

LISTINGS, DELISTINGS AND CROSS-LISTINGS ON TALLINN STOCK EXCHANGE 1996-2005

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Abstract

The objective of this paper is to identify the developments on Tallinn Stock Exchange (TSE) from 1996 to 2005 with respect to listing status (listings, delistings and cross-listings) and to determine their possible causes. This paper shows that the listings on TSE were strongly influenced by the TSE crises in autumn 1997 and by the effects of Russian crises on share prices in 1998. Changes in listing status were mostly contributable to changes in capitalization requirements set in Rules or were part of ordinary listing procedure (movement from Free Market to I-list or Main List). Many companies that considered listing their shares on TSE dropped this idea after the crises, but the companies that were already listed became delisted due to mergers, ownership changes, bankruptcy or other reasons. The history reflects that the future of TSE depends on the overall development of Estonian companies, the changes in their ownership structures, financing conditions and on the future developments of TSE.

Keywords: Tallinn Stock Exchange, listings, delistings, cross-listings

1. Introduction

Tallinn Stock Exchange (TSE) has gone through considerable changes from its establishment in mid 1990s till today. It is a developing market and many companies that listed their shares on TSE when the exchange was established are no longer publicly traded or in some cases the companies have ceased to exist. At the same time some new companies have listed their shares and contributed to the development of the exchange. It poses a question: how and why have the listings on TSE occurred and changed? No previous study has concentrated on these issues, but in order to envision the future developments of TSE, it is important to know and understand them. Therefore the purpose of this paper is to identify listing status changes on Tallinn Stock Exchange during 1996-2005 and to determine their possible causes.

Most of the data presented in this paper has been gathered from TSE web pages, therefore no special references to this source have been made hereon. In order to find clues for changes in listing status many newspaper articles from the Estonian economics newspaper *Äripäev* were used as a starting point. These articles have not been specifically referred to as conclusions drawn are based on several articles. The references to bankruptcies are based on *Äreregister* (Estonian Registry of Companies).

All the companies listed on TSE have been Estonian companies and in this paper their names have been used in the same form as they are written in Estonian (in some instances the references to the activities of the firms were added into the brackets). An interested reader may find the GICS classifications for sector and industry for each listed firm from Annex 1.

This paper has been divided into 7 sections. The second section introduces TSE listing requirements and their changes in time. The third section deals with listings, listing status changes and cross-listings. In order to illustrate the listings data with market information the fourth section investigates the listing status changes in comparison to market capitalization and market index changes. The fifth section concentrates on delisting issues and the sixth section presents some prospects for the future development of the TSE. Main conclusions drawn are presented in section seven.

2. Listing requirements on Tallinn Stock Exchange

Tallinn Stock Exchange (TSE) was set up in Estonia in April 1995 and the first trading day was on 31 May 1996. The trading was started with 11 securities from which 5 were the shares of local banks and 6 were obligations issued by the *Hüvitusfond*¹. Before that date the necessary legislative acts in the form of Securities Market Act and Investment Funds Act had been approved in 1993 and 1994 respectively and in November 1994 the Central Registry of Securities had started its operation. In Estonia the Stock Exchange was involved in the privatisations only as an intermediary of bonds that could be bought only for EVPs and a more important role was the creation of a market place where securities of the newly privatised companies could be transacted.

¹ In Estonia privatisation vouchers (EVPs) were given to people and these could be used in the privatisation process (to purchase land or property including shares of companies under privatisation). *Hüvitusfond* was set up in 1993 to give monetary coverage to the EVPs. It received portion of the money from privatisations and issued bonds that could be purchased only for EVPs. *Hüvitusfond* finished its activities in 2003. For details see the homepage of Ministry of Finance of the Republic of Estonia, <http://www.fin.ee/index.php?lang=en>

The securities listed on the TSE are divided into the following exchange lists: Main List; I-list; list of bonds; list of shares of funds and Free Market. This paper concentrates only on Main List, I-list² and Free Market securities. From 16 Dec 2002 the main requirements set for listing are:

1. An issuer applying for listing in the Main List of shares shall have been engaging in its main field of activity for at least 3 years.
2. Market value (if the market value cannot be assessed, the equity capital of the public limited company) is at least 4 million EUR in case of Main List and at least 1 million EUR in case of I-list listing.
3. At least 25% of the share capital represented by the shares to be listed is held by investors who belong to the public. The aforementioned degree of distribution may be expected to be achieved over a short period after the start of the listing of the shares on the exchange.

From its establishment the listing requirements on TSE have changed. The major changes have been in the required market value of the issuer (point 2 above). Before 01 October 1997 the Main List listing required market value of 100 million EEK (6.39 million EUR) and I-list listing 10 million EEK (0.64 million EUR). From 01 October 1997 till 16 December 2002 the minimum requirement of market value for Main List listing was increased to 300 million EEK (19.1 million EUR)

In addition some changes have been made regarding the distribution of shares (point 3 above). Before 16 December 2002 the Rules required listed shares to be distributed between at least 300 investors in case of Main list and 100 investors in case of I-list listings. From 16 December 2002 till 27 September 2004 at least 15% of the share capital represented by the shares to be listed had to be held by public.

The changes in listing requirements have also lead to amendments of list transfer regulations. Till 16 December 2002 the Listing Committee had the right to transfer the shares of the issuer from the Main List to the I-List in case over the last 6 months:

1. The average market capitalization of the shares was below 200 million EEK (12.78 million EUR); or
2. The number of shareholders was below 1000; or
3. The average number of shareholders, each of them having in their possession shares with the market capitalization below 10 000 EEK, was below 300.

² Before 25 February 2002 the I-list was called Secondary list, but in this paper only the term I-list is used to describe the previously used Secondary list term as well.

From 16 December 2002 the requirements were simplified and the Listing Committee gained right to transfer the shares of the issuer from Main List to -I-list if during the previous 6 months the average market value of the issuer's shares had been below 4 million EUR.

In both periods the Listing Committee had the right to transfer the shares of the issuer from the I-List to the Main List of the exchange in case the opposite was true.

In addition to Main and I-list listing it is also possible to list the shares on the Free Market. TSE enables Free Market listing only if:

1. The company is in compliance with general listing criteria.³
2. The issuer has prepared a plan and schedule for bringing the securities into conformity with the listing requirements.
3. Sufficient number of the shares of the company shall be held by investors belonging to the public.
4. Sufficient interest of investors may be expected in trading in the security.

Before 16 December 2002 it was also clearly stated that the approval for trading on the Free Market would be given for a year, except to the foreign issuers. Since that date such a strict requirement has been dropped, but replaced with the listing change schedule requirement i.e. the company must presents its own view of the schedule and steps for listing on Main or I-list.

3. Listings on TSE

From 1996 (the establishment of TSE) till end of December 2005 in total of 33 different companies have listed their shares on TSE during different time periods (see Annex 1 and Table 1 for details). The greatest number of newcomers was in 1996, when in total of 16 companies listed their shares. From these only 5 were initially listed in the Main List (the 5 commercial banks: Eesti Forekspank, Eesti Hoiupank, Eesti Ühispank, Hansapank, Tallinna Pank), 2 were initially listed in I-list (commercial bank EVEA and IT company XXL.EE) and the remaining 9 (Norma, Kalev, Saku Õlletehas, Tallinna Farmaatsiatehas, Estiko, Tallinna Kaubamaja, Rakvere Lihakombinaat, Eesti Näitused, EMV) were initially listed on the Free Market. From these Free Market companies only 1 (Tallinna

³ No liquidation or bankruptcy proceedings initiated in the two years preceding the submission of the application or no permanent insolvency encountered; the management (supervisory board or management board) members of the issuer applying for listing may not have undergone significant changes during the 12 calendar months preceding the date of submission of the listing application.

Farmaatsiatehas - a pharmaceutical company) moved from Free Market to Main List during 1996 (see Table 2).

Table 1

New Companies Listed on TSE 1996-2005⁴

Year	Main List	I-list	Free Market	Total new listings
1996	5	2	9	16
1997	2	7	2	11
1998	0	2	0	2
1999	1	0	0	1
2005	3	0	0	3
Total	11	11	11	33

Source: TSE, <http://www.ee.omxgroup.com/> & authors

Table 2

Transfers between lists on TSE 1996-2005⁵

Year	From Free Market to I-list	From Free Market to Main List	From I-list to Main List	From Main List to I-list	Total movements between lists
1996	0	1	0	0	1
1997	1	4	0	0	5
1998	4	0	0	4	8
2000	0	0	1	0	1
2003	0	0	2	0	2
Total	5	5	3	4	17

Source: TSE, <http://www.ee.omxgroup.com/> & authors

In 1997 11 new companies listed their shares: 7 of them listed initially in I-list (Klementi, Viisnurk, Fakto, Leks Kindlustus, ESS, Harju Elekter, ASA Kindlustus), 2 in Main List (Baltika, Merko Ehitus) and 2 on Free Market (Tallinna Külmoone, Viru Rand). At the same time 5 companies listed initially in 1996 changed their listing: 4 of them (Eesti Näitused, EMV, Norma, Tallinna Kaubamaja) moved from Free Market to Main List and 1 (Estiko) from Free Market to I-list.

In 1998 only 2 companies (Reval Hotelligrupp and Pro Kapital) listed their shares in I-list. Although the number of newcomers was small, 8 of the previously listed companies changed their listing. Namely 4 (Saku

⁴ Years with no new listings excluded from the table.

⁵ Years with no transfers between lists excluded from the table.

Õlletehas, Kalev, Rakvere Lihakombinaat, Tallinna Külkhoone) moved from Free Market to I-list and 4 (Eesti Näitused, Baltika, Tallinna Farmaatsiatehas, EMV) moved from Main List to I-list. The movement from Main List to I-list of these 4 companies was due to TSE regulations that increased Main List companies' market capitalization requirement 3 times (from 100 to 300 million EEK). This change clearly influenced the preference of Free Market companies to become listed on I-list (capitalization requirement 10 million EEK) not in the Main List.

In 1999 only 1 new company listed its shares in I-list. It was Eesti Telekom a previously 100% state-owned company that listed 49% of its shares after IPO on TSE. In 1999 the movements between lists ceased.

In 2000 only 1 company (Pro Kapital) moved from I-list to Main List after additional shares were issued on TSE. No movements between lists occurred till 2003. In 2003 2 companies (Baltika and Harju Elekter) moved from I-list to Main List. This change was influenced by lowered market capitalization requirement of TSE for listing in Main List (decreased from December 2002 from 19.1 million EUR to 4 million EUR).

Six years after the previous IPO in 1999 3 new companies (Tallinna Vesi, Starman and Tallink Grupp) listed their shares on the Main List of TSE in 2005. These were also the first IPOs conducted according to the changed legislative acts that also follow the EU regulations. Tallinna Vesi (water utility) led the way with its IPO in June. As the price of the share after IPO began to increase considerably (by October increase 62.7% compared to IPO price) the public interest increased. As the Starman's IPO was also in June the public had little time to react. Although Starman's share price did not increase as much after the IPO (increase by December 14%) the expectations before Tallink's IPO in December ran high. Over 9 thousand people opened special securities' accounts and participated in the IPO. However the price of shares has not so far (by the end of August 2006) increased, but decreased (it is below the IPO price). The future developments in the exchange depend on how the share prices of Tallink and Starman will change in the future. If no significant setbacks occur and the prices begin to increase, the high level of interest for new IPOs would be guaranteed⁶.

Tables 1 and 2 show that in time the Free Market has lost its significance as a means for companies for entering the Main List or I-list. After 1998 it has

⁶ On 18th May 2006 the shares of Eesti Ehitus (construction and engineering company) were listed on Tallinn Stock Exchange and since the IPO, its share prices have mostly been above the IPO price.

not been used at all. The numbers also indicate that in 1996, when the TSE was established, many companies needed time to adjust to the requirements and did not want to move to the I-list or Main List too quickly. Although the Free Market was intended to be used around 1 year, the 3 companies (Saku Õlletehas, Kalev, Rakvere Lihakombinaat) that moved from Free Market to I-list in 1998 remained on the Free Market over 1.5 years, which also indicates that these companies were not ready for other listings before that or the condition of the market was not suitable. It may also mean that these companies just happened to “go with the flow” in 1996 and might not have been listed, if that decision were made on the following years.

Listing changes are partly contributable to events that occurred on TSE at the time. The biggest changes in investor behaviour took place after TSE crisis. In 1997 the prices of shares on TSE grew rapidly, the number of investors increased, as everyone wanted to profit from the recent share price increases. Some investors began to borrow money to buy more and more shares. By 29 August 1997 the TALSE⁷ index (OMXT) reached a peak of 492.27 points (in 3 June 1996 the index started at 100 points). Thereafter the prices fluctuated and in 23 October 1997 came the first significant drop in prices by 15.3%. This was influenced mainly by two factors:

1. Liquidity crisis in big banks - banks could not satisfy their needs in other ways than selling shares.
2. Articles on foreign press on the weak macroeconomic condition of Estonia that could lead to devaluation of EEK forced some foreign investors to sell their Estonian securities. It also activated currency speculators.

On the following weeks the decline continued: on 23 October 1997 OMXT dropped by 12.5%, on 28 October 1997 by 12.5%, on 06 November 1997 by 14.4%, on 10 November 1997 by 19.4%. The latter decreases were influenced by the factors that initiated the decrease on the 23rd but were also magnified by “Asian flu” (financial crisis in Asia) that had negative impact to share prices globally⁸. The drop on the 6th November was very closely related to the activities of Estonian banks. They eliminated their repo portfolios (they sold the shares that had been pledged for the loans). As banks gave no new loans to investors for buying shares the prices continued to drop. This boosted panic amongst small investors.

⁷ TALSE was a TSE index (based on Paasche index) calculated from 3 June 1996. Since 3 Oct 2005 the index was renamed OMXT. Hereon reference to TALSE has been substituted with OMXT.

⁸ On 27 October 1997 the Dow Jones even plunged by 7.2%.

This event had a significant impact on the TSE development on the following years. The drop of public's interest in share dealing decreased the companies' interests of becoming listed on TSE. In spring 1997 more than 25 companies had expressed their interest in becoming listed on TSE⁹. By November 1997 only 7 of them actually had become listed. The rest postponed their listing into the next year, but only a few actually became listed at all. In order to group these potential newcomers the GICS¹⁰ classification of companies was used for determining the sectors. Consumer staples group included 9 potential newcomers like Võru Juust, Lacto, Tallinna Piimatööstus, Tallegg, Tartu Õlletehas, Remedia, Ösel Foods, Orto and Pro Med. None of these companies became listed. Lacto went bankrupt, some got new owners who were not interested in listing (Pro Med purchased by Magnum Medical) and some admitted that they considered becoming listed due to public pressures during the TSE boom (Ösel Foods). Consumer discretionary group included 5 potential newcomers like Soots Turism, Sangar, Standard, Tallinna Mööblimaja and Hotell Olümpia. Only the last company became listed in 1998 after it had merged with Inn Grupp and was renamed Reval Hotelligrupp. Most of industrials sector potential newcomers like Balti Laevaremonditehas, Eesti Metallieskport (EMEX), Koger & Sumberg Grupp and FCM did not become listed. The latter two merged in 1998 and are currently operating under the name of YIT. The only industrials sector company that became listed is the former Hansatee (now known as Tallink) in 2005. From financials sector potential newcomers Eesti Kindlustuse and AB Elukindlustuse were caught into mergers on Estonian insurance market and energy sector company Alexela Oil and utilities sector company Eesti Gaas did not become listed either.

The negative developments of 1997 were amplified by Russian crisis in 1998. Estonian companies that exported products to Russia were caught into difficulties, because their Russian partners could not pay for the delivered products. This meant significant losses for those Estonian firms and many of them had to rethink their whole export strategy (turn to the West). Crisis affected every 6th Estonian exporter and many listed companies suffered losses: Hansapank 60 million EEK, Foreksbank 50 million EEK. These

⁹ This number is based on estimations that appeared in Äripäev at the time. The following companies include the ones for which authors found listing intentions mentioned in articles of Äripäev.

¹⁰ GICS – Global Industry Classification Standard. It was developed by Morgan Stanley Capital International (MSCI) and Standard & Poor's (S&P) to enhance the investment research and asset management process for financial professionals worldwide. See <http://www.msci.com/> for details.

events influenced TSE as well. The OMXT decreased from April till October 1998, whereas the lowest level was reached on 14 December 1998 when the OMXT was 87.1 points i.e. below the starting value in 1996.

Considering these developments it seems odd that 2 companies became listed in 1998. The listing of Reval Hotelligrupp is more rational as they became listed in the beginning of year when the market seemed to be stabilizing, but the case of Pro Kapital can be explained only by their attempt to gain reputation (see delistings in section 5 for details on this company's future on TSE).

From 1998 the companies who entered the TSE knew what they were up against and were prepared to be listed directly on I-list or Main List. They also had the advantage of having seen the downside of listing – the TSE crisis and the effects of Russian crisis on share prices.

Based on the data above, the main reasons for listings, like in other countries, were the added visibility and prestige (similar findings Baker and Johnson, 1990), improved liquidity (Amihud and Mendelson, 1981; Jensen and Meckling, 1976), benefits of listing signals (Booth and Smith, 1988) and information asymmetries (Myers and Majluf, 1984). Better access to additional capital has been also claimed by analysts for pre-1998 period. For an overview of the reasons to go public see Röell (1996).

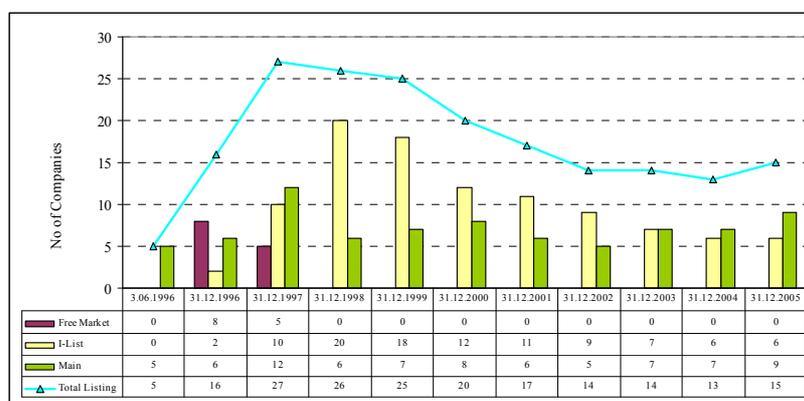


Figure 1: Listings on TSE Lists 1996-2005
Source: TSE, <http://www.ee.omxgroup.com/> & authors

During 1996-2005 the number of companies listed in different lists has fluctuated as shown on Figure 1. The biggest number of listed companies was at the end of 1997, when 27 companies were listed. During 1998 and

1999 the number remained quite stable it means that the TSE crisis did not lead to the departure of firms from TSE. Still after 1999 the number of companies began to decrease. The figure also shows, that the number of Main List companies has been more stable than the number of I-list companies. As both the change in total listings and I-list listings is connected to delistings this issue is analysed in more detail in section 5.

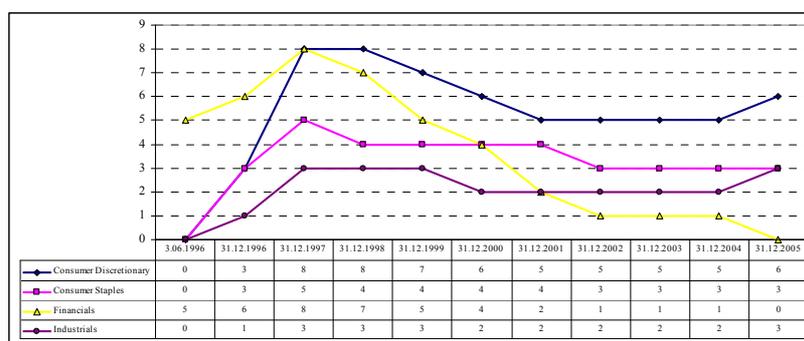


Figure 2: Number of companies listed on TSE 1996-2005 by sector¹¹
 Source: TSE, <http://www.ee.omxgroup.com/> & authors

One interesting question is, how the number of listed companies has varied by their field of activity? To answer this question the existing GICS classification of companies was used. For companies that were listed on TSE in January 2005 a full classification was available, but for companies that have already left the stock exchange the authors of this paper used GICS sector and industry classifications⁷ (effective from 28 April 2006) descriptions. The division of companies is presented in Annex 1. Figure 2 presents an overview of the number of companies listed on TSE by most presented GICS sectors. Figure 2 shows that the number of companies in different sectors has changed quite similarly to the overall number of listed companies (the only exception is financials sector). In the beginning the TSE was dominated by financials sector companies (initially by banks and in 1998 additionally 2 insurance companies and 1 real estate developer were listed). The peak was in 1997 when 8 financial companies (6 banks) were listed. After that year their number began to decrease and by end of 2005 no financial sector companies were listed on TSE. As the decrease is closely connected to delisting this issue will be covered in more detail in section 5.

¹¹ This figure includes only these 4 sectors, in which more than 1 company operated. The total number of represented sectors was 9 i.e. the figure does not show Health care, IT, Materials, Telecommunication and Utilities.

With respect to cross-listings, there is little to comment, as most of TSE companies are listed only on TSE. The exceptions are Merko (construction company) that has been listed on München Stock Exchange and Frankfurt Stock Exchange since October 1997; Norma that is listed on Frankfurt, Berlin and München Stock Exchanges; Eesti Telekom that is listed in GDR Main List of London Stock Exchange since February 1999; Tallinna Vesi that is listed on Berlin Freiverkehr from June 2005. Hansapank used to be listed on Riga Stock Exchange, but after the Baltic list was created in 2000, the company remained listed only on TSE from which it was delisted in 2005. Based on cross-listing hypotheses tested by Bancel and Mittoo (2000), the main reasons for cross-listings in case of TSE listed companies is the increased stock liquidity (widen the shareholder base and improve trading possibilities).

4. OMXT Index, market capitalization and listings

So far the discussion has centred on the number of companies listed in different lists, but an important question is how important have these companies been with respect to market capitalization? One way to look at the development of the share prices and the market capitalization is to compare the development of the OMXT index and the Herfindahl (HF) index of market capitalization (Martin, 1993).

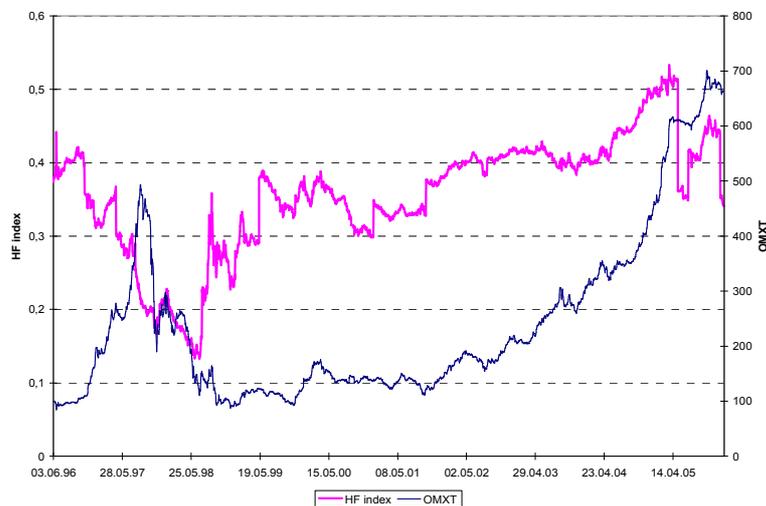


Figure 3: Herfindahl index of market concentration and the number of equally sized firms on TSE in 1996-2005
 Source: TSE, <http://www.ee.omxgroup.com/> & authors

The comparison (given on Figure 3) illustrates the difference in the size of the listed firms on TSE and the degree of concentration in it. As can be seen from Figure 3, in the first years after the market was opened for trading, the HF index and OMXT index moved into opposite directions, which clearly indicate the active listing activities specific to that period.

5. Delistings on TSE

The changes in the number of listed companies in section 3 already indicated that many companies have been delisted from TSE. Table 3 presents an overview delistings from 1996 till 2005.

Table 3

Delistings from TSE 1996-2005¹²

Year	Delistings from Main List	Delistings from I-list	Delistings from Free Market	Total delistings
1998	2	1	1	4
1999	0	3	0	3
2000	0	3	0	3
2001	2	1	0	3
2002	1	2	0	3
2004	0	1	0	1
2005	1	0	0	1
Total	6	11	1	18

Source: TSE, <http://www.ee.omxgroup.com/> & authors

During 1996-2005 18 companies have left the TSE, whereas on average 3 companies were delisted from 1998 to 2002 each year. Only one company was delisted from Free Market in 1998. It was Viru Rand (producer of different fish products), who officially stated that it was not ready to be listed in Main List or I-list (could not fulfil the necessary listing requirements after the expiration of first year trading rights). The economic situation of that company at the time of delisting was otherwise good (it was generating sales and profits greater than on previous year) and they even stated that they might become listed in official lists of TSE in the future. This prospect did not however realize - Russian crisis and the overall financial deterioration of the company made it impossible as in 1999 the company went bankrupt.

¹² Years with no delistings were excluded from the table.

All Main List companies that have been delisted were from financials sector: 5 of them were banks (Eesti Hoiupank, Tallinna Pank, Eesti Ühispank, Eesti Foreksbank, Hansapank) and one was a real estate developer (Pro Kapital). The changes in banks' listing have been influenced by the overall banking sector development in Estonia¹³. In the beginning of 1990s over 40 banks were established, whereas by 2000 most of them had ceased to exist: some due to bankruptcy, while others had merged with other banks (due to increased requirements set by the Bank of Estonia). Tallinna Pank merged with Ühispank and due to that was delisted in 1998. Eesti Hoiupank merged with Hansapank and due to that was delisted in 1998. Foreksbank changed its name initially in 1999 for Optiva Pank and in 2000 for Sampo Pank. As the Sampo Plc became the majority shareholder of the bank, it bought back the listed shares and the company was delisted from TSE in 2002. Similar development happened with Ühispank and Hansapank. Ühispank was taken over by Skandinaviska Enskilda Banken AB, which bought back the listed shares and the company was delisted in 2001. Hansapank was taken over by Swedbank, who also bought back the shares and the company was delisted in 2005.

The biggest delisting scandal of TSE was the case of real estate developer Pro Kapital. It is also the only time, when the TSE has punished a company for non-compliance with TSE regulations with delisting. Delisting was initiated by TSE due to repeated delays in information disclosures, disclosure of false, misleading information or partial disclosure of information. The connected persons of the emitent were also found to have made share transactions with the company's shares during prohibited trading periods. Pro Kapital sued the TSE and wanted its position in the Main List of TSE to be restated, but the TSE decision was supported by TSE arbitration board and in September 2001 the company was officially delisted. The scandal led to the investigation of tax authorities and a court case was initiated against Pro Kapital (accused of tax regulation violation). This court case is still ongoing, but the company itself is still functioning.

3 of the 11 I-list delisted companies were from financials sector whereas two of them went bankrupt (EVEA Pank – bank, ASA Kindlustus – insurance company) and were delisted in 1999. The third company, Leks Kindlustus (insurance company) merged with Balti Kindlustus and left TSE due to that in 2000.

Bankruptcy was also a cause of delisting for one IT company (XXL.EE) in 2002. The companies from consumer discretionary (ESS delisted 1998,

¹³ For details see the homepage of the Bank of Estonia <http://www.eestipank.info/frontpage/en/>

Eesti Näitused delisted in 1999, Reval Hotelligrupp delisted in 2000, Fakto delisted in 2001), industrials (EMV delisted in 2000), consumer staples (Tallinna Külmoone delisted in 2002) and materials sector (Estiko delisted in 2004) left the TSE due to changes in ownership. In some cases the listed shares of the companies were bought by foreign companies: ESS majority shareholding bought by Falck A/S, EMV bought by Skanska OY, Reval Hotelligrupp by Linstow International, Tallinna Külmoone by AB Kauno Pieno Centras. In other cases Estonian companies who already were majority shareholders bought the listed shares.

It is clear that the main reasons for delistings have been the mergers and changes in ownership (generally from local to foreign ownership). Many of the mergers have later on turned into ownership changes. This development poses a threat to the future of TSE (see section 6) as the number of local capital based companies is low and decreasing.

6. Future of TSE

Most of Estonian companies are very small (the minimum share capital requirement is 400 thousand EEK or ~26 thousand EUR). When one considers the capitalization requirements of TSE (4 million EUR for Main List and 1 million EUR for I-list listing) and the size of Estonian companies the potential number of TSE newcomers is low. When looking at the equity capital of Estonian unlisted firms, there are less than 300 potential firms operating in Estonia that could be listed on TSE. These numbers are based on the data published by Äripäev, who analyzes TOP firms in different sectors and publishes the results once a year.¹⁴ Figure 4 presents a summary of the number of potential firms to be listed on TSE Main and I-List based on their equity capital in 2004, whereas the sectors have been reclassified to fit GICS classification by the authors of this paper. The results show that the greatest potential can be seen in the consumer discretionary and industrials sectors.

While compared to actual number of listed firms the potential may seem to be high one has to consider that in case there are bigger companies that fulfil the capitalization requirement the problem can be their ownership structure. Many big and successful companies are already owned by

¹⁴ These firms are selected on the basis of their turnover as the TOP firms from a specific business activity group. The TOP companies are classified by Äripäev into pharmaceuticals retailers, printing-offices, consigning companies, textile & apparel, furniture manufacturers, automotive retailers, retailers, food producers, construction companies, real estate companies, telecommunication companies, hotels & restaurants, road transportation companies, training services providers, IT firms, building materials producers, timber manufacturers.

international corporations that are already listed on other stock exchanges, which decreases their willingness to list their Estonian operation on TSE.

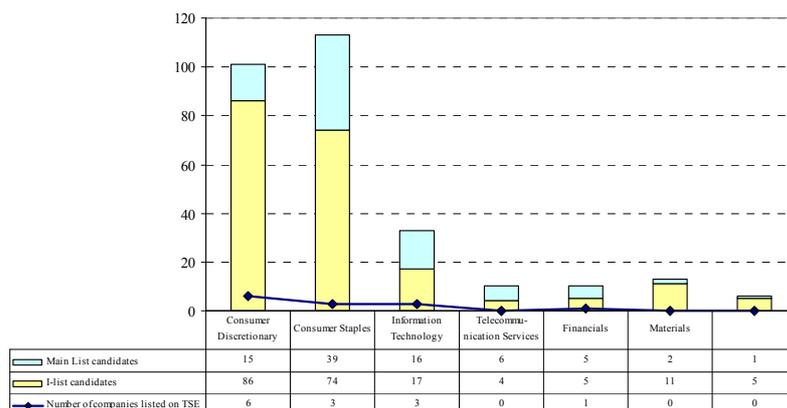


Figure 4: Potential TSE newcomers and actually listed companies

Source: Aripäev, <http://www.aripaev.ee> & authors

The listing willingness of Estonian companies is also influenced by the possibilities to raise capital from other sources. Currently the firms have preferred banks to listing (smaller companies prefer the financing of the owners of the company) and many companies that are subsidiaries of international firms can get additional capital from their parent companies. It means that the financing needs are not usually the ones that drive Estonian companies onto TSE. Listing is therefore more strongly influenced by other factors like the possibility to increase the visibility of the company's operations, potential of improving its reputation or the owners wish to sell part of their shareholding.

Compared to previous years after successful IPOs in 2005 the interest of Estonian companies to be listed has increased. It means that if the share prices of these newly listed companies' move upward and no significant setbacks occur, many new IPOs could be expected in the coming years. However the previous experience of Estonian companies being taken over by foreign investors may be a warning for both listed and unlisted companies against involving too much foreign capital in their operations, unless it is a necessity for the survival of the company.

7. Conclusions

33 different companies have been listed on TSE from its establishment in 1996 till end of 2005. Most of these companies became listed during 1996-1997. This is closely related to the overall development of TSE. The TSE started its operations on 31 May 1996. By 1997 the exchange was operating successfully – the prices increased and in summer 1997 the TSE experienced a boom (on 29 August 1997 OMXT index reached a peak of 492.27 points). It also meant that the companies' interest in becoming listed was big (over 25 companies publicly expressed their intentions of becoming a listed company). The first major drawback came in autumn 1997 when TSE experienced a first crisis. Due to liquidity crisis of banks, speculative deals, influences of Asian crisis, sale of banks' repo portfolios and the following panic amongst investors the OMXT index decreased by 21 November 1996 to 190.3 points. The crisis was followed by increase that ended in April 1998. The following Russian crisis had an adverse impact on OMXT index and the lowest level was reached on 14 December 1998 when the OMXT was 87.1 points i.e. below the starting value in 1996. These two events decreased the Estonian companies' interest in becoming listed and only 3 companies became listed 1998-1999. After 1999 the first three IPOs were carried out in 2005 i.e. 6 years later.

During 1996-2005 in total of 17 times the companies have changed their listing i.e. moved from one list to another. 10 of these transfers were movements from free market to I-list or Main List and only 7 times the companies moved from I-list to Main List or from Main List to I-list. The latter movements were mostly influenced by changes in TSE Rules (changes in capitalization requirements).

During 1998-2005 18 companies left the TSE. The crises had low impact on delistings. This was also supported by HF index, which showed that the crises had instant effect on the share prices, but due to long process of delisting, the effect on market capitalization and concentration was lagged approximately by one year. Most of the delisting were due to mergers or changes in company ownership i.e. the minority shareholding of small investors was bought by majority owners and the company left TSE. However some companies left TSE due to bankruptcy (XXL.EE, Eeva Pank, ASA Kindlustus), one went bankrupt after delisting (Virus Rand) and one company was delisted on TSE initiative (Pro Kapital delisted due to violation of TSE Rules).

According to the authors conclusions the future of TSE depends on the:

1. Overall development of Estonian companies - the authors identified around 300 companies that could fulfil the Main List listing capitalization requirement of 4 million EUR or I-list listing requirement of 1 million EUR. The greatest potential can be found in the consumer discretionary and industrials sectors.
2. Ownership structures of Estonian companies – bigger companies that are owned by foreign companies have low interest of listing their Estonian operation. Many delistings on TSE have happened after the majority shareholding went into the hands of a foreign company.
3. Possibilities to use other financing sources – if banks and owners are able to provide sufficient financing at appropriate prices, the interest for listing will remain low.
4. Developments on TSE after IPOs that took place in 2005 – if the share prices of these listed companies continue to increase and no setback on the TSE as a whole will occur, the interest for listing could increase. Especially among companies which want to gain respect and improve their reputation.

This paper did not cover other Baltic Exchanges: Vilnius and Riga Stock Exchanges. As these exchanges have been cooperating for years, an interesting topic for future research could be the listings, delistings and cross-listings in these contexts. This would enable the comparison with TSE. The future research of TSE could also concentrate on the market-effects of listings, listing changes and delistings on the post 2000 period.

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ANNEX 1

Listing changes on Tallinn Stock Exchange 1996-2005

Company Name	Changes in listing from	Sector/Industry	Reason for delisting
Eesti Foreksbank*	03 Jun 1996 - Main List 19 Aug 2002 - Delisting	Financials/ Commercial banks	Full foreign ownership
Eesti Hoiupank	03 Jun 1996 - Main List 15 July 1998 - Delisting	Financials/ Commercial banks	Merger with Hansapank
Eesti Ühispank	03 Jun 1996 - Main List 01 Jan 2001 – Delisting	Financials/ Commercial banks	Full foreign ownership
Hansapank	03 Jun 1996 - Main List 30 June 2005 – Delisting	Financials/ Commercial banks	Full foreign ownership
Tallinna Pank	03 Jun 1996 - Main List 30 Jul 1998 - Delisting	Financials/ Commercial banks	Merger with Ühispank
Norma	12 Aug 1996 - Free Market 05 Aug 1997 - Main List	Consumer Discretionary/ Auto components	
Kalev AS	12 Aug 1996 - Free Market 28 July 1998 – I-List	Consumer Staples/ Food products	
Saku Õlletehas AS	12 Aug 1996 - Free Market 27 Jan 1998 - I-List	Consumer Staples/ Beverages	
Tallinna Farmaatsiatehas AS	15 Aug 1996 - Free Market 07 Nov 1996 - Main List 27 Oct 1998 - I-List	Health Care/ Pharmaceuticals	

Company Name	Changes in listing from	Sector/Industry	Reason for delisting
Estiko	03 Sept 1996 - Free market 04 Nov 1997 - I-list 01 July 2004 - Delisting	Materials/ Containers & Packaging	Change in ownership
Tallinna Kaubamaja AS	06 Sept 1996 -Free Market 19 Aug 1997 – Main List	Retailing/ Department Stores	
Rakvere Liha-kombinaat AS	30 Sept 1996 –Free Market 21 Jul 1998 – I-List	Consumer Staples/ Food products	
XXL.EE**	03 Oct 1996 - Main List 22 Feb 2002 – Delisting	Information Technology/ Computer & Peripherals	Bankruptcy
Eesti Näitused	21 Oct 1996 - Free Market 20 May 1997 - Main list 07 May 1998 - I-list 01 Dec 1999 - Delisting	Consumer Discretionary/ Media	Change in ownership
EMV	04 Nov 1996 - Free Market 25 Jun 1997 - Main list 27 Oct 1998 - I-list 08 March 2000 - Delisting	Industrials/ Construction & Engineering	Full foreign ownership
EVEA Pank	30 Dec 1996 - I-list 30 March 1999 - Delisting	Financials/ Commercial banks	Bankruptcy
Klementi AS	20 May 1997 – I-list	Consumer Discretionary/ Textiles, Apparel & Luxury Goods	
Fakto	22 Jul 1997 - I-list 30 March 2001 - Delisting	Consumer Discretionary/ Speciality Retail	Change in ownership
Baltika AS	05 Jun 1997 - Main List 07 May 1998 - I-List 17 Feb 2003 - Main List	Consumer Discretionary/ Textiles, Apparel & Luxury Goods	
Viisnurk AS	05 Jun 1997 – I-list	Consumer Discretionary/ Household durables	
Tallinna Külkhoone	27 Jun 1997 - Free Market 13 Nov 1998 - I-list 22 Feb 2002 - Delisting	Consumer Staples/ Food products	Full foreign ownership
Merko Ehitus	22 Jul 1997 - Main List	Industrials/ Construction & Engineering	
Leks Kindlustus	22 Jul 1997 - I-list 01 Jul 2000 - Delisting	Financials/ Insurance	Merger
Viru Rand	22 Jul 1997 - Free Market 07 Sept 1998 - Delisting	Consumer Staples/ Food products	
ESS	05 Aug 1997 - I-list 17 Dec 1998 - Delisting	Consumer Discretionary/ Diversified Consumer Services	Foreign ownership
Harju Elekter	30 Sept 1997 - I-List 17 Feb 2003 - Main List	Industrials/ Electrical Equipment	
ASA Kindlustus	25 Nov 1997 - I-list 01 Dec 1999 - Delisting	Financials/ Insurance	Bankruptcy

Company Name	Changes in listing from	Sector/Industry	Reason for delisting
Reval Hotelligrupp	27 Jan 1998 - I-list 01 Nov 2000 - Delisting	Consumer Discretionary/ Hotels, Restaurant & Leisure	Full foreign ownership
Pro Kapital	01 Sept 1998 - I-List 06 Sept 2000 - Main List 28 Sept 2001 - Delisting	Financials/ Real Estate Management & Development	Non- compliance with TSE Rules
Eesti Telekom	11 Feb 1999 - Main List	Telecommunication Services/ Diversified Telecommunication Services	
Tallinna Vesi AS	01 June 2005 - Main List	Utilities/ Water utilities	
Starman AS	28 June 2005 - Main List	Consumer Discretionary/ Media	
Tallink Grupp	09 Dec 2005 - Main List	Industrials/ Marine transportation	

*Renamed from 21 Jan 1999 Optiva Pank and from 28 Dec 2000 Sampo Pank

** Before 1999 named Pennu CT

Source: TSE, <http://www.ee.omxgroup.com/> & authors