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## European SME share trading on growth markets on the rise

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Improved market structure and rise of new players have resulted in increasing volumes of shares of small- and medium-enterprises (SMEs) traded on European growth markets. However, several gaps still exist in easing SMEs' access to capital markets. Asset News digs into the data.



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On January 2018, Europe's Markets in Financial Instruments Directive II (MiFID 2) directive came into force, which allowed Multilateral Trading Facility (MTF) operators to register as an SME Growth Market (GM). These markets offered listing opportunities with lighter reporting burden and reduced compliance costs, while widening potential equity-investor base. The experiment seems to have paid off. In 2020, total trading volumes in SME shares on these markets amounted to €163bn, an increase of more than 75% year-to-date, according to EU regulator, European Securities and Markets Authority (Esma).

The share of SME trading volumes increased from 0.4% of total equity trading in March to almost 1% in December 2020 (with a 0.7% decline in November), according to Esma's Trends, Risks and Vulnerabilities (TRV) report for 2021. Total annual trading volumes stood at €50bn, with UK-domiciled venues accounting for 30% of total trading values in SME shares (€44bn). Sector-wise, healthcare (€45bn) represented the largest share of SME trading in 2020, followed by tech (€27bn) and consumer (€15bn) sectors.



Note: Monthly trading volumes on EEA30 + UK venues of SME shares in 2019 and 2020. EUR billion (lhs), and % share in total shares trading (rhs). "Small"=(0,20mn), "Medium"=(20mn,200mn). Sources: FIRDS, FITRS, ESMA

SME trading volumes increase/ Credit: Esma

Laurent Horville, head of trading for Moneta AM, which specialises in SME funds, attributed the increase in volumes of SME share trading to the rapid changes in the market structure and availability of more trading venues. "Earlier, to execute trades at a specific price, the investor needed to call specialist brokers. Today, the methodology has changed; there are new actors and technology-driven marketplaces (such as Virtu Financial, Liquidnet and CBOE Europe), which systematically scan the interests of the buyer and seller to reach a mid-point price of the primary markets, facilitating block trading. Technology has eased the access to liquidity. There are more trading venues available for SME shares and more small-sized companies have the capacity to be present on different venues accessible to all types of investors," he said, adding that in 2018, Moneta AM was present in 42 venues for SME shares while in 2020, this has doubled to 90 venues.

According to transparency data reported to Esma by 30 European countries and UK trading venues, 8,500 SME shares were available for trading in 2020 with 18% of them (1,500) also available for trading on growth markets. Total trading volumes on these venues amounted to €61bn in 2020, accounting for 74% of total SME trading on MTFs and 38% of total trading in SMEs. "Trading activity on GMs (growth markets) has seen exceptional growth since the beginning of 2019 (from a monthly average of €2bn in 2019 to €5bn in 2020), driven by both the increased number of platforms and the larger number of SME instruments available for trading on these segments," stated Esma. The largest SME volumes in 2020 were traded in the UK (£27bn), followed by Sweden (€17bn) and France (€15bn).

**Euronext's acquisition of Borsa Italiana for €4.3bn, which will be completed later this year, will further bolster its growth market offerings as Italy has a strong SME market, which will attract more such enterprises.**

- Anthony Attia, global head of primary markets and post trade for Euronext

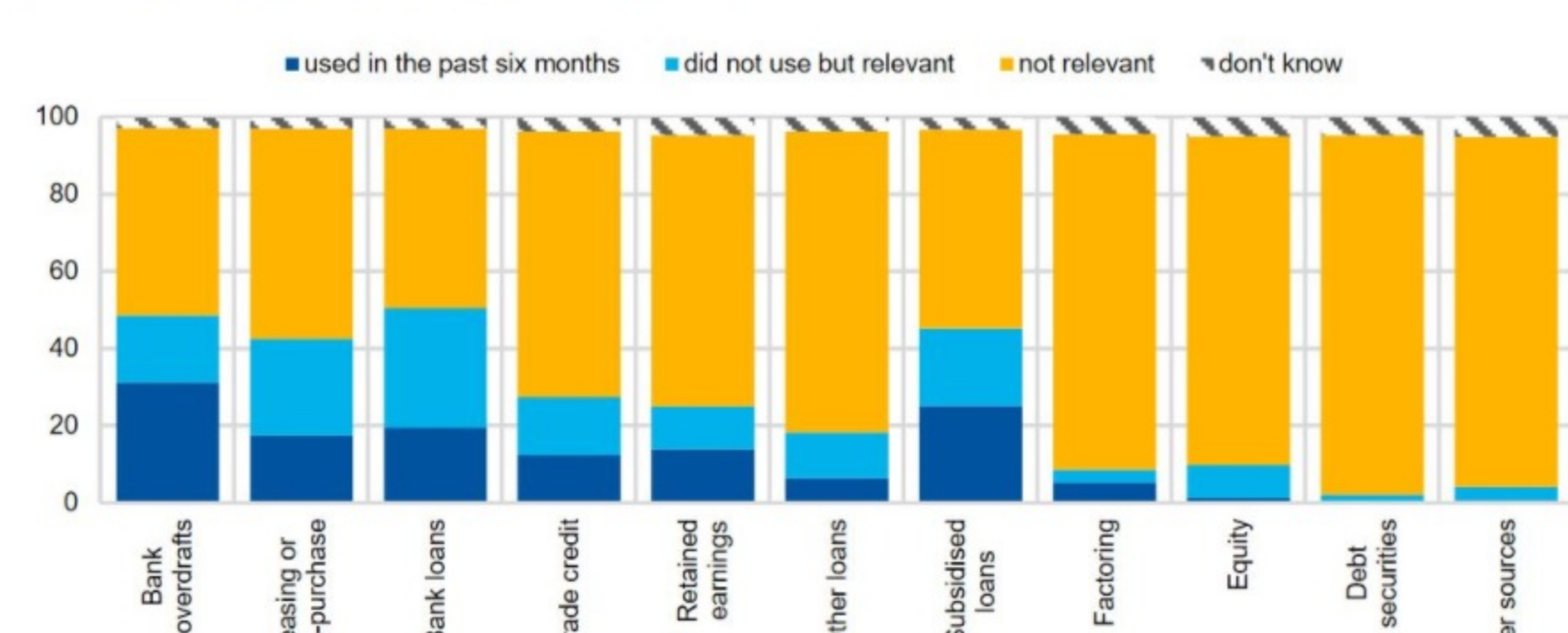
Euronext, the pan-European stock exchange, has been busy consolidating its growth markets, which has such segments in France (original GM, previously known as Alternext), Belgium, Portugal, Norway and Ireland, with a focus on facilitating SMEs access to markets and liquidity. Anthony Attia, global head of primary markets and post trade for Euronext, said that the exchange currently has 1,154 SME listings, excluding its upcoming Borsa Italiana acquisition. "Euronext's SME franchise ranges from companies valued below €50m to SMEs that are close to the €1bn market cap, which can also be listed on the main markets. Issuers on Euronext Growth are split between tech and media (31%), life sciences (15%) and clean tech (14%). Euronext's [acquisition of Borsa Italiana](#) for €4.3bn, which will be completed later this year, will further bolster its growth market offerings as Italy has a strong SME market, which will attract more such enterprises," he told *Asset News*. Attia added the exchange is also planning to launch a [new block trading facility for SMEs](#) later this year, to further encourage institutional investors to invest in these enterprises.

### Bridging the gaps

While there has been an increasing demand for SME shares, hardly a minority of European SMEs consider the markets as a source of financing. During the Covid-19 pandemic, SMEs in Europe heavily relied on bank loans (50%) and credit lines (49%) to bridge liquidity gaps, during the period April-September 2020. Demands for bank loans increased by 20% during this period, according to European Central Bank's (ECB) survey on access to finance of enterprise in the euro area. Markets-based instruments were much less considered as a potential source of finance, with only a few SMEs considering equity (10%) and bonds (2%).

### Relevance of financing sources for euro area SMEs

(over the preceding six months; percentages of respondents)



Q4. Are the following sources of financing relevant to your enterprise, that is, have you used them in the past or considered using them in the future? If 'yes', have you obtained new financing of this type in the past six months?

Base: All SMEs. Figures refer to round 23 (April-September 2020) of the survey.

Relevance of financing sources for EU SMEs/ Credit: European Central Bank (ECB)

What makes European SMEs wary of the capital markets? According to Robert Hill-Smith, equity analyst, Moneta AM, the classic problem is the cost associated with getting listed. "The costs include releasing a prospectus, extensive auditing and legal processes and undertaking reporting responsibilities. This is difficult for SMEs. Additionally, for funds, it is difficult to justify the work for such a small market capitalisation," he highlighted.

Attia added that Euronext invests a lot of time and resources in helping SMEs for listing. Its TechShare programme, running for its sixth year, connects 119 participating EU tech companies with experts such as banks, lawyers and regulators to help them understand the listing requirements. "A company looking at an IPO should adapt its governance structure to ensure that the management team spends time on roadshows, needs to create an investor relations function and must ensure its compliance with financial reporting requirements. Another important aspect for a company aiming to enter the stock market is the ability to commit to delivering what they promised to the market. This discipline comes with being listed. Companies can use this public commitment to grow faster and become more visible to potential business partners or clients," he said, adding that he expects a high number of new potential IPOs in France, Norway, and Belgium amidst larger listings in the Netherlands over the next few months.

### Lack of visibility

SMEs have also been impacted by MiFID II's research unbundling rules, which require portfolio managers to pay for the research they obtain, either paying themselves or passing that charge to the client. Consequently, the coverage by the sell-side research team on these SMEs is not profitable, resulting in these firms losing out on visibility, pointed out Horville. "It is negative for the SME issuers but for investors like us, who are specialised in SMEs, it presents an opportunity, as we have the advantage of our internal research team," he told *Asset News*.

**The number of banks focusing on the smaller companies' market has reduced over recent years reducing the availability of intermediaries to conduct fundraisings.**

- Kirsty Desson, investment director for smaller companies' equities at Aberdeen Standard Investments

Kirsty Desson, investment director for smaller companies' equities at Aberdeen Standard Investments, concurred that the SME market is relatively under-researched. "There is often less research available to investors when they are looking to form a view on the relative attractiveness of a capital raise. The number of banks focusing on the smaller companies' market has reduced over recent years reducing the availability of intermediaries to conduct fundraisings and the relative cost of a fundraising can be high given the smaller amounts of capital that companies may be looking to raise given the fixed cost involved in such an undertaking," she said.

Attia added that it is critical to find a sustainable model for equity research. "Visibility is important for a listed company. Being part of an index can help to attract investment flow and companies can benefit from the analysis covering index components. Not all companies are part of a tradable index, however, so to provide additional visibility we provide free quant analysis papers about our growth companies to interested investors," he explained.

In 2020, Esma had launched a [consultation on the growth market regime](#) on two draft technical standards, aiming to fix these gaps. As these discussions go on, the European capital markets union's (CMU) goal to direct SMEs to alternative providers of funding (read capital markets) could turn out to be an uphill task.

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