

Possibilities and Financing Limits of Romanian Companies by the Share Market

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Abstract: The IT&C sector is one of the most dynamic of Romania's economy. It is estimated, for instance, that in 2007 800,000 PCs will be sold, almost 33% more than in 2006. Figures showing similar growth trends are also estimated in business software companies and the Internet. These estimates favorable to IT&C companies make it necessary for them to find new means to finance their development. We propose to present the possibilities and financing limits by IT&C firms while listing on stock exchange, especially on the Bucharest Stock Exchange (BST) as a part of the firm's general financing.

Purpose: The identification of important new financing sources for Romanian IT&C companies – the stock market, by presenting the advantages to their development by listing them to this institution.

Keywords: PC, Web service, Bucharest Stock Market (BSM), financing sources, Internet, direct foreign investment.

1. The main developments of the Romanian IT&C market in 2006

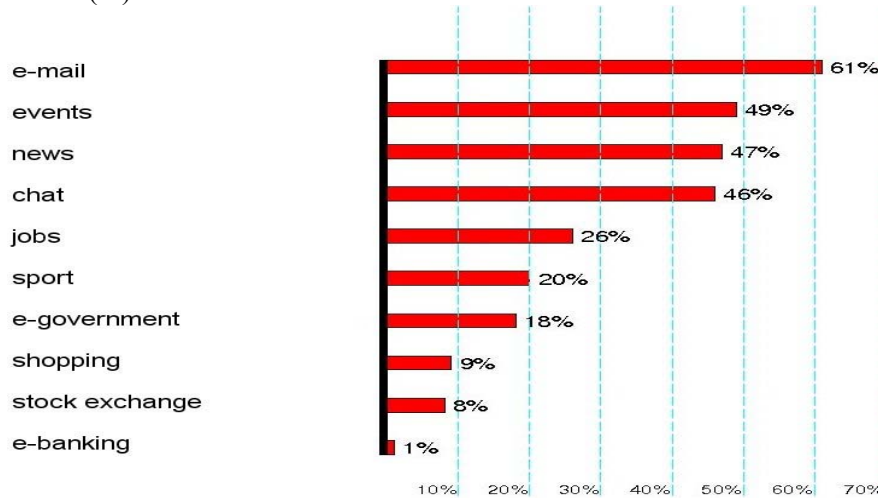
In 2006 as well, the Romanian IT&C sector has continued to have a development way above the average of the entire Romanian economy: approx. 25-30% compared with approx. 6%. The faster development of this sector, very beneficial to the entire national economy is owing to the fact that the information and communications infrastructure constitutes for all sectors of the national economy – and, therefore, for all companies – the main vector for the modernization of their activity and for their alignment with EU companies.

The strong development of this sector can be represented by some examples: (source: Gfk Romania Internet Monitor 2006)

- it is estimated that this year approx. 800,000 PCs will be sold (including servers), compared with approx. 600,000 in 2006, highlighting a 33% growth.
- Internet services

The penetration rate of these services in Romania is 23%, while in Europe the best performance is registered in Sweden and Norway, with a penetration rate of 75%. The number of hours spent on the Internet in a week is 13.8 for urban users and 12 hours at a national level, although these indicators show a 45% increase in 2006 compared with 2005.

Of great interest are the statistics showing the reasons why Romanians surf the Internet – national data for 2006 (%):

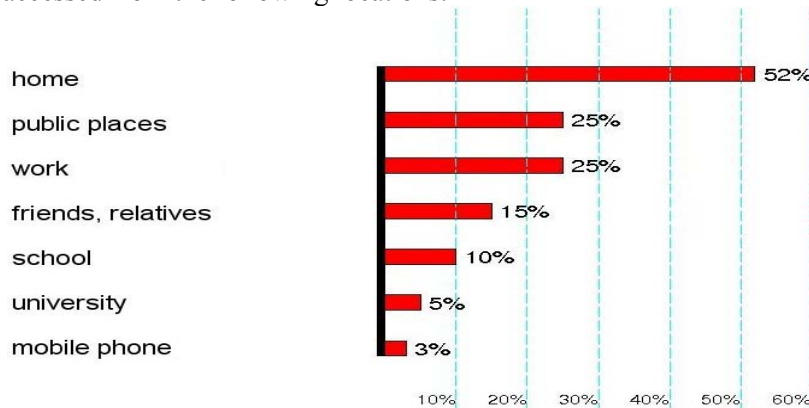


Credits: GfK Romania Internet Monitor 2006

Graph 1

It can be seen that the most heavily accessed service is e-mail, while stock market and banking information are found on the last two positions.

The Internet is accessed from the following locations:



Credits: GfK Romania Internet Monitor 2006

Graph 2

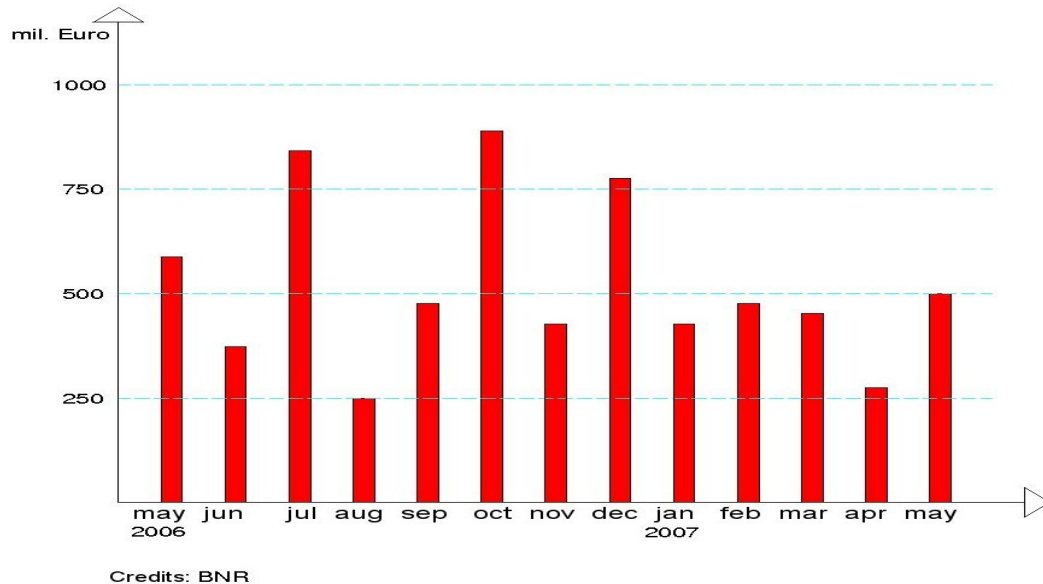
It can be seen that many Romanians, approx. 15%, who do not have Internet access, use this service at their families or friends. Certainly, they will get PCs and Internet connections as soon as possible.

Graph 1 show that stock market and banking information are being accessed by a small number of Romanians, aspect which shows a more reduced penetration of this type of services. Still, if the low interest for the stock market can be justified by the fact that the stock market is not yet a daily presence in the activity of Romanian companies and of Romanian citizens in

general, banking services are widespread among Romanians (e.g. the rapid increase in the number of bank cards), and yet these services are the least accessed through e-banking.

2. Direct and BSM financing

The accelerated development of Romanian IT&C companies by means of diverse financing sources: the use of personal funds, bank loans, associations, direct foreign investments. The latter can have different levels, being influenced by multiple, unquantifiable factors. Direct foreign investments in the Romanian economy have had the following dynamics:



Graph 3

It can be seen that in May 2007 direct foreign investments have reached a record level for this year, of 525 million Euros, being, nevertheless, 10% lower than that May 2005. Furthermore, after the first five months of this year it can be seen that foreign investors have brought 26.5% less money than the corresponding period of last year. It can be inferred from this that direct foreign investments are somewhat unreliable, and can fluctuate heavily from one period to another. It can now be seen, though, that another major source of financing has been overlooked, which is BSM listing. This is also a deficiency in the professional forming of Romanian managers, who have not been accustomed with, and therefore mistrust the capital market. It was only in the last few years that our managers have realized that they can obtain increases in capital through BSM listing. This, however, implies a complete transparency of the business, and therefore the mistaken impression of less control over it.

At present, only 59 companies are listed at BSM, of which only one, Flamingo International, pertains to the IT&C sector, and it has only listed itself two year ago. A growing interest can be seen in Romanian companies, including those of the IT&C sector, for listing themselves on the capital market in order to attract funds for their development, and, therefore, for the increase of their value. Many IT&C companies have consolidated their activity in the last few year, and BSM listing will be their next step. Even state companies will soon be listed at the BSM, such as the main airports and naval ports. This is all the more reason for other Romanian IT&C companies, who have accelerated developments, but also a great need for funding, to be listed at BSM. The listing at BSM of state companies will undoubtedly give more confidence to firm managers from the analyzed sector to list their companies at BSM. After the listing, the performances of some companies will increase proportionally with the evolution of their own activity on the capital market. Therefore, it is possible that capital increases for the analyzed

firms as well as for the IT&C sector be attained on the capital market too, as an alternative to bank loans.

3. The financing limits of the IT&C firms on the Bucarest Stock Exchange

However, the possibilities of financing these previously mentioned firms on the stock exchange are limited. On the one side, our firms aren't able yet to list on the stock exchange, and therefore the exchange indicators can't be entirely accomplished. Some Romanian firms don't even express their desire to be listed on the Share Market although they reach the levels of some indices because they don't want to make their performance public, thus being afraid of the public exposure that this procedure obligatorily presupposes. On the other side, the firms that are being listed on the Share Market, like Flaminga International, can't assure their total financing on the Share Market, even if they got adequate indices of *business and credit worthiness*. *This may happen in Romania on the one hand due to the capitalization of Bucarest Stock Exchange and on the other hand, due to the Share Market fluctuations, with numerous internal and even external causes.*

The Bucarest Stock Exchange reduced in 2008 with over 30%, the losses being different from one firm to another, especially because some speculative and foreign capitals migrating abroad, have found in other countries more profitable financial markets than in our country. This thing led to the continuous diminution of the specific indices of the Bucarest Stock Exchange. The result was unexpected since the firm itself bought back from the Share Market its own shares (as it happened with the Transylvania Bank).

Another important aspect that ought to be mentioned is the different way in which a firm listed on the Share Market is comparatively evaluated here with the way in which the same firm is evaluated in the banking system. The same firm listed on the Share Market can have a decreasing evolution (the price of the shares diminishes), whereas in the banking system, according to the indices that evaluate its effective activity, it can be positively evaluated and therefore receive banking credits without any difficulty. In this situation there appears the possibility of some contradicting and factually diverging evaluation between the decreasing level of some firms' share course, with its evaluation according to the economic and financial indices by the banking system. That is why the firms, including as well those from the IT&C department, must carefully act when listing on the Bucarest Stock Exchange and apply mixed financing scenarios for their own activity, both by stock market funding and other banking loans or other ways of attracting funds that are expected to complete the appropriate sources of development.

Conclusions

The sustained development of IT&C companies needs, as expected, important funding. It can be estimated that the market for these services will have an annual growth of at least 16-17%, therefore the need to find new sources of financing. So far, only one company, Flamingo International, has been listed at BSM, deriving from here important sources of capital which has insured its preponderant development. It is imperative other Romanian IT&C companies also provide the conditions for their listing at BSM in order to obtain development funds from the capital market, thus increasing their own market value. The obtainment of capital from the BSM must be regarded also as an important and efficient alternative to bank loans.

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