HOW COMPANIES CAN UTILIZE THE STOCK EXCHANGE POST COVID-19 PANDEMIC

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1. INTRODUCTION

The outbreak of the coronavirus, also known as COVID-19, is inarguably becoming the most disruptive crisis the world has ever experienced since the Spanish flu of 1918 which is said to have infected a quarter of the world population at the time. The economic and financial impact of this pandemic, which is still unravelling, is analogous with past events such as the Great Depression and the 2008 global financial crisis. Several jurisdictions have declared a state of public emergency to deploy measures to curb the spread and cushion the socio-economic impact of the pandemic. From a social standpoint, the outbreak has necessitated society to take drastic measures such as extreme social distancing and extensive lockdown periods. As a result, majority of the global workforce has had no choice but to stay home, causing massive disruption in productive activity across the world.

Volatility and panic engulfed major financial markets across the world with many experiencing significant drawdowns from their 2020 highs and effectively wiping out previous year's gains due to the sell-off caused by the economic uncertainty. In response, governments and in some cases private sector, have intervened by providing social and financial support to businesses and employees most affected by the disruption, including small-to-medium enterprises (SMEs). In addition, most central banks have responded by taking an aggressively accommodative monetary policy stance by significantly reducing interest rates and launching quantitative easing programs. Regardless of the current state of affairs, history shows us that humanity has been able to survive even the direst times of distress instilling hope that the contagion will ultimately subside to manageable levels and life will return to normal, albeit a distinctively different normal. Although the adverse socio-economic effects of the pandemic will be felt for many months to come, businesses certainly have options that they can evaluate and adopt to maintain their survival and growth during and in the post-pandemic period.

As financial capital is the lifeblood of all businesses - big and small - the financial and capital markets are now more important than ever. Businesses have the ability to remain solvent by strategically accessing the capital markets to raise debt and/or equity capital or by preserving capital through certain corporate actions affiliated with instruments on the stock exchange. This paper explores how companies can use the Botswana Stock Exchange (BSE) post COVID-19 pandemic to sustain and enhance recovery, thereby benefiting their stakeholders in the long term.

2. THE IMPACT OF THE COVID-19 PANDEMIC ON BUSINESSES

The International Monetary Fund (IMF) indicates that the global economy has already entered a recession that could be as bad or worse than the slump after the 2008 financial crisis. The World Bank estimates that the coronavirus outbreak could cause significant economic slowdown in China with spillovers into other parts of the world. In addition, the World Bank has projected that Sub-Saharan Africa will see its first recession in 25 years because of the severe impact of the coronavirus pandemic. On the back of these projections, the performance and competitiveness of companies across most industries could be substantially negatively affected. Although the impact is systemic and idiosyncratic in some instances, the below three trends embody the impact that potentially cuts across various industries:

- **Reduced earnings:** Businesses have temporarily shut down as countries across the world have initiated lockdowns to curb potential spread of the virus and this implies significantly reduced revenues. In the absence of cash flow, some smaller businesses may be forced to reduce their staff or close down entirely and that could exacerbate the pressure on the economy.

- **Increased cost of operations from business disruptions:** The disruption of the production and supply value chain could result in increased costs of inputs as supply dwindles due to the logistics and mobility restrictions. Furthermore, supply chains may take longer time to return to normal following the lockdowns.

- **Changing competitive landscape:** Companies are responding strategically by embracing flexibility in their operations and central to this is the capacity to enable work from home or alter their physical or customer environments. Domestically, stores for example, have embraced online shopping and home deliveries. Businesses that have adequately invested in business continuity plans and pandemic contingency infrastructure have experienced minimal disruption to their operations.

In addition, many firms across the world have stepped up and shifted their capacity and infrastructure towards manufacturing products required in the pandemic environment, for both commercial and social reasons. Locally, start-ups and some universities are producing sanitizers and other forms of protective equipment. In what may become a future norm, conferences are taking place over virtual platforms to continue these important network events. These and many more examples demonstrate how the pandemic has forcefully shifted and morphed business models for adaption.

3. THE ROLE OF THE BSE IN THE ECONOMY

In the broader economy and the financial system, the BSE performs a crucial function of facilitating the formation, allocation and mobility of capital. Like many other stock exchanges, the BSE is an organized and regulated marketplace where equity and debt securities are listed and subsequently traded on a continuing basis. Unlike money markets, capital markets provide an opportunity for long-term funding at the point of issuing the securities for the first time and at any other point henceforth. Such securities can be debt (bonds, debentures, or notes), equity (shares or common stock), or a hybrid (a security with both debt-like and equity-like characteristics such as preferred shares and convertible bonds).

Among other functions, stock exchanges address the needs of issuers seeking finance at reasonable cost and of investors willing to provide the finance according to their perception of risk and return. The issuance of equity, or shares, happens in the primary market when a company sells some of its outstanding shares to the public, in return receiving the funds in this transaction. Once the company is listed on the BSE, the shares can be traded continuously between the holders and members of the public seeing value in the company. While a listing may result in a flow of funds from investors to the firm in the primary market in exchange for the shares, the trading of shares in the secondary market results in the exchange of funds and shares between investors. By facilitating the trading of issued shares in the secondary market the BSE enhances the discovery of price and facilitate entry and exit in these investments, which are critical for efficient allocation of capital by various participants in the market and the ultimate resilience of the economy.

It suffices to highlight that companies and investors alike tend to prefer a public platform such as a stock exchange due to the oversight provided, applied and enforced on listed entities and participants in the market using the regulatory tools of the exchange. As a regulatory entity, the stock exchange ensures that the capital raising and investing activities are conducted in a fair, transparent, efficient manner and in a secure manner as regards the clearing, settlement and custody of securities through the central depository system (CSD).

4. HOW COMPANIES CAN UTILIZE THE BSE POST COVID-19 PANDEMIC

From a business perspective, at the core of this unfolding pandemic is the concern around the solvency and liquidity of companies – the lifeblood of every economy. Most economies have introduced stimulus packages and relief measures of various forms to keep businesses and the economy afloat. At company level, access to capital is very critical in any business cycle. In this particular one, and even in glory days, it still remains critical to reiterate the importance of utilizing the stock exchange and the methods by which companies can utilize the stock exchange to stay in operation and ramp up as the impact of the pandemic dissipates. These methods primarily highlight ways in which a company can raise capital as well as preserve cash on the balance sheet.

a) Issuing and Listing Shares on the BSE

Companies can issue and list shares through an initial public offering (IPOs) or private placement to raise capital for business operations and for various other reasons. As a pandemic is systemic, it is highly likely that valuations will get depressed during the pandemic whereas the fundamentals of a business could be viewed differently by existing and potential investors. Often, this presents opportunities to both seekers and suppliers of capital and the timing could prove beneficial in terms of optimizing the capital structure of the company by accessing public funds through the stock exchange. On the BSE, a company can list its shares on various boards depending on its ability to meet the requirements of each of the boards. These are the Main Board, Venture Capital Board, and the Tshipidi SME Board. The key BSE listing requirements applicable to each of them are presented in Table 1:

Table 1: Overview of BSE Equity Listings Requirements

Requirement	Main Board	Venture Capital Board	Tshipidi SME Board
Financial history	-Profit history for the preceding 3 financial years with profit of at least P1million before tax	-No profit history needed	-Profit history not needed
Minimum capital	-Subscribed capital of at least P5 million -No less than 1million shares in issue	-Subscribed capital of at least P2.5million -No less than 1million shares in issue	-Subscribed capital of at least P0.5milliom -No less than 1million shares in issue
Minimum share price	-Minimum initial issue price of 100thebe per share	-Minimum initial issue price of 50thebe per share	-Minimum initial issue price of 50thebe per share
Minimum number of public shareholders	-300 for ordinary shares -100 for the other classes of equity	-100 for ordinary shares -50 for preference shares	-5 for ordinary shares -5 for preference shares
Minimum free float	-30%	-10%	-5%

In addition, a company may register on the Serala OTC Board as an opportunity for its shares to be traded to facilitate the exit and entry of investors at publicly accessible share prices. In the process of remaining on the Serala OTC Board, a company also benefits from familiarizing itself with the regulatory conduct and compliance requirements of a publicly-listed company and this is useful for companies that strategically intend to eventually issue more shares to raise capital and undertake a listing on either the Main or the Venture Capital board in the short to medium term.

b) Undertaking Rights Issues, Secondary Offerings, Scrip Dividends and Bonus Shares

Listing on the BSE affords a company the ability to build a larger and heterogeneous base of retail and institutional investors, domestic and foreign. Such an investor base is crucial for supporting the company's corporate actions on an ongoing basis, some of which are aimed at raising more money while others are aimed at preserving cash already on the balance sheet. A listed company can raise money through a rights issue which is an option for existing shareholders to buy additional shares in the company at a discounted price compared to the market price. Other than the discounted price, the attractiveness of a rights issue to shareholders is that the shares are purchased in proportion to the existing ownership thus avoiding a dilution in shareholding. For the company, it is able to raise long-term capital without increasing its debt levels.

In addition, a company can conduct a secondary offering of shares, or issuance of additional shares, which could be subscribed to by any investor as a way of raising capital by the company. In some cases, companies can structure acquisition transactions financed wholly by issuing shares or through a combination of shares and cash. The fact that the valuation is already determined in the public market is an important catalyst in these transactions.

A company can preserve cash on the balance sheet by paying a dividend using shares instead of paying cash as dividends and this is called a scrip dividend. To even please its loyal shareholders, it can pay a bonus dividend in the form of additional shares instead of cash. These corporate actions are crucial for capitalizing the company so it can resuscitate or pursue business expansion, acquisitions and other activities of potential value to shareholders using the preserved cash.

c) Optimizing the Capital Structure and Managing Risk

Debt capital is usually the dominant type of capital in a company's structure in its early years of operation and with time companies can reach a level where another form of capital is necessary to be injected for the company's continued growth. Often, this form of capital is external equity. In some instances, lenders cap their debt exposure to companies to mitigate credit risk and this can reduce the possibility of accessing debt financing at reasonable cost. Therefore, a company can strategically undertake an IPO to access equity capital, reduce its riskiness and in the process increase its attractiveness and creditworthiness to lenders so it can continue to access external debt. Interestingly, certain lenders do accept shares of a company as collateral for the loans issued as this helps to manage their credit risk exposure. Compared to a private company, such an innovative transaction as equity collateralized debt obligations can be hampered by the lack of a publicly determined value of the stock and the lack of a platform for selling the shares held by the lender if the need arises. Given the envisaged and unfolding economic impact of the COVID-19 pandemic, most lenders would increasingly become frugal and borrowers, being corporates, could be compelled to increase their levels of equity capital. One of the ways of achieving this is by floating their shares on the BSE to raise funds from the public. Practice has demonstrated that a listed company tends to be progressively credible for further lending by private institutions as, among several considerations, a diversified capital structure reduces its credit risk.

d) Issuing and Listing Bonds on the BSE

A bond is a debt instrument acknowledging an obligation of indebtedness to a lender by the issuer of the bond for a specified period of time and with a pre-determined interest rate or coupon rate. Generally, bonds are deemed less risky in comparison to shares because of the contractual obligations of the borrower to the lender as regards payment of interest and repayment of principal, among other things. From a lender's perspective and in accordance with the pecking order theory, issuing debt tends to be highly preferred if internal finance is insufficient because of the many advantages of external debt financing relative to those of external equity. External debt financing can be attained by issuing a bond on the BSE and this is applicable to both listed companies and unlisted companies. Again the value proposition is the presence of regulatory oversight but in addition what is most distinct is that a bond, especially a bond of longer maturity, is an attractive asset to pension funds and insurance companies who are managing long-term liabilities that need to be matched with long-term assets such as bonds.

Bonds can be of various types and structure, which is an important consideration in the context of COVID-19 pandemic and the expected depressed cash flow levels in the early days of economic resuscitation and recovery. For example; issuing a zero-coupon bonds takes out interest payment obligations. Issuing a bullet bond defers principal payment to the maturity date. Issuing amortizing bonds, where both the interest and principal payments are built into the coupon payment offers its own advantages of reducing the amount of debt at every payment opportunity. A company can also issue convertible bonds which, overtime and subject to the performance of the company, can be converted to shares in the company at a pre-determined conversion ratio. On the BSE, convertible bonds have historically been applied in early stage companies whose continued growth then triggered the conversion of debt to equity, saving the company the trouble of repaying the debt. These examples clearly can be very useful to companies that prefer to strengthen cash balances and utilize them for business recovery while minimizing the burden of servicing debt obligations for some time.

In addition to the aforementioned types and structures of bonds, a company can issue green and/or social bonds whose proceeds are generally directed towards environmental, social and governance (ESG) activities. The COVID-19 pandemic has uplifted the prominence of social bonds whose capital is deployed for socio-economic issues related to this pandemic. According to the African Development Bank, a record $3 billion in a three-year “Fight COVID-19” social bond was raised towards the end of March to help alleviate the economic and social impact the COVID-19 pandemic will have on livelihoods and Africa’s economies. Due to the rising significance of impact and social investing these kind of bonds which normally pay lower interest have become appealing to institutional asset owners who strive to demonstrate their contribution to humanity, beyond just maximizing returns.

By extension, companies that issue green and social bonds directly address the Sustainable Development Goals (SDGs) and this has increasingly become an important selling point for ESG-oriented investment mandates. As it stands, the COVID-19 pandemic will substantially defeat and regress Goal 1 of the SDGs – End Poverty, as it is estimated that half a billion people in the world could be pushed into poverty as a result of the pandemic (Oxfam, 2020).

e) Enhancing Strategic Performance

As mentioned earlier, the outbreak of this pandemic has challenged several companies to improve their competitiveness in order to remain afloat. According to Forbes (2020), the world could be witnessing the awakening of a new world order wherein, among others, there is increased confidence in technology, technical performance and online payment sectors which are causing a change in consumer behavior, away from traditional methods. We are witnessing this wave of change locally particularly as retailers and other service providers have switched to online and technology-backed service delivery methods. This trend would likely be sustained post the dissipation of the pandemic. If so, it could greatly support the rise of financial technology companies, also known as fintechs, and challenge the viability of the various operational models. It could catalyze mergers and acquisition (M&A) activities which could intelligibly be financed by cash, shares or a combination of both.

Again the relevance and importance of the stock market takes center stage particularly in transactions that could involve publicly listed companies as well as fintechs that could be seeking capital for expansion. Presumably, companies could also resort to streamlining and unbundling some of its assets to be listed as stand-alone companies. As a reference point, following the 2008 financial crisis, we witnessed some level of M&A activity in the public market where a number of companies used shares to take ownership stakes in others and also merge into new entities.

f) Marketing, Governance and Beneficiation

Companies go public for reasons beyond just raising capital initially and on a continuing basis. They frequently highlight factors related to marketing, governance and stakeholder beneficiation as some of the compelling reasons for listing. These are softer but extremely important tenets of business viability. A listing increases the visibility, improves public perception of a company and positively impacts brand loyalty. A listed company demonstrates commitment to higher standards of governance, accountability and transparency which are very crucial to creating long-term shareholder value. A listing promotes local beneficiation as the general public is afforded the opportunity to invest in companies operating in their locality and affords companies the opportunity to boost employee morale, retain and attract talent by putting in place stock-based incentive programs such as employee share option schemes (ESOP). In the tail end of this pandemic, these three tenets would still remain important contributors to the pace of recovery and the stock exchange is a credible platform to accelerate their impact on business.

5. CONCLUSION

The global COVID-19 pandemic is undoubtedly causing unprecedented disruption locally and around the world and has triggered the need to delicately balance social issues with economic issues, particularly preservation of lives and sustenance of business activity respectively. To a larger extent, the draconian measures aimed at containing the spread of the virus have disproportionately impacted business output while also stimulating renewed models of business operations and opportunities. Central to recovery in the post-pandemic era, and perhaps during the pandemic, is the need to maintain solvency and to access capital when it is needed. In addition to available fiscal interventions and relief measures offered by alternative suppliers of capital, businesses need to be made aware of the various methods they could deploy to tap into the deeper pools of contractual savings in the country through the various instruments on the BSE. These methods are diverse in nature and applicable to both listed entities and entities willing to list. They serve various strategic purposes over and above raising capital and can be very important in catalyzing the pace of recovery for individual businesses post the COVID-19 pandemic. Inarguably, shareholders and suppliers of capital are monitoring and evaluating the developments during this crisis for eventual allocation of capital. Hence, companies can progressively position themselves for recovery through these methods and instruments that are available on the BSE.