

# To answer the following...

1. Why are so few family firms choosing public listing in the Baltics?
2. Main preconditions for more SMEs and family firms going public?
3. Red flags investors look for before investing in family controlled firms?
4. How could we incentivize SMEs in the Baltic States to raise capital through public markets

We need to take a TOP DOWN journey!

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# *A warm* welcome from SMEs and smaller EU capital markets\*!

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\* EU/EEA/CH

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# The four freedoms of the EU are...

The free movement of

- goods,
- services,
- **capital** and
- persons

within the EU

Yet...

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# When it comes to capital markets...

EU members from Slovakia to Estonia have more in common with the Sahara and Asia than the eurozone!



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## Why? Simple!

The world has been overrun by indexation and other factors.

## Why the Sahara?

Because Bulgaria, Croatia, the Czech Republic, Estonia, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia are typically labelled as emerging or frontier markets... thus typically relegated *to a non-EU focus by investors*.

Moreover, some of the EU countries do not even appear *in any* of the main indices, technically making them 'invisible'!

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# What are frontier markets?

Example.... The Baltics are classified as frontier markets. Fact.

Frontier markets are typically those with:

Factor

Applicable to Baltics?

Low GDP per capita

X

Low economic complexity

X

– And...

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# What are frontier markets?

The Baltics are classified as frontier markets. Fact.

Frontier markets are typically those with:

<u>Factor</u>	<u>Applicable to Baltics?</u>
Low GDP per capita	x
Low economic complexity	x

- And... *deemed too small or difficult to fit into other classifications!*

# What does that mean?

Punishment *even though* memberships of the:  
EU, eurozone, NATO and OECD have been achieved.



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# Standard indexation + MiFID II. Who loses out?

- European SMEs, not just small capital markets
  - «Small and medium-sized enterprises (SMEs) represent 99% of all businesses in the EU.»\*
  - Smaller markets eg. Baltics = typically mean greater concentration of SMEs
  - **Audience participation question:**  
**What is the existing number of >EUR1bn mkt caps in the Baltics?**
- PLUS... MiFID II
  - Present requirements of commission unbundling make
    - smaller markets and
    - smaller companies even less visible

\* <http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/>

# Can something be done? OF COURSE!\*

- Making it easier for companies to enter and raise capital on public markets
  - Includes active promotion of 'alternative markets' such as First North (their natural home)
- Investing for long term (vs. 'punt'), infrastructure and sustainable investment
- Fostering regional retail investment and pension-related investments
  - Consideration for inclusion of more 'off index' investment for portfolio benchmarking purposes
  - Better education incl. relative risks (eg. start-up vs. established company risks vs. listed market disclosure)
- More research coverage of smaller companies
- SME Index (part of a greater plan incorporating CMU, the *EU geography!*)
- Listing support programmes as per the one presently running in Latvia.

\* A good overall recent report here:

[https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/growth\\_and\\_investment/documents/200610-cmu-high-level-forum-final-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf)

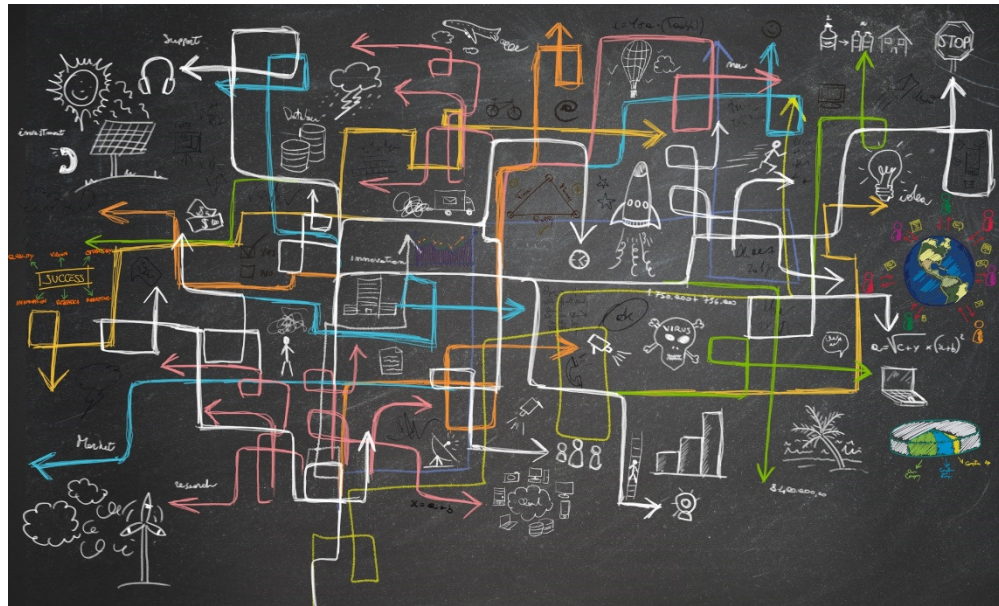
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# After the top down... Into the specifics!

1. Why are so few family firms choosing public listing in the Baltics?
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# Family firms listing in the Baltics?

- Here's the *perceived process*. Handily summarised!



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2. Main preconditions for more SMEs and family firms going public?



*So it is a complex top down problem with  
(i) various structural items to address  
(ii) incorrect perceptions to resolve*

*Plus Market cap to GDP in Baltics = undeveloped capital market / investment culture*








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# Typical red flags\*

-  Effective separation of ownership vs. management (+sufficient internal controls). This covers a very wide area including independent directors etc.
-  *Less than arms'* length transactions with third parties (associated or otherwise) and frequent senior management changes (including regular auditor changes)
-  Lack of clear strategy for long-term shareholder and stakeholder value accretion (includes talent strategy and motivation elements)
-  Financial management (incl.leverage), reporting and forecasting quality: 'creativity' and/or unable to efficiently deliver past results/guidance +evaluate future scenarios
-  Risk management aspects highly relevant to the business unclear and lack of sufficient historical due diligence exercises having been undertaken
-  Shady domiciles for UBOs and unbalanced insider activity: One never really knows who owns the company and material insider-related activity without explanation
-  *Corporate distancing* (vs. social distancing!) when it comes to communications and investor relations, including hostility towards analysts covering the stock

\*not just for family controlled firms

# Into the details!

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*Simply calls for a brief review of the earlier prescriptions pointed out...  
And remembering it is somewhat of a demand rather than supply issue*



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# Thank You! Questions?

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# Appendices



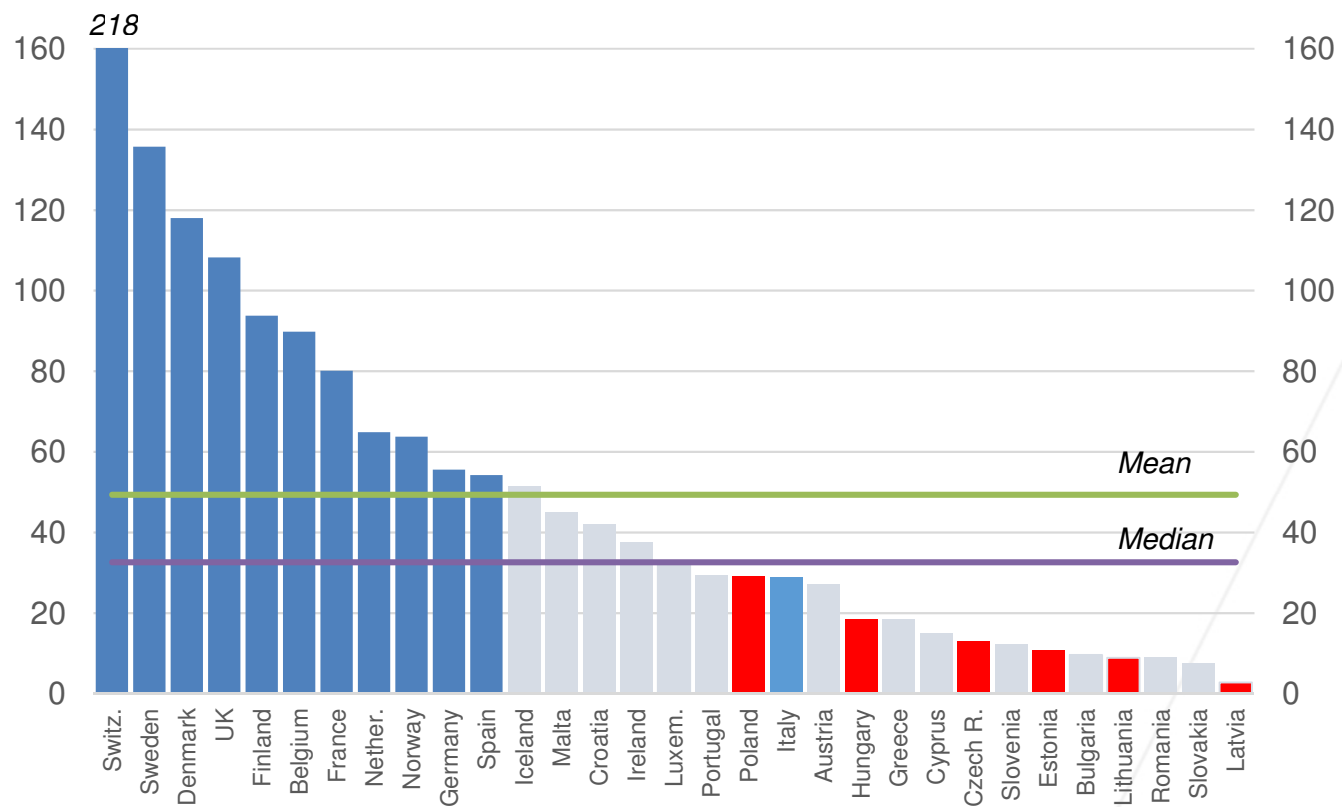
# SMEs

<b>Company category</b>	<b>Staff headcount</b>	<b>Turnover</b>	or	<b>Balance sheet total</b>
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

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# EU/EEA/CH market cap to GDP (%)



Source: Bloomberg, various exchanges

