OWNERSHIP MATTERS

Equity Capital Raising by the ASX300 post-GFC

Too much is never enough

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Key Takeaways

- Equity capital raisings by the ASX 300 totalled $33 billion in 2010-2012, down from the 2008-2009 period when $100 billion was raised in the ASX 200.
- Raisings became fairer during this time with proportionally more funds raised through renounceable entitlement offers.
- Despite lower volume in the post-GFC period, capital raising fees rose substantially with ASX 200 fees increasing by 27.6 percent, to 2.45 percent of each dollar raised. ASX 300 fees in aggregate were 2.71 percent.
- It is too early to observe whether structural reforms to the capital raising process in Australia will reduce the rising costs (in dilution and fees) observed in the 2010-2012 period.
- Further reforms such as abandoning prospectuses, improving fee disclosure, director accountability and the transparency associated with selective capital raisings would enhance market confidence in Australian capital raising practices.

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Executive summary

Capital raising types and amounts

During the post-GFC period, (the 2010, 2011 and 2012 calendar years), ASX 300 companies received $32.88 billion in new capital from shareholders, in 373 separate capital raisings. This is significantly less than the almost $100 billion raised by smaller cohort, ASX 200 companies, during the 2008 and 2009 calendar years.

Capital raisings were fairer to existing shareholders in the post-GFC period. The volume of capital raised through Renounceable Entitlement Offers (REOs) rose strongly, signalling a welcome trend toward the respect of shareholders' position as owners of listed companies.

Table 1: ASX Capital raisings (2008-9 vs. 2010-12)

	ASX 200 Companies (2008-2009)			ASX 300 Companies (2010-2012)		
Form of raising[1]	**Number**	**Funds Raised**	**Proportion of funds raised**	**Number**	**Funds Raised**	**Proportion of funds raised**
Placements	140	$44.84b	45.32%	229	$12.69b	38.61%
NREOs	57	$30.95b	31.29%	50	$6.17b	18.78%
REOs	21	$15.18b	15.34%	32	$12.83b	39.04%
SPPs	61	$7.96b	8.05%	62	$1.18b	3.58%
Aggregate	279	$98.94b		373	$32.88b	

However the most unfair forms of capital raising, selective placements and non-renounceable entitlement offers (NREOs), remain a feature of the Australian capital markets, accounting for 57% of total funds raised. Whilst discounts for funds raised by placements narrowed to a weighted average of 8.27% (GFC: 12.5%), this was small in comparison to the NREO average discount of 17.07% (GFC: 25.16%). Selective capital raisings at prices less than the prevailing market price transfer value from shareholders who cannot participate, to those that can.

Table 2: Detail of ASX 300 capital raisings, 2010-2012 inclusive

	Placements	NREOs	REOs	SPPs	Total
Funds Raised	$12.69b	$6.17b	$12.83b	$1.19b	$32.88b
Percentage of all funds raised	38.61%	18.78%	39.04%	3.57%	-
Number of raisings	229	50	32	62	373

[1] A summary of the features of the various forms of capital raisings is contained in Appendix A to this paper.

	Placements	NREOs	REOs	SPPs	Total
Fees paid to raise funds	$391.63m	$183.67m	$300.62m	$13.56m	$889.48m
Fees as a percentage of funds raised	3.09%	2.98%	2.34%	1.15%	2.71%
Weighted average discount[2]	8.27%	17.07%	10.60%	7.80%	10.8%
Average dilution	14.10%	28.60%[3]	44.08%	3.28%	18.57%
Average time taken (days)[4]	27	36	37	42	31
Average size	$55.43m	$123.45m	$401.06m	$18.96m	$88.14m

Fees rising strongly

Most surprisingly, the costs of raising capital rose strongly in the post-GFC period. Fees (primarily to investment banks) as a percentage of all funds raised across the ASX 300 were 2.71 percent or an aggregate $889m.

In the GFC period capital raising fees were 1.92 percent of funds raised for the ASX 200, but this cohort experienced a steep rise in fees in the post-GFC period. Fees as a percentage of funds raised for the ASX 200 increased to 2.45 percent (a 27.6 percent increase) in the post-GFC period. Aggregate fees fell to $669.56 million (down from $1.89 billion during the GFC period), reflecting the lower volume of capital raised.

Capital raisings made on a non-underwritten basis proved even more expensive. In aggregate, $7.98 billion (approximately 24 percent of all capital issued) was raised without being underwritten, predominantly by way of placement. However fees of $238.83 million were paid representing 2.98 percent of non-underwritten funds raised.

Capital raisings made on an underwritten basis (either fully or partially underwritten) raised funds of $24.90 billion (approximately 76 percent of funds raised) with fees paid of $650.66 million representing 2.61 percent of underwritten funds raised.

Placement fees proved to be the most expensive form of capital raising over the 2010-2012 period at 3.07%. Not all these fees were for underwriting services.

[2] Discounts in this report are a reference to the average of the closing prices of the company's shares over the 10 trading days prior to the announcement of the transaction.

[3] Excludes the Papillon Resources seven for one NREO that took place in March 2010 and raised gross proceeds of $9.16 million, if this is included average capital base expansion increases to 41.68%.

[4] Time taken is measured from the initial announcement date to the day the shares are quoted on the ASX. This figure includes placements where shareholder approval was required prior to the placement being made. If the 43 placements that required prior shareholder approval are removed the average time taken reduces to 16 days. The median time taken for placements across the sample was 10 days.

Suggestions for reform

Notwithstanding recent positive developments such as the proposed shortening of the timetable for rights issues to 19 days (from the existing 26 days) and the launch of the ASX On-Market Bookbuild facility[5], more could be done to lower the costs associated with capital formation and to increase transparency and competition between the various agents involved in the capital raising process in Australia.

Ownership Matters believes the following regulatory improvements, some of which were identified in our earlier paper[6], would enhance protection for investors and lower costs:

- To make capital raisings with pre-emptive rights more attractive, all requirements to produce prospectuses for entitlement offers should be abandoned given Australia's continuous disclosure regime and the ability to rely on cleansing notices issued to market.
- The ASX Listing Rules should be reformed so that directors contemporaneously announce the following details associated with a capital raising to the market:
  - 'if not why not' on a renounceable rights issue;
  - the basis for pricing;
  - total fees paid for placements and underwriting, and sub-underwriting arrangements;
  - any related party involvement, whether or not at arm's length; and
  - allocation policy and specifically whether existing members will be given priority.
- Disclosure of the participants of capital raisings done on a non-pro rata basis (for example under a placement) after the allocations have been made, this would preserve the flexibility of Australia's capital raising regime while allowing market participants greater confidence through observing how boards use this flexibility.
- Requiring prior approval of placements with 'top up' rights, those that allow existing shareholders over 20 percent to 'creep', or which represent more than 9.9 percent of securities on issue to a single investor would reduce the capacity for placements to be used as an entrenchment device.
- Increased disclosure of fees associated with raising capital and exploration of alternatives to investment banks, especially for entitlement offers, could reduce capital raising costs. The requirement to disclose underwriting fees in the appendix 3B announcement should not be limited to pro-rata issues but should be required across any issue of shares.

[5] See pages 25-26 below

[6] see discussion in Connal, Simon J and Lawrence, Martin, Equity Capital Raising in Australia During 2008 and 2009 (August 16, 2010). Available at SSRN: http://ssrn.com/abstract=1664889 or http://dx.doi.org/10.2139/ssrn.1664889

Australian capital raisings in the post-GFC period

During the global financial crisis a major recapitalisation of listed entities in Australia took place, partly as a result of the unwillingness of debt lenders to roll over facilities on terms struck during the pre-crisis period. During 2008 and 2009 the S&P/ASX200 raised just under $100 billion through 279 separate capital raisings.[7]

The three calendar years since have been far less intensive in terms of equity capital raised. In this paper we take another look at the capital raising regime in Australia and examine how equity capital has been raised in the period 2010 through 2012 (which we refer to as the post GFC period). The scope has been broadened from the earlier paper which examined the GFC capital raisings in 2008 and 2009 from the S&P/ASX200 entities to those listed in the S&P/ASX300[8].

How much was raised?

In aggregate, the sample conducted 373 separate capital raisings which raised equity capital of $32.88 billion[9]. Chart 1 below denotes funds raised on a monthly basis as well as the ASX300 index over the sample period.

In calendar 2010 $11.81 billion was raised, in 2011 $12.76 billion was raised and in 2012 $8.31 billion was raised. The peak quarters occurred in April – June 2011 ($7.02 billion raised[10]) and in October – December 2010 ($4.01 billion raised).

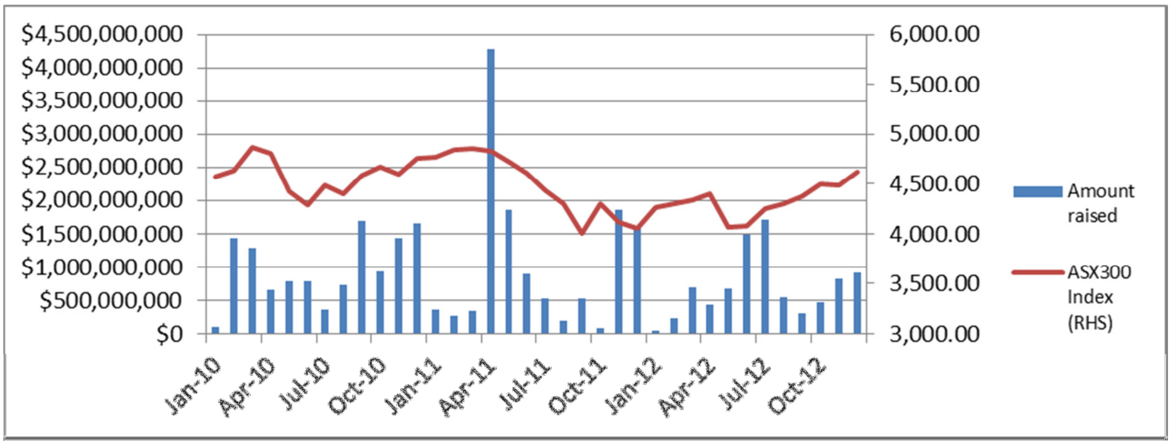

Chart 1: Monthly funds raised by ASX 300 (LHS) and ASX300 index (RHS)

How was it raised?

Capital raisings in Australian can be undertaken by way of placement, entitlement offer (either renounceable or non-renounceable) or by share purchase plan (unit purchase plan in the case of stapled securities), or a combination thereof.

[7] *ibid.*

[8] Those listed in that index as at 31 December 2011.

[9] We have examined each capital raising at the most granular level possible so that a capital raising comprising both a placement and an entitlement offer, for example, is treated at two separate capital raisings.

[10] This quarter included finalisation of Origin Energy's $2.3 billion renounceable entitlement offer announced on 15 March 2011.

The form that a capital raising takes is commonly driven by balancing the following factors:

- **timeliness**: how long will it take to raise the required funds,
- **cost**: how much will it cost to raise the funds,
- **certainty**: how certain is success of raising the funds, and
- **fairness**: how can the raising be undertaken in a way that is fair to all shareholders.

The GFC period appeared to be a time at which timeliness and certainty were predominant factors in driving the form of capital raising undertaken which may explain why placements were the most popular form of capital raising during that period. Placements are normally the fastest means of raising capital and can provide a high level of certainty of success (particularly where the placement is underwritten); however, placements are costly in terms of fees payable. Placements are also the least equitable form of capital raising given that they dilute those existing shareholders who are not invited to participate.

In the post-GFC period most funds were raised under renounceable entitlement offers (REOs) with $12.83 billion (39.04 percent of all funds) raised under that particular form capital raising. Placements were the next most popular form of capital raising $12.69 billion (38.61 percent). Non-renounceable entitlement offers (NREOs) raised $6.17 billion (18.78 percent) and share purchase plans raised $1.18 billion (3.58 percent).

In terms of the number of capital raisings placements were by far the most numerous form with 229 placements conducted followed by 63 SPPs, 50 NREOs and only 32 REOs.

Table 3: ASX 300 capital raisings by type (2010-12)

Form of raising	Number	Funds Raised	Proportion of funds raised
Placements	229	$12.69b	38.61%
NREOs	50	$6.17b	18.78%
REOs	32	$12.83b	39.04%
SPPs	62	$1.18b	3.58%
Aggregate	373	$32.88b	

A shift from placements as the most favoured form of capital raising in terms of quantum of funds raised was observed (45 percent in the GFC period to 38 percent since then) as was a shift towards REOs as the most favoured form (from 16 percent in the GFC period to 39 percent in the post GFC period).

Below are charts representing the capital raisings undertaken during the GFC period (2008 and 2009, Chart 2) and in the post GFC period (2010 – 2012, Chart 3). It should also be noted that the GFC sample included the entities listed in the S&P/ASX200 index whereas the post GFC period included those listed in the wider S&P/ASX300 index.

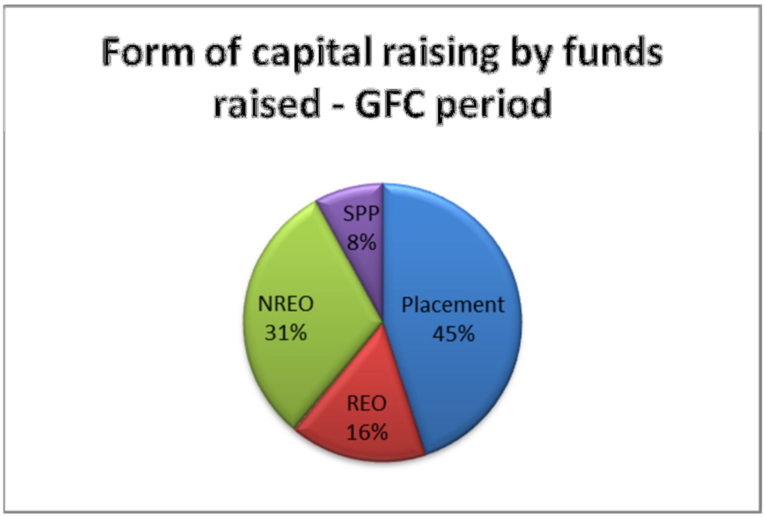

Chart 2: Capital raisings undertaken by ASX200 during 2008 and 2009

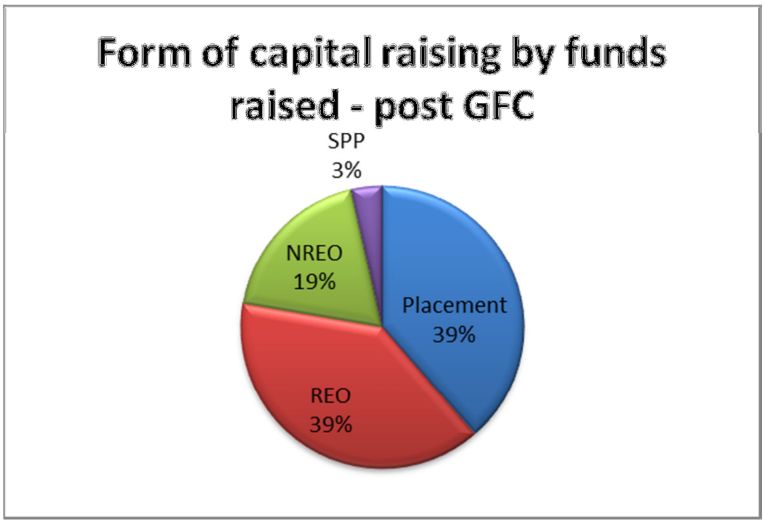

Chart 3: Capital raisings undertaken by ASX300 during 2010-2012

A like-for-like chart comparing the S&P/ASX200 entities during the post GFC period is below (Chart 4). The entities listed in the 201-300 range tended to utilise placements as their preferred form of capital raising. Just over 56 percent of all capital raised by value by that group of companies was through placements. The prevalence of the placement declines and REOs increase if the 201-300 entities are excluded.

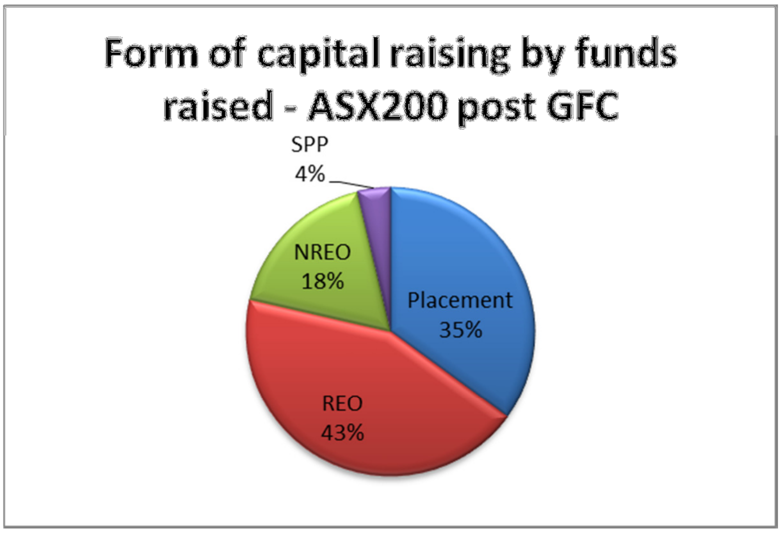

Chart 4: Capital raisings undertaken post GFC by ASX200 entities.

Placements

Given the speed and ease with which Australian listed companies can make placements under the capital raising regime it is unsurprising that placements remain a popular capital raising structure. The ASX Listing Rules impose a 15 percent cap on the placement of shares during a rolling 12 month period without prior shareholder approval[11]. Placements can be made at a discount to the prevailing market price and can be made to any party or parties[12] (other than related parties) including those who were not shareholders prior to the placement being made. Furthermore, there is no requirement in Australia to disclose the identity of the parties to whom the placement is being made (either on a prospective or retrospective basis) other than where the placement triggers a substantial shareholding of 5 percent or more.

Placements impose costs to non-participating shareholders in the form of dilution of their interests, further exacerbated where the placement is made at a discount to the market price at the time of the placement.

Of the 229 placements made during the post GFC period the average dilution suffered was 14.10 percent (based on shares on issue immediately before each placement) with a weighted average discount of 8.27 percent applying across the sample.

[11] Although refer to the discussion about the small to mid-cap placement mandate below which is in addition to the 15 percent placement cap.

[12] Certain restrictions generally apply under the Corporations Act including the requirement to issue a prospectus unless the offer is being made to "professional" and/or "sophisticated" investors (see section 708 Corporations Act) and the requirement that the placement not contravene the 20 percent takeovers prohibition contained in Chapter 6 of the Corporations Act.

The following table summarises the placements made by the S&P/ASX300 during 2010 through 2012:

Table 4: ASX 300 Placements (2010-2012)

Funds Raised	$12.69b
Percentage of all funds raised	38.61%
Number of placements	229
Fees paid to raise funds	$391.63m
Fees as a percentage of funds raised	3.09%
Weighted average discount[13]	8.27%
Average dilution	14.10%
Average time taken	2714
Average size	$55.43m

Interesting observations when comparing the GFC placements and the post GFC placements include:

- placements declined as a percentage of funds raised from 45 percent to 39 percent (35 percent if the 201 – 300 entities are excluded);
- fees as a percentage of funds raised increased substantially from 1.76 percent to 3.09 percent (2.71 percent excluding the 201 – 300 entities); and
- the weighted average discount narrowed from 12.29 percent to 8.27 percent.

Largest 10 placements

During the post GFC period many issuers made placements that were undertaken alongside other capital raisings (either entitlement offers or SPPs) to reduce the dilutive burden. However, 122 placements (just over 53 percent of all placements) were made without supporting entitlement offers or SPPs. On average those placements diluted on non-participating shareholders by 18.65 percent and represented 16.67 percent ($5.48 billion) of total proceeds across the sample. In the cases where other offers were made alongside placements, those offers (whether entitlement offers or SPPs) were often considerably smaller than the placements made (see, for example the table below).

[13] Discounts in this report are a reference to the average of the closing prices of the company's shares over the 10 trading days prior to the announcement of the transaction.

[14] Time taken is measured from the initial announcement date to the day the shares are quoted on the ASX. This figure includes placements where shareholder approval was required prior to the placement being made. If the 43 placements that required prior shareholder approval are removed the average time taken reduces to 16 days. The median time taken for placements across the sample was 10 days.

The table below lists the largest placements in the sample by value:

Table 5: ASX 300 Largest 10 placements (2010-2012)

Company	Date announced	Placement size	Dilution	Discount	Alongside other raising?	Other raising size
CFX[15]	24 Sept 2010	$540m	11.47%	4.57%	Yes – SPP	$9.74m
STO[16]	17 Dec 2010	$500m	4.78%	0.58%	No	N/A
SWM*[17]	21 Feb 2011	$461m	35.04%	5.54%	Yes – NREO	$692m
QBE[18]	28 Feb 2012	$450m	3.77%	7.81%	Yes – SPP	$150m
GMG[19]	8 Nov 2012	$400m	5.85%	2.92%	Yes – SPP	$49m
MGR[20]	7 Apr 2010	$350m	8.34%	5.15%	Yes – SPP	$26m
MTS[21]	28 Jun 2012	$325m	12.04%	9.36%	Yes – SPP	$50m
APA[22]	23 Jun 2011	$300m	14.01%	10.90%	No	N/A
FML[23]	20 Sep 2012	$225m	104.19%	(16.55)**	No	N/A
KAR[24]	15 Sep 2010	$186m	14.75%	0.13%	Yes – SPP	$82m

*Placement to KKR as part of the transaction under which WAN acquired Seven Media Group and became Seven West Media.

**Placement of this controlling (51%) stake to one investor was made at a premium to the 10 day closing price average immediately before the placement was announced. The placement was subject to shareholder approval for the purposes of item 7 of section 611 of the Corporations Act which was received at the AGM on 30 November 2012.

Performance of placements

We examined the performance of each of the 229 placements made by the ASX300 post GFC looking at the share price at the date the placement was made and the share price on the day that was six months following the placement. On average the six month placement

[15] see CFX, "Retail outlet centres acquisition and equity raising, 24 September 2010, available at http://asx.com.au/asxpdf/20100924/pdf/31spk4pyxq83lj.pdf

[16] see STO, "GLNG update & Equity Raising", 17 December 2010, available at http://asx.com.au/asxpdf/20101217/pdf/31vp503hw664ff.pdf

[17] see WAN, "Entitlement and Public Off Prospectus", 21 February 2011, available at http://asx.com.au/asxpdf/20110221/pdf/41wwx3jpvm83sm.pdf

[18] see QBE, "QBE announces 2011 results and positive outlook", 28 February 2012, available at http://asx.com.au/asxpdf/20120228/pdf/424nkk258ym25q.pdf

[19] see GMG, "Goodman announces $400 million equity raising to fund long term growth and enters Brazil, 8 November 2012, available at http://asx.com.au/asxpdf/20121108/pdf/42b1x74h5rsyht.pdf

[20] see MGR, "Mirvac announces fully underwritten institutional placement to raise $350 million, 7 April 2010, available at http://asx.com.au/asxpdf/20100407/pdf/31pn7dsk5p5nsf.pdf

[21] see MTS, "Metcash Limited – equity raising presentation", 28 June 2012, available at http://asx.com.au/asxpdf/20120628/pdf/4272z1nbdhhysg.pdf

[22] see APA, "APA expands its infrastructure portfolio $300 million institutional equity raising", 23 June 2011, available at http://asx.com.au/asxpdf/20110623/pdf/41zcmfb8fblv41.pdf

[23] see FML, "Focus Minerals to raise $227.5m through placement to Shandong Gold", 20 September 2012, available at http://asx.com.au/asxpdf/20120920/pdf/428tphh5432wj4.pdf

[24] see KAR, "KAR announces capital raising", 15 September 2010, available at http://asx.com.au/asxpdf/20100915/pdf/31sjfzx4w4t1t2.pdf

performance would have delivered a return of 29.13 percent[25] and on a weighted average basis the six month placement performance would have delivered a return of 14.43 percent. These returns exclude any dividends that may have been paid during the relevant period.

Just over 53 percent of all placements delivered positive returns over the six month period after settlement.

Interesting placements

During the post GFC period there were a number of interesting placements made, some of which include:

- a placement in May 2010 made by Cash Converters to its largest shareholder, EZCorp, in May 2010. The placement was made at a small discount of 0.31 percent (on the average 10 day closing price basis) and was within the maximum 3 percent creep permitted under section 611 of the Corporations Act[26]. EZCorp's interest increased from 29.77 percent to 32.76 percent. At the time of the placement the board of Cash Converters included two EzCorp nominees on a board of five members and the company noted that "the board considered this as an opportunity to raise further funds…, in preference to EZCorp Inc buying shares on market";[27]
- a placement in December 2010 by Extract Resources to allow its largest shareholder, Kalahari Minerals, to creep. The placement was made at a 0.08 percent discount (again on the average 10 day closing price basis) and allowed Kalahari to increase its interest in Extract from 41.12 percent to 42.83 percent.[28] The placement was subject to shareholder approval at a general meeting held in January 2011;
- a placement in August 2012 by Intrepid Mines of 5 percent of the company's shares for $1,000 to a "prominent political and business figure in Indonesia" who would be "working closely with the company and assisting engagement with key Indonesian stakeholders, particularly in both central and local government" and "whose interests are now well-aligned with those of existing shareholders."[29] At the time Intrepid had effectively been removed from its mine exploration site in Indonesia and its interest in that project had been transferred to a new group of Indonesian shareholders;[30] and
- a placement in July 2012 by Highlands Pacific of 15 percent of the company to PNG Sustainable Development Program Limited (PNG SDP) at a 6.75 percent discount whose "connections could be crucial for Highlands as it proceeds with any development at the Star Mountains exploration project and also for the future development of the Freida River project". In addition to the placement PNG SDP was entitled to board representation and the company obtained a waiver from the

[25] The Intrepid Mines placement of 5 percent of the company made in August 2012 to an Indonesian businessman for $1,000 has been excluded from this average because it significantly distorts the outcome. If that placement is included the average placement performance rises to 2,446 percent.

[26] see CCV, "EZCORP subscribes further funds to accelerate growth", 20 May 2010, available at http://asx.com.au/asxpdf/20100519/pdf/31qf592nztxz4y.pdf

[27] *ibid.*

[28] see EXT, "A$60.9M placement to Kalahari Minerals Plc", 9 December 2010, available at http://asx.com.au/asxpdf/20101209/pdf/31vh6s8ndxnrz3.pdf

[29] see, IAU, "Share placement to Surya Paloh", 1 August 2012, available at http://asx.com.au/asxpdf/20120801/pdf/427s4p7cwhp7m0.pdf

[30] see IAU, "Exploration activities suspended", 20 July 2012, available at http://asx.com.au/asxpdf/20120723/pdf/427jlzskjqp2qh.pdf

ASX from ASX Listing Rule 6.18 to grant PNG SDP a right to participate on a pro-rata basis in any future capital raisings.[31]

NREOs

Non-renounceable entitlement offers are pro-rata rights issues where shareholders are offered a portion of the issue that is proportionately equivalent to their ownership interest in the company. However, to the extent that a shareholder cannot, or does not, wish to participate in the offer they cannot sell or trade their entitlement to participate in the offer and hence will not be compensated for any dilution suffered as a result of the not participating in offer.

NREOs are more equitable than placements because they offer each shareholder the opportunity to participate on a pro-rata basis. They are not considered to be as equitable as renounceable entitlement offers (REOs), however, because under a REO the renouncing shareholders have the ability to trade their entitlements or potentially be compensated for not taking up their rights.

The following table summarises the NREOs made by the S&P/ASX300 during 2010 through 2012:

Table 6: ASX 300 NREOs (2010-2012)

Funds Raised	$6.17b
Percentage of all funds raised	18.78%
Number of NREOs	50
Fees paid to raise funds	$183.67m
Fees as a percentage of funds raised	2.98%
Weighted average discount	17.07%
Average capital base expansion	28.60%[32]
Average time taken	36
Average size	$401.06m

Interesting observations when comparing the GFC NREOs and the post GFC NREOs include:

- NREOs declined as a percentage of funds raised from 31 percent to 19 percent;
- fees as a percentage of funds raised increased from 2.32 percent to 2.98 percent; and

[31] see HIG, "PNG SDP Agreement and $15m placement completed", 9 July 2012, available at http://asx.com.au/asxpdf/20120709/pdf/4279y0wldq0xn4.pdf

[32] Excludes the Papillon Resources seven for one NREO that took place in March 2010 and raised gross proceeds of $9.16 million, if this is included average capital base expansion increases to 41.68%.

- the weighted average discount narrowed from 25.16 percent to 17.07 percent.

REOs

Renounceable entitlement offers are considered to be the fairest form of capital raising. Under a REO shareholders are offered a pro-rata share of the offer and also the ability to receive consideration for their entitlements whether through trading those entitlements on-market (which is becoming increasingly rare) or through a bookbuild which is conducted at the end of the offer period. The value received by a renouncing shareholder will depend on market appetite for the offer. In some cases the bookbuild conducted to clear renounced rights at the end of the offer period does not clear above the offer price in which case the renouncing shareholders receive no consideration for dilution suffered as a result of the REO.

The following table summarises the REOs made by the S&P/ASX300 during 2010 through 2012:

Table 7: ASX 300 REOs (2010-2012)

Funds Raised	$12.83b
Percentage of all funds raised	39.04%
Number of REOs	32
Fees paid to raise funds	$300.62m
Fees as a percentage of funds raised	2.34%
Weighted average discount	10.60%
Average capital base expansion	44.08%
Average time taken	37
Average size	$401.06m

Interesting observations when comparing the GFC REOs and the post GFC REOs include:

- REOs substantially increased as a percentage of funds raised from 15 percent to 39 percent;
- fees as a percentage of funds raised declined marginally from 2.40 percent to 2.34 percent; and
- the weighted average discount narrowed from 36.81 percent to 10.60 percent.

It should be noted that one REO, that undertaken by Origin Energy in March/April 2011, was very large and accounted for approximately 18 percent of funds raised pursuant to REOs over the three years (see further discussion of this capital raising below).

SPPs

Share purchase plans involve the offer of shares to existing shareholders up to a maximum dollar value. Shares are not offered on a pro rata basis but the shareholder has the ability to subscribe for a parcel of new shares – typically share parcels of $1,000, $2,500, $5,000, $7,500, $10,000 and $15,000 are offered, subject to scale back to the extent that the offer is oversubscribed.

This type of capital raising generally suits smaller (retail) shareholders who do not have large holdings and SPPs are not considered to be equitable to large shareholders wishing to preserve their pro-rata stake in the company. SPPs often accompany other forms of capital raisings (typically placements to institutional and sophisticated investors).

The following table summarises the SPPs made by the S&P/ASX300 during 2010 through 2012:

Table 8: ASX 300 SPPs (2010-2012)

Funds Raised	$1.19b
Percentage of all funds raised	3.57%
Number of SPPs	62
Fees paid to raise funds	$13.56m
Fees as a percentage of funds raised	1.15%
Weighted average discount	7.80%
Average capital base expansion	3.28%
Average time taken	42
Average size	$18.96m

There was a considerable decline in the use of SPPs in the post GFC period with 62 SPPs being completed over the three year period by the ASX300 entities (during the GFC period there were 61 SPPs conducted over the two years by the ASX200).

SPPs remained the cheapest form of capital raising (1.15 percent of funds raised) with the costs largely relating to administration of the offer and preparation of the SPP booklet – there is generally no need to engage a financial advisory firm to conduct an SPP and they are generally not underwritten. Given that SPPs normally accompany a placement the fees attributable to the capital raising largely relate to the placement (whether underwritten or not) rather than the SPP.

Purpose of capital raisings

During the GFC more than half of the capital raisings undertaken by the ASX200 by value were undertaken with the primary purpose to pay down debt.[33]

In the post GFC period paying down debt remained the most common purpose for capital raisings with 27 percent of capital by value being raised for that purpose. This was followed by "funding acquisitions" at 26.5 percent, "funding projects and exploration" at 26 percent, "working capital" at 18.5 percent and "strengthen bank capital position"[34] at just over 1 percent and the remaining capital being raised for "other" purposes. "Other" capital raisings were generally strategic placements made to individual investors.

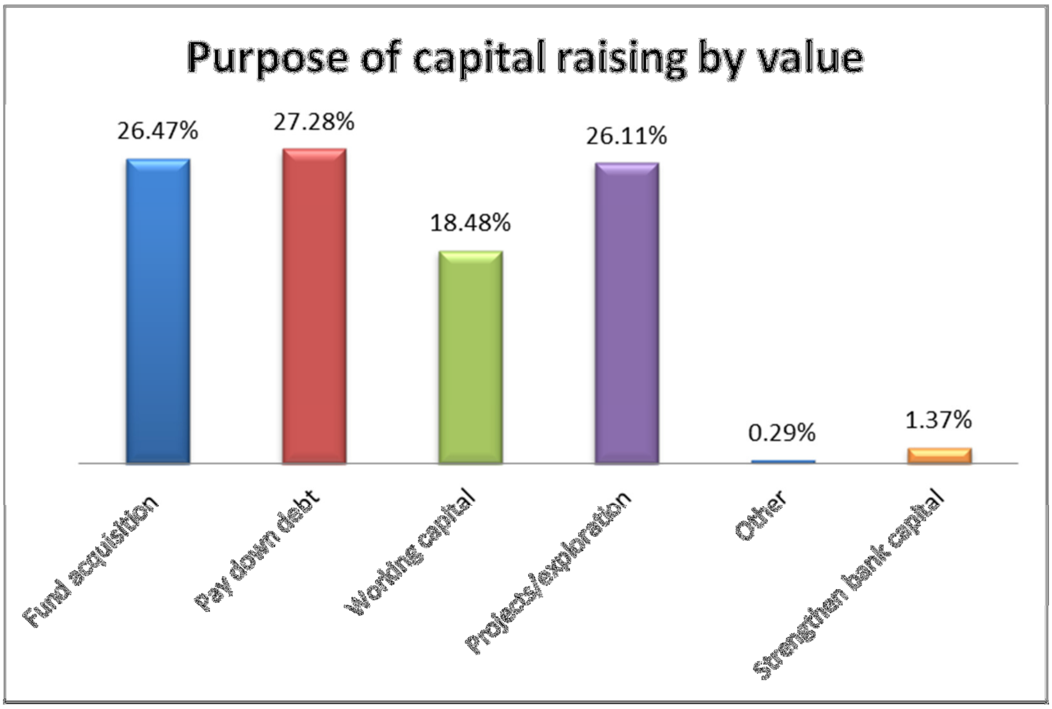

Chart 5: Purpose of capital raisings for ASX300 post GFC.

Where a number of purposes were disclosed in the appendix 3B notice the first listed purpose was identified as the sole purpose. For example, where a company noted that the purpose was to pay down debt and for working capital purposes the capital raising was assigned as one for the purpose of paying down debt. The chart below denotes the quantum of capital raised by purpose across the sample.

[33] Connal, Simon J and Lawrence, Martin, Equity Capital Raising in Australia during 2008 and 2009 (August 16, 2010). Available at SSRN: http://ssrn.com/abstract=1664889 or http://dx.doi.org/10.2139/ssrn.1664889

[34] This related to the Bank of Queensland capital raising under which BOQ undertook a placement of $150 million and an accelerated NREO of $300m to strengthen BOQ's core tier 1 capital position.

Table 9: ASX 300 Purpose of Capital Raising (2010-2012)

Explanation for capital raising	Funds raised	Number of raisings	Weighted average discount
Fund acquisition	$8.70b	74	12.55%
Pay down debt	$8.97b	62	16.24%
Working capital	$6.08b	81	11.57%
Fund projects / exploration	$8.58b	149	2.7%
Other	$94.55m	5	4.11%
Strengthen bank capital	$450.34m	2	13.88%

Fees paid for post-GFC capital raisings

Despite the significant drop in volume of capital raisings (both in dollar terms and in number) fees paid to financial advisors and underwriters increased significantly in the post GFC period. Fees paid to financial advisors and underwriters across the sample were, in aggregate, $889 million.

Fees as a percentage of funds raised across the sample were 2.71 percent (in the GFC period fees were 1.92 percent of funds raised). If the 201 – 300 entitles are excluded fees as a percent of funds raised were 2.45 percent.

Fees and company size

Fees paid for capital raisings appear to relate to company size with those companies in the 201 to 300 bracket paying fees of 3.94 percent on the $5.56 billion raised by that cohort. The 101 to 200 bracket paid fees of 2.97 percent to raise the $10.2 billion raised by that group and the ASX100 paid fees of 2.14 percent to raise their $17.09 billion.

Table 10: ASX 300 Fees Capital Raising Fees Paid by Market Cap (2010-2012)

	ASX100	ASX101-200	ASX201-300
Funds Raised	$17.09b	$10.20b	$5.59b
Aggregate Fees	$366.20m	$303.36m	$219.93m
Fees/funds raised	2.14%	2.97%	3.94%

Fees and form of raising

Fees also vary depending on the form the capital raising took with placements being the most expensive means of raising capital at 3.09 percent of funds raised, following by NREOs at 2.98 percent, REOs at 2.34 percent and SPPs at 1.15 percent.

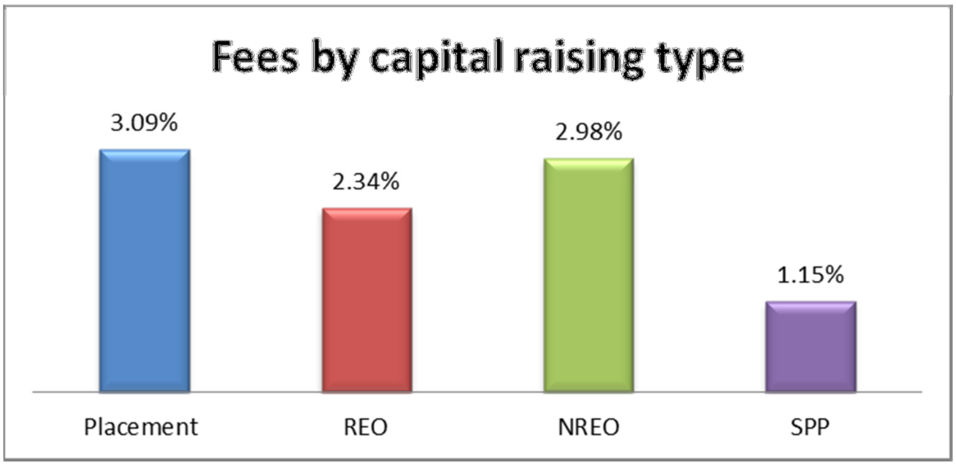

Chart 6: Fees paid to advisors by ASX300 post GFC by raising type.

Fees paid on underwritten vs. non-underwritten deals

Interestingly, across the sample, the percentage of fees paid on non-underwritten capital raisings was more than those paid on underwritten raisings. Capital raisings made on a non-underwritten basis raised, in aggregate, $7.98 billion (approximately 24 percent of all capital raised) with fees paid being $238.83 million representing 2.98 percent of non-underwritten funds raised. Capital raisings made on an underwritten basis (either fully or partially underwritten) raised funds of $24.90 billion (approximately 76 percent of funds raised) with fees paid of $650.66 million representing 2.61 percent of underwritten funds raised.

If the sample is reduced to just those entities listed in the S&P/ASX200 (ie excluding the 201-300 entities) the fees paid as a proportion of funds raised on non-underwritten capital raisings still remained higher (at 2.51 percent) than those paid in respect of underwritten capital raisings (at 2.44 percent).

Fees paid by purpose of capital raising

During the GFC capital raisings the most costly form of capital raising in terms of fees paid was where capital was being raised to pay down debt (on average 2.27 percent of funds raised for that purpose). The cost of raising equity for the purpose of paying down debt increased (from the GFC period when many companies were recapitalising for fear of triggering banking covenants) to 2.65 percent of funds raised in the post GFC period.

In the post GFC period the most expensive form of capital raising was for the purpose of funding projects and exploration (3.16 percent of funds raised for that purpose) which perhaps reflects the introduction of the 201 – 300 mining entities into the sample. Secondly, "working capital" fees were 2.66 percent, third was "pay down debt", fourth was "funding acquisition" at 2.39 percent, fourth was to "strengthen bank capital"(which related only to the BOQ capital raising). Other capital raisings were generally made as strategic placements to individual investors which is why fees paid for these purposes were relatively low.

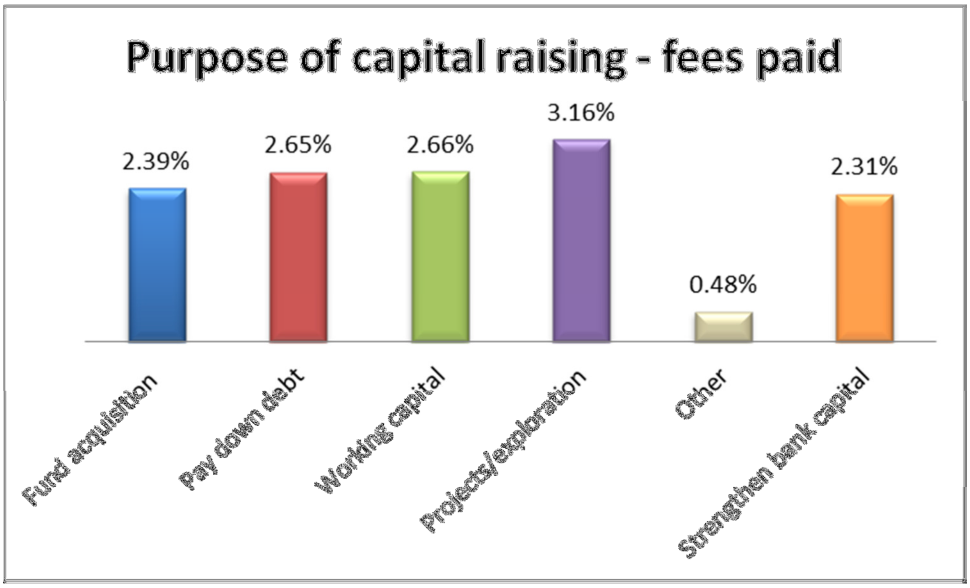

Chart 6: Fees paid to advisors by ASX300 post GFC by purpose.

Disclosed versus actual fees paid

Australian listed companies are required to disclose fees associated with capital raisings only where the capital raising is a pro-rata issue, in the Appendix 3B filing to the ASX. Under that disclosure document only underwriting fees are required to be disclosed although often companies also disclose "management fees" and "success fees" payable. Curiously, the ASX does not require that underwriting fees for non-pro rata issues be disclosed under the continuous disclosure regime in the Appendix 3B filing. Hence the only way that a shareholder can get an understanding of the costs associated with a particular capital raising (those conducted on a non-pro rata basis) is to search through the contributed equity notes in the accounts or the quarterly cashflow statements (in the case of mining exploration entities required to lodge those statements).

Fees disclosed in the Appendix 3B filing were assessed against actual fees paid (those disclosed in the contributed equity notes to the account or the quarterly cashflow statement) and of the 109 capital raisings where fees were disclosed those fees understated actual fees paid by an average of 27 basis points of the gross proceeds raised and an average of 9.27 percent of the original fee that was disclosed.[35]

In some cases additional fee disclosure was made because the company was dual listed and disclosure requirements under another exchange applied. An example is OceanaGold (OGC) which was required to disclose fees under the requirements of the TSX where it is listed in addition to being listed on the ASX and NZX. On 5 December 2012 OGC announced an underwritten placement of 30 million shares at a price of C$3.11 per share (A$3.00 for shares

[35] One fee, that payable in relation to the Sundance Resources placement, has been excluded because it significantly distorts the average. The placement was made under a prospectus in May 2011. The prospectus states that expenses of the offer "including advisor's fees, ASIC and ASX fees, printing and distribution costs and other miscellaneous expenses, is $8,000" (see page 21 of the prospectus released on 5 May 2012) available at http://asx.com.au/asxpdf/20110505/pdf/41ygwngh8kmm24.pdf, whereas actual fees payable as disclosed in the quarterly cashflow statement for the quarter ended 30 June 2011 (released on 28 July 2011) were $3.124 million see http://asx.com.au/asxpdf/20110728/pdf/4200rzfgrds6qy.pdf.

to be settled as CDIs on the ASX). The placement was made under a short form prospectus[36] which provided the following information which would not have been required to be disclosed under the ASX Listing Rules:

- the company agreed to pay the underwriters a fee of 4.25 percent of the gross proceeds of the offer which was an aggregate fee of $4.966 million or $0.1322 per share;[37]
- the offering price was determined by negotiation between the company and the lead underwriters (in accordance with TSX policies);[38]
- the underwriters had an over-allotment option (at their discretion) to purchase an extra 4.5 million shares at the offering price;[39] and
- other terms relating to the underwriting agreement[40].

ASIC commentary about capital raisings

In a presentation in April 2012 at a conference relating to "Agency in capital markets" the (then) deputy chairperson of ASIC, Belinda Gibson, noted that broadly, ASIC favours a renounceable rights issue process, or a share purchase plan offering in preference to other forms of capital raising.[41] In that presentation Gibson also emphasised that directors should be very clear to the market about:

- 'if not who not' on a renounceable rights issue;
- the basis for pricing;
- total fees paid for placements and underwriting, and sub-underwriting arrangements;
- any related party involvement, whether or not at arm's length; and
- allocation policy and specifically whether existing members will be given priority.[42]

Gibson has also been quoted as saying that ASIC would seek law reform if there appeared to be widespread unfair dilution in capital raisings.[43]

[36] see OCG, "Preliminary short form prospectus, 4 December 2012 (released to the ASX on 5 December 2012) available at http://asx.com.au/asxpdf/20121205/pdf/42bqy80zc5hk3g.pdf

[37] *Ibid*, page 15

[38] *Ibid*, page 1

[39] *Ibid*, page 1

[40] *Ibid*, see page 15

[41] see, AFR "ASIC calls for better communication on capital raisings", 3 April 2012, available at http://www.afr.com/p/national/asic_calls_for_better_communication_VZ497n3Pj3JF4WzMCIUFQK

[42] see, AFR, "Capital Concern takes centre stage", 4 April 2012, available at http://www.afr.com/p/business/companies/capital_concern_takes_centre_stage_HoRain3WafS3ssx1fN94fL

[43] see, The Australian, "Brambles raising shows firms are finally getting the PAITREO message, available at http://www.theaustralian.com.au/business/opinion/brambles-raising-shows-firms-are-finally-getting-the-paitreo-message/story-e6frg9kx-1226385377447#

Developments in the capital raising regime

There have been a number of developments in the capital raising regime including the ASIC commentary (above) in relation to its preferred method of capital raisings. A new accelerated entitlement offer structure (the PAITREO) has been developed, there has been a proposed tightening of the pro rata offer timeframes by the ASX (these are to be implemented no earlier than January 2014) and there has been the introduction of the small to mid-cap placement cap mandate which allows small cap entities to place more than 15 percent of shares on a non-pro rata basis in a rolling 12 month period.

The PAITREO structure

One positive development in the Australian capital raising regime has been the emergence of a new REO structure that can be undertaken on an accelerated basis while preserving the equity afforded under a renounceable offer across both the institutional component (which is accelerated) and the retail component of the offer (which is not accelerated). This structure was first used by Origin Energy in March 2011.

The Origin Energy capital raising was a fully underwritten one for five offer at $13.00 per new share with proceeds being used, in part, to fund the acquisition of the Integral Energy and Country Energy retail businesses.[44] The offer utilised a structure developed by Merrill Lynch (in consultation with Origin) called the PAITREO (pro-rata accelerated institutional, tradeable retail entitlement offer) whereby the institutional component was accelerated and the retail component provided the ability to trade retail entitlements on the ASX. The institutional component of the offer was completed on 18 March 2011 with 95 percent take-up by institutions and the institutional bookbuild clearing at a price of $15.00[45]. After completion of the institutional bookbuild the on-market trading period for the retail entitlements began and was open for a 14 day period.

Approximately 79 percent of the shares available under the retail component of the offer were taken up and at the end of the offer period the balance were placed into a bookbuild. That bookbuild, conducted on 19 April 2011, was oversubscribed with the bookbuild clearing price being $15.80, a premium of $2.80 to the offer price.[46]

The PAITREO structure has the benefit of the acceleration of the institutional component as well as preserving the equity of the tradeable retail renounceable component. Since the Origin Energy capital raising the PAITREO structure has been utilised by AGL Energy[47] for its one for six offer in May 2012 and by Brambles[48] for its one for 20 issue in June 2012.

[44] see ORG, "Origin announces $2.3 billion pro rata renounceable entitlement offer", 15 March 2011, available at http://asx.com.au/asxpdf/20110315/pdf/41xfh1mr1n13pj.pdf

[45] see ORG, "Origin successfully completes institutional entitlement offer", 18 March 2011, available at http://asx.com.au/asxpdf/20110318/pdf/41xj963f7qt52c.pdf

[46] see ORG, "Origin successfully completes retail shortfall bookbuild", 19 April 2011, available at http://asx.com.au/asxpdf/20110419/pdf/41y479x70t48vn.pdf

[47] see AGL, "AGL completes the institutional component of its 1 for 6 pro rata renounceable entitlement offer, 29 May 2012, available at http://asx.com.au/asxpdf/20120529/pdf/426jh7l4vrh003.pdf

[48] see BXB, "Brambles announces decision to retain recall and A$448 million pro rata entitlement offer", 4 June 2012, available at http://asx.com.au/asxpdf/20120604/pdf/426mzs3h8d19ds.pdf

Entitlement offer timeframes

The ASX has issued draft ASX Listing Rules that would reduce the timetable for standard entitlement offers (both renounceable and non-renounceable) from 26 days to 19 days[49]. The proposed new framework would implement the reduction by:

- reducing the period from the ex-date to the record date from five business days to three business days;
- reducing the period from the day after the record date to the date on which documents are sent to shareholders from a maximum of four days to a maximum of three days;
- reducing the period from the day after documents are sent to the date that applications for participation close from a minimum of ten business days to a minimum of seven business days; and
- reducing the period from the day after applications close to issue date from six business days to five business days.

New timetables have also been proposed to the Listing Rules for accelerated offers including accelerated non-renounceable entitlement offers, accelerated renounceable entitlement offers, simultaneous accelerated renounceable entitlement offers and accelerated renounceable entitlement offers with retail rights trading (the PAITREO structure). Currently accelerated rights issues are facilitated by the ASX granting waivers of the Listing Rules.

The ASX has indicated that any further reductions in the standard timetable for rights issued will require the introduction of improvements to the payments system to facilitate real-time retail payments with close-to-immediate funds available to the recipient (something the RBA has identified as an objective by the end of 2016)[50] and the electronic dissemination of disclosure documentation (which likely would require ASIC approval and also legislative amendment).

Small to mid-cap placement mandate

On 1 August 2012 amendments to the ASX Listing Rules came into operation that provides further flexibility for small to mid-cap listed companies. Listing Rule 7.1A applies to small and mid-cap companies with a market capitalisation of $300 million or less that are not included in the S&P/ASX300 index. The new small to mid-cap regime allows those entities to:

- issue up to 15 percent of their issued capital without shareholder approval under ASX Listing Rule 7.1 (which they were able to do prior to the amendments); and
- issue a further 10 percent of their issued capital (with a maximum discount of 25 percent of the market price) within 12 months of shareholders' approval under (new) ASX Listing Rule 7.1A.

[49] see ASX, "Modernising the Timetable for Rights Issues: Draft ASX Listing Rules", May 2013, available at http://www.asxgroup.com.au/media/Response_to_Market_and_Exposure_Draft_Rights_Issue_Timetable_6May13.pdf

[50] ibid, page 4.

The changes to the capital raising regime for small to mid-cap companies result in a change the risk profile of those companies due to:

- **Further dilution:** The potential dilution of existing investors interests shifts from 15 percent to 25 percent over a 12 month period with passage of a single shareholder resolution (on which strategic shareholders and directors are able to vote).
- **Changes to the market for corporate control**: The changes potentially make it easier for de facto changes of control to occur without securityholder approval. In Australia, the Corporations Act deems 20 percent as the control threshold. At present it is not possible to go from 0 to 19.9 percent without on-market purchases, an entitlement offer or securityholder approval in less than 13 months; under the changes this can occur in a day. A single placement under the Listing Rules before the amendment without specific shareholder approval could deliver a single investor a 13 percent shareholding, however, with the introduction of the small to mid-cap Listing Rules (and on the approval of the 7.1A placement mandate) this has increased to 20 percent.
- **Placement beneficiaries are able to vote to approve the placement mandate**: ASX Listing Rule 14.11.1 specifies voting exclusions on shareholder resolutions. A literal reading of the rule suggests that shareholders that 'may participate' in placements will have their votes excluded on resolutions seeking approvals under the placement mandate. However the ASX endorses the existing market practice in relation to 'advance' approvals of placements in excess of 15 percent under Listing Rule 7.1 whereby the votes of potential participants are included in these vote counts. The Federal Court, in 2011, endorsed the ASX's position[51], meaning that the class of shareholders who stand to benefit most from abandoning pre-emptive rights can increase an entity's capacity to do so, without control from minorities who are, by definition, excluded from non-pro rata offers.

On-Market Bookbuilds

The ASX and On-Market BookBuilds have developed a new facility under which a capital raising can be undertaken through an on-market bookbuild using the ASX's infrastructure. The on-market bookbuild facility was first used by WAM Capital (a listed investment company) on 14 October 2013 which raised $24.7 million in a bookbuild that was oversubscribed by 67 percent.[52] The bookbuild was conducted to cover a "Dividend Reinvestment Plan Shortfall" (presumably due to a higher than expected preference for cash dividends from existing shareholders), which expanded the company's capital base (upon which WAM's manager levies fees) at a discount of 3.5 per cent to the prior day's closing price, but in line with NTA. This offer was open to all sophisticated investors who were shareholders of WAM, provided they met the clearing price determined.

The benefits of the On-Market Bookbuild facility appear to include:

- the ability to pre-establish certain parameters prior to the bookbuild including pricing, book size and the percentage of the book to be allocated to existing shareholders and price leaders; and

[51] Stratford Sun Limited v OM Holdings Limited [2011] FCA 1275

[52] see WAM, "WAM Capital DRP shortfall placement oversubscribed by 67%", 15 October 2013, available at http://asx.com.au/asxpdf/20131015/pdf/42k1hkd5y2k8sr.pdf

- potentially lower capital raising discounts by seeking to capture wide market demand for the capital raising.

Fees associated with the On-Market Bookbuild facility depend on whether or not a "success fee" is payable, if it is not then a flat fee of $25,000 applies. A "success fee" is payable in certain circumstances including where a company elects to take one or more of the following benefits:

- upsizing the offer;
- increasing the price;
- closing the offer at greater than 1.25 times coverage but not increasing the price; or
- undertaking a fixed price offer.

Appendix: Summary of Terms

Placement: shares are placed at the discretion of the board and management (and sometimes the issuer's advisor). Placements are generally only open to sophisticated or professional investors. Pricing of placements can be determined by board discretion or through a bookbuild (akin to a closed auction process which results in a single clearing price for bidders).

> ***Pros:*** can be completed in a short timeframe.
>
> ***Cons:*** placements are dilutive to those shareholders who do not participate, there are few disclosure requirements, no limits to the discounts at which shares may be issued and only selected investors can participate.

Renounceable entitlement offer (REO): shares are issued on the basis of each existing shareholder's interest in the company (pro-rata). Investors are also able to sell their right to participate in the offer (known as 'renounced rights').

Recent iterations of the renounceable entitlement offer have included:

> - SAREO (simultaneous accelerated renounceable entitlement offer), renounced rights are cleared through a bookbuild at the end following an accelerated institutional offer and then a retail offer; and
>
> - PAITREO (pro-rata accelerated institutional, tradeable retail entitlement offer) institutional offer is accelerated and any renounced institutional rights cleared by bookbuild, the retail entitlements are then tradeable immediately thereafter.
>
> ***Pros:*** pre-emptive rights are protected, all existing shareholders are entitled to participate and shareholders who elect not to participate may receive compensation for dilution.
>
> ***Cons:*** the offer can be time consuming and can be costly (in terms of fees) to undertake.

Non renounceable entitlement offer (NREO): shares are issued on the basis of each existing shareholder's interest in the company (pro-rata), however, there is no ability to sell the right to participate in the offer.

> ***Pros:*** pre-emptive rights are protected and all existing shareholders are entitled to participate.
>
> ***Cons:*** the offer can be time consuming, can be costly to undertake and shareholders who elect not to participate do not receive compensation for dilution.

Share purchase plan (SPP): shares are issued to existing shareholders who can apply for up to $15,000 worth of shares, it is not a pro-rata offer.

> **Pros:** relatively cheap to undertake and all existing shareholders can participate.
>
> **Cons:** time consuming, offers least certainty of success, unappealing to larger shareholders.