

Growth Equity Markets as solution to Support SMEs' Financing Needs and fight global pandemic crisis

The World Bank declared that start-ups and small and medium enterprises (SMEs) contribute 60% of total employment and up to 40% of gross domestic products (GDP).

Prior to the global pandemic, start-ups and SMEs were already less likely to be able to obtain loans from banks and instead they were relying on internal sourcing of funding, like cash from family and friends, to start and run their businesses.

Despite of what is the belief in Europe also just few start-ups are able to obtain funding from institutional investors like venture capital funds. Main reason for this trend is that these type of institutional as more as they grow they assets under management (AUM) they become less risk oriented and they invest only when a company reach a certain level of revenues and profitability to assure investment managers to don't lose money and keep having a certain yearly management fee similar to what asset management firms do.

The International Finance Corporation (IFC) estimates that every year 65 million start-ups and SMEs', have a financing need of \$5.2 trillion, which is the equivalent of 1.4 X the current level of the global SMEs' lending. This statistic is contradictory because SMEs have a huge needs for capital and the economy generally cannot operate without them.

The COVID-19 response requires urgent and immediate solution, in order to minimise the related economic impact. Securities exchanges, can play their role in responding to the pandemic, through the trusted accountability which they bring, in the distribution of the national and global emergency funds in addition to private financing galvanised by the crisis. Listing on stock exchanges can give a significant boost to SMEs.

Stock Exchange growth market segments were established in a bid to create a stream of securities issuances from companies that will grow into major users of the exchange traded route to raise capital.

In May 2018 the European Commission proposed to adopt more proportionate rules to support small and medium enterprises (SMEs) listing while safeguarding investor protection and market integrity. The initiative is confined to "SME growth markets", a new category of multilateral trading facilities created by the Markets in financial instruments directive (MiFID II) to support the access to capital for SMEs.

In April 2019, the European Parliament endorsed the legislation setting the building blocks of a capital markets union, including the SME growth markets proposal.

The new rules proposed by the Commission aim to:

- reduce the administration and compliance costs faced by SMEs while ensuring a high level of market integrity and investor protection
- foster the liquidity of publicly listed SME shares to make growth markets more attractive for investors
- facilitate the registration of multilateral trading facilities for growth markets.

The benefits of listing include a reduced dependence on bank funding, a higher degree of diversification of investors, easier access to additional equity capital and debt finance and a higher brand recognition.

Pairstech Capital Management LLP Solution

From 2020 Pairstech Capital Management LLP, the financial regulated arm of Aleph Finance Group PLC, has become listing sponsor of Euronext.

Euronext is the leading pan-European financial market and stock exchange in the Eurozone, with 1,450+ listed companies in 2020 and worth € 3.8 trillion capitalisation, and by being N1 listing venue for European Tech SMEs'. Euronext is playing a key role in financing the European real economy for the following reasons:

- **Pan-European reach:** Teams across Europe facilitate issuer access to our regulated markets in Amsterdam, Brussels, Dublin, Lisbon, Oslo and Paris and (soon) in Milan
- **Proximity to clients:** International investors and trading members benefit from sales offices on three continents.

Euronext is a real solution that wants to replicate, at enormously lower costs and times, on a potential market of much larger dimensions and with a visibility that goes beyond national borders, a real IPO.

The companies open up more and more to professional and retail investors, with a fundamental new advantage: the financial instruments purchased are liquid and transferable. Euronext guarantee companies a significant increase in the pool of potential investors, who will be able to transfer their shares to the secondary market, even with intraday transactions.

Therefore, Euronext encourages companies to grow: if it is true that the listing on the domestic price lists is an important step for a company, it is also true that this should only be a starting point, since internationalization it is essential to be able to address the widest possible audience of specialized investors.

How does listing on the Euronext Works?

The project develops in 3 simple steps:

- 1) The start up or SMEs will carry out a placement activities (through crowdfunding or private placement) to raise capital before listing the company.
- 2) Once the minimum target has been reached, the company will submit the project to the verification of the Listing Sponsor Pairstech Capital Management LLP and the managers of the Euronext market. Time needed can vary from 4 to 6 months, thanks to the different listing methods.
- 3) Once the project has been approved, the company will be admitted to trading on one of the markets controlled by Euronext NV Holding company: Euronext Paris, Euronext Brussels, Euronext Amsterdam, Euronext Lisbon, Euronext Dublin.

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