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VOLUNTARY DELISTING: THE REASONS BEHIND

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Abstract

Delisting from a securities exchange has often been viewed as evidence of tough times within an organisation. The purpose of this paper is to unravel the reasons behind voluntary delisting. The study has made use of published literature with examples from different countries. In as much as most delisting(s) are involuntary, there are good reasons for a counter to opt for voluntary delisting in light of enhancing shareholder value. The cost of remaining public versus the cost of going private has been cited as the most determinant factor in voluntary delisting. Another notable reason has been found to be the inability to raise equity capital by the listed firm owing to a relatively lower share price compared to the real net asset value of the firm. The need to merge, demerge or restructure a firm may be drivers of voluntary delisting. Delisting may however tend to reduce the universe of liquid shares thereby affecting the depth and breadth of the market especially if there are no new listings. Delisting may be considered a viable option if the firm is to restructure via merging with a non-listed entity.

Keywords: *voluntary delisting, securities exchange.*

Introduction

Delisting may be considered to be the reverse of listing[1]. It implies the permanent removal of securities of a listed company from a stock exchange (ibid).Investopedia defines delisting as the removal of a listed security from the exchange on which it trades[2]. Contravention of listing requirements is highlighted as one of the leading reasons behind delisting (ibid). Mention is also made of the fact that delisted stocks are not necessarily bankrupt since trading may continue but as private equity thus over the counter. With that in mind, this manuscript seeks to find the reasons behind voluntary delisting.

Earlier studies suggest that access to public markets for additional capital is the major motivation for firms to undertake IPOs (for instance, Aslan and Kumar, 2011; Bharath and Dittmar, 2010; Kim and Weisbach, 2005 and Marosi and Massoud, 2007). It can be noted from history that depending on the stock, there is a lot of hype associated with going public especially via an IPO (Degorge, Derrian and Womack :2007).

Research Objective

Establish universal reasons for voluntarily delisting from a securities exchange .

Literature Review

Block (2004) in his empirical study of delisting discovers the cost of remaining public as the number one reason of going private for smaller firms. His study managed to reject a null hypothesis of there being no relationship between market capitalisation and going private because of cost thus implying the presence of such a relationship. Martinez and Serve (2011) are in agreement with Block (2004) as they argue that delisting is as a result of cost-benefit analysis. With the use of univariate analysis and logistic regression alongside cost benefit analysis they highlight the fact that when listing benefits decrease because of weak liquidity and/or weak analyst coverage, it will seem better for a firm to go private. Martinez and Serve (2011) give the form in which the cost of listing may come, thus weak liquidity and/or weak analyst coverage. They also find out that mature firms which have a capital structure not biased towards debt, but with weak performance may opt to delist since they may not afford the listing status (ibid). The cost benefit argument however does not receive adequate support from Macey et.al (2004) as they regard the benefits of delisting to have diminished over time whilst the costs associated with delisting have not delisted by a commensurate magnitude.

Pour and Lasfer (2013) contend that delisting is a cumulative result the failure of firms to benefit from listing, implying concurrence to the cost-benefit consideration to such a decision. They however note that prior to delisting leverage remained very high for the firms thus leading to an inability to raise equity capital. Since most firms subscribe to the market access hypothesis, i.e. listing so that they rebalance their capital structures, and having failed to access such capital during their listing-lifetime growth options and profitability will be constrained as such (Pour and Lasfer 2013, p3). This failure to rebalance the capital structure may in certain instances hamper the overall goal of value maximisation since the firm’s optimal capital structure will not be in its vicinity(). Firms that fail to reduce their leverage during their public life due to failure to raise equity capital have a high probability of opting out of the securities exchange(ibid, p5). If however equity capital cannot be raised with ease then the reasons for remaining listed may not be that tangible since there are costs associated with listing. Pour and Lasfer (2013), conclude that voluntary delisting from the London Alternative Investment Market[3] is motivated by inability to raise equity capital, low growth opportunities, low

[1] http://www.delisting.in/meaning.php
[2] http://www.investopedia.com/terms/d/delisting.asp
[3]

profitability and the generation of negative returns. They however also find that voluntary delisting may be voluntary if the delisting firm is doing so as to re-list on a superior market if it now meets the listing requirements for such a market. Fungáčová (2006) endeavours to establish the reasons behind massive delisting in the Czech Republic. He noted that the issue of delisting is common to all types of economies i.e. developed, developing and emerging. In his findings, delisting may be a result of the company having not been a suitable candidate for listing especially in the emerging economies. The study split reasons behind delisting as pre-privatisation, privatisation or post privatisation. As such pre-privatisation factors include industry to which company belongs, the size of the company as well as indicators of its financial wealth. Fungáčová (2006) noted that larger companies are expected to be less prone to delisting since their size naturally qualifies them as candidates for public trading. Using the privatisation paradigm, Fungáčová (2006) identifies companies with a better future outlook as having a lower probability of being delisted and also being characterised by a relatively higher average price for their shares (ibid ,p13).

Examples of Delisted Entities

Primero Mining Company in opted of out of the Australian Stock Exchange (ASX) citing a substantial shift in the trading volume and relatively low liquidity in trading compared the activity of such shares on New York Stock Exchange and Toronto Stock Exchange[4]. This seemingly supports the cost benefit analysis being put to use for those counters which may be listed on more than one exchange like Primero Mining Company. If the a particular market is viewing a certain counter in bad taste compared to another advanced market like the NYSE or TSE , then it is reasonable to remain listed on the later as was done by Primero Mining Company. Primero determined that sustaining the administrative and compliance costs of an ASX listing is not in the interest of Primero and all its shareholders and, accordingly, has made the decision to delist from ASX but remain on the NYSE and TSE.

Citing the same reasons as those stated above was Marubeni Corporation which voluntarily applied for delisting from two stock exchanges (Frankfurt and Düsseldorf Stock Exchange)[5]. Reasons stated for the delisting include the relatively low trading volume of the Company’s shares on each of these two stock exchanges. It was in the company’s view that the delistings were not going to cause substantial inconvenience to the corporation’s shareholders and investors, since there was going to be continuity in trading of the same shares on Tokyo Stock Exchange, Osaka Stock Exchange, Nagoya Stock Exchange, Sapporo Stock Exchange, and Fukuoka Stock Exchange.

Toray Industries Inc. decided to apply for the delisting from the London Stock Exchange (LSE) because of the low trading volume of its shares[6] . Despite that being stated as the main reason, Toray however communicated with the shareholders stressing that this was not going to be of any negative impact since the shares remained tradable on the Tokyo Stock Exchange (TSE).

Kingdom Bank, Tanganda and Meikles voluntarily delisted from the Zimbabwe Stock Exchange (ZSE) when they merged to form Kingdom Meikles Africa[7]. Kingdom however returned to the ZSE for listing after the demerger the issue of the merging of corporate which are all listed on a securities exchange usually results in their delisting since new shares will be in issue for the combined group.

After having failed to raise required equity capital (US$6-million) from the ZSE, Interfresh Limited opted for voluntary delisting citing reasons of the counter having had traded at a discount relative to the net asset value[8]. As such, raising equity capital on the market at the valuations that held as at that time proved limiting to the corporation hence the decision to delist. Borrowing after having failed to raise equity capital was considered not a viable option since the company had not such borrowing capacity at reasonable cost.

From the ZSE again, CAPS Holdings decided to delist in a bid to restructure its operations[9]. The restructuring entailed the merging of CAPS Holdings with its distributor arm Geddes paving way for a new health care division through the merger of St Annes Hospital and QV pharmacies which were all part of CAPS and Geddes. The delisting in this light was meant to provide room for flexibility in the restructuring exercise which could have proved difficult had it been done when CAPS was a listed entity. Thus CAPS voluntarily delisted.

Conclusions & Recommendations

Remaining on a securities exchange may entail diverse costs which may no longer be justifiable. If the trading volumes shrink and the market is failing to reflect the true value of the counter in the price, the listed entity may find it to be very difficult to raise equity capital that may be required to neutralise the capital structure and for profitable projects. As such the securities market would have failed in one of its fundamental duties i.e. that of providing access to capital. Delisting may offer the required flexibility in representing the true value of an entity if the market has failed to transmit company fundamentals into the price leading to reduced volumes and hence a high cost of remaining listed. Voluntary delisting should not however be viewed in bad light as forced delisting where some contravention to the listing requirements is intentionally impinged. It may be a better alternative than continuously adhering to costly transparency and disclosure obligations which may not be benefiting shareholders of the day.

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[4] http://www.primeromining.com
[5] http://www.marubeni.com/dbps_data/news/2004/040820e.html
[6] http://www.toray.com/ir/pdf/131030.pdf
[7] http://www.kingdom.co.zw/media_centre_ak.php?linkid=85
[8] http://wwww.zimbabwe-stock-exchange.com
[9] http://www.herald.co.zw/caps-holding-to-delist/

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