Heartland: Another Unfair Capital Raising

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The New Zealand Shareholders Association (NZSA) says Heartland Bank's recent capital raising by way of a placement to institutions and a subsequent Share Purchase Plan (SPP) is yet another case of boards failing to treat all shareholders fairly.

NZSA CEO Michael Midgley said Heartland's excuse that it used an SPP as it was *"only seeking a relatively small amount of capital"* was nonsense ". In our view $40m in total is a significant capital raise - greater in fact than the capitalization of some smaller listed companies".

Heartland had also said in this case a rights issue would have resulted in very small parcel sizes for retail shareholders. The Shareholders Association notes that the fallacy of this argument has been demonstrated by the outcome. Due to the offering being substantially oversubscribed, many retail shareholders will have received only small allocations and had their holdings diluted, a situation that potentially benefits large institutional investors. Compounding matters, the company had not used a pro rata regime based on existing holdings when scaling applications back to only one third of what was applied for.

Heartland claimed the other factor justifying their decision was timing -- they had been able to quickly raise $20M prior to Christmas. They said *"an ambitious overall timetable"* for a rights offer would have been six to seven weeks from when the decision was made to launch an offer. Midgley said "that significantly exaggerated the timeframe needed for same class issues, something the Association thought Heartland would be aware of".

Midgley said the timeframe could have comfortably been met with an accelerated rights offer, which allows the institutional portion of a rights issue to complete in advance of the retail offer. "This would have been fair to all shareholders", he said.

Midgley said that ordinary shareholders will be wondering how many of the shares taken up by institutional shareholders have already been on-sold for a quick profit given the 20 cents rise in the share price since the placement. "Long term, loyal retail shareholders have been badly treated by this rushed board decision".

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