

Impact pushes the boundaries

Impact Minerals is adding complexity and risk to share purchase plans in trying to conceal the discount embedded in its latest offer.

John Robertson* | 22 Jun 2017 | 8:32 | Opinion



Impact Minerals broadly unsuccessful capital raising was less than straight forward

Australian equity market regulators have tried to make capital raising for smaller companies easier through share purchase plans directed at existing retail shareholders.

Under ASIC Class Order 09/425, companies can offer a single investor additional shares “in the same class” with an annual value of up to A\$15,000 (US\$11,300) without the need for a prospectus.

As a way of reducing risk in the absence of a prospectus, according to ASIC guidelines (ASIC RG 125), the issue price must be at a discount to the prevailing market price over a specified period.

Those companies with a sufficiently large number of enthusiastic shareholders and relatively modest capital needs get a potentially straightforward and cost-effective funding route.

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Impact Minerals

Share purchase plans remove the need for a company to attract and pay a supporting broker and eliminate brokerage for buyers. They are a handy device to help neutralise criticisms from retail investors that placements unfairly favour professional money managers.

On the downside, an offer left open for several weeks creates uncertainty about the outcome.

Open offers create two classes of investor for their duration. Guaranteeing existing shareholders an allocation of shares at a known discounted price gives them an incentive to sell some or all of their shares to buyers ineligible for the offer. The sellers will know they can subsequently reacquire their positions without cost at a lower price.

Not all will be tempted to switch their positions but, in illiquid markets, the impact of a few can be disproportionate to the number of shares traded.

The additional issuance also weighs on already weak markets as investors who might have expected to profit from taking up a sharply discounted offer are disappointed.

"The 12% fall after the offer opened could easily have been greater if the option value had been fully applied to the share price"

Impact Minerals launched a share purchase plan on May 11 with a view to raising \$4 million. It anticipated a 28% increase in the number of shares on issue.

The Impact offer is to help fund exploration for gold and silver on its Commonwealth tenements in New South Wales, about 100km north of Newcrest's Cadia-Ridgeway mine.

Despite ASIC guidelines to the contrary, Impact shares are being offered without any discount. In place of a discount, participating shareholders are to receive three options to purchase additional shares before June 15, 2020, for every two shares taken up in the current offer.

The exercise price for the options has been pitched 122% higher than the \$0.018 issue price for the shares. The company has told shareholders informally each option will have a value of about \$0.004 when they list.

After deducting the suggested value of the attaching options, the net price of a share taken up in the offer would be around \$0.012. With an average market price of \$0.0158 through the offer period, investors could have sold existing positions and used the offer to buy back profitably.

Without the options, the \$0.018 share offer has been unattractive. Take-up will have depended on retail investors placing a sufficiently high value on the attaching options.

Impact directors must have been sufficiently worried about the success of the offer to contract professionals to excite interest in the deal. Writing on behalf of the company, the appointed intermediary characterised the offer as "particularly attractive" in an email to shareholders.

After re-asserting that "we believe it's an attractive offer at current prices", the company's spokesperson offered shareholders a chance to bid for more than their designated maximum allocation of \$15,000, seemingly at odds with the ASIC share purchase plan rules.

Along with other exploration stocks, the Impact share price was on the slide prior to the offer. The PortfolioDirect index tracking the prices of 50 ASX listed exploration stocks had fallen 10% since the beginning of 2017.

The Impact share price had lost 29% prior to the offer, three quarters of which occurred in the fortnight before the offer commenced, hinting at some anticipation of a capital raising.

The 12% fall after the offer opened could easily have been greater if the option value had been fully applied to the share price and not bundled separately.

In reality, the Impact offer is not a share purchase plan of the type defined by regulators and familiar to Australian retail investors.

ASIC only reluctantly allows retail investors to use options. Its financial education website warns that “even experienced investors will struggle to understand the risks involved in trading them”. Brokers place additional compliance hurdles in the path of clients wanting to use share options.

Impact itself has conceded doubts about the status of the offer.

Directors have claimed, without any substantiation, that their offer is likely to satisfy the definition of a security purchase plan but tucked away on the ninth page of the notice for the meeting convened to get shareholder approval is an important admission: the directors say they are unable to rely on CO 09/425.

For protection, Impact also issued a prospectus and sought shareholder approval for the share issue, steps which would have been unnecessary if directors were confident of their legal position.

The Impact board has cloaked its offer with the familiar trappings of a share purchase plan while flouting its rules as it has sought to push out the boundary of what is an acceptable retail offering.

Postscript: As these comments have been written, Impact has announced it has raised just \$600,000 of the targeted \$4 million, suggesting retail investors placed some but not much emphasis on the option value.

With only \$450,000 million coming from other sources, neither did sophisticated and professional investors eligible to bid for the shortfall react well to the value proposition.

The result also casts doubt on the exuberant claim in the company’s email to shareholders that “various parties have shown strong interest in taking up any additional shortfall after recent company presentations”.

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