EASDAQ grows slowly, but surely

On a strictly numerical basis, the performance of the European automated stock exchange, EASDAQ in its first year appears disappointing. Whereas the two-year old London Alternative Investment Market (AIM) listed 167 companies in its first year and the Paris-based Nouveau Marché launched 31, EASDAQ listed only 15 companies. Only one of those, Innogenetics from Zwijnaarde in Belgian is in biotechnology.

Modeled on the highly successful US screen-based exchange, NASDAQ, EASDAQ (European Association of Securities Dealers Automated Quotation) was ready in September 1996 to provide a pan-European stock market for young, fast-growing companies. Its first company had its initial public offering (IPO) on November 27, 1996. Stockbrokers should note the number of new companies when assessing the performance of an exchange, warns Percy Lomax of stockbrokers Teather & Greenwood (London). Others believe quality, rather than quantity, is more important. Nigel Hopes, Head of Flotations at Coopers & Lybrand (London), believes EASDAQ's slow progress should be welcomed: "It is better to develop reasonably slowly but to a rule book that is quite robust, rather than lowering quality requirements and just getting a lot of companies on the market."

First-year performance data suggest that EASDAQ is for the more selective and generous investor. On average, each of the companies on EASDAQ raised considerably more money ($34 million) than those on AIM ($3.5 million) or the Nouveau Marché ($10 million). As EASDAQ's CEO Jacques Putzeys, notes, "EASDAQ is for companies that are past the start-up phase." James Bromhead, of stockbrokers Beeson Gregory (London), predicts AIM companies may move to EASDAQ as they grow and look for more, or wider, European exposure. Opinions on share performance differ, notes Lars-Christian Brask, of Robertson Stephens (New York): "Some may say that the shares have performed appallingly, but others will say it is a new company in untested territory so its actually pretty good."

EASDAQ's questionable performance in its first year can be attributed to one key factor: Its novelty.

Firstly, EASDAQ's new rules and regulations are based on those of NASDAQ, meaning European investors needed to learn a whole new way of working. As Bromhead remarks, "[EASDAQ] can't be expected to run in its first year; there is an enormous learning process taking place."

Secondly, both the traders and the traded are new to EASDAQ. In contrast, both AIM and the Nouveau Marché are parts of much larger, established stock exchanges, and had instant access to their members (stockbrokers able to trade in the exchange's stocks). Now, according to Jacques Putzeys, EASDAQ has 52 members from all over Europe and from the US. This, he says, is a better measure of success than the number of listed companies. These members include some of the key US players on NASDAQ, such as the New York investment banks Hambrecht & Quist, Robertson Stephens, Cowan & Co. and Alex Brown, members that have not chosen to join AIM or the Nouveau Marché. As Bromhead notes, "These are big NASDAQ players, and the question should be asked, why aren't they players in AIM or Nouveau Marché."

One novel aspect of EASDAQ that should eventually bring benefits is its exposure to Europe-wide investment, something that no other market can offer. Putzeys points out that through its flotation on EASDAQ, Innogenetics now has nine market makers from six different countries. Wem Ottevaere, chief financial officer at Innogenetics, says that without EASDAQ, the company would have had to risk a listing on NASDAQ in the US, with which it was not familiar, or float on AIM and have visibility to only UK investors. Its pan-European exposure compensates for the extra cost of floating on EASDAQ (6–7% of total costs, compared with 3–4% on AIM), says Bromhead: "For your money you get pan-European exposure. . .And, of course, there is access to a bigger pool of money."

Many see huge potential in EASDAQ in the longer term. EASDAQ needs time to prove itself, notes Brask. "As with any new company there have been teething problems, but they have been small, and there are very good companies listed on [EASDAQ] already. The European investors have got to get used to this system, but its only a matter of time before it becomes as big and as successful as NASDAQ."

Sylvia Davidson

Sylvia Davidson is a freelance writer working in London.