REVERSE TAKE OVER

Introduction:-

This is a situation where a large unlisted company takes over a smaller listed company through a share-for-share exchange. This implies then that a large number of shares in the smaller listed company will have to be issued to the shareholders of the large unlisted company. The effect of this takeover is that the shareholders of unlisted company will have the majority shares of the smaller listed company, making them to have control of the listed company.

IFRS 10 provides a clear definition of what control is and provides that an investor control an investee when:

- The investor has power over the investee, and
- The investor is exposed, or has right, to variable returns from its involvement with the investee, and
- The investor has the ability to affect those returns through its power over the investee.

In simple words, control is normally assumed when one entity owns more than half of the equity shares of another entity.

A **RTO** often times involves listed companies that are actively involved in trading on the stock exchange or shell companies that are not involved in active trading. RTO is another form a company could get listed as the investee company automatically satisfies listing requirements.

The transition on completion of RTO is that the smaller listed company is to be managed by the top executive of the large unlisted company and it can be agreed to take on the name of the larger unlisted company. After all once control is gotten its comes with all accompany features.

Of course, there are drawbacks of RTO but let us look at some benefit first:

- Speed: For example the process of listing a company on Nigerian stock exchange market involves a number of strategic steps; the exact steps taken will vary from company to company by the method of flotation and the market the company join whereas RTO will be completed very fast that this.
- Great opportunity to carry out further acquisitions.
- Easy access to capital market.
- Less regulation documentation.

However, a few potential drawbacks would be:

- Adverse change in governance from the synergy of the two companies.
- High risk of unlisted company not scrutinizing the smaller listed company.

Conclusion:

In as much as RTO is a cheaper and easier way to get large but unlisted company quoted on the stock exchange without stringent regulatory procedures and requirements, it is fair to emphasize that there is no easy way to success, invariably there is no explicit easy route to achieve listing on the stock exchange.

RTO