

SUPERIOR LISTING SOLUTIONS



SUCCESSION PLANNING WITH AN NSX LISTING

NSX
THE NATIONAL STOCK EXCHANGE OF AUSTRALIA

SUCCESSION PLANNING
WITH AN NSX LISTING?

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We offer a superior listing solution at a compelling price

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ABOUT NSX

The National Stock Exchange (NSX) dates back to 1937 when it was known as the Newcastle Stock Exchange. After a dormant period, the NSX was re-established in February 2000 and has since grown to become Australia's second largest listing stock exchange.

NSX offers companies a wide and flexible range of listing options covering all market sectors.

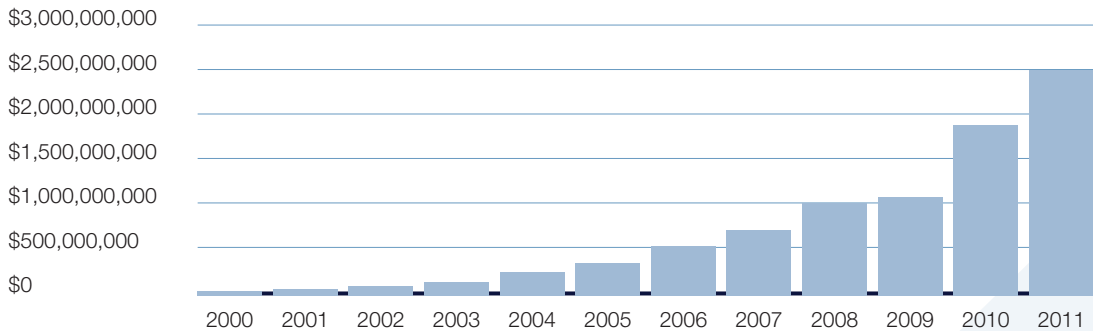
An NSX listing is specifically attractive to companies looking for:

- **Capital for growth**
- **Investor exit and succession planning solutions**
- **A better alternative to their current listing on another exchange**
- **Cross-border cross-time zone listings**

Since 2000, NSX has helped hundreds of companies list that have raised capital in excess of \$4.0 billion for growth and innovation. NSX offers a simple, flexible, cost effective and customer focused option for many companies seeking a listing.

NSX also lists debt and investment scheme securities to investors.

TOTAL CAPITAL RAISED ON NSX



WHAT IS SUCCESSION PLANNING?



A succession plan represents a strategic map that enables you and your associates to release value from your transitioning business ownership or management to others.

That succession plan should outline a clear, concise and well thought through pathway that meets your own objectives as well as those of your key stakeholders. Whatever the reason for your exit, your succession plan is about planning ahead so your exit is as smooth as possible so any disruption to you, your stakeholders and your business is minimized and is such that value is maximised.

MANAGEMENT SUCCESSION

Succession planning is often just associated with identifying and developing key people to fill the key leadership positions in a company. This is often referred to as management succession and is vitally important to publically listed companies. Planning to reduce dependence on key persons is an essential element to any succession plan.

OWNERSHIP SUCCESSION

For privately held companies however, succession planning is often more complex than simply management succession. Private companies have to plan for both ownership succession and management succession. Change in management control and ownership often go hand in hand.

This guide examines succession planning from the prospective of a privately held company or family run business, with a focus on ownership succession via listing as a viable exit solution.

WHY IS SUCCESSION PLANNING SO IMPORTANT?

Succession planning is vitally important for both privately held companies and Australia in general due to the demographics of private business owners.

When the planning process is commenced early the chosen transition pathway can be managed in a timely, cost and tax effective manner that will ensure the true value of your business is released to you.

SUCCESSION PLANNING IS VITAL FOR AUSTRALIA

Australia's two million family and privately owned businesses represent approximately 97% of businesses and employ the majority of the Australian workforce.

The average age in 2010 of a family run business owner in New South Wales is 55 years of age. The RMIT study also found that in over two thirds of family run businesses the younger generation family members were not as interested in actively managing the business as the older generation. As a result approximately half of all family run businesses are not likely to become later generation firms, with the intention to exit their business via a sale of the business in some way.

With such a large portion of family run businesses intending to dispose of their business as their exit strategy and the average age of a family run business owner at 55, you would think that succession planning would be an extremely high priority. However, the RMIT survey also found that 55% of family business owners have not actively planned for the future sale of their business.

SUCCESSION PLANNING VITAL FOR PRIVATELY HELD COMPANIES

A good succession plan that plans thoroughly for the expected exit and caters for the unexpected exit due to death or an illness of a key executive, will help ensure the smooth operation of your business throughout any transition and will also help to maximise its value.

Many businesses find to their surprise that to successfully transition they must grow, employ more people, incentivize key staff and raise capital. In most cases to release full value, a business will also need to review their structures, formalise contractual relationships and adopt new accounting and management reporting techniques.

These take time and careful planning and any business owners hoping to implement a successful succession plan cannot leave this to the last minute. Poor planning will likely lead to less options and a poor outcome, which will affect everyone involved in the business from staff to clients to suppliers.

Premium value drivers for a successful succession plan are not always obvious and require time and skill to identify, foster and promote. They are often based around morphing away from any key person risk and involve developing a sound and sustainable message relating to your competitive advantage.

In this respect, a good succession plan will provide owners with:

- Control over how and when they exit
- The maximum company value
- Effective and efficient tax treatment
- The maximum control and strategic exit options
- Reduced stress and that of their management, employees and families
- The smooth continuity of the business



WHAT SUCCESSION OWNERSHIP OPTIONS DO YOU HAVE?

There are an infinite number of ways that owners can and have exited their business. However, the seven most common are displayed below in the graph highlighting the link between complexity and potential value:



CLOSE BUSINESS

By far the simplest and easiest option is to simply close the business and walk away. This option is usually an option not by choice but because the owner of the business has failed to properly plan their exit strategy and structure their business so it contains value beyond their involvement so no other viable alternative is possible.

FAMILY SUCCESSION

Passing your business legacy onto other family members such as your children is one of the most popular exit strategies employed by private business owners. This is very understandable as owners often have more than a financial attachment to the business they have built.

However, it also fraught with financial and personal difficulties and complexities including:

- How to realise the value of the business when children do not have sufficient money to buy it
- How to apportion ownership and control where there is more than one child
- How to apportion ownership and control where one or more of the children have little or no interest in the business or do not have the skills or natural ability to run it
- Are you comfortable with the risk that your children effectively control your retirement funds if they cannot buy your business outright

Owners of family businesses often want to offer preferential treatment to their children who usually also have insufficient funds to buy the business, so the owners fund the children's purchase in some way. As a result family succession represents one of the highest risk and lowest return succession planning options.

SALE TO OTHER SHAREHOLDERS

The sale of your business to your other remaining shareholders can represent a very attractive option if the other shareholders are willing to take an increasing stake in the company and have available funds to purchase your stake.

MANAGEMENT OR EMPLOYEE BUY-OUT

Management and employee buy-out represents the second most popular succession option. Management and staff are usually best placed to understand the business and the environment in which it operates. Assuming family succession is not an option then a management or employee buy-out can represent an effective and rewarding exit strategy. Who better to reward with the sale of your business other than your family.

However, many of the issues that arise with family succession also arise with management and employee succession. These include:

- Insufficient funds to buy the business and possible owner financing with its associated risks
- Choosing the right employee or manager to run the business
- How to apportion ownership between people of different skills, interest in the business and available funds to buy a stake.
- Likely lower sale price than other options

TRADE SALE

Selling your business to a third party represents the most popular way of exiting a business to an unrelated party. The advantages for the seller are the hopeful realization of the value of your business, a premium price to a family or management buy-out and a complete exit (though sometimes owners continue to run the business for a hand-over period).

The trade sale also has some very significant drawbacks. Selling a business usually requires employing a business broker and may involve significant restructuring and prior planning before the business sale ready. There is no guarantee that you will receive an offer that you are happy with and finding a buyer may take years.

Potential buyers are usually familiar with the industry in which you operate and often represent your competitors, who may be keen to see your accounts and take advantage of the fact that your business is now for sale. If you do sell your business to a competitor they may be expecting to internalize the business into the parent organization and take advantage of “synergies” by removing duplicate staff and harmonising the culture.

Selling your business to a third party is a major undertaking and there are many costly traps and issues to consider.

PRIVATE EQUITY OR VENTURE CAPITAL

Private equity and venture capital is not a typical exit strategy for a family run business or for an owner looking to exit in the near term. It is however, a way of gaining more capital, management expertise and huge step in the direction of an eventual exit at an optimal price.

Private equity and venture capital investment is usually targeted for approximately 5 years with a realization of the investment via a trade sale or listing. The intention is to grow and structure the business significantly in that period to maximise the eventual sale price.

Receiving private equity and venture capital investment is usually quite difficult and the terms of the investment are usually very prescriptive. A company may seek this option because it doesn't think it is big enough yet to list on the stock market but with some investment there is significant growth potential.

LISTING

Listing (Initial Public Offering/IPO) can be a very exciting and financially rewarding process. It is normally considered as the most difficult and expensive exit strategy and only available to the largest private companies. However, this belief is often attributable to bias investment advice from advisers not familiar with listing as a succession planning option.

You don't need to be big business to list. With proper planning, an IPO can be a viable and attractive succession tool for many small and mid-market enterprises in Australia.

It is true that listing is complex, time consuming and can be expensive. However, it is likely nowhere near as complex, time consuming, expensive or size restrictive as you might think, especially on the NSX, and represents potentially the maximum realisable value for your business.

WHY IS LISTING A GOOD SUCCESSION PLANNING OPTION?



There are many reasons why businesses look to list, including access to capital and providing a vibrant secondary market. Listing also provides one of the best succession planning options for private companies.

The advantages include:

- Maximising sale value
- Capital for growth
- Employee incentivisation
- Potential to return to the market on later occasions to raise capital
- Secondary market for your stock
- Remain a stand-alone entity
- Retain partial ownership
- Improved customer & supplier status
- Increased brand profile
- Tax planning

MAXIMISING SALE VALUE

Listing on a stock market is generally accepted as the optimal way to achieve the highest valuation on a business, because being listed provides more investor interest, stature, price transparency and an independent valuation of your company. The process of listing and secondary trading provides an opportunity for founders and investors to realise some or all their investment.

CAPITAL FOR GROWTH

If your company needs funds to grow either now or in the future, listing provides one of the best methods and represents one of the main reasons why companies list. Capital may be needed to fund organic growth, acquisition or combination of the two. Raising funds as a private company is usually very difficult and limited both in who can invest and the amounts that can be accessed.

EMPLOYEE INCENTIVISATION

Listing allows you to create a share based incentive schemes for management and employees to incentivize existing employees and attract new personnel. Conversely, a trade sale for example may cause existing staff to feel their roles are uncertain causing moral issues and staff departures.



POTENTIAL TO RETURN TO THE MARKET ON LATER OCCASIONS TO RAISE CAPITAL

Publically listed companies can readily return to the equity markets to raise further capital. Investors who are issued shares in return for cash have a readily available stock price and volume from which to price their investment and exit their investment.

SECONDARY MARKET FOR YOUR STOCK

Once a company is listed its stock is offered on the secondary market which encourages more investors, provides a clear valuation and allows existing investors and staff to easily exit their investment and new investors to join.

REMAIN A STAND-ALONE ENTITY

One of the advantages of a family succession or a management or employee buy-out is your company remains a stand-alone entity. A trade sale usually is to a larger company looking for the synergy advantages that come from incorporation of your firm into the parent entity.

Many private business owners have a personal connection to the business they have built and the thought of it being swallowed by a larger company is distressing. They would prefer their company to exist and thrive beyond their tenor.

Listing your company allows it to remain a stand-alone entity, rather than become forgotten as part of a larger organization.

RETAIN PARTIAL OWNERSHIP

Selling a business is usually an all or nothing exercise. There is not the option to retain partial ownership. However, a business owner may not want to sell their entire holding but retain a partial holding for financial or personal reasons.

The owner may not need the entire funds or have a sentimental attachment and desire to continue with a partial holding. Similarly, the owner may believe the company is an excellent investment and wish to retain some holding or pass partial ownership through to their family.

IMPROVED CUSTOMER AND SUPPLIER STATUS

A listing company enjoys improved perceived financial strength by customers and suppliers, as well as greater media coverage, analyst's reports and general public profile and reputation. All of which improve the standing and viability of the business.

INCREASED BRAND PROFILE

Publically listed companies tend to receive more media interest and brand stature in the market place. A company that is publically listed is usually seen as larger and more successful than a privately held company even of a similar size.

TAX PLANNING

Listing a company provides a number of tax planning options for owners. Listing enables an owner to sell a portion of their holding while retaining the remainder of their investment. Capital gains tax arises on a listing, but only in respect of the relevant portion of the shareholding actually listed. Tax on the remainder of the shareholding is deferred until a time of subsequent disposal/listing.

Scrip can more easily be used to undertake future acquisitions. Using scrip for an acquisition can be attractive to vendors as tax, which might otherwise arise for the vendor, can be deferred until the time of subsequent disposal of the shares in the acquiring listed company.

Self-managed super funds (as well as managed super funds) typically prefer to invest in listed companies. Hence, a listing provides family, friends and the public with a tax efficient opportunity to invest in the listed company (e.g. via a self-managed superannuation fund).

A valuable means of attracting and retaining key employees arises from the introduction of a tax effective employee share ownership plan. This is easier to achieve with a public company.

WHY IS NSX THE RIGHT SUCCESSION PLANNING SOLUTION?

Not all listing public markets are equal. However, one of the main reasons why advisers and companies consider listing as a complex, time consuming, expensive option that is only available to larger companies is that they are not familiar with the NSX.

NSX offers a truly unique set of advantages over alternative listing markets, which makes listing on the NSX especially suitable for companies looking for a viable succession planning option.

These unique advantages include:

- Lower costs
- Simpler Rules
- Appropriate listing criteria
- Faster listing processing
- Multiple listing options
- Extensive adviser community
- Customer focus

LOWER COSTS

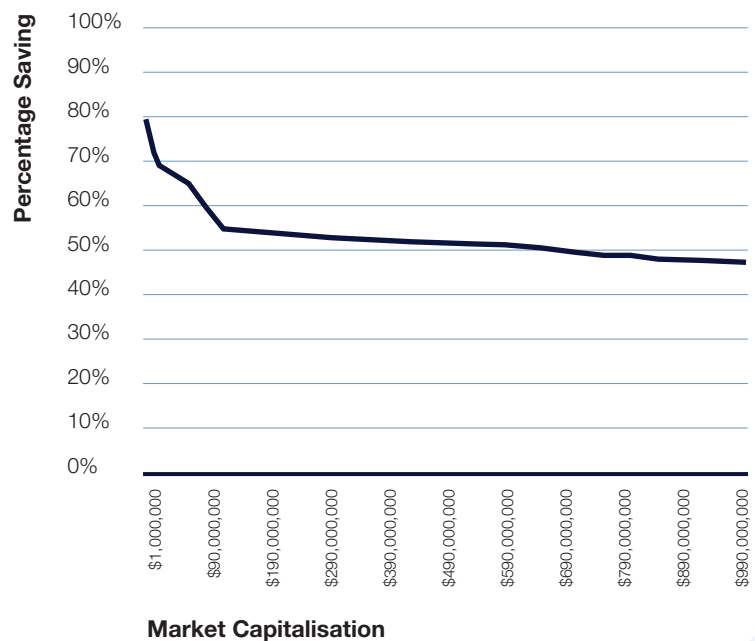
NSX's fee structure is designed to offer companies real value for money. Our fees are the lowest in Australia and will save companies money at every stage of the listing process and while remaining listed with us.

Our listing fees are up to 80% cheaper and our annual fees up to 60% less than the ASX. Our simple listing Rules and annual compliance procedures lead to significant legal, accounting and management time savings.

NSX also provides real time data completely free to data providers, issuer websites and brokers, so investors can get the latest NSX prices on your company free, not 20 minutes delayed.

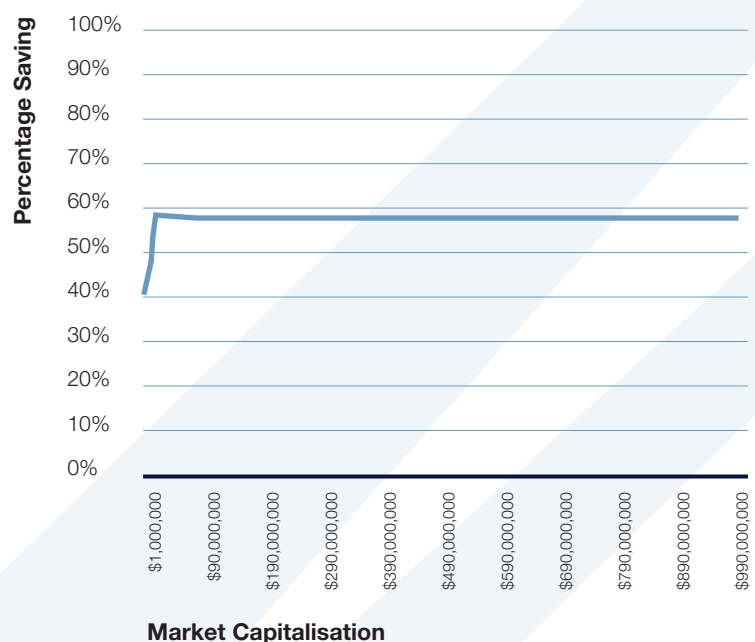
PERCENTAGE SAVING LISTING ON NSX

Application Fees



PERCENTAGE SAVING LISTING ON NSX

Annual Fees



Simpler Rules

NSX's Rules are not only simple but are also principle-based, which dramatically reduces the work required to become and stay listed. Equity Rules on other markets can be three times as long as NSX's. Shorter and simpler rules and processes mean lower costs, less complexity and more management time spent actually running your business.

Appropriate Listing Criteria

NSX's listing criteria makes listing a real exit option for closely owned family businesses examining succession planning options. NSX only requires a market capitalisation of \$500,000 and a shareholder spread of 50 to meet our minimum admission criteria.

Difficult listing criteria mean that listing is only an option far later in a company's life cycle, often after several private fund raisings. Difficult listing criteria also often make listing of family run businesses difficult due to their closely held ownership structure.

The table below compares NSX's key listing criteria.

Admission Criteria	ASX	NSX
Number of shareholders	Minimum 500 investors @ \$2,000 or Minimum 400 investors @ \$2,000 and 25% held by unrelated parties	Minimum 50 investors @ \$2,000 and 25% held by unrelated parties
Company size PROFIT TEST ASSETS TEST	\$1 million net profit over past 3 years + \$400,000 net profit over last 12 months or \$2 million Net Tangible Assets or \$10 million market capitalisation	2 year adequate track record or issue underwritten by an underwriter and \$500,0000 minimum market capitalisation
Minimum market price	\$0.20c	No minimum listing price



FASTER LISTING PROCESSING

NSX's range of simple listing options, shorter Rules and our ability to individually tailor a listing solution to your specific business model, means we can get you listed faster and with a better solution than any other Australian listing market. One listing type definitely does not suit everybody. NSX has been able to list companies just 15 days after receiving their application.

MULTIPLE LISTING OPTIONS

NSX currently offers companies the choice of four main listing routes, so companies can choose the most appropriate solution to ensure the fastest, simplest and lowest cost listing. In order of complexity, these are:

Compliance - No Capital Raising:

1. Compliance

Offering - Capital raising Routes:

2. Information Memorandum (IM) – two alternatives
3. Offer Information Statement (OIS)
4. Prospectus



These are described in more detail in the general Why List on NSX? brochure in the Ways of Listing chapter.

EXTENSIVE ADVISER COMMUNITY

Listing can be complex, expensive and time consuming, especially if mistakes are made. NSX's Nominated Advisers (Nomads) play the key adviser role supporting companies throughout the listing process and thereafter. NSX currently has 33 qualified Nominated Advisers geographically spread throughout Australia.

We also have a number of Nomads that are specialised in succession planning. NSX can introduce you to one or more selected Nomads that understand your industry and drivers with first-hand experience listing a company like yours.

CUSTOMER FOCUS

NSX staff pride themselves on being professional and approachable experts who are keen to help you every step of the way. If your company meets our listing criteria, we aim, to have you complete your listing procedure as quickly, smoothly and cost effectively as possible. Once you are listed, we aim to manage your listing presence in a professional and cost effective manner.

We help companies throughout the listing process with everything from advice and introductions through to problem solving and unique tailored solutions.

We are also the only exchange to offer the "PRESS" marketing program that helps spread your IPO message to investors throughout Australia and the world and generate continued interest post your launch.

FREQUENTLY ASKED QUESTIONS

How large does my company need to be to list on nsx?

To be listed on the NSX your company must meet the minimum listing criteria, which includes 50 shareholders and a market capitalisation of AU \$500,000 or more.

Is NSX the best succession planning option?

Succession planning is a complex subject and the correct professional advice is paramount. We believe that listing, especially on the NSX, offers a compelling option for many privately held firms looking for the right succession planning solution.

At what stage should I approach NSX?

We recommend that you approach NSX when you are first seriously considering listing as a succession option. We are happy to answer your questions, generally help you avoid costly time wasting mistakes and provide crucial introductions to succession planning experts familiar with listing and the NSX.

Do I need to have a sponsoring broker and nominated advisor to list?

Yes. Both these parties play a crucial role in the listing process and after you are listed. For larger more experienced companies two authorized Executives, with the approval of NSX, can function as your Nominated Advisor, rather than a third party Nominated Advisor.

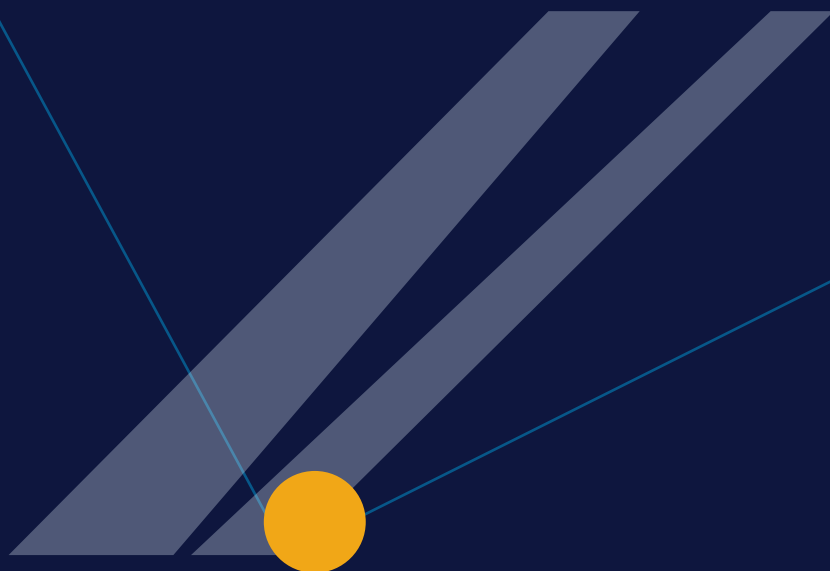
What are the next steps?

If you are considering listing as a succession planning option we would welcome the opportunity of discussing your plans, listing options and NSX as a solution.



For further information please contact:

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