects opens up the opportunity of eventual migration to a listing on a regulated market

The company may secure capital at a competitive coupon rate, in the case of a bond issue, and under conditions more favourable to other, more traditional, methods of raising finance

The admission of equity will create an opportunity for existing, or new, shareholders to exit the market efficiently in future

No collateral is required to access finance on the capital market.
## Roles and responsibilities of the Corporate Advisor

During each phase, Corporate Advisors have a critical role in the process:

### Pre-application Phase

<table>
<thead>
<tr>
<th>Step</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Will conduct due diligence on the company, its shareholders and key management personnel</td>
</tr>
<tr>
<td>2</td>
<td>Will provide advice and support on the creation of the business plan and the application process</td>
</tr>
<tr>
<td>3</td>
<td>Will guide the company as to the management structure and financing options, whilst ensuring that the company satisfies all eligibility requirements</td>
</tr>
<tr>
<td>4</td>
<td>Will prepare accounting and other disclosure information</td>
</tr>
<tr>
<td>5</td>
<td>Will submit the final application to the MSE for admission to Prospects</td>
</tr>
</tbody>
</table>

Corporate Advisors have a critical role in ensuring good corporate governance, transparency, viability and investor protection.

### Application Phase

<table>
<thead>
<tr>
<th>Step</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ensure that directors of the applicant company understand their responsibilities and obligations</td>
</tr>
<tr>
<td>2</td>
<td>Receive assurance that applicants have procedures to ensure compliance and disclosure, where required</td>
</tr>
<tr>
<td>3</td>
<td>Complete admission documents and associated checklists</td>
</tr>
<tr>
<td>4</td>
<td>Support the IPO processes as may be required</td>
</tr>
</tbody>
</table>

The Corporate Advisor needs to ensure that the process is fully understood and that all relevant details are fully disclosed in a clear, unequivocal manner.

### Post-application Phase

**General Obligations**
- Advise the MSE should any material change occur which may impact its abilities to fulfill all the responsibilities of a Corporate Advisor
- Provide the MSE with details of qualified persons supporting corporate advisory services
- Disclose a list of current and former Prospects clients

**For each Prospects client**
- Maintain contractual services agreements
- Retain capacity as an independent advisor
- Regularly interact, advise and disclose as required

The Corporate Advisor must ensure that good corporate governance and transparency are maintained once the company has been admitted to Prospects.

## Additional information for investors interested in SMEs

Investors may invest in a company admitted to Prospects at the IPO stage, when the company issues the instruments for sale, or through the secondary market.

Access to the secondary market trading will be through the network of Members who are approved by the Exchange and who have access to the trading platform.

It is important that investors seeking to invest in companies admitted to Prospects seek the necessary advice and carry out adequate research into the respective company to understand, and assess, the risks that may be associated with the investment. While SMEs form the backbone of most economies, and could generate attractive returns, they are also relatively less able to cope with severe downturns in an economic cycle.

While the ongoing corporate advisory role is intended to mitigate such risks, by assuring transparency, viability and good corporate governance, the investor should always be aware of the relatively higher risk associated with this market.