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Article

Opportunities and challenges of going public as a SME in Hungary

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Abstract: Nowadays, finding a suitable solution to the problem of generational change in case of small and medium-size enterprises (SMEs) is becoming increasingly challenging. The aim of this research to investigate whether entering into the stock exchange could be a realistic alternative for Hungarian companies to eliminate this issue. This study reviews the process of Initial Public Offering (IPO) and summarises the advantages and the difficulties of going public. The paper focuses on the opportunities for value creation and saving offered to SMEs by listing on the stock exchange. As primary research on practical experiences, semi-structured in-depth interviews were conducted with the managers of 10 involved companies, and some financial indicators were examined. The research does not cover all relevant companies; however, it is still suitable for drawing a conclusion. The presence on the stock market proved to be useful for the companies and played a significant role in the preservation of the company's value as well as in financing opportunities. The path demonstrated in this article is suitable for other businesses to follow the pioneers.

Keywords: enterprise value; generational change; initial public offering; SMEs; value saving

1. Introduction

All around the world, businesses are facing the necessity and difficulties of generational change. Many companies are threatened with closure because they fail to find a suitable successor and there is no vision. This can lead to the downtrend of the company, a decrease in the value of the company, or even closure, meaning that the work of a lifetime is wasted.

In Western Europe and the United States, the transfer of businesses from one generation to the next one has been a common practice for several decades, as family businesses have been operating there for centuries. In contrast, in Central and Eastern European countries, after the regime change, small and medium-sized enterprises were founded in the early 90 s. Although entrepreneurs are responsible for their company, employees and they want to preserve the value of previously acquired assets, the first (pioneer) entrepreneurs are just now reaching the stage of their lives when they would quit business. However, a solution to this issue is not as straight forward.

In family-owned firms, entrepreneurship tends to decline over generations (Canovi et al., 2022; Combs et al., 2021). Researches show that intergenerational inheritance of companies is successful for the first generation in 30%–40% of cases, and it drops below 10% by the second generation. Only a minority of family businesses survive beyond the third generation (Zellweger et al., 2019). The future of the majority (60%–70%), depends on whether the company can be sold in such a way that business continuity is not compromised, otherwise the whole company may fail (Leach, 2007). Research by PwC (2022) demonstrates that the pandemic has brought generations closer together: 43% of the 1036 respondents representing the next generation reported that they are much more involved in the family business than before 2020. Organizational culture and even the operation of the company is determined both in short and long term if several generations are involved in its management at the same time (Cherchem, 2017).

In Hungary, this problem will escalate in the coming years, which is confirmed by the research group of the Budapest University of Economics within the framework of the Global Successful Transgenerational Entrepreneurship Practices Project. Based on this data the average age of family business managers is 51.2 years. Although this average is not very high, over a quarter of CEOs of family businesses are over 60 and managers under 30 are almost entirely missing (Mosolygó-Kiss et al., 2022). For generational renewal to be successful, both business and government must address the issue. Strategic programs must be developed to facilitate the successful implementation of this process. One solution to the problem of generational change can be the organizational transformation, the separation of ownership and operational management tasks, the creation of transparent operation, and the preservation of company value. These complex tasks can also be accomplished by listing the company on the stock exchange. Since, the aim of this research is to examine the value creation opportunities and challenges of Initial Public Offering (IPO) for SMEs, and what successes the Budapest Stock Exchange Xtend program (one of the programs established for this purpose) has achieved so far.

The goal of the first section is to give a theoretical background of the investigation according to professional literature about the enterprise value and the main features of family business. Then, a description is provided about the advantages and challenges of going public as well as a short summary of the legal framework of the BSE Xtend platform in Hungary. The next chapter defines the research method and presents the selected companies briefly. To review the results, five sub-chapter was determined on the basis of the research questions, and the 6th sub-chapter of the fourth section is a comparison of the companies' indicators on the data of their 2022 and 2023 financial reports, which is followed by a conclusion.

2. Theoretical background

In line with the objectives set out in the introduction, the concept of enterprise value, the special method of determining enterprise value among SMEs primarily related to family businesses, the process of going public and the legal framework of the BSE Xtend scheme are reviewed in this chapter.

2.1. Determining the company's value

Over the past decades, company valuation has evolved significantly. The company's value can be defined in several ways, such as the Enterprise Value (EV) or Book Value (BV) of the company. In the literature, a wide range of evaluation methods has been presented and each author attaches various groupings and several ways of application to different methods, implying also that they have dissimilar values. Among them, however, one of the most important is from Damodaran (2005) who argues that any value determined must be supported by reality, which implies that the price paid for any asset should reflect the cash flow expected of it.

Nowadays, a widely accepted and used valuation method is the Free Cash Flow to the Firm (FCFF) methodology (Mielcarz and Mlinarič, 2014, pp. 559–572), while other valuation methods such as equity-based calculations for instance, Free Cash Flow to Equity (FCFE) or Economic Value Added (EVA) are moving more to the background (Dierks and Patel, 1997, p. 52). All model calculations are based on the determination of appropriate discount factors, which has a significant impact on the decision-making. Another common feature of these methodologies is their use of accounting documents and data as the basis. (Abreu, 2016, p. 687). Since accounting data are historical data, planning the future based on these data and on the strategies is a crucial task during evaluation.

Several alternative solutions for determining future data and discount rates can be found in the literature, such as the C-CAPM (Dionne et al., 2012) or the three-factor model of Fama and French (1988, pp. 3–25). The latter shows an improvement over previous methodologies in the sense that it includes the risk factor, market risk, company size and book equity-to-market equity, besides the standard beta (β) (Fama and French, 1995, p. 133; Lalwani and Chakraborty, 2020). It can also be observed, especially in the Eastern European region, that the flow of information is not adequate, therefore the applicability of the CAPM is limited (Džaja and Aljinović, 2013, p.165; Đaković et al., 2022, p.192). Moreover, in Hungary, the large number of companies react rather sensitively to changes in business cycles, which leads investors in certain sectors to expect higher returns to offset the additional risk. This explains the application of a premium with a high book-to-market ratio in the SME sector.

The use of the real option valuation method is an alternative solution for the valuation of high-risk companies (Posza, 2020, p. 6). In case of this method, the assessment of risk, probability and uncertainty is not uniform in the literature (Emmett, 2021). One of the reasons for this is that each crisis period provides a control opportunity to measure the usability and reliability of models. In applying historical data, a rather broad probability can be taken into account (Szász, 2011, p. 336). According to the derivatives methodology, the risk-neutral approach should always be applied (Kim and Li, 2017), however, the estimated value should also include the investors' expectations, preferences, fears, and should reflect not only standard risks but also expected probabilities and should also include company-specific risk factors.

To measure risks and preferences, an independent concept, the concept of Value at Risk (VaR) was introduced. The definition of VaR was developed by Jorion (1997). Hence, VaR is defined as the value of the expected maximum loss over a given time horizon at a given confidence level. This indicator is used mainly in the banking industry; however, it is also used to determine risks in the company valuation. (Godfrey and Espinosa, 1998). With the increasing presence of available databases, concepts based on big data have also emerged. These can be better taken into account the standard deviation and distribution type of expected return (Moro-Visconti et al., 2018).

2.2. The main characteristics of family businesses

Small and medium-sized enterprises are defined on the basis of the criteria set out in EU Recommendation 2003/361/EC (and Act XXXIV of 2004 on Small and Medium-sized Enterprises and Supporting their Development in Hungary). According to the legislation, SMEs are defined as companies with less than 250 employees, a net revenue not exceeding EUR 50 million or a balance sheet total of maximum EUR 43 million. Based on the law, SMEs are divided into three groups: micro-enterprises, small enterprises, and medium-sized enterprises. Since these firms comprise around 99.8 percent of all businesses in Europe and more than half of value added, SMEs are considered as "the backbone of Europe's economy" (Di Bella et al., 2023). The proportions are similarly high in Hungary, where the number of SMEs – mostly family-related businesses–exceeded 930 thousand in 2022 (HCSO, Hungarian Central Statistical Office).

There were numerous definitions of family businesses in the last century (Chua et al., 1999; Handler, 1989; Litz, 1995), then they were slightly amended and supplemented or have been considered more appropriate in this century (Astrachan et al., 2002; Di Toma and Montanari, 2010; European Commission, 2009; Harms, 2014; Noszkay, 2017). Hence, family businesses are enterprises in which related persons manage the day-to-day life of the enterprise, in which the functions of ownership, management and control are performed by members of the same family. In the case of family businesses, an emotional attachment to the business can be observed, which often has an influence on the decision-making as well. Moreover, the socioemotionally impact is usually stronger than the economic (Sánchez-Marín et al., 2023). The definition of socioemotional wealth was created by Gómez-Mejía and co-authors in 2007 and investigated many times (Berrone et al., 2012; Firfiray, 2018; Gómez-Mejía et al., 2011; Gómez-Mejía and Herrero, 2022). Business targets are not separated from family goals, which has an effect on the development and operation of the business. Furthermore, the management is fully committed to the preservation of their socioemotional traditions (Peláez-León and Sánchez-Marín, 2023). Collective family responsibility is typical, with family members working together to promote innovation and sustainability, with the aim of enabling the next generation to carry on with the business.

According to research conducted by Deloitte in 2016, one of the biggest challenges for family businesses are to create and maintain a balance between business targets and family goals in a constantly changing world. When the value of such a business has to be determined, aspects different from the standard valuation methodology must also be taken into account and weighed, as well as the effects need to be examined. This is partly since family members play a much greater role in company decision-making compared to non-family companies (Gedajlovic et al., 2012) and on the other hand, family companies have a higher degree of opacity than non-family companies (Bona-Sanchez et al., 2019). It can be considered, that family ownership „represents tradition, trustworthiness and uniqueness" (Bite and Konczos-Szombathelyi, 2020).

Based on the aforementioned facts, determining fair value within a family business typically uses a "sum of the parts" approach, whereby each business and investment is valued separately to reflect what a third party would pay for each asset given its risk and growth.

Before the sale or listing of the companies—when determining the value of family businesses operating in several areas, typically in a holding structure-, at least the following special characteristics must be taken into account compared to the standard valuation methodology:

- creation and evaluation of an optimal capital structure,
- evaluation of the relationship between companies within the group from the perspective of a third party
- potentially applying an additional premium or discount to the consolidated value in recognition of the business structure, in recognition of past or other factors. This may include, for example, examining return attributes, taking into account risk characteristics, measuring and evaluating relative and actual performance within the group, and the liquidity and financing ability of the group and identifying and assessing their risks.

Financing small and medium-sized enterprises has always been a big challenge in business. SMEs tend to suffer from undercapitalization; however, their sources can come from several way:

- external debt financing through financial institutions,
- external debt financing from other sources – member's loans, bonds, bills of exchange, cheques,
- equity financing – venture capital, angel investors, crowdfunding,
- public funding, other government programmes and EU funds.

Among the above financial opportunities, loans and other external debt financing typically play a major role in fundraising. In Hungary, the stock of shareholder loans is dominant (increasing). Before the Growth Bond Program was announced by the Hungarian National Bank in 2019, only a few enterprises used bond financing. As a result of the program, the willingness to issue bonds increased, as an alternative to credit facilities provided by commercial banks (Ambrus and Ambrus, 2020, p. 29).

In order to develop steadily and enter the international market, SMEs need a significant amount of capital, which requires other options besides the resources they already have. Hence, various financing programs have been developed for SMEs with state involvement in numerous countries. Most recently, the UK Government submitted its proposal on Private Intermittent Securities and Capital Exchange System (PISCES) and the Government is committed to introduce by the end of 2024 (Shaw et al., 2024). The overall objective of these programs is to increase the proportion of equity financing among SMEs in a way that effectively complements the predominant bank lending.

Within this framework, Budapest Stock Exchange Ltd. (BSE) prepared a three-element strategic program (BSE, 2016):

- the establishment of a public trading platform for companies that are not yet able to be traded on a regulated market (Xtend platform)
- Private Funding Platform for non-public companies
- Crowdfunding platform for financing startups and projects.

Among the above programs, advantages and opportunities of the Xtend platform were examined in this research, primarily in connection with family businesses.

2.3. Going public

As Feng et al. (2020) defined, "Initial public offers (IPOs) represent the debut of private firms on the public stage and provide these firms an opportunity to access valuable resources to improve their performance".

For SMEs, going public can bring numerous benefits, most notably the obtaining financial sources for growth opportunities and the marketability of the company. The advantage of a multilateral trading platform is that companies can register their shares on the platform without prior transaction. The aim is to get acquainted with the obligations associated with transparency and learn the rules for fulfilling the information disclosure requirements.

Entering the stock market also presents a number of challenges and obligations for companies. One of them is that both listing and operating on the stock exchange are extremely expensive, since the predefined conditions include the assignment of advisors, who generally charge a serious fee.

For companies that would like to register their shares, numerous tasks must be fulfilled beforehand. The main tasks are the following:

- preparation for market entry
- changing the form of organization and operation–amendment of statutes
- registration and preparation for the stock exchange operation.

It is impossible to take these steps without the involvement of external consultants. The implementation is usually carried out by teams of around 8-10 people, who are lawyers, financial advisors, as well as accounting and tax experts. The latter should be highlighted, however, as Cheng et al. (2023) stated, "the past research focuses on the marketing efforts from underwriters (investment banks) but ignores the important roles of the other members of the under-writing team that provide legal and accounting services". Based on the analysis of the data of 32 countries, Espenlaub et al. (2016) also found that "better legal systems increase the effectiveness of IPO certification by venture capitalists, underwriters and auditors".

Before the listing on the stock exchange companies have to go through a full due diligence (DD) process. During the DD process, legal, financial and tax risks are explored, followed by investor-oriented valuation to support the stock market pricing of the company's shares. It can be challenging especially with negative earnings because these companies are presumably less transparent than public firms (Zörgiebel, 2016).

The determination of the enterprise value is complemented by formulating proposals regarding the operation of the company to designate the further development alternatives and the presentation of funding possibilities. In this phase, the information document is compiled, presenting market and industry risks. The latter is the most difficult task of the whole process, as it requires complex knowledge about financial and capital markets, as well as accounting and tax topics. Not only the content of the information document, but also its language is important. Brau et al. (2016) found that

that an IPO document's strategic tone correlates positively with the stock's first-day return.

The process ends with the listing, but the work is far from over, because after the launch, companies must comply with the requirements of public operation and meet the disclosure obligations on time. These obligations create additional administrative burdens for the company, which also imposes costs.

Although Siev and Qadan (2022) concluded that "firms from healthcare and technology to go public at a relatively younger age than other sectors", Wang et al. (2019) stated, that "information asymmetry between technology ventures and investors in IPO markets is high". In addition, in some industries, particularly in the innovative sectors, transparency is considered as a certain disadvantage. Since stock exchange presence imposes public reporting obligations, competitors can more easily copy the success segments of the company based on the reported data.

The aim of the enterprises is to earn back the high costs within a period determined by them. Cheng et al. (2023) stated that the IPO underwriting process may positively influence their post-IPO financial performance of these firms. At the same time, some companies have to decide whether they stay on the 'floor' or withdraw. In general, the latter has become more common if the benefits have not reached the costs. The IPO withdrawal is about 12% of the aggregated global IPO volume since 1980 (Helbing, 2019). Therefore, it not surprising, that a part of current research relates to post-IPO performance of the issuer firms, while others to IPO under-pricing (Chang and Kwon, 2020).

A cost-benefit framework could be useful in any time. The goal of a cost-benefit analysis is "to value all impacts over the lifetime of project alternatives in monetary units, discounted to a specified year, making it possible to screen or rank alternatives by a single monetary measure…" (Saarikoski et al., 2016). In case of going public, both cost and benefit can be tangible or intangible which difficult to quantify. "The intangible benefits would include...growing market share, and better reputation for a company's brand" (Wu and Buyya, 2015). The yield of the latter can only be estimated instead of measured.

2.4. A road to stock exchange

With establishment of a multilateral trading platform, the Hungarian stock exchange provides development opportunity primarily for mature and currently successfully operating SMEs, even in case they firstly would raise capital only from their own resources and then register their shares. These shares can be moved to the standard and premium categories as soon as the conditions are met. Similar options are available on some major stock exchanges. For instance, 'Scale', which is approved by Frankfurt Stock Exchange and has been registered as a SME growth market (Deutsche Börse, 2024). It offers an efficient way for companies to finance growth via the capital market in accordance with uniform EU standards.

In Hungary, the Xtend platform is not supervised by the National Bank of Hungary (NBH), but by the BSE, and a stock exchange prospectus approved by the NBH is not required for the listing below EUR 5 million of issuance value. Consequently, Xtend is not a stock exchange under the Capital Markets Act, but a multilateral trading platform under the Markets in Financial Instruments Directive (MiFID) and Act CXXXVIII of 2007 on Investment Firms and Commodity Service Providers. However, its operation is similar to the stock exchange.

In order to register on BSE Xtend, it is sufficient to compile an information document with an issue value below EUR 1 million. Content and scope wise it is shorter and simpler compared to the listing prospecting giving a relief to the companies. Furthermore, it is not mandatory to prepare the financial statement according to IFRS, but financial reporting based on the Hungarian accounting standards is also accepted. In addition, it is not necessary for the person auditing the company to have an issuer qualification. Companies entering Xtend have to go through a double rating system and are subject to dual supervision during their stock exchange presence, which is implemented through the Nominated Advisor (NOMAD) and the monitoring of the BSE (BSE, 2017).

The role of the advisors in the process of entering to Scale is similar in Frankfurt. The financial reports must be audited; however, they are accepted both under the principles of IFRS and national standards (Deutsche Börse, 2024). Some other requisites are compared in **Table 1.**

Table 1. Comparison of the requisites.

Requisites	BSE regulated	Xtend	Deutsche Börse regulated	Scale
Company history	At least 2 years	At least 2 years, or shorter in case of a new foundation	At least 3 years	At least 2 years
Free float	At least 10%	none	At least 25% in EU or EEA	At least 20% of the shares or 1 million shares
Documents to be submitted	Prospectus and certificate of approval	Approved information document	Prospectus and certificate of approval	Inclusion document or prospectus
Frequency of financial statements	Semi-annually	Annually	Quarterly	Semi-annually

Source: Authors' contribution based on the BSE and Deutsche Börse.

BSE Xtend Index was also created in 2024, in order to inform investors in the future. This Index is considered as a benchmark based on regulated data in accordance with the provisions of Regulation (EU) 2016/1011. The index includes all share series that had at least one non-fixed transaction concluded on the Xtend Market during the reviewed quarter (BSE, 2024).

3. Materials and methods

There are around 100 companies in Hungary that could be suitable to be listed on the stock exchange, and up to 400 companies would meet the requirements to be traded on the Xtend platform. In comparison, only a fraction of potential stock market participants wanted to take advantage of the opportunity. Since the launch of the BSE Xtend platform in 2017, there have been only 24 launches. The most successful year was 2022, when a dozen companies entered the market. This was also supported by the fact that within the framework of GINOP (Economic Development and Innovation Operational Programme), the costs of listing on the stock exchange were partially supported by the BSE up to 50 % (or a maximum of HUF 40 million) using EU funds.

Among the possible methods, the in-depth interview as a qualitative research method is preferred partially due to low number of available elements. During these interviews detailed information can be obtained about the analysed topic. The ten companies were selected on the BSE's public issuer database. All the contacted company managers accepted the interview and were ready to answer the questions between January and March 2024.

It is difficult to compare the companies since their main data are varied. The selection of interviewees to ensure diversity were based on the following criteria:

- date of listing on Xtend and the length of the period from the entering
- sector (several)
- company size (capital, net sales)

Table 2 contains the main data of the ten enterprises. The youngest company has been founded only five years before the entering, and the oldest more than 25. Both their activities and the amount of the net sales are diversified and all of them were supported to finance the costs of DD before the entering using EU funds.

Table 2. Main data of the examined companies.

Companies	Year of establishment	Date of listing on Xtend	Sector	Net sales in the year of entering, million €
A	2003	12.2018	Trade	4.13
B	2008	01.2020	Trade	29.32
C	2003	04.2020	IT	3.88
D	2012	12.2021	Construction	11.90
E	2010	07.2022	Business Adm.	4.87
F	2007	08.2022	Real Estate	14.11
G	2017	10.2022	Real Estate	1.15
H	1997	12.2022	Human Health Care	22.03
I	2008	12.2022	IT	2.27
J	2015	01.2023	Manufacturing	18.61*

* In 2022. Source: Authors' contribution based on the data of financial reports.

The chosen method of research is the semi-structured in-depth interview, in which the scope and order of the questions are predetermined and shed light on a partial problem. It is characterized by the fact that the interviewer establishes the main direction of the conversation and follows the individual topics interactively with the interviewee. During the interviews, the managers of the ten companies listed on Xtend were asked identical open questions, followed by additional questions depending on the answers. The interviews were conducted by the authors; however, the five investigated issues and the opening questions were reviewed by two of Nominated Advisors as follows (see 4.1–4.5 subsections):

- Motivations and potential benefits

What kind of benefits have you expected for your company in entering BSE Xtend?

- The role of the advisors

Which services provided by the external experts were the most useful?

- Challenges

What was the most difficult task and most surprising finding during the DD process?

- Preparation time

What did the length of preparation time for the entering into Xtend depend on and how long did it take?

- Success

How successful do you consider your company's presence on Xtend?

Although the period following the Xtend move is too short for most of the companies surveyed to be able to make a temporal comparison of their operations, some financial indicators have been examined on the data of the 2022 and 2023 financial reports (see 4.6).

In the future, it would be beneficial to analyse a longer period and even the data of all companies entered to the Xtend. Among the latter, in particular, the investigation of the company that carried out the largest private capital raising prior to the launch (~ Euro 2.96 million) with the involvement of around 70 private investors in September 2023. The main profile of the company is the business angel investor, primarily supporting Hungarian and regional early-stage startups operating in the field of IT.

4. Results and discussion

During the interviews with company managers, it became clear that the presence on the stock exchange creates many obligations, however, it also provides numerous development opportunities for businesses. In addition, the process of entering the stock exchange is very instructive as it created an opportunity to transform the operations of the company and collect knowledge about the perspective of external investors.

4.1. Motivations and potential benefits

The two most important motivational aspects were to increase the marketability of the company and the possibility of accessing additional funding sources. With the former, the sale of the company can become more flexible, moreover, at the value "priced" by the market, while the latter is generally needed for the planned growth of the business. Three business owners hope to achieve better borrowing conditions after the introduction on the Xtend. It was also mentioned that this can strengthen the brand name and provide motivation to the management. In case of one company, portfolio cleaning was carried out in parallel with the process.

4.2. The role of the advisors

The involvement of nominated advisors (NOMADs) is a mandatory requirement in the Xtend category. In addition, every company leader stated that the expertise of external consultants was indispensable in order to complete the extraordinary documentation requirements. There were companies who, after the idea of going public was formulated, used the stock exchange maturity examination service of a consulting company. During this process the organizational, legal, financial, accounting and tax due diligence of the company was carried out. After that, the path along which the company would be able to meet the requirements of the listing was determined. Last but not least, the plan along which the company could maintain successful stock exchange operation was formed with the help of the consultant. The screening process was not simple and conflict-free; however, it drew attention to errors in several areas and alternatives to possible solutions were offered by the experts. The CEOs unanimously stated that during the process they received a view about their company from a new side and learned a lot from the experts.

In general, organizational development, corporate valuation, financing, and communication areas are where the role of the consultant can be prominent. Employing professional consultants is also advantageous in that they see the individual processes as an independent expert, can assess them, and then analyse the observations and provide proposals for transformation and process organization without emotions. According to the opinions, the significance of financial, accounting and tax due diligence lies in the fact that it presents the risks and opportunities of the company from the perspective of an external observer and the investor and provides guidance for the development of financial and controlling processes. This is a completely different aspect that carries many lessons for company management and contributes to the success of future operations. Some of the consulting firms have decades of experience in operating small and medium-sized enterprises, which they pass on to their partners in the field of acquisitions, fundraising and financing. The interviews also revealed that the cooperation will not be successful without unconditional trust between the consultant and the company management.

4.3. Challenges

The first challenge of the DD process was the definition of the company's vision and strategy, as well as the direction of development. This is quite important as it is, in general, the basis for determining the value of the company and it will be one of the main pillars of the prospectus for investors. Financial and tax due diligence was identified as the most critical point of the process, during which the actual financial year and at least the previous three years were audited. The purpose of that was to reveal the risks and, if possible, mitigate them. Several interviewees, particularly the managers of typical family businesses, mentioned that there were numerous findings resulting from the incorrect interpretation of the tax regulations.

In many cases, in order to reveal individual risks, consultants used quite unique methods. As such a case, the risk of the prices applied between affiliated companies and the transfer pricing documentation were mentioned by most of the managers. The consultants also drew attention to the fact that regular compliance with the legislation play an extremely important role in the stock exchange operations since stock exchange listed companies must inform the public about any event.

4.4. Preparation time

According to the declarations, preparation time varies greatly as the time required depends primarily on the level of organisational development of the company. There are companies that only needed a little more than one year to prepare everything for the listing, while for others the preparation process took several years. The latter typically includes family-run businesses. Although these companies reported significant revenues and were on a growth trajectory, their daily operation was still "manually controlled" by a small circle of personnel.

However, the conditions for listing on the stock exchange is the separation of ownership and management functions on the one hand, and the existence of a board of directors, supervisory board and audit committee on the other. For them, the transformation and IPO process was the longest and most difficult, as they also had to overcome the pitfalls and conflicts of organizational transformation.

4.5. Success

The CEOs surveyed are, in general, satisfied with the success of the implementation and consider it to be in line with expectations. According to the almost unanimous opinion of company managers and owners, the IPO was not only an advantage from a financing point of view, but also the marketing value and enterprise value of the company increased significantly along with transparency. All of CEOs interviewed mentioned that the Xtend platform provided an opportunity to raise capital for the company primarily for further development, besides loans, bonds, and startup financing. Positive reactions were also reported after the IPO from supplier partners, customers, and financing banks.

Two of the surveyed companies have already fulfilled the requirements of the standard category and have moved from the Xtend category to the standard category. In addition, two more companies plan to change the category within one to two years and are already working on fulfilling the compliance conditions.

Among the launches in 2022, the management of two (other) companies could also say that they have managed to raise hundreds of millions of forints of capital last year, which provides a solid resource base for further development. No wonder they considered the Xtend move extremely successful and in their opinion, it had a positive effect on the company's image and value. They believe that going public is the key to the company's growth and materialization of their long-term plans.

Regarding the possible development directions, they mentioned that they see a great opportunity in the acquisition of companies affected by generational change, and the related discussions and due diligence are already underway. However, they also noted that M&A transactions are not simple to implement in the SME sector, because the organisation and the structure of many companies is not prepared to transparency and operation yet. This is considered one of the biggest challenges in preparing and completing the transactions.

4.6. Evaluation of data

For two from the ten companies, the share price was (P) lower than the book value (P/BV < 1), while for three it was about five times higher. Among the latter, there is one of the three companies ('C') that made a loss from its operation in 2022 (**Figure 1).**

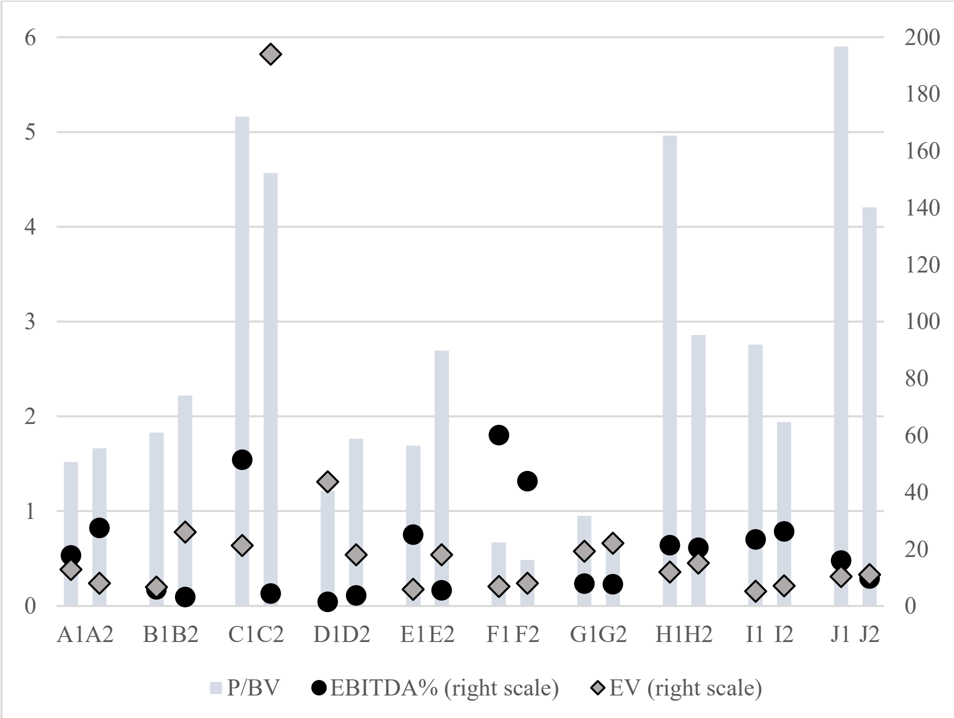

Figure 1. The (lack of) relationship between the examined indicators.

Source: Authors' contribution based on the data of financial reports.

The three companies with the highest P/BV had market capitalizations above HUF 10 billion, but this group also includes company 'F' (where P/BV <1). In 2023, the P/BV of company 'J' decreased because the market did not appreciate their good performance (profitable management), while companies 'C' and 'H' experienced a significant capital increase.

It was also examined whether companies with higher EBITDA%[1] and/or higher EV multipliers have a share price higher than book value. However, based on the **Figure 1**, neither the return on sales nor the EV multiplier indicates any relationship. One of the companies with high EBITDA was the 'C' in 2022 (see above), which recorded significant depreciation due to investments made in the previous period, while company 'F' (real estate investment) had a much higher profit than other companies. In case of company 'C', the main strategic direction is AI development, therefore in line with the current trends, the EV is extremely high.

Based on the two years data available, no general statement can be made for the profitability of companies and the market price of their shares. In a few years' time, it would be beneficial to examine how these connections develop compared to listed companies operating in similar industries, in order to determine whether the IPO can really be successful. However, the fact that the shares of company 'A', 'B' and 'C' have been already moved to the standard category, can be considered as a step forward.

4.7. Main consequences of being public

Due to the extra tasks or because of rationalization, half of the examined enterprises were restructured. This process generated extra costs, which could bring benefits in the future. It is important to highlight, that a lot of firms are unable to manage the high cost of entering. To encourage them, a cooperation agreement was signed by the BSE and 2 banks in 2024. The program also covers the support of companies' operational and financing processes, which includes professional mentoring and discounted fees in the field of corporate finance. The final goal of the companies is to move to the standard category and the auditors are trying to pressurize the managers of these firms to meet the standard criteria already in this period. Besides these, **Table 3** presents the companies that were able to obtain additional capital and summarizes the positive or negative effects of the changes since entering Xtend.

Table 3. The effects of going public on companies.

	A	B	C	D	E	F	G	H	I	J
Restructured		+			+	+	+		+	
Acquired additional capital			+	+	+	+		+		
Moved to standard category	+	+	+							
Value of marketing and PR	+	+	+	+	+	+	+	+	+	+
Transparency	+	+	-	+	+	+	+	-	-	+
Direction, control	+	-	+	-	+	-	+	+	+	-

Source: Authors' contribution based on the interviews and the data of financial reports.

Although 3 companies have been already moved to the standard category, their growth are different. 'B' rents out machines for the construction industry and its market has narrowed, while 'C' made international expansion. Also company 'E' and 'H' have decided preparing for the standard category. In case of company 'I' and 'J', it has not been possible to attract additional capital, however, the development of 'J' is expected due to operating in the field of environmental protection. Being public means prestige, so it is beneficial, in contrast, the effect of transparency can be negative, especially operating in the field of IT and pharmaceutical industry (see answers from company 'C', 'H' and 'I'). Some of the companies' owners are satisfied with the new system of direction, while others consider it a bit inflexible, hopefully temporarily.

5. Conclusion

In order to ensure the future development and solve the generational transition issue of an SME, going public is arguably one of the best options. The presence on the stock market is considered useful for the companies and played a significant role in the preservation of the company's value as well as in financing opportunities. It also offers an opportunity for investors to find innovative and dynamically growing businesses that are still in the development phase and invest in these firms to achieve a higher return.

In Hungary, the partial success of the Xtend program is proven by the fact that twenty-four companies have joined the platform since its introduction in 2017. However, a stagnation can be observed in 2023, which is caused by several reasons. One of these reasons is that the expected supporting funds did not arrive even in the autumn, therefore companies had to solely finance the rather high costs of the Xtend move. Other reasons are the deteriorating economic performance and the decrease in the number of investors due to high inflation.

The research does not cover all companies that have joined Xtend, however, it confirms that the listing is not an easy process and companies have many problems to face with. Although the period after joining is short, in general, one of the benefits of going public that the new actors have to learn the rules of the 'open market'. An additional advantage of the program is that the advancement to the standard and then to the premium category is ensured for well-performing businesses.

The Xtend platform contributes to the development of the capital market infrastructure, increases the number of transparently operating enterprises, and broadens the investment palette; however, the further success of the program depends on several factors. Growth and progress would require the development of financial awareness and financial culture in Hungary. The implementation of the program is urgent, and the cooperation of both the government and the financial sector participants is necessary for its introduction. As a result, the available source of funds and the range of investors would expand through the investments of the small investor segment. This is a great opportunity for the expansion of smaller exchanges. It would develop the situation if the blocked European Union funds arrived, which would also improve market expectations, and the willingness of market participants would increase toward investments. In the meantime, there is a need for additional support programs, for example involving banks, which allows SMEs to consider joining the stock exchange, since both the tasks related to the introduction and compliance with the conditions of the stock market operation are extremely expensive. The latest step of the BSE was the introduction of the XTEND index in 2024. The new indicator enables to better the market, while also giving issuers more visibility.

With the reduction of inflationary pressure, recession is expected to ease, and economic growth is about to return, consequently, the performance and profitability of the companies is expected to improve as well, which outlines further opportunities for development and a positive vision for businesses. In our opinion, it is a critical task for the government to create a complex support program favorable to the SME sector in cooperation with the chambers, which promotes the growth of this entrepreneurial group, improving its efficiency and the high-level application of digitalization. This also increases the international competitiveness of SMEs.

From the companies' perspective, one of the obstacles to entering the stock market is that, in Hungary, SMEs are not yet prepared for transparent operation and the fulfilment of the many obligations associated with it. In many cases, transparency is seen as a disadvantage primarily by companies engaged in significant R&D activities or applying innovative solutions. Although numerous Hungarian SMEs would be ready to operate on the stock exchange market based on their revenues and performance, many of those are suppliers of a large multinational corporation. This fact may hinder the maintenance of profitability or further growth, especially as usual, if they are unable to open to other markets.

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Notes

[1] Earnings before interest and taxes and depreciation and amortization/net sales revenue

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