

Guide to listing on Tunis Stock Exchange

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Introduction

The ultimate goal of any business, regardless of its industry or its scope, is the growth of its wealth.

At a time of globalization and opening of borders, and in a environment characterized by an increased competition where it is constantly necessary to conquer new market shares; This objective is often hampered by the lack of the necessary capital for the implementation of the development strategies.

The IPO (Initial Public Offering) is a real opportunity. It also offers many other benefits that are not always fully understood by managers and shareholders.

Perceived as complex, binding or even costly, the IPO yet remains a major step in the life of a business.

- Why to list on the Stock Exchange?
- At what moment?
- At what price?
- According to what procedures?
- And with the advice of which entity?

We try to answer to these questions in this document which marks out the course of an Initial Public Offering of any Tunisian company in Tunis Stock Exchange (BVMT).

I. Why to list on the Stock Exchange? Four good reasons to do an IPO (Initial Public Offering)

The Initial Public Offering of a company responds to various motives.

1. To raise funds

This financial operation remains the primary motivation of an IPO. It makes the stock Market an alternative source of funding.

Recourse to the financial market to raise funds responds to two business situations

a) The need of funding required to implement a growth strategy:

The ambitions of a company are often channeled through major development projects such as the acquisition of another company or the creation of an integrated subsidiary; other channels, less ambitious but costly, such as increasing the company's production capacity or improving productivity, are also part of these development strategies.

Whatever the nature of its ambitions, a company which has such growth perspectives needs liquid assets that its shareholders cannot always provide. Thus, the stock Market is an alternative or complementary source of funding to a bank loan or partners' contribution.

b. The reduction of the debts of the company

The initial public offering allows to raise funds that will pay off the debts of the company and to consolidate its financial situation. In doing so, it increases its future debt capacity.

2. To extend the shareholding

Several scenarios are possible: first, one or more shareholders may want to "get out" of the company's capital without the other shareholders being able or willing to buy back their shares.

To avoid splitting or dissolution of the company, the IPO is therefore used to find new investors willing to buy these shares at a reference price set by the market.

This situation arises particularly in the case of inheritance for family businesses where one or more of the heirs prefer to transform their shares into liquid assets.

Another case is that of an entrepreneur both founder, majority shareholder and company employee.

The company represents both his heritage and his salary. An Initial Public Offering can be an alternative for him, at some stage of his professional life, on the one hand to convert all or part of his heritage into liquid assets; and on the other hand, to ensure his company's sustainability through the arrival of new shareholders.

In all these cases, the Initial Public Offering ensures the sustainability of the business. It results in the sale of existing shares and not as in the cases 1.a) and 1.b) by the creation of new shares (that is, by a capital increase).

3. To strengthen the company's reputation

The Initial Public Offering of a company can strengthen its reputation and credibility on the national and international level.

Being listed in the stock market, offers the company a permanent visibility through the regular attention carried out by the media towards its evolution and in its profits. Also, as advisers, the stock brokers act as mediators between the company and their customers.

This increased and recurring visibility increases the company's opportunities and attracts potential partners or new customers. Listing in the stock market is a guarantee of credibility which represents an undeniable commercial asset.

A better reputation and credibility also facilitates the company's relationships with institutional actors (banks, administration ...) and everyday partners.

A listed company is more attractive for human resources. That facilitates its recruitment process and the development of its human resources.

4. To benefit from substantial tax incentives

The Initial Public Offering of a company allows it to benefit from a special and favorable tax status.

Thus, the opening to the public of 30% of the capital of a company, allows it to benefit from a reduction of the corporate tax rate during the five years following the Initial Public Offering.

For former shareholders, the proceeds from the sale of their shares during the Initial Public Offering are exempt from taxation.

II. Other advantages of an IPO

Along with the substantive objectives sought in an Initial Public Offering, there are other significant benefits that should be mentioned.

1. Mobilizing and motivating the staff

The Initial Public Offering and the evolution of the share price represent a common goal to the management and to the employees.

2. Adopting good corporate governance practices

Because it imposes certain conditions, the Initial Public Offering is an opportunity to adopt a strategy of good governance and transparent management of the company. This transparency notably involves a financial communications effort targeting external investors, shareholders or potential shareholders.

The corporate governance practices must also result in the implementation of internal procedures of work and control as well as the professionalization of the management and of the board of directors:

III. What are the requirements for an Initial Public Offering?

A company that is a candidate for an Initial Public Offering must choose the market in which it wants to be listed.

The Stock Exchange has two markets of capital securities: The Main Market and the Alternative Market.

Admission to one of the markets implies that the following conditions are met by the company.

- 1) **Common conditions for admission to the Main Market and the Alternative Market**
 - Publication of certified annual accounts of the last two years with the possibility of exemption for companies active for than 2 years.
 - Distribution of 10 % of the capital to the public with possibility of exemption in case of distribution of the amount of 1 million dinars.
 - Submit an assets evaluation report.
 - Have adequate organization, internal audit, management control
 - 5 year business plan, validated by the board of directors with the opinion of the statutory auditor.
 - Produce an admission prospectus approved by the Financial Market Council

In addition to the legal, financial and administrative documents demonstrating compliance with the above conditions, the Application on the stock exchange must also include the company's commitment to make available to the market all information susceptible to influence its evolution and hence the price of its securities.

At least, the company has to publish the following elements:

- The biannual and annual financial statements
- The quarterly indicators of activities.

1. The specific conditions

Main Market	Alternative market
Last two fiscal years profitable. This condition is not required in case of an IPO by direct registration process following a capital increase.	The condition onprofits is not required
200 public shareholders at least	100 public shareholders or 5 institutional shareholders at least, no later than the day of the IPO.
Minimum capital of 3MD	The condition of minimum capital is not required
	-Admission may also be requested by a company when 20% at least of its capital is held for more than one year, by two or more institutional investors. -Admission may also be requested by a company being created by public offering (for large projects). In this case, admission is ruled directly by the Financial Market Council.
	Presentation by a listing sponsor of a certificate of realization of diligences for the admission of securities on the alternative market. - The company must appoint a listing sponsor during the whole period of its listing in the alternative market. The mandate granted to the listing sponsor should not be less than two year

* Public: shareholders individually holding no more than 0.5% of the capital and institutions individually holding no more than 5% of the capital.

IV. What are the procedures of an Initial Public Offering?

To list on the Stock exchange, the company has to meet all the requirements for admission to the market, particularly the condition relating to the distribution of securities to the public.

The of initial public offering is accomplished in two continuous phases: (1) distributing the securities to the market and (2) organizing the first listing according to one of the four procedures below.

-The techniques of distribution of securities

Two techniques of investment of securities are used

- The guaranteed investment of securities by institutional investors. The centralization is made with leader institution of the labor union of investment. The allocation of the securities is made with the discretion of the leader.
- The distribution to the wide public. This distribution is centralized by the Stock Exchange. The allocation of the securities is made according to criteria announced in advance (method of distribution, categories, etc.).

The distribution of securities to the public is carried out by banks and stock brokers. It is done by one of the following procedures: direct registration procedure, the minimum price offer, the fixed-price offer and Open Price Offer.

The procedures of first listing in the stock exchange

1. **Direct registration procedure**

The shares of the company are directly registered on the stock market quotation in order to be traded.

This procedure is used when the company meets all the admission requirements.

This procedure is also used, at the request of the company for its direct registration to the alternative market, when 20% at least of its capital is held for more than a year, by two or more institutional investors.

2. **Fixed price Offer procedure**

All or part of the capital of the concerned company is made available to the public on the day of the Initial Public Offering, at a fixed price.

3. **Open Price Offer Procedure**

The procedure of open price offer consists in making available to the public a number of securities by setting a price range.

Generally, the open price offer procedure is coupled with a guaranteed investment. The market price is set at the end of the offer and takes into account the final price of the guaranteed investment.

4. **Minimum price offer procedure**

This is a technique that is similar to sale by auction. It allows the company's shareholders to make available to the market on the day of the Initial Public Offering, a number of shares for sale at a minimum price.

Purchase orders cast by investors are centralized by the Stock Exchange, which sets the Initial Public Offering price by which all orders will be served.

V. Who does what in an Initial Public Offering? The company's partners

During the various steps involved in the process of an Initial Public Offering, various financial professionals and experts intervene.

-The auditors and the legal counsel are responsible for:

- Certifying the financial statements of previous years preceding the Initial Public Offering.
- Helping on the preliminary restructurings and statutory changes that are necessary for the Initial Public Offering.

-The stock broker carries out these tasks:

- The evaluation of the company.
- The deposit of the file of admission to the stock exchange
- The implementation of the calendar of operations.
- The preparation of the listing prospectus that will be submitted to the Financial Market Council.
- Distribution Of securities to the public according to one of the IPO procedures.
- The management of the liquidity contract.

-The Listing Sponsor in the Alternative Market is responsible for:

- managing the IPO operation.
- Accompanying the company throughout the listing period of its securities.
- Assisting the company to meet legal and regulatory requirements of the market.

The activity of the Listing Sponsor is conducted by intermediation companies on the stock market, credit institutions, offices or businesses specialized in accounting, finance or law.

- Tunis Stock Exchange (BVMT) is responsible for:

- The review of the admission file deposited by the stock broker
- Centralization of orders, the allocation of securities and publication of results at public offerings.
- The organization of listing of securities.

The Financial market council (CMF), the supervisory authority, verifies the quality of the information put at the disposal of the public during the initial public offering. This takes the form of a visa which is a prospectus of admission to the stock exchange. Without this visa, the Initial Public Offering cannot take place.

The central depository, 'Tunisie Clearing' takes charge of the securities of the company before the day of the IPO and ensures the settlement and delivery of securities from their first quotation.

VI. What is the cost of an Initial Public Offering

A company's Initial Public Offering generates a set of financial costs, direct and indirect.

1) Indirect costs are difficult to quantify. These are all costs related to the mobilization of the managers who will decide, track and manage the entire process of the Initial Public Offering. There are also the costs of setting up the "corporate governance" system.

2) Direct costs are of three types

- The remuneration of experts, consultants and brokers: their intervention is the subject of fees that are negotiated depending on the nature of the mission entrusted to them (volume of work, level of expertise requested ...)
- The commission of the Financial Market Council (CMF): This is a commission paying the visa for the prospectus of admission to the stock exchange..
- The commissions of Tunis Stock Exchange (BVMT)
 - The commission of admission: it is collected during the initial public offering and is calculated according to the capital of the concerned company.
 - The commission of listing: it is annually collected.
 - The commission of Tunisie Clearing

-The company issuing shares must pay:

- An admission fee.
- An annual fee.

VIII. **Testimony of Mr. Bessam Loukil (Chairman of the Board of AMS)**

The motivations behind AMS' initial public offering

During the first half of 2012, the company Ateliers Mécaniques du Sahel, whose majority is owned by the LOUKIL Group, achieved great success with its Initial Public Offering in the alternative market.

There were three main reasons behind this IPO

In fact, the company AMS wanted to obtain necessary funds to finance its growth and its new investment. The financial market, considered as a source of funding at lower cost, has significant resources and covers the company's capital requirements.

The deleveraging of the company is also a reason for its Initial Public Offering. Indeed, the goal was to increase the company's own financial resources and modify its financial structure through a debt repayment.

As a replacement of the classic bank financing opportunities, the company AMS has opted to acquire capital from mere contributors and investors, thereby favoring an inexpensive to a costly financial resource.

Finally, one of the important motives for its Initial Public Offering is to boost the company's reputation. To be listed on the stock exchange allows the company to better link its brand and strengthen its credibility with its customers, suppliers and capital providers.

Also, the publicity surrounding the initial public offering of the company operation was important, thanks to the events necessary for the admission to the stock exchange.

Moreover, admission to Stock exchange listing has helped convey the positive and powerful image of the company AMS. This is proven on the one hand, by the number of the fixed price offer subscriptions which was 20.9 times. On the other hand, by the growth recorded during the AMS shares between the date of its first trading on the alternative market and its current price.

AMS in brief The company Ateliers Mécaniques du Sahel - AMS is a limited company with a capital of 17.3 million dinars. Its purpose is the manufacture and marketing of household products and all

faucets and hardware products , all by-products and derivatives; as well as the manufacture and marketing of all products of porcelain or glass.

Date of the IPO June 2012

The price of the IPO: 10 dinars

The return on shares on 30 September 2012: 48,90%