



JSE Market Research

Proposal to segment the JSE's Main Board

PREPARED FOR:



A photograph of a modern, curved glass skyscraper with a prominent abstract sculpture in the foreground. The sculpture is made of polished metal and features a large, circular, open ring structure. The building's glass facade reflects the surrounding environment, including trees and other buildings. The scene is set outdoors with lush greenery and trees visible around the building.

Research Background & Methodology



Affording more flexibility for small-to-medium sized listed companies

The JSE proposes to implement reforms to its listing's framework, including a proposal to segment its Main Board into two segments, being a high-cap and mid/low-cap segment.

Rationale

The JSE's listings requirements currently only offer high-end and lower-end regulation framework for its Main Board and AltX. Therefore, the JSE's proposal is to segment the Equity market to provide more bespoke listing requirements for low/mid-cap companies who have lower liquidity levels.

In order to obtain the market's view on the Market Segmentation proposal, the JSE commissioned Ask Afrika to conduct a survey on its behalf.

Key questions that the survey covered **include:**



Sample & Methodology

The survey was mainly targeted at Issuers in order to get their view on the JSE's proposed market segmentation, as the proposal will affect them directly. In addition, the survey was also sent to Sponsors and Investors as key stakeholders.

Methodology

- JSE sent a market notice informing market participants of the survey a week before the survey was sent
- A POPIA complaint sample list was sent to Ask Afrika which included Issuers, Sponsors and Investors
- Ask Afrika sent out an online survey via email and reminders thereafter to encourage participation.
- JSE Sponsors and JSE account managers followed up with survey participants to complete the survey
- The survey deadline was extended by 3 weeks.
- During this time Ask Afrika also conducted CATI calls to boost participation

Outcome

- A total of 143 responses were received out of a possible 715. Therefore, a ~20% response rate was achieved.
- In our experience, the response rate for online surveys is low. In particular, the response rate for B2B studies is typically around 2%-5%.
- Although the survey was sent to multiple representatives within a firm, several respondents provided a consolidated firm view.

Sample

Issuers:

- 82 representatives from JSE listed companies completed the survey
- Represent 71 listed companies (currently 292 listed companies*)
- Survey sent to CFO and Company Secretary

Sponsors:

- Assisted in contacting and encouraging Issuers to complete the survey
- A total of 54 representatives from Equity Sponsor firms completed the survey
- These respondents represent 24 Equity Sponsor Firms, out of a total of 28 firms.

Investors:

- Lowest response rate
- Investors only accounted for ~5% of the total sample achieved.
- Only 7 Investors completed the survey, who represent 7 investment firms



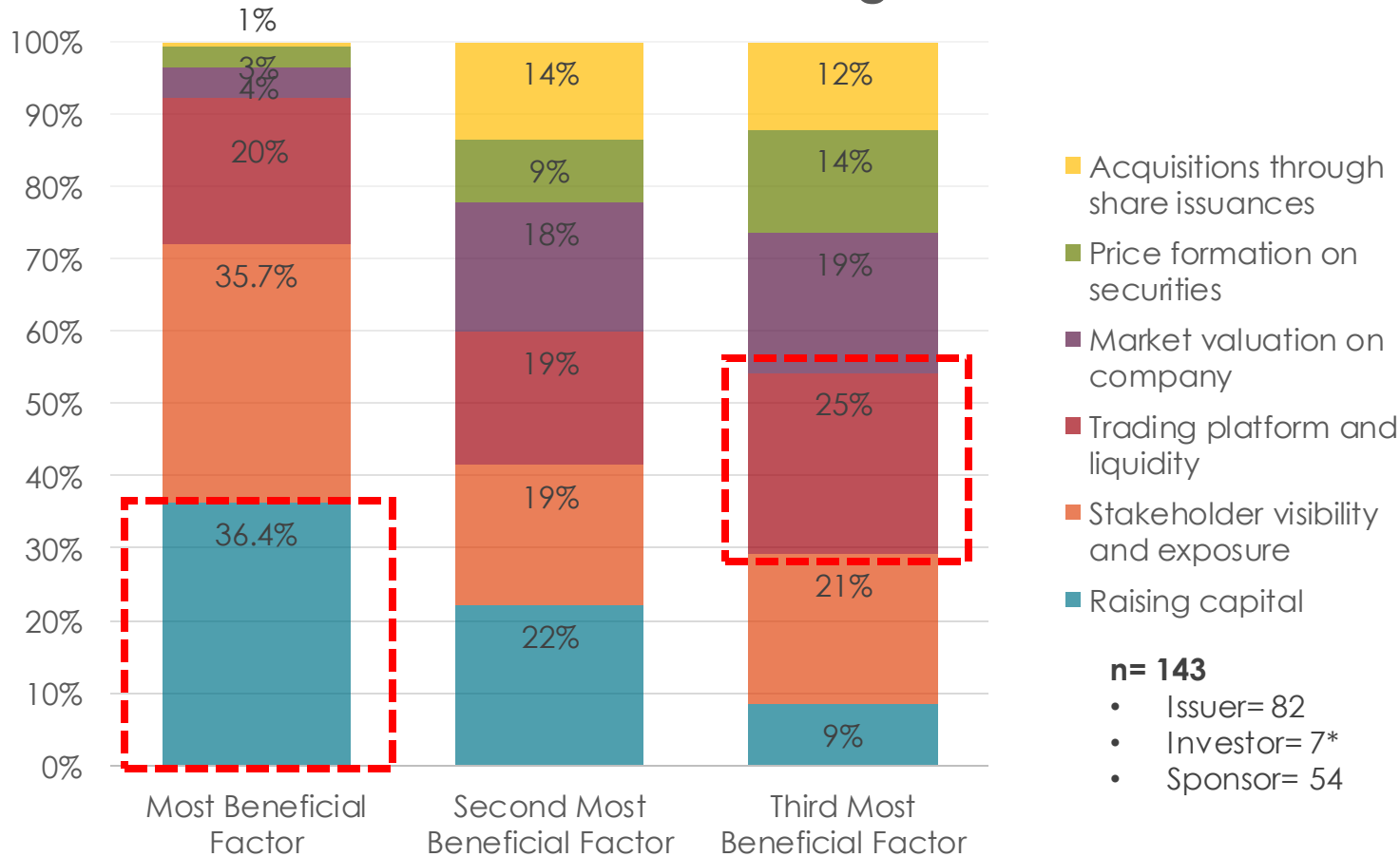
Survey Results



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Top 3 benefits of being listed on the JSE

Benefits of a JSE Listing

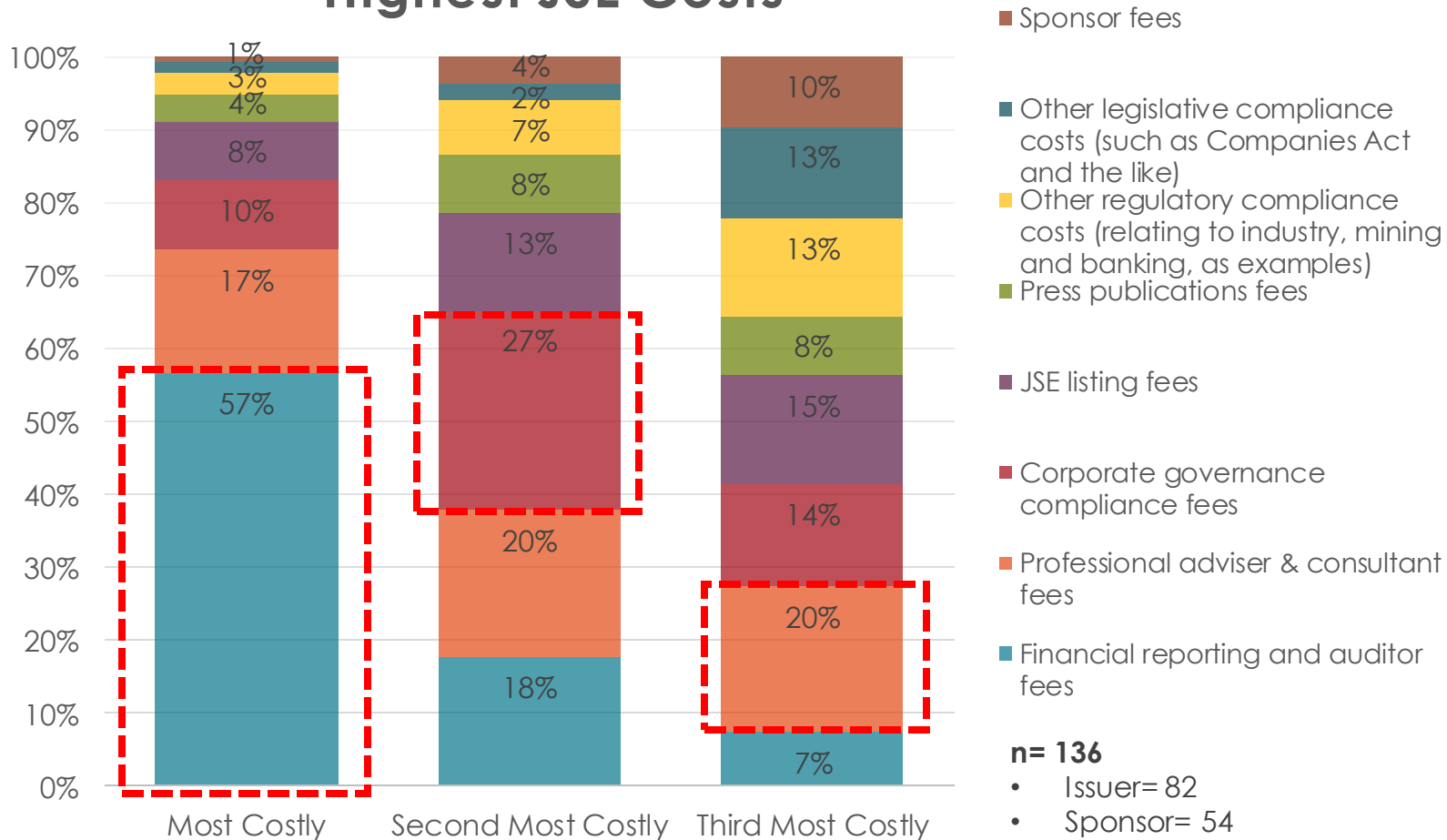


The participants were asked to rank which factors they considered as most beneficial with having a listing on the JSE.

- Around 36,4% of the respondents stated that the most beneficial factor of having a listing on the JSE is the ability to raise capital.
- Most of the Issuers however stated that the most beneficial factor for them of being listed on the JSE, is stakeholder visibility and exposure.
- The Issuers ranked capital raising and market valuation of their company as the second most beneficial factor.

Top 3 costly items relating to a listing on the JSE

Highest JSE Costs



The Issuers and Sponsors were then asked to rank which fees they considered as most expensive for JSE listed companies:

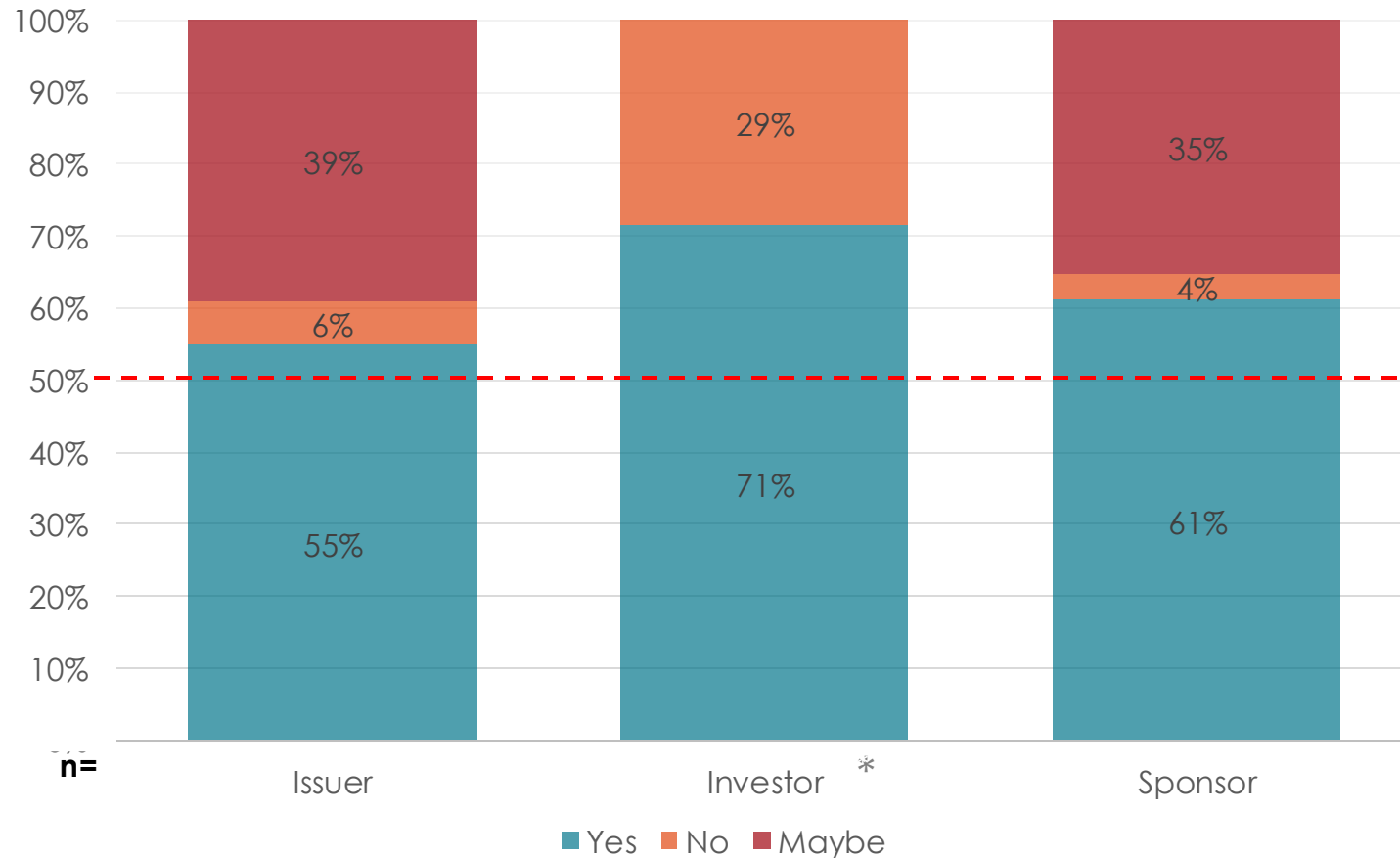
- 57% of the Issuers and Sponsors stated that fees relating to financial reporting and auditor fees are their highest JSE expense items.
- This is followed by corporate governance compliance fees (27%) as well as professional adviser and consultant fees (20%).

JSE Market Segmentation Proposal



Most of the respondents indicated that they would be supportive of the Market segmentation proposal

Segmenting the JSE's Main Board



- 55% of the Issuers expressed their support for proposal
- Most of the Issuers who said “Maybe” have a market capitalisation of above R5 billion, and therefore would not be directly impacted by the change.

Where should the Main Board be segmented

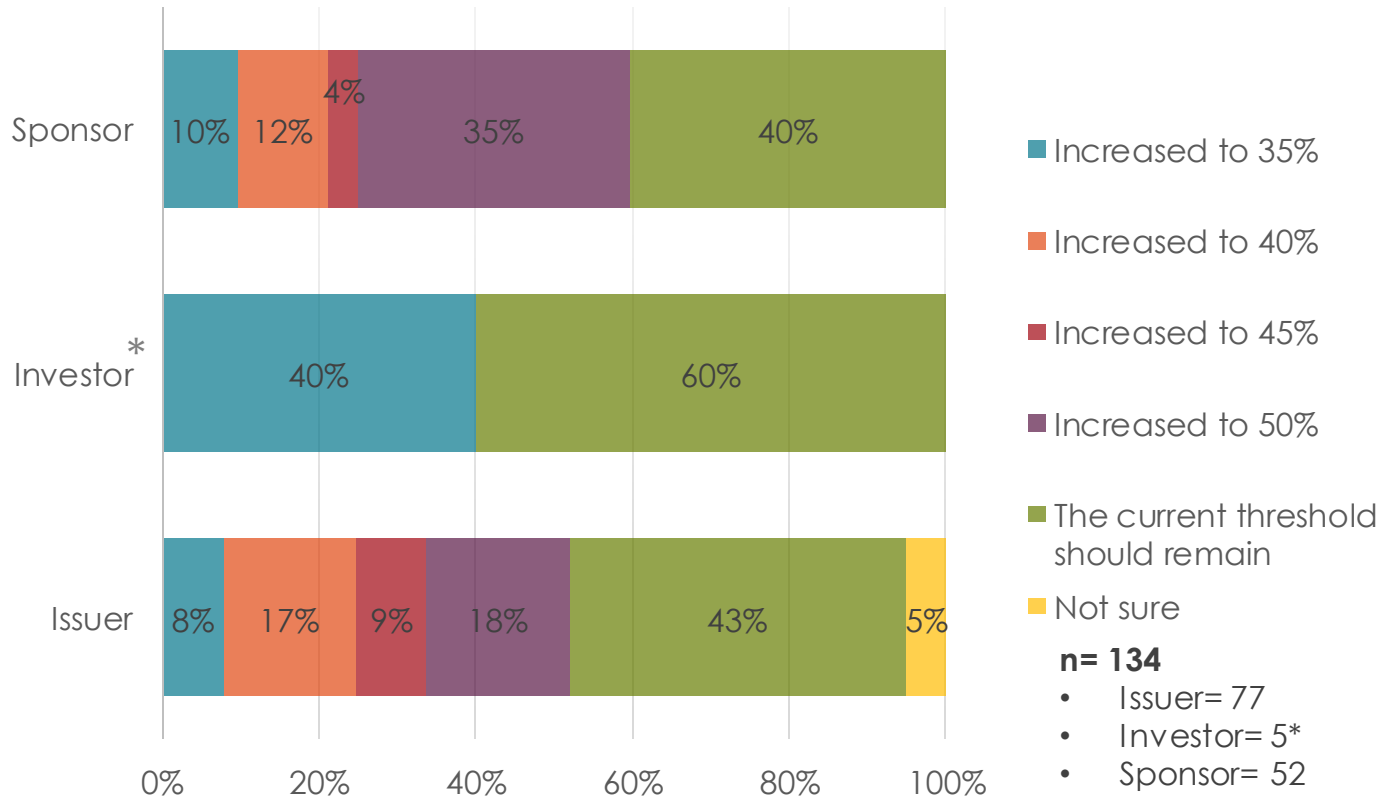
- Issuers felt that the low/mid-cap segment should be applicable for companies with a market cap of R5 billion or less
- Sponsors: stated R2 billion or less,
- Investors: stated that it should be applicable at a market cap of R1 billion or less

Low/Mid-Cap Segment Listings Reform



The next set of proposed amendments to the Listings Requirements would be implemented for the low/mid-cap segment. Only respondents who indicated that they might or are definitely supportive of the market segmentation proposal were asked to comment.

Wider Threshold For Cat1 Transactions



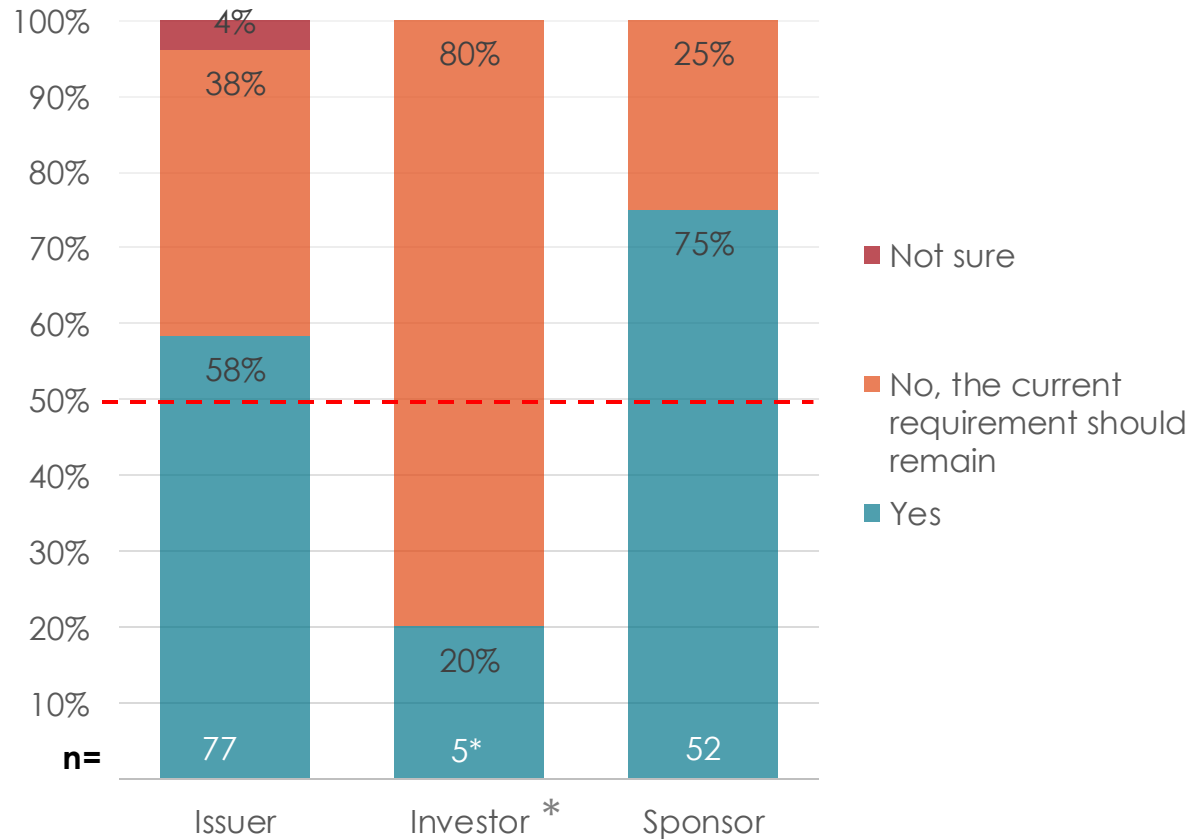
Category 1 Transactions

Q: Should a wider threshold be applied to trigger a category 1 transaction that requires shareholder approval?

- Although 52% of the Issuers felt that a wider threshold should be applied, a considerable 43% of the Issuers indicated that doing so would add no value and that the current threshold should remain as is.
- Most of the Investors also stated that the current threshold should remain as is.

Category 1 Transactions- Historical Financial Information

Reduced Period Audited Information For Cat1 Transactions

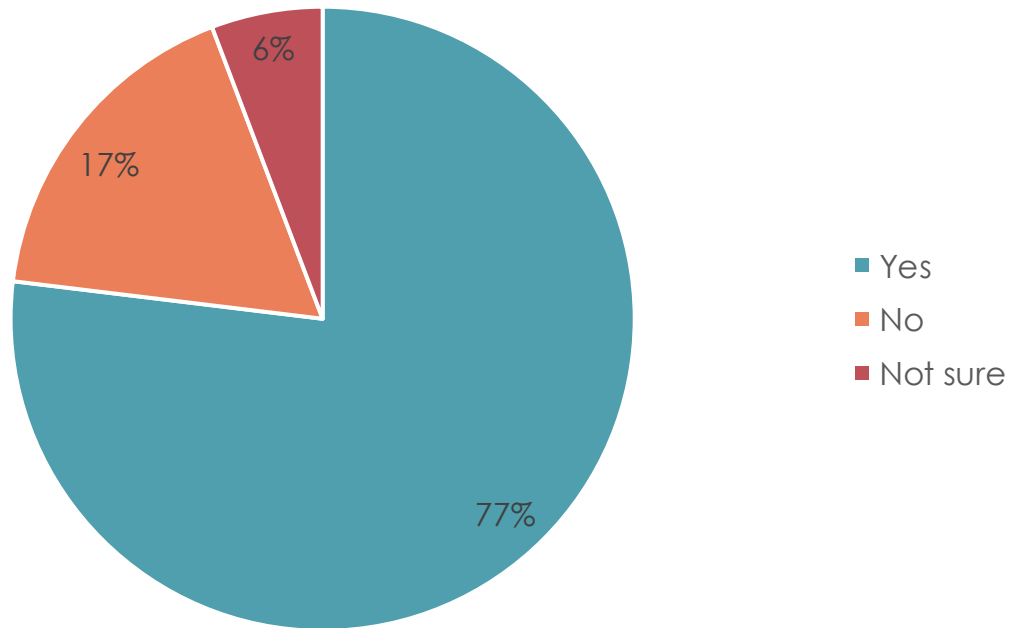


Q: Would you support a reduced period of one year audited historical information (which will include comparative results), on the basis that it will still afford sufficient disclosure about the category 1 transaction?

- While most of the Investors stated that they would not be supportive of this proposal, 58% of the Issuers as well as 75% of the Sponsors indicated that they would be supportive of the JSE amending the current 3-years audited financial information requirement to just one year.
- Further engagement with the Investor community would therefore be required to ensure that 1 year's financial information is sufficient enough conduct a proper evaluation on the transaction.

Category 1 Transaction: New listing substantial acquisition

Removal Historical Information Requirement



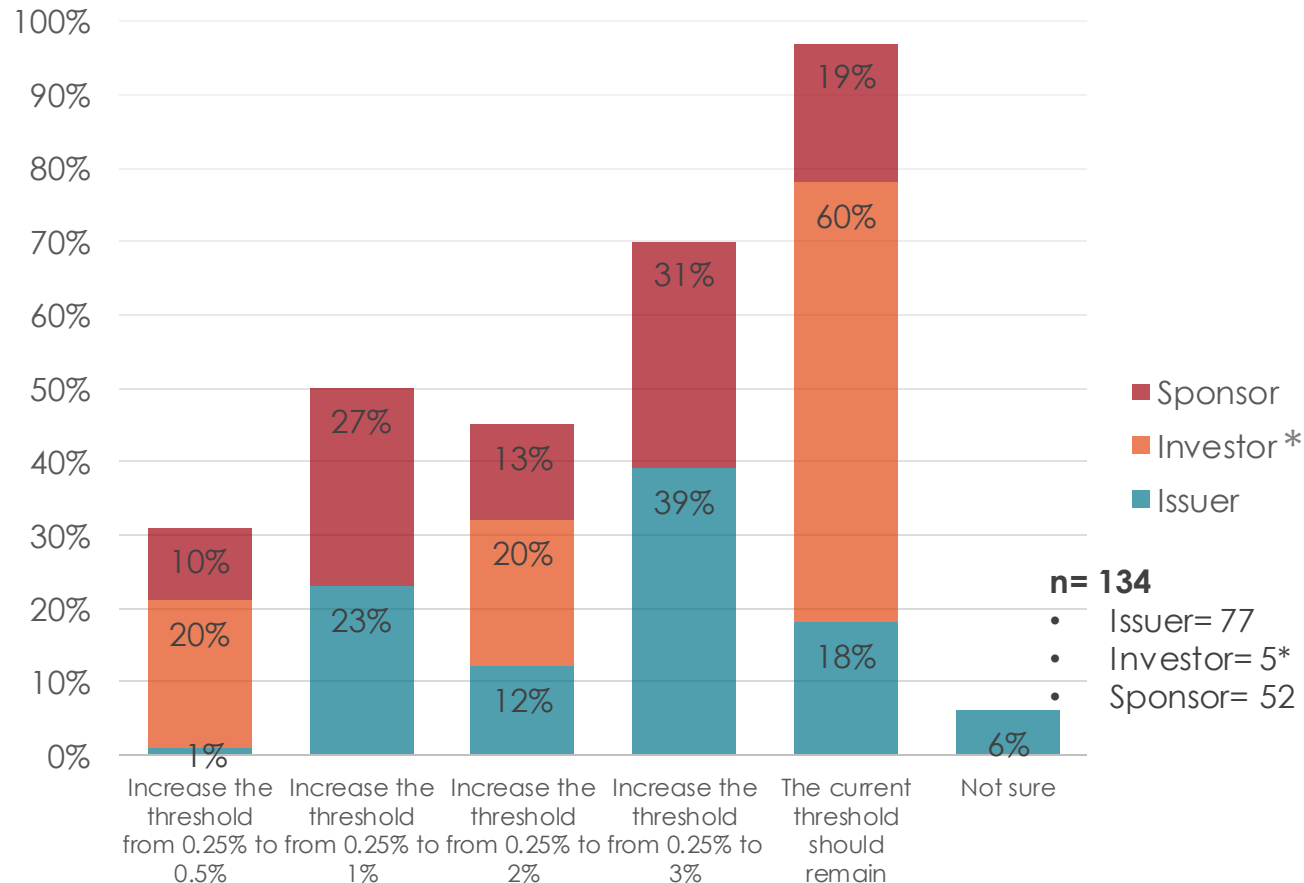
n= 52
(Sponsors only)

Q: Would you support the removal of a report on historical financial information for a substantial acquisition by a category 1 subject on listing, because it affords limited regulatory value?

- The above question was **only** directed to the **Sponsors** for **comment**.
- The vast majority of Sponsors, or 77% of the Sponsors indicated that they would be supportive of the JSE's proposed amendment.
- Only 17% of the Sponsors who responded to the survey said they wouldn't be supportive of the proposed amendment.

Small related party transactions

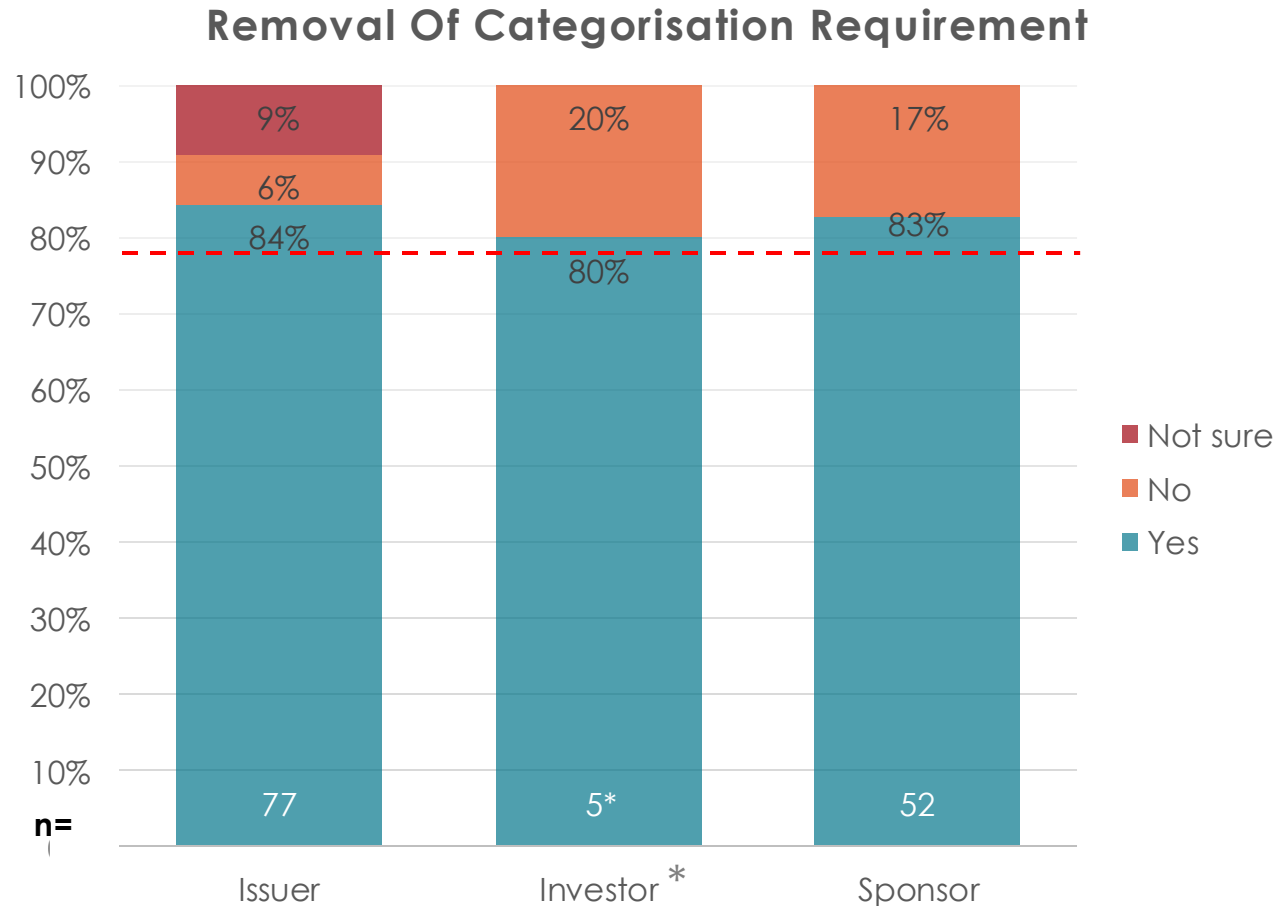
Broader Trigger For Small Related Party Transactions



Q: Should a broader range be applied to trigger a small related party transaction?

- Although most of the Investors said that the current requirement should remain as is, the other respondents felt the trigger should be increased.
- 39% of the Issuers and 31% of the Sponsors stated that they felt that the trigger should be increase from 0,25% to 3%.
- Only 18% of the Issuers and 19% of the Sponsors stated that the current trigger should remain the same.

Transactions by listed subsidiaries

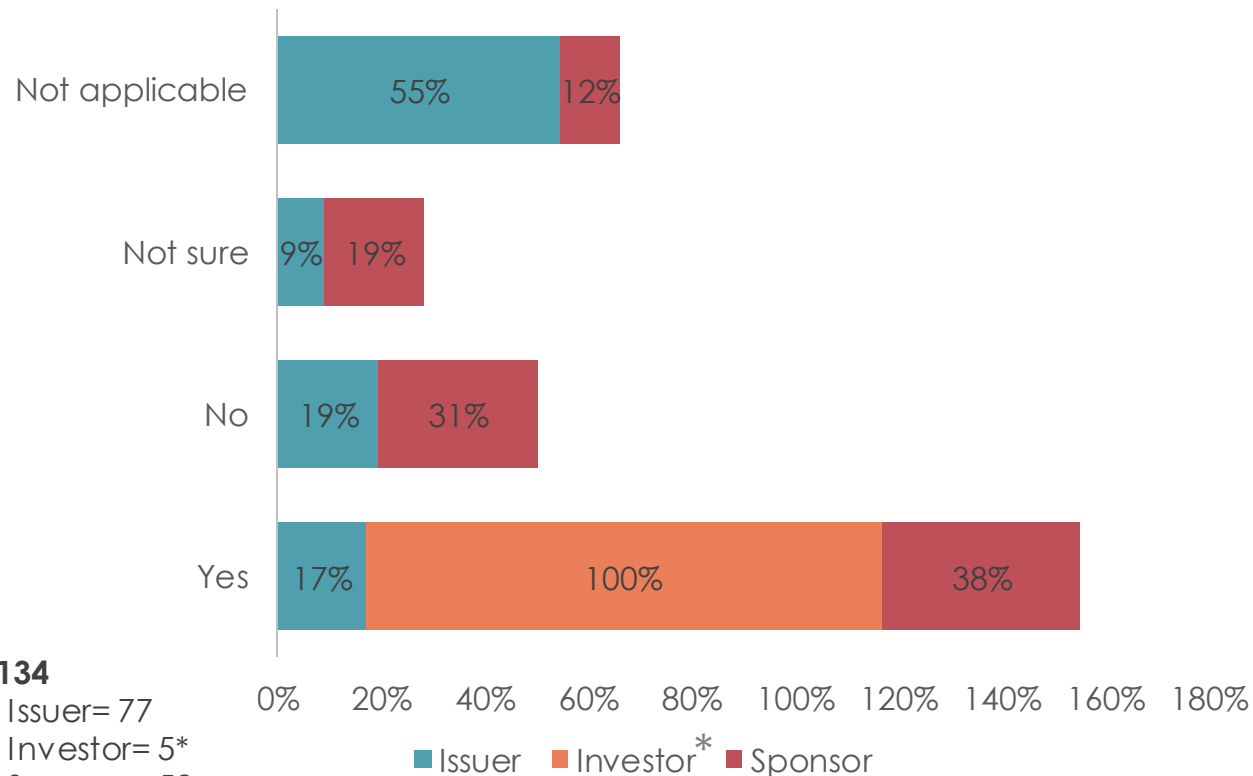


Q: Should the JSE not require transactions to be categorised for the listed holding company, provided the subsidiary is listed on the JSE?

- Most of the respondents indicated that they would be supportive of the amendment for the low/mid-cap segment.
- In particular, 84% of the Issuers agreed to the removal of the requirement, whilst only 9% of the Issuers stated that they would not be supportive of the amendment.

Mining companies and property entities

Disclosure Of Substantial Mineral And Property Assets



n= 134

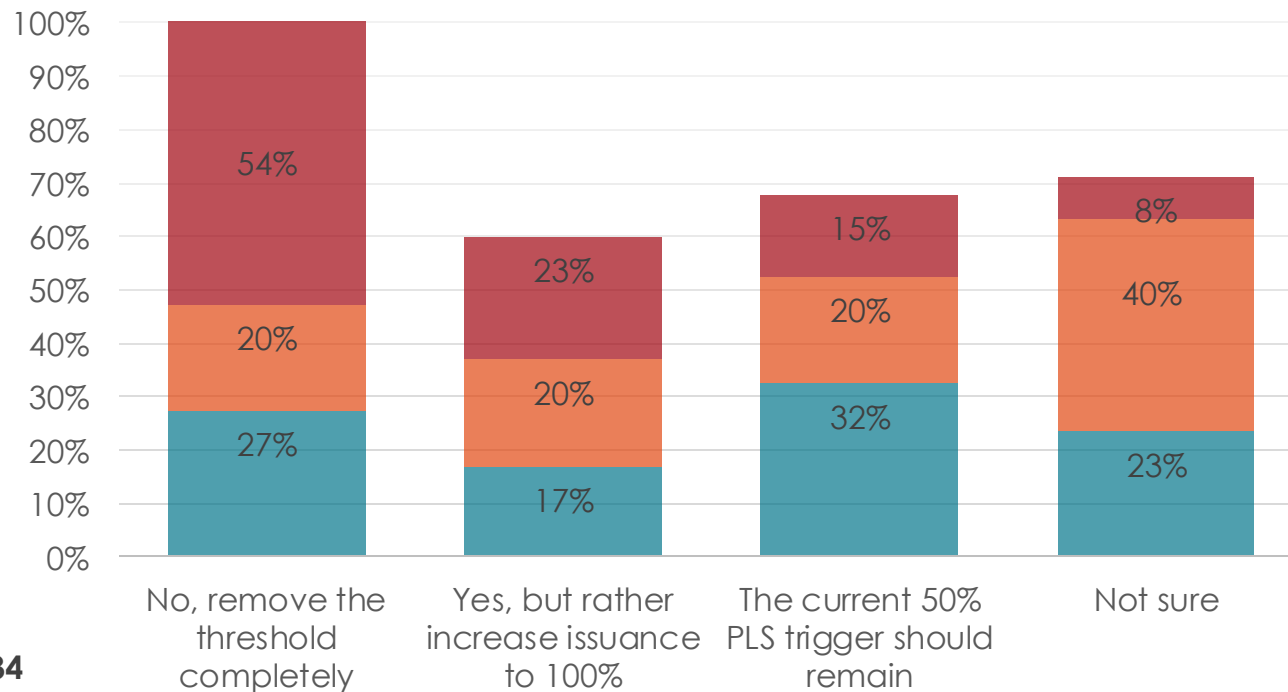
- Issuer= 77
- Investor= 5*
- Sponsor= 52

Q: Do additional disclosure requirements applied to issuers with substantial mineral assets or property assets, add regulatory value when considering that these assets are supplemental to the core business/industry?

- Most of the Issuers (55%) who participated in the survey were not able to provide any comments or views to the above question as they do not operate in the abovementioned industries.
- On the other hand, all the investors surveyed stated that the disclosure requirement added value.

Pre-listing statement: share issuances

Regulatory Value of a PLS



n= 134

- Issuer= 77
- Investor= 5*
- Sponsor= 52

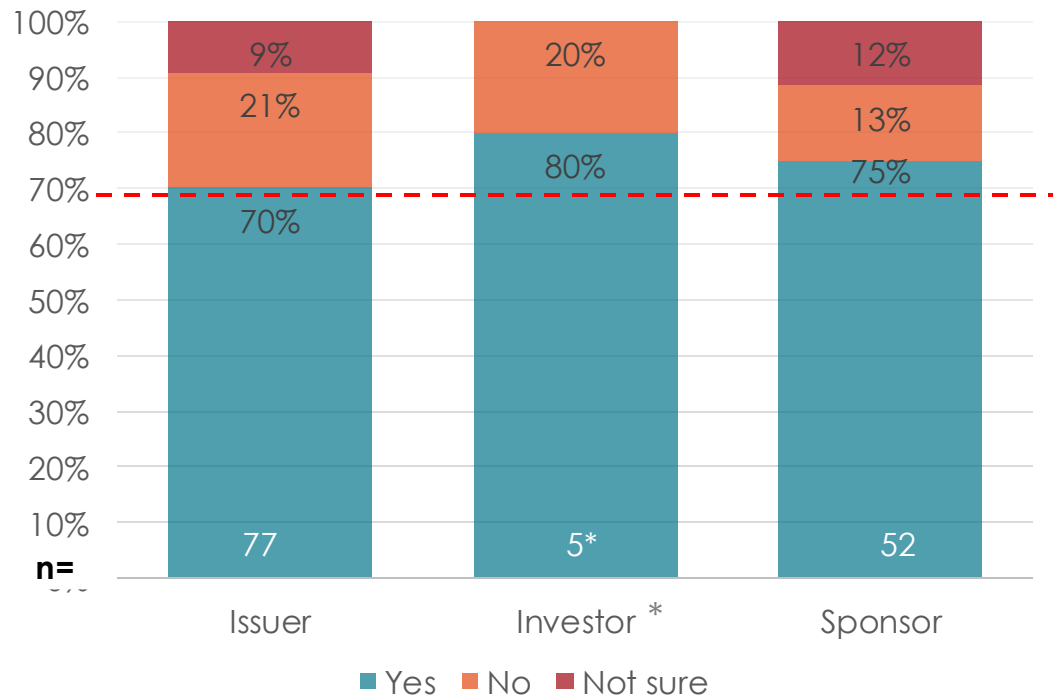
■ Issuer ■ Investor* ■ Sponsor

Q: Does a Pre-Listing Statement (PLS) add regulatory value on share issuances if there is no fundamental change in the business?

- 54% of the Sponsors felt that the requirement should be removed completely.
- The Issuers however did not feel as strongly about the requirement as the Sponsors, whilst 44% of the Issuers felt that the requirement should be amended, a notable 32% felt that the current requirement should remain as is.

Pro forma financial information

Pro Forma Vs Detailed Narrative

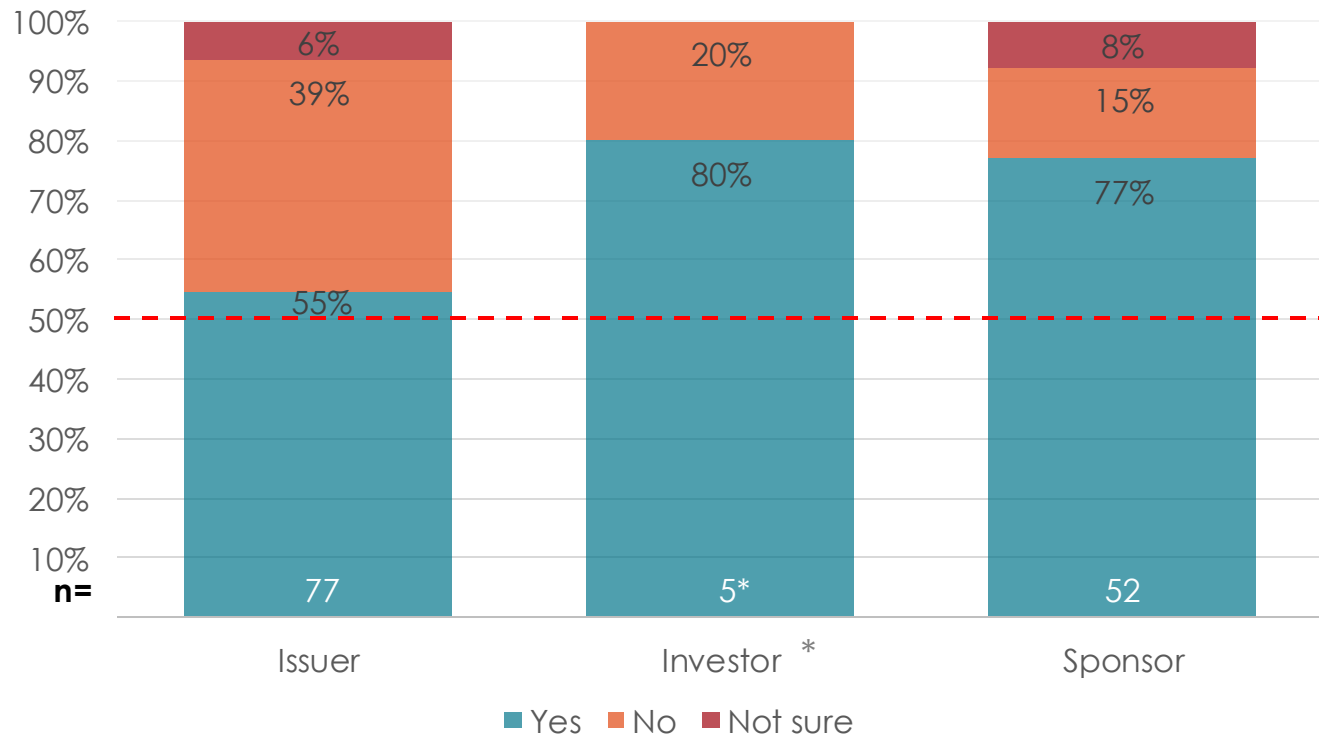


Q: Would a detailed narrative, explaining the impact of the transaction on certain key indicators like EPS or NAV add sufficient regulatory value, compared to a detailed pro forma effects prepared by a reporting accountant?

- Most of the respondents stated that the detailed narrative would add more value than Pro Forma financial information.
- 70% of the Issuers expressed their support for the proposal as well as 75% of the Sponsors.
- Only 21% of the Issuers and 13% of the Sponsors indicated that they would not be in support of the proposed amendment.

Fairness Opinion

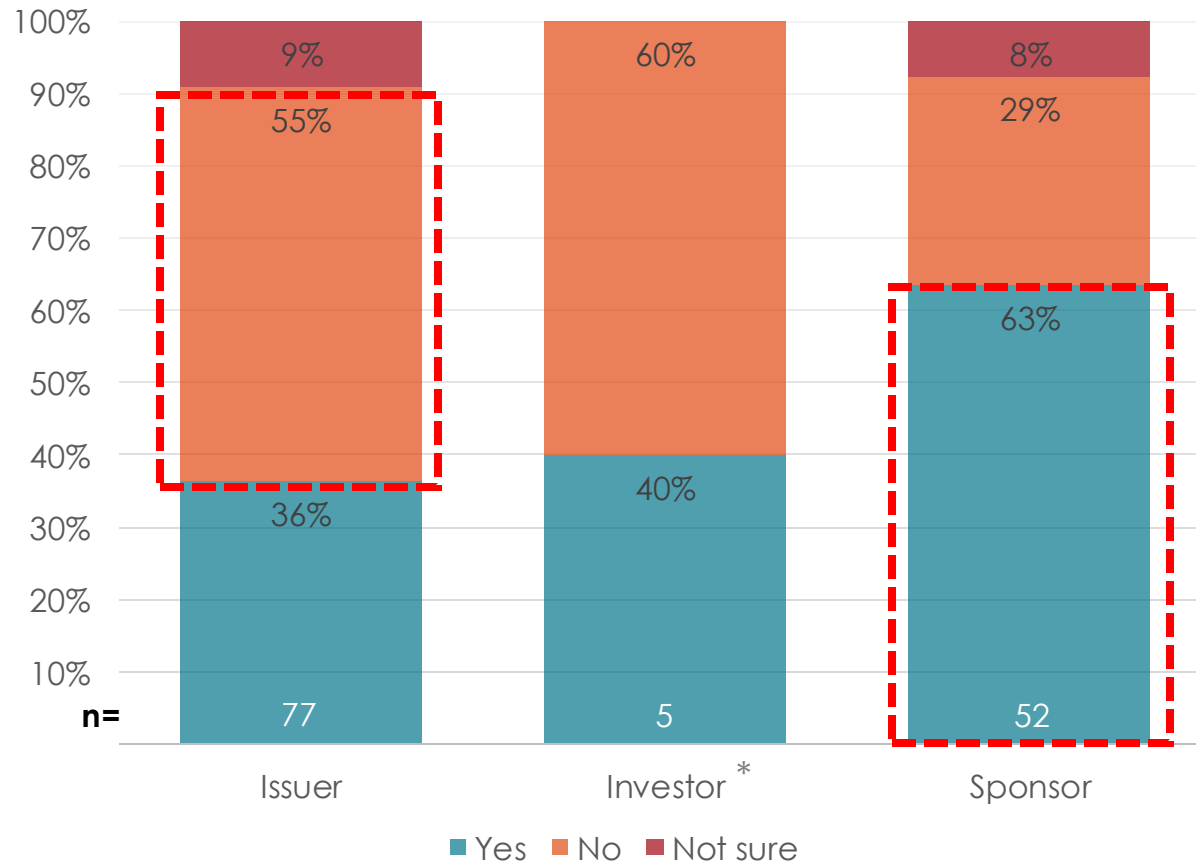
Regulatory Value Of Fairness Opinion



Q: Where a related party transaction requires shareholder's approval and the circular to shareholders contains sufficient information on the related party transaction, does a fairness opinion add regulatory value to the board and shareholders?

- Most of the respondents stated that the fairness opinion does add regulatory value.
- In particular, 55% of the Issuers stated that it does.
- Most of the investors held the same sentiment as the Issuers as they felt that the fairness opinion adds value.

Repurchases



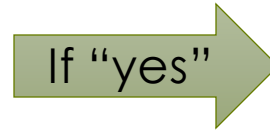
Q: If related parties are not involved, does the JSE imposed shareholders' approval add regulatory value to the repurchase securities?

- Most of the Issuers and Investors stated that the shareholders approval adds no regulatory value.
- On the other hand, 63% of the Sponsors feel that it does.

Low/Mid-Cap Segment Listings Reform

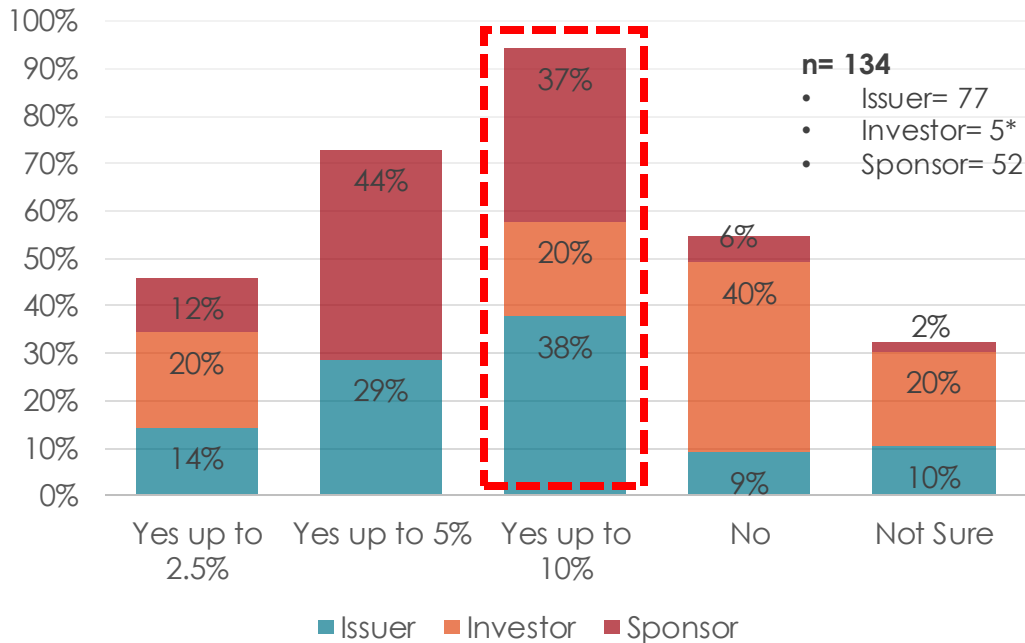
Capital Raising – General Authority

Q: Some markets afford an annual automatic authority to issue shares for cash, without shareholders' approval. Would this approach, with proposed limits, add regulatory value to the capital raising process?

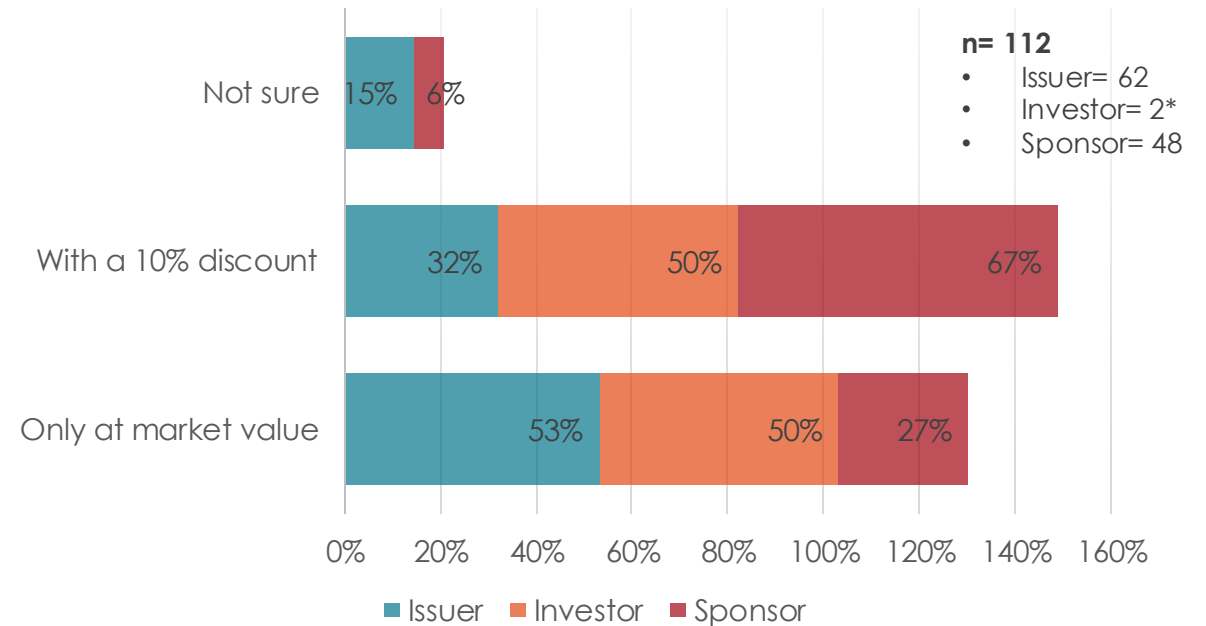


Q: Should the shares be issued for cash at market value, or should a reasonable discount be applied ?

Automatic Authority To Issue Shares For Cash



At Market Value Or Discounted



- Most of the respondents stated that they would be supportive of the proposal
- In addition, 67% of the Sponsors stated that the shares should be issued at a reasonable discount of 10%, while 53% of the Issuers preferred at market value

A photograph of a modern, curved glass skyscraper. The building's facade is composed of many rectangular glass panels, reflecting the sky and surrounding environment. In the foreground, there is a large, abstract sculpture made of polished metal, featuring curved, overlapping shapes. The sculpture is set on a dark, circular base. The building is surrounded by greenery, including trees and ferns. The sky is overcast.

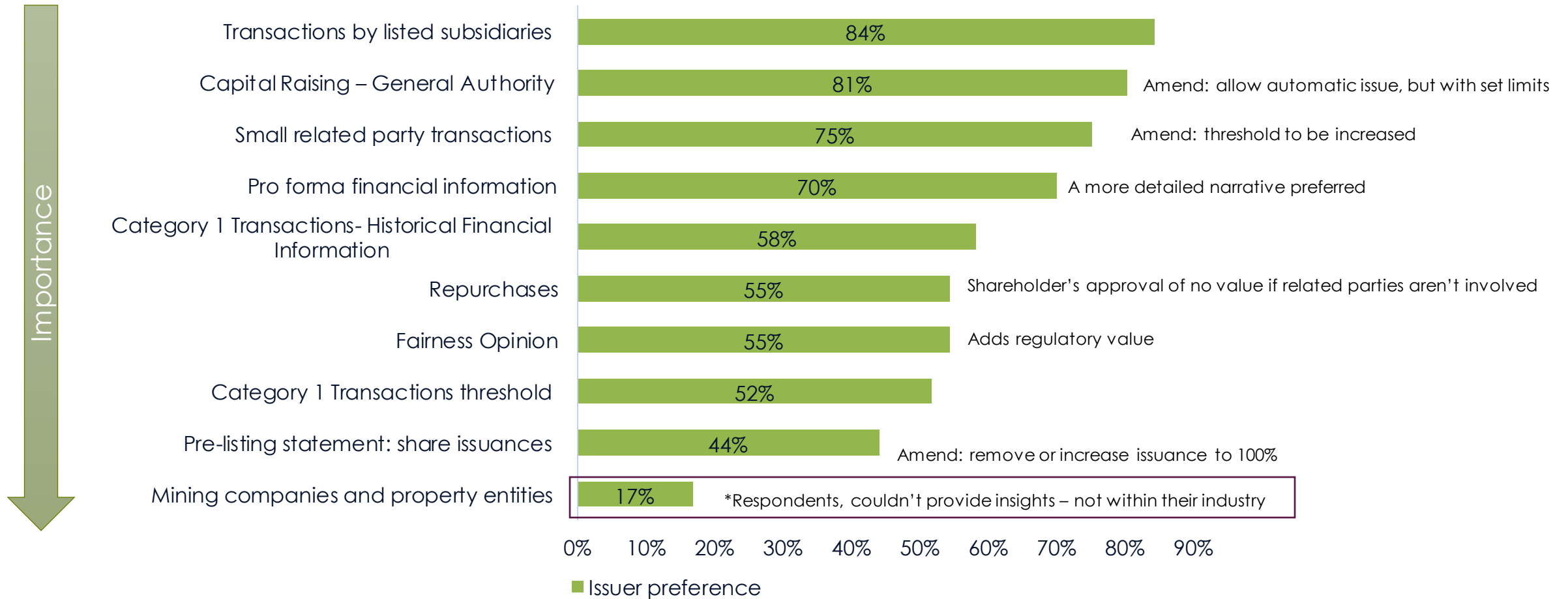
Closing



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Which listings reforms would Issuers prefer for the low/mid-cap segment

The below graph illustrates which regulatory reforms for the low/mid-cap segment would be most beneficial to the Issuers, as indicated by the number of Issuers who indicated support for the proposed reforms:



Regulatory reform that protects and benefits all market participants

- Most of the survey participants expressed their **support** for the **Main Board to be segmented**, which will ultimately offer low/mid-cap Issuers with greater regulatory flexibility.
- 55% of the Issuers indicated their support for the proposal. Whilst 39% of the Issuers said “maybe”, most of these Issuers have a market cap of above R5 billion and would therefore not be directly affected.
- The Main Board should be segmented at the mid-point of the respondents’ recommendation, i.e., Issuers with a market cap of R3 billion or less
- Whilst the market segmentation **will result in greater regulatory flexibility** for low/mid-cap companies, the JSE should **still ensure good regulation** so as **not to create** a counterproductive programme, that will result in **less investor appetite** for companies that are in the low/mid-cap segments.
- Stakeholder visibility and exposure remain top priority for the Issuers and the JSE should therefore continue with **initiatives to increase exposure** for low/mid-cap companies.



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