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## Advantages of listing

Omar Al Ghraoui, Chief Operating Officer, Bemo Saudi Fransi Finance, on the restructuring of family businesses

The Damascus Securities Exchange (DSE) opened its doors on March 10, 2009 with six listed securities. It has been a little over six months and the number of securities is now 11. All of them have a market capitalisation higher than pre-listing, which begs the question: why aren't more companies listing?

The number of joint stock companies is small, and the market's greatest hope lies in the hands of family businesses. The government and the regulatory bodies have taken the initial steps to make sure that this potential is realised. They lowered the tax implications resulting from asset revaluation; they lowered tax rates for joint-stock companies; they set up the DSE and allowed financial intermediaries to operate; they eased the rules on foreign ownership; and now they are trying to educate the common investor and family businesses on the benefits of going public and having a more transparent and trustworthy securities market.

On the other hand, certain laws and regulations are still unclear or even preventive of this transition process. For example, the new company Law No. 3 of 2008 requiring firms to offer a minimum of 45% of the companies to the public if they want to change their corporate structure to joint-stock companies, when in fact this number should be left at the company's discretion. And while the revaluation tax break introduced via Legislative Decree No. 61 of 2007 was a good step, the procedures for the valuation of intangible assets are still unclear, as is the extent to which popular valuation methods like discounted cash flow or price multiples can be used. These methods value companies based on their prospects and future potential, unlike asset-based valuations. The process is not there but it is definitely beginning to take shape, and yet not one family business has made the switch so far.

There are a number of considerations that should be taken into account when a company wants to go public, but below are a few of the main aspects to consider with regards to the Syrian market. Among the pros are: potentially easier access to capital; better

financing terms from banks, suppliers and other creditors; lower tax rates (14% only if more than 50% offered to public); more exposure, publicity, transparency and trustworthiness, likely resulting in more sales; separation of management from ownership; easier business continuity in case of owner's death or exit; lower cost of capital with possibility of corporate bond issues; easier to set up joint ventures and obtain foreign trading partners; availability of exit strategy; and observable market value of company.

Among the cons are: the process can be long, costly and difficult; family no longer in full control; it requires a significant part of management's time; disclosure requirements are difficult to meet; some companies do not like to be under public watch; and important insider information may be accessible to competitors.

As Syria's reform project continues, the country is opening itself up to global trade, foreign investments and international financial markets. Family businesses will soon be facing fierce competition be it on the local or global scale, and if the time comes and they lack the right corporate structure or financial flexibility to deal with such competition, their businesses will suffer if not end. Most families are taking a wait-and-see approach as they do not want to be the first ones to make the switch. On one hand that is very risk-averse and prudent judgment, but on the other they are missing out on a huge opportunity to be an industry pioneer by using the added capital to grow and expand the business, and by moving to more transparent disclosure standards. The potential of securing a strategic partner with valuable expertise or a brand name of its own and access to international capital is potentially too great to pass up. While going public may not be right for all companies, it could prove to be advantageous for others. The Syrian economy is in a solid place now, the system is there, the demand for new initial public offerings is there, and once family businesses begin to realise how much stronger they will be as public corporations, they too will be there.