

CAPITAL MARKETS

The IBO: the future of SMEs financing

JEAN-NICOLAS SORET AND FABIEN POUCHOT | ALTANA LAW

Following the recommendations of the Rameix-Giami report, NYSE Euronext now allows listed and unlisted SMEs to issue bonds to retail investors on NYSE Euronext Paris and NYSE Alternext Paris.

Since its launch in July 2012, this new public offering of bonds called Initial Bond Offering (IBO) has already seduced the agricultural group AgroGénération listed on NYSE Alternext Paris and the property developer and promoter Capelli listed on NYSE Euronext C Paris, which raised €9.4m and €11.7m respectively.

With the setting-up of the IBO, the Paris market confirms a trend of increasingly greater direct funding from individuals and institutions. This tendency to new banking disintermediation anticipates the tightening and inflation of bank credit due to the implementation of the Basel III and Solvency II prudential regulations, forcing banks and insurers to raise their equity and liquidity buffers.

There is no doubt that the announced scarcity of bank credit facilities will force many SMEs to turn to a new source of financing in the months and years to come. The many benefits of the IBO should make this new innovative instrument one of the main sources of financing alternatives.

A flexible and efficient financing tool

The major advantage of the IBO is to enable SMEs to get financing while maintaining complete control over the capital dilution, as

well as the company management and assets.

No dilutive effect. In the case of conventional bonds, the issuer's share capital remains intact. The issue of hybrid securities (convertible bonds, bonds with redeemable and/or acquisition warrants, etc.) is not expressly prohibited by the laws in force (Section P 1.1.8 of NYSE Euronext Paris Rules and Section 4.5 of NYSE Alternext Paris Rules). However, according to NYSE Euronext, the centralisation platform Trading Group 97 dedicated to the IBO appears to be dedicated to vanilla bonds (NYSE Press Release dated 29 May 2012).

No financial covenants or specific commitment. The issuer is a *priori* not required to maintain a certain level of financial covenants. Capelli has, for its part, agreed to maintain a defined level of equity and a ratio of net debt/equity of less than 0.8. The bond issuers are usually not subject to special restrictions relating in particular to the structure of their capital, their investment capacity or distribution of dividends.

Absence of pledge on securities or asset. No guarantee on the issuer's securities or assets is a priori granted to bondholders, who are considered unsecured creditors. Note that Capelli has, for its part, committed to have its bondholders benefit *pari passu* with any guarantees which would be granted to other holders of bonds or financial instruments issued by the company.

A long-term loan. The maturity date of the bonds varies between five and 10 years and is generally longer than that of bank credit. ►►

The duration of the loan was fixed respectively at five years for Capelli and at six years for AgroGénération.

A liquidity insured by the market. The nominal value of the bond is set at €100 (or any multiple of €100), which aims at facilitating liquidity on the market. Liquidity should further increase with the appearance of liquidity agreements in similar contexts.

No periodic repayment. Unlike a bank financing, bonds are repayable in full upon maturity, but for interests, which are payable periodically. The interest rate is generally high for the issuer (Capelli: 7 percent; AgroGénération: 8 percent), but attractive to the investors because it is higher than other conventional regulated investments (*Livret A*, etc.).

A transaction easy to run and understand

Limited conditions for issuance. The IBO is open to all SMEs which are listed on the French market and whose capitalisation is below €100m, and to all SMEs which are not listed but comply with the definition of SME under the European legislation (Recommendation 2003/361/CE). The minimum amount of bonds per issuance is €10m on NYSE Euronext Paris and €5m on NYSE Alternext Paris. In order to foster investor confidence, ESMA-accredited independent agencies issue ratings for SMEs under this offer. However, rating is mandatory only where the issuer's market capitalisation is under €100m.

Simplified listing documents. The IBO process is similar to the IPO (Initial Public Offering). For a standalone issue, the only

documents to provide are a prospectus to be approved by the French Regulator and a copy of the executed board resolution approving the issue of bonds. Where the issuer's shares are listed on NYSE Euronext Paris, the annual company information prospectus is incorporated in the bond prospectus by reference. Save for certain exceptions, no additional public statement obligation is imposed to the issuer.

Centralisation process managed by NYSE Euronext Paris. As for the IPO, the stock exchange operator is in charge of the centralisation of orders. Fixing is performed once a day.

A fast transaction. The IBO process lasts for about 2-3 months from launching the offer to admission to trading.

Limited cost. The main costs of the transaction are linked to communication and marketing aspects. As the offer is mainly geared to individuals, the road show is central to the whole process. For Capelli, the total amount of the transaction (communication, rating, intermediaries' and advisers' fees) was estimated at about 3 percent of the total amount raised, i.e., circa €350,000. But in a sense this amount, which is similar to that of a capital increase on the market, is offset by a greater visibility resulting from the communication campaign. ■

Jean-Nicolas Soret is a partner and Fabien Pouchot is an associate at ALTANA. Mr Soret can be contacted on +33 (0)1 79 97 93 00 or by email: jnsoret@altanalaw.com. Fabien Pouchot can be contacted on +33 (0)1 79 97 93 00 or by email: fpouchot@altanalaw.com.