To List or Not to List on the ASX, That is the Question

What are the Pros and Cons of an ASX Listing?

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Stock exchange listings have gone hand in hand with Australian mining for as long as anyone can remember. Back in the 1800s, the speculative capital for Australia came from London. The first official stock exchange was established in Melbourne in 1859. The Sandhurst (Bendigo) stock exchange was founded in the 1860s, and other localised exchanges sprang up in association with new mining centres. These were specific-purpose stock exchanges designed to rapidly raise capital for immediate mining ventures, and to provide investment opportunities for speculators who wanted an avenue to profit from the gold booms without having to go down mineshafts themselves. They were always high-risk/high-reward arenas. Companies seldom lasted very long, depending upon when the pay lode ran out.

The stock exchanges of today have a completely different colour to them. They offer a marketplace primarily for equity investors in industrial and mining companies to participate in all aspects of Australian business ventures. Mining companies are still important, but increasingly less so as time goes by.

As pools of capital have grown over the decades, such that family offices and private equity funds are now active investors, there are expanding alternative sources of risk capital outside of the traditional stock markets, such as the ASX and similar, but less mainstream exchanges in Australia.

The simplistic view of many players in the small mining game in particular is that, in the normal course of business, you get a few mates together to seed the formation of a company, you pick up a few exploration projects, and then you raise a few million dollars in an IPO. The promoters get set at very low prices - maybe at 1¢ a share - their mates and brokers get cheap stock at 5-10¢ a share, and then the 'Johnny public' gets a chance to buy shares at 20¢ when the cash backing at listing is likely to be only 10-15¢ a share. This is known as a 'sausage factory' IPO. Having the right promoters, the right hot commodity as a focus, and, of course, the right timing, are all important factors in setting the stage. This type of company needs an ASX listing because it is the very listing that provides the opportunity to promote and profit. It is how you achieve liquidity in the shares, and it relies on news flow and expectations to fuel the market. The listing gives shareholders the opportunity to play in the casino.

To list on the ASX, companies have to comply with the listing rules and regulations dictated by ASIC. Along with almost everything else in Australia, rules and regulations are becoming more invasive and complicated as each year passes. Increasing socialisation of the market is yet another burden companies are forced to bear. This means that compliance costs are becoming ever more expensive and

time consuming. It is now costing on average, in the order of $500,000 p.a. in recurring costs just to comply with all of the rules, and that's before even spending any money in the ground. It's good money that could be used for exploration and drilling. So, is this money spent wisely, or is there a better alternative?

There is another obligation with which ASX-listed companies must contend - promotion and shareholder communication. In fact, it is the whole exercise of dealing with hundreds, and often thousands, of shareholders. Unfortunately, many shareholders feel that the job of directors is to get the share price humming. The liquidity in the market and minimal transaction costs can make it easy for investors to buy and sell shares at a whim, so investment strategies are often very short term. Shareholders want constant and positive news flow. They want the share price to spike so they can trade out and lock in a profit. If directors are not careful they can be bullied on social media and chat sites. They can be subject to ill-informed and sometimes completely manipulative commentary that can often be highly defamatory, with little or no recourse. There is often misalignment between what shareholders are expecting and what is responsibly required to build a serious company in a realistic timeframe.

There is never-ending competition for attention in the market place. This necessitates that companies attend numerous conferences every year, and engage publicists that actively promote on social media and the Internet, at great cost in time and money. It may reasonably be estimated that up to 25% of the time of a modern CEO is spent dealing with matters of promotion and, dare I say, spiking the share price. Again, this is time taken away from the task of building a serious company.

At this juncture it is necessary to draw a distinction between speculative promotional companies and those that have a serious business plan. It is necessary to distinguish between the companies that merely offer just another gambling chip in the casino, riding whatever speculative wave they can catch, and those that have a project of serious merit that could realistically support a profitable venture.

Many companies promote as if they have a serious venture, but in most cases it is the blind leading the blind. Take the uranium boom in the noughties (i.e., 2000s) as a good example. There were over 100 companies riding the uranium wave, but how many actually recorded uranium production in the 10 years subsequent? There was Paladin Energy and Peninsula Energy, and you could sort of add Alliance to the list. So, three out of more than one hundred. How many graphite companies have gone into

production recently? I believe that the number is three. You should expect that the success rate in any particular wave of companies going from nothing to something is much less than 10%. Those companies that don't make the grade need access to the ASX listing because it offers the opportunity for punters to trade on expectations rather than reality. Some would say that the only reality is the market and the price on the day that the shares are liquidated.

When *don't* you need the compliance burden? When *don't* you need to pump the market with good news so that traders can have a field day? When can you avoid the time and costs of attending conferences all around the world in pursuit of enthusiasm and constant buying of your stock? When you are not listed, of course; but more elementary, when you have alternative sources of capital.

Raising money from private equity or from family offices, or even high net worth individuals who are more discerning, is a different ballgame. There is much greater accountability, from the company raising the money to the capital providers. There are fewer people involved and they are more personally identifiable. Due diligence requirements are more personalised to ensure greater correlation of business outcomes with investor preferences. In most cases, the investors are backing their ability to accurately discern what they are getting involved with, without the safety blanket of an ASX listing. It may be that an ASX listing is the liquidity event investors will be looking towards in the long run, relying on the enhancement of the value of the investment through a productive work program, enabling an IPO at high valuation in a more conducive market. It may be that a trade sale is the best outcome. Much depends upon the level of success achieved by prudent use of capital. Keeping something private, with a limited number of shareholders, is much more efficient in the short term for a company with a project of merit. In the case of an exploration company, funds can be more usefully deployed drilling out a prospect, to achieve JORC status resources rather than spending on compliance. Shareholders will get better leverage on their investments; more bang for their buck.

Of course, this flies in the face of the adage that says the best way to destroy a prospect is to drill it (quoted by numerous promoters over the years). Thus, there can be more risk if the property proves to be a dud, as the exit strategy of an IPO will evaporate if the drilling fails to deliver.

Not all projects are at the exploration stage though. Some have already been drilled sufficiently to give confidence that there is an orebody, but the dimensions may be uncertain or open. In that case, the next round of drilling is likely to be the most value-accretive of any exploration program.

Then again, if the orebody has been fully delineated, the project tends to lose its speculative appeal. Once it gets to the point where the engineers get stuck into it, you begin to see a level of scrutiny that can actually constrain the outlook as reality takes hold. An IPO at this stage, once all of the studies have been completed, takes the shape of project development funding. Different types of risks come into play, such as debt financing risks, engineering risks, and commissioning risks. This is where real disciplines and skill levels take precedence. Should shareholders seek to share this risk through the IPO process, or do they all go away and keep it private until it successfully produces? Then, once it is working well and generating positive cash flows, why would you want the problems that come with an ASX listing ... unless it is an exit strategy and time to cash out, seeking payback for a job (well) done?

So, there are many pros and cons to having an ASX listing for exploration and mining companies. Different stages of development involve different aspects of risk and reward. Each decision needs to consider the preferences of all parties involved, but there is one clear view that is hard to escape from. A private business rather than a public business (as defined by an ASX-traded company) is going to offer the owners and operators greater levels of privacy and flexibility to run the business as they see fit. Yet, at the end of the day, the vast majority of businesses do end up on the bourse at some point, for reasons of either better access to capital with more flexibility and less accountability when compared to debt, or opportunity to lock in goodwill on a divestment - or both.

The final issue to consider is whether an ASX listing is any better than a listing on exchanges elsewhere in the world, or in Australia. While the National Stock Exchange is an option in Australia, it has not been considered by most mining and exploration companies due to the lack of critical mass and low business volumes. This means that the ASX is the only real option in Australia.

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The TSX-V is often suggested for junior companies that have projects in the Americas due to the perception that Canadian and Americans understand Latin American projects better, but that is where the logic ends. It seems that compliance is more onerous in Canada, and that is reflected in costs. The Canadian market is more extreme in its cycles than the ASX, and the market depth is less apparent, whereas the ASX system of screen trading is more transparent. When the TSX-V goes quiet, it is deathly quiet.

The AIM market has been used by Australian companies from time to time, usually with less than desired levels of success. It too suffers from a lack of transparency in depth. When Australian companies go to the TSX-V or AIM, the level of success depends upon how committed management is to establishing a presence in the investment communities of the respective exchanges.

The ASX should be viewed as the preferred exchange for Australian companies, notwithstanding its shortfalls and frustrations. All exchanges around the world suffer from increasingly stringent regulations and compliance. When combined with tighter rules for moving money around the world, supposedly in pursuit of the objective of stamping out money laundering, the best exchange on which to list will be determined by where a company is going to achieve the greatest affinity with the investor base. It comes down to effort and commitment.