



London Capital Markets Forum

The Accountant's Role – The Planning Process and Success Factors

Phnom Penh October 2015

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Crowe Horwath International

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Introduction

- ▶ Moving a privately owned company to a public market will take time, detailed planning is required
- ▶ Accounting compliance requirements are not onerous on admission and continuing obligations are reasonable
- ▶ In accounting terms the key elements for success are:
 - sound and effective financial controls
 - timely and accurate management reporting
 - an experienced CFO
 - IFRS, US or suitable national GAAP compliant audited financial statements
 - realistic and supportable financial projections
- ▶ Taxation planning will be required at an early stage for the company and shareholders
- ▶ In commercial terms, a successful IPO candidate must demonstrate Quality, Good Governance and Value

Our Team Members' Capital Markets Track Record in Asia Pacific includes...

Reporting Accountant to
Galays Plc

Placing and Admission
to AIM
May 2014

Operations in:
China and South East Asia

AJM

Reporting Accountant to
JQW Plc

Placing and admission
December 2013

Operations in:
China

AJM

Reporting Accountant to
SyQic plc

Placing and admission
December 2013

Operations in:
Malaysia, Philippines
and Indonesia

AJM

Reporting Accountant to
Aquatic Foods

Placing and Admission
March 2015

Operations in:
China

AJM

Reporting Accountant to
MayAir Group Plc

Placing & Admission
May 2015

Operations in:
Malaysia and China

AJM

Reporting Accountant to
**Fusionex
International Plc**

Placing and admission
December 2012

Operations in:
Singapore, Malaysia,
Thailand and the UK

 **London
Stock Exchange**

Reporting Accountant to
Aseana Properties Ltd

Placing and admission
April 2007

Operations in:
Malaysia and Vietnam

AJM

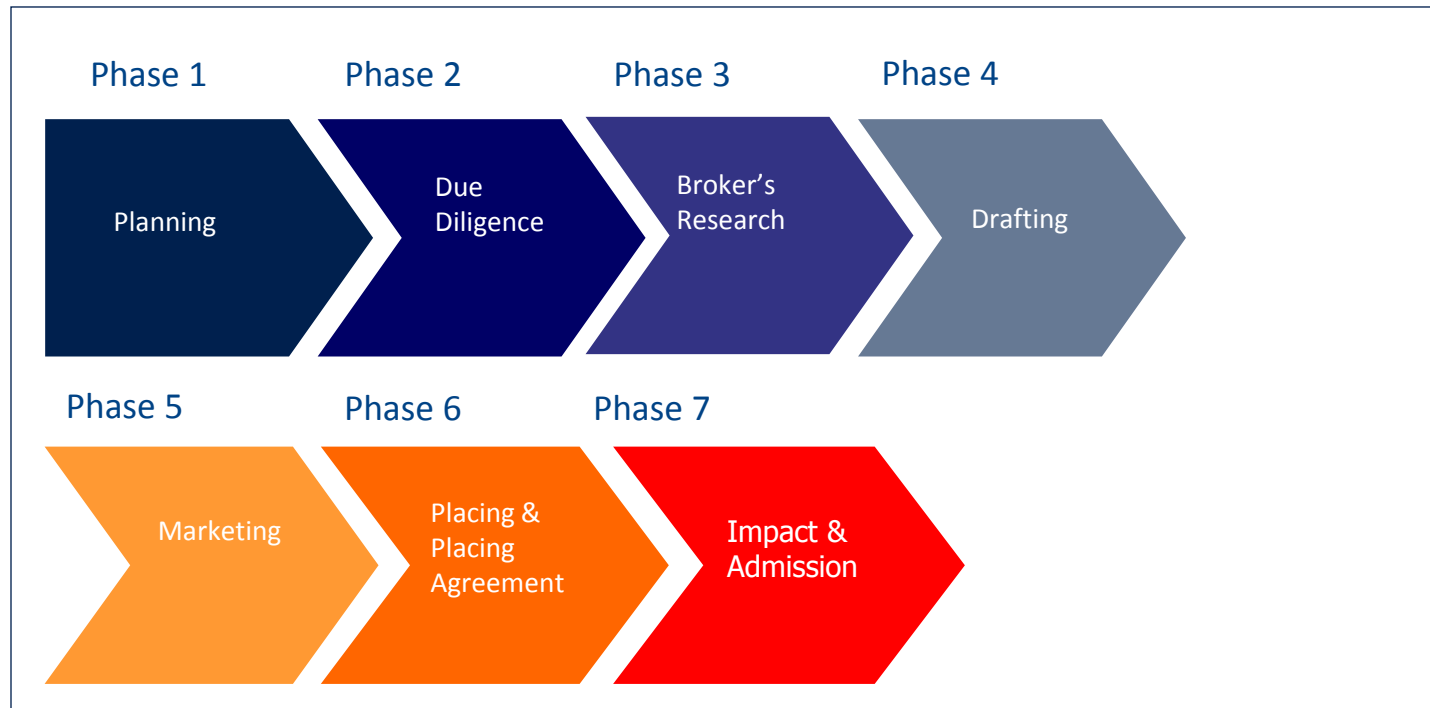
Reporting Accountant to
Velosi Ltd

Placing and admission
August 2006

Operations in:
Europe, North America,
South East Asia and Africa

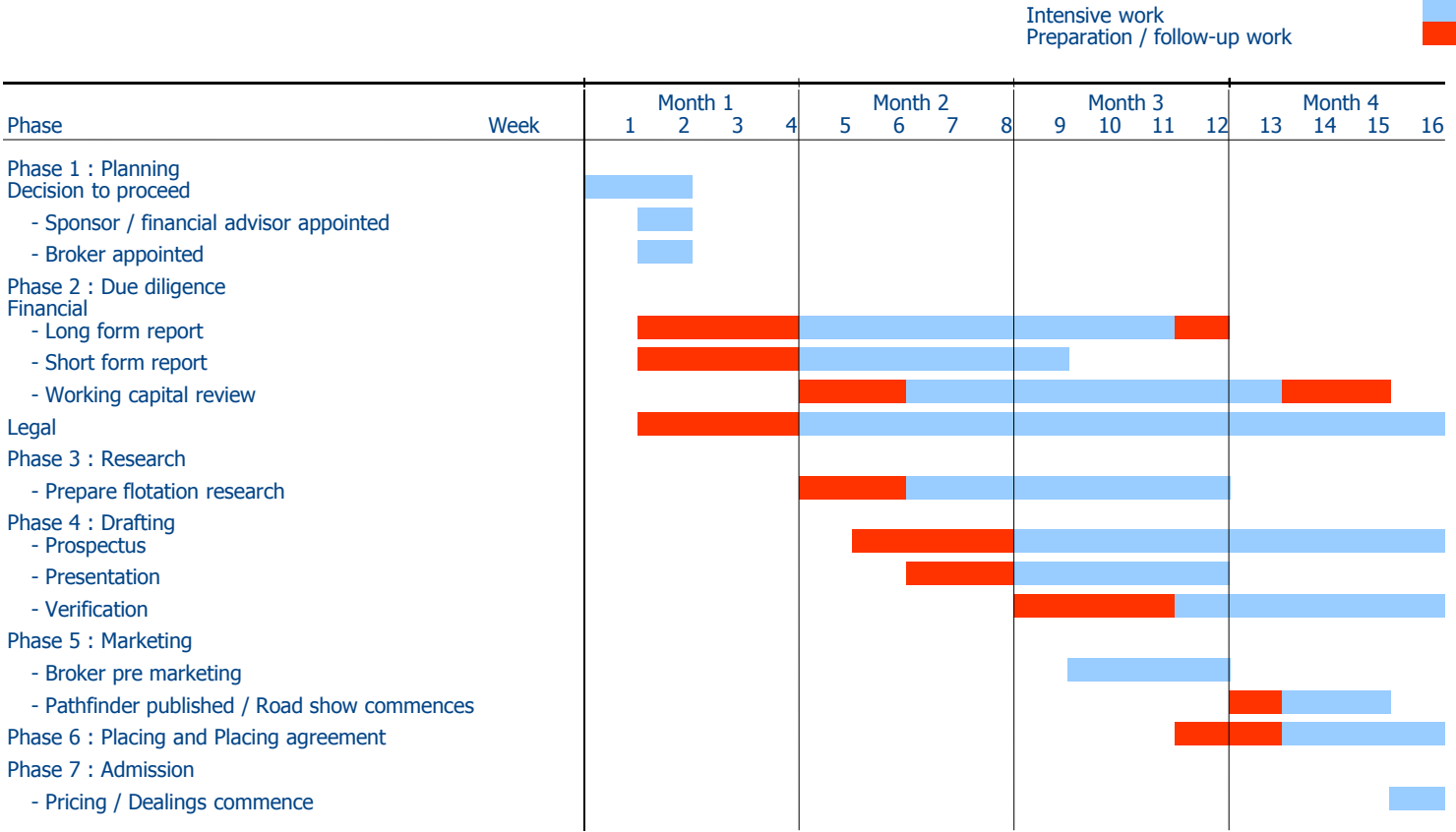
The IPO Process – An Overview

The AIM IPO process can be broken down into the following phases:



Illustrative Timetable

Note: The pre-IPO planning period can take 12 – 24 months



Planning – What are Investors Looking For?

- ▶ A growing business operating in an expanding markets
- ▶ International exposure or potential to expand overseas
- ▶ Sustainable competitive position
- ▶ Visibility of earnings
- ▶ Quality of earnings
- ▶ A committed and experienced management team
- ▶ A commitment to strong corporate governance procedures
- ▶ Sector approach based on macroeconomic factors

Case Studies – Fusionex International

- Sector:** Technology – Provider of enterprise software solutions, servicing the business intelligence market, notably in relation to the management of Big Data. Clients in Asia, US and Europe.
- Market:** Joined AIM in December 2012
- Funds Raised:** £12m on the IPO with a market capitalisation of £64.5m
- Reasons for IPO:** Raising profile and raising funds to expand overseas
- Lessons:**
- ◆ Pre-IPO planning took more than 2 years - waiting for markets to improve and for the Company to grow
 - ◆ Took advice from an experienced advisor team
 - ◆ Recruiting additional team members to separate the IPO team from the operational team
 - ◆ Use of “Test Marketing” to financial investors in the UK
 - ◆ Fairly priced, significantly over subscribed by institutional investors and private individuals in the UK
 - ◆ Has maintained regular and effective communications with the London markets
 - ◆ “Market” demand has taken the business valuation forward

Case Studies – MayAir Plc

- Sector:** A leading provider of air filtration and advanced clean air technologies and products that create “cleanroom” environments in the industrial, commercial and residential markets
- Market:** Joined AIM via a Placing in May 2015
- Funds Raised:** £16.2m on admission with a market capitalisation of £55m
- Reasons for IPO:** To enhance profile with existing and new customers, to support the brand in Asia and globally, to finance expansion into the commercial and residential property sectors, to finance R&D and expand production capacity
- Lessons:**
- ♦ An exceptionally strong and experienced management team with a proven and successful strategy;
 - ♦ Took the time required to become investor ready and to consider alternative markets and financing routes; and
 - ♦ Committed resources to the IPO process to allow the operational growth to continue

Case Studies – Galasys Plc

- Sector:** Solutions and services provider that supplies ticketing management systems to Amusement Parks in China and South East Asia
- Market:** Joined AIM in May 2014
- Funds Raised:** £3.1m on the IPO – with a market capitalisation of £15m
- Reasons for IPO:** To finance expansion in China and South East Asia and Europe, including potential acquisitions, R&D and marketing
- Lessons:**
- ♦ A 2 year pre-IPO planning process, waiting for the market and the underlying business to develop, attract and retain talent and raise profile
 - ♦ The role of pre-IPO funding allowed growth to continue
 - ♦ Appointing experienced advisors and NEDs
 - ♦ A fair valuation with a positive after-market that has increased the market capitalisation
 - ♦ Investors buying into the Asia growth story with expansion into Europe

How To Become Investor Ready

Improve the “quality” of your profits by:

- ▶ A strong and complete management team with clear succession planning
- ▶ A scalable business model, growing organically or by acquisition
- ▶ A move to higher value and higher margin products
- ▶ Build barriers to entry based on technical excellence, market knowledge or scale
- ▶ Robust and reliable accounting and management information system
- ▶ Enhance corporate governance and appoint non-executive directors
- ▶ Capital restructuring or reorganisation, consider share incentives, regulatory approvals
- ▶ Defendable rights over intellectual property
- ▶ Dispose of non-core activities and assets
- ▶ Identify strategic acquisitions and mergers
- ▶ Adopt International Financial Reporting Standards or local equivalent
- ▶ International Audit Standards Compliance
- ▶ Tax review of compliance and planning issues, national and international
- ▶ Reduce dependence on particular customers, products or staff
- ▶ Review terms of trade and strengthen credit management
- ▶ Appoint experienced advisers

IPO Capital Structure

Use an offshore Listco

- ▶ Reputation
- ▶ Skill pool
- ▶ Tax transparency
- ▶ Flexible corporate laws

Other considerations

- ▶ Takeover code
- ▶ Uncertificated shares
- ▶ Pre-emption rights
- ▶ Shareholder disclosure
- ▶ Geography

The Role of the Reporting Accountant

- ▶ Long Form Accountants' (Due Diligence) Report
- ▶ Short Form Accountants Report
- ▶ Working Capital Report
- ▶ Financial Position and Prospects Memorandum
- ▶ Pro Forma Financial Information
- ▶ Consent and Comfort Letters
- ▶ Taxation

Potential Accounting Issues

These may include:

- ▶ Recognition and completeness of income
- ▶ Credit management and Terms of Trade, e.g. timing of debtor collections and stockholding periods
- ▶ Accounting for Group reconstructions
- ▶ Share based payments – effect on reported profits
- ▶ Non-recurring income and expenditure
- ▶ Historic tax compliance, future tax structure
- ▶ Developing acceptable systems and controls
- ▶ Visibility of forecasting
- ▶ Enhancing the accounting team and corporate governance

Potential Taxation Issues

- Historic compliance record – corporate, income, employment, VAT, stamp taxes
- Impact of any prior year adjustments
- Planning issues for company and shareholders, taxation and cross border implications
- Capital restructuring and approvals may be required
- Impact of withholding taxes on interest and dividends, double taxation agreements
- Transfer pricing issues across borders
- The importance of the location for central management and control
- Intra-group funding and “thin capitalisation”
- Expatriate tax issues for group employees
- Potential use of UK VCT and EIS schemes to widen the potential investor base

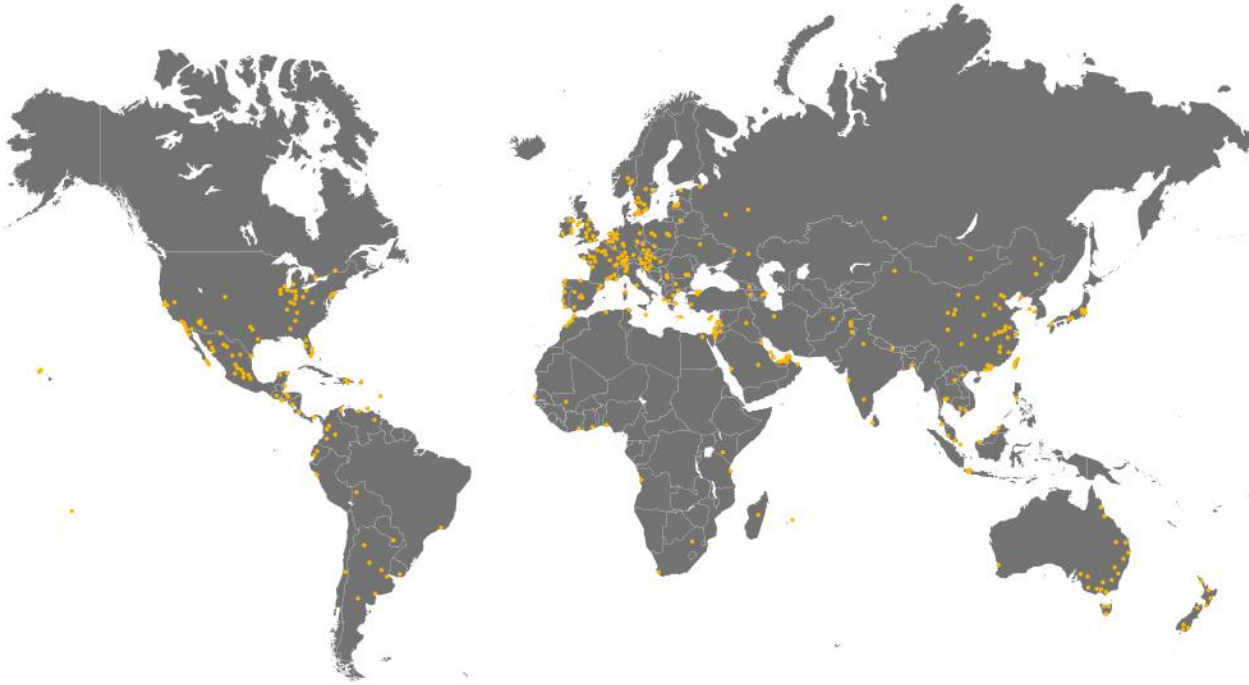
Conclusions

- Demonstrate **Quality, Good Governance** and **Value**
- Moving a privately owned company to a public market will take time, detailed planning is required
- Increasing the “Quality” of profits will increase the value of your business
- The value of the business on IPO is less important than the value 12 months later, do not over value
- Admission to a market is the start of a process, not the end
- Liquidity and valuations must be developed – “Invest time and effort in the market and the market will invest in you”

Crowe Horwath International

- Global professional services alliance with more than **150** independent member firms
- Services provided include: audit and assurance, taxation, accountancy, corporate finance, consultancy, financial planning
- Our corporate finance services include pre-IPO planning, reporting accountant services, due diligence, M&A , company disposals, raising finance and MBO's
- Based on integrated and high quality service delivery and common core values
- Operating in over 100 different countries, annual revenues **US\$2.8 billion** and approximately **28,000** professional staff
- Over **8,500** staff in Asia Pacific
- In the UK a leading accountancy firm established in 1843, strong international and public company experience

Crowe Horwath International: Global Profile



Crowe Horwath International Statistics*	
Member Firms & Business Associates	191
Countries	118
Offices	684
Partners	3,352
Partners & Staff	29,414
Revenue	US\$ 3,168.2M

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