



# Accessing London Capital Markets Forum

## How to Achieve a Successful IPO - The Accountant's Role

### Yangon May 2016

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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



Reporting Accountant to  
**JQW Plc**

Placing and admission  
December 2013

Operations in:  
China



Reporting Accountant to  
**SyQic plc**

Placing and admission  
December 2013

Operations in:  
Malaysia, Philippines  
and Indonesia



Reporting Accountant to  
**Aquatic Foods**

Placing and Admission  
March 2015

Operations in:  
China



Reporting Accountant to  
**MayAir Group Plc**

Placing & Admission  
May 2015

Operations in:  
Malaysia and China

Reporting Accountant to  
**Fusionex  
International Plc**

Placing and admission  
December 2012

Operations in:  
Singapore, Malaysia,  
Thailand and the UK



Reporting Accountant to  
**Aseana Properties Ltd**

Placing and admission  
April 2007

Operations in:  
Malaysia and Vietnam



Reporting Accountant to  
**Velosi Ltd**

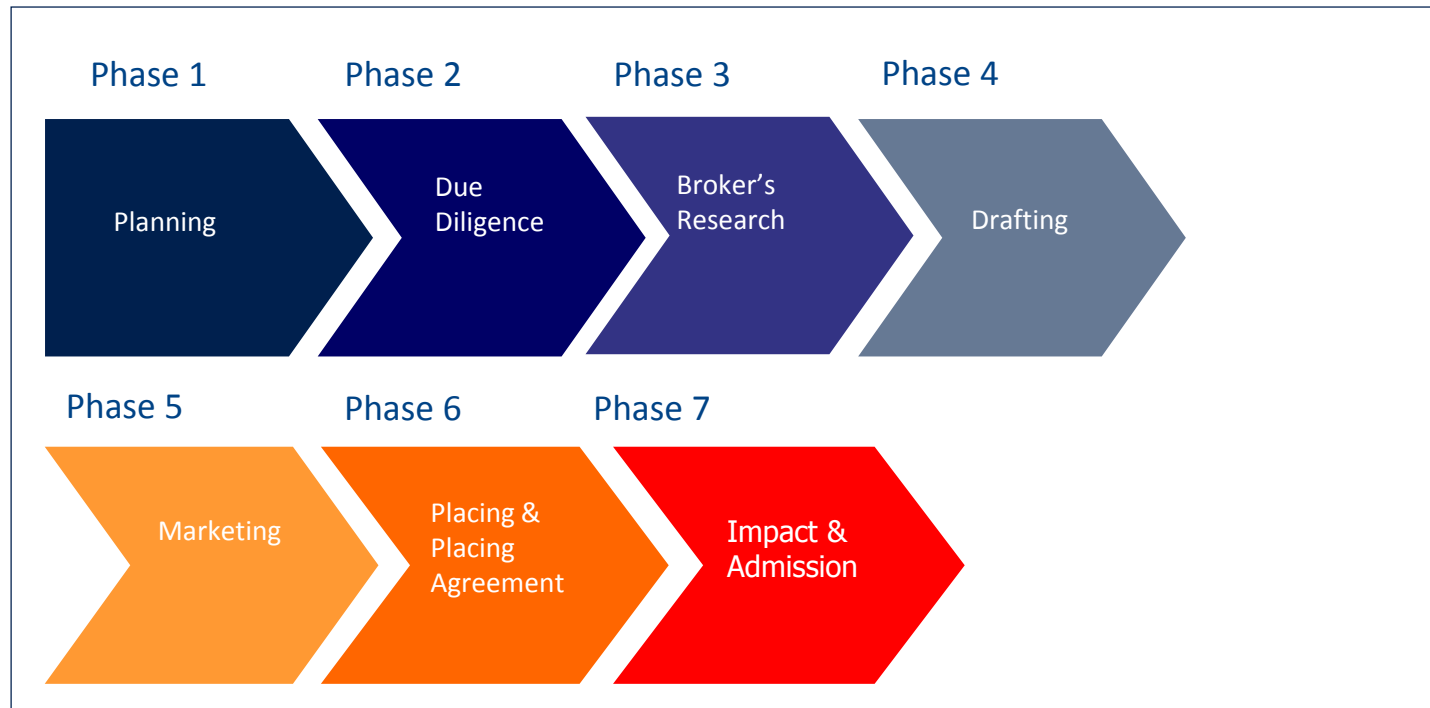
Placing and admission  
August 2006

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



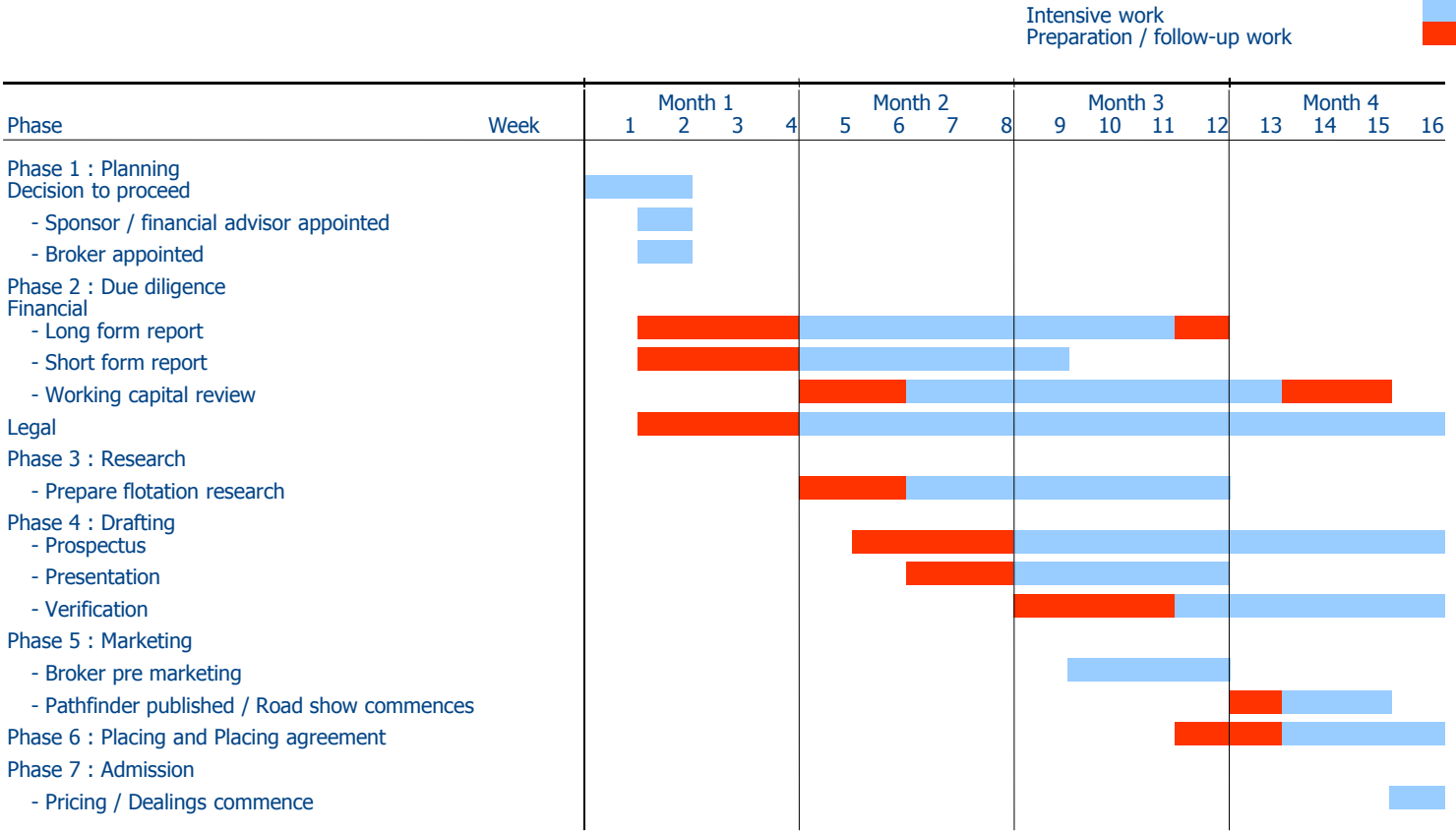
# The IPO Process – An Overview

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 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. Further fundraise in April 2015.
- 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 immediate after-market
  - ♦ Investors buying into the Asia growth story with potential for future expansion into Europe

# Case Studies – Davictus Plc

- Sector:** Formed to undertake one or more acquisitions of businesses in “Western F+B” eatery franchises in South East Asia or the Far East
- Market:** Admitted to the Official List by way of a Standard Listing February 2016
- Funds Raised:** £1.0m on the IPO. Further fundraise to follow
- Reasons for IPO:** To acquire businesses in South East Asia and the Far East
- Lessons:**
- ♦ Use of the Standard Listing in preference to AIM for a new Investment Company
  - ♦ Faster and more straightforward than establishing an AIM Investment Company
  - ♦ Appointing experienced advisors and NEDs
  - ♦ Investors buying into the Asia growth story based on increasing disposable incomes

# 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 early
- ▶ Capital restructuring or reorganisation, consider share incentives, regulatory approvals
- ▶ Build defensible 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, suppliers or staff
- ▶ Review terms of trade and strengthen credit management
- ▶ Appoint experienced advisers

# IPO Capital Structure

## Use of an offshore Listco – decision based upon:

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

## Other considerations

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

## Overall choice

- ▶ Make it easy for new investors to invest and understand

# The Role of the Reporting Accountant

## Major work streams

- ▶ 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 advice

However, often the greatest value is added during the pre-IPO “investor-ready” stage

# The role of the Reporting Accountant

## Long Form Accountants' Report

- › Financial due diligence for the Company and the Nomad or Financial Adviser
- › Not an audit, a private document, factual accuracy confirmed by Company
- › Provides support for the Admission Document or Prospectus
- › Information provided from the Company and from the Audit and Tax files
- › Define precise scope for each assignment
- › Detailed contents:
  - ▶ Executive summary
  - ▶ History and Background to Business
  - ▶ Markets and Marketing
  - ▶ Products, Customers and Suppliers
  - ▶ Organisation, Management and Personnel
  - ▶ Accounting Systems, Reporting Procedures and Controls
  - ▶ Accounting Policies
  - ▶ Trading Results
  - ▶ Net Assets
  - ▶ Cash Flows
  - ▶ Taxation

# The role of the Reporting Accountant

## - Short Form Accountants' report

- ▶ Normally 3 year historical financial records (or less for newly formed business)
- ▶ Included in Admission Document or Prospectus
- ▶ Compliant with IFRS or local equivalent standards
- ▶ Sourced from audited accounts or from non-statutory accounts
- ▶ A re-audit under IAS may be necessary
- ▶ Access to previous audit files “hold harmless” issued
- ▶ True and fair view required
- ▶ Adjustments required to align accounting policies, correct accounting errors or reflect impact of reconstruction
- ▶ Age of audited financial information reported upon will vary depending on the market, normally 6 – 9 months



# The role of the Reporting Accountant

## - Working Capital Report

- ▶ Projections and underlying assumptions are the responsibility of management and are approved by the Board
- ▶ A private report, supported by management representations
- ▶ Month by month review
- ▶ Period of at least 18 months from admission
- ▶ Bank or loan facilities need to be independently confirmed
- ▶ Opening position based on latest audited or management accounts
- ▶ Review and report on key sensitivities
- ▶ No opinion provided on achievement of projections, rather “have they been properly prepared” in accordance with the underlying assumptions and accounting policies

# The role of the Reporting Accountant

## - Financial Position and Prospects Memorandum

- A private document – the responsibility of the Board
- Summary of accounting systems, financial reporting procedures and principal internal controls
- Planned enhancements to systems and controls
- Corporate Governance compliance – audit, remuneration and nomination committees
- Risk management procedures
- Board formally approved the memorandum, the reporting accountants provide a comfort letter on the adequacy of the procedures

# The role of the Reporting Accountant - Pro Forma Financial Information

- Included in Admission Document or Prospectus, responsibility of the Board
- Shows impact of the transaction on previously published figures
- Net assets, trading profits and cash flows
- Source of financial information and adjustments to be stated
- Adjust for actual capital transactions, not future trading results
- An illustration prepared on the basis described, not a true and fair view

# The role of the Reporting Accountant

## - Consent and comfort letters

- Addressed to the Company and the Financial Advisor or Nomad
- Will normally provide comfort on the following areas:
  - taxation narrative;
  - extraction of historical financial information;
  - pro forma statements
  - adequacy of financial reporting systems
  - financial calculations in the Admission Document or Prospectus
- A consent letter is required to include reference to our name, letters and reports in the Admission Document or Prospectus

# 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 accounting systems and controls and timely and effective reporting procedures
- ▶ Visibility of forecasting
- ▶ Enhancing the accounting team and corporate governance framework

# 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 determining from where central management and control is exercised
- Intra-group funding and “thin capitalisation” issues
- Expatriate tax issues for group employees
- Potential use of UK VCT and EIS tax structures in qualifying companies to widen the potential investor base

# Conclusions

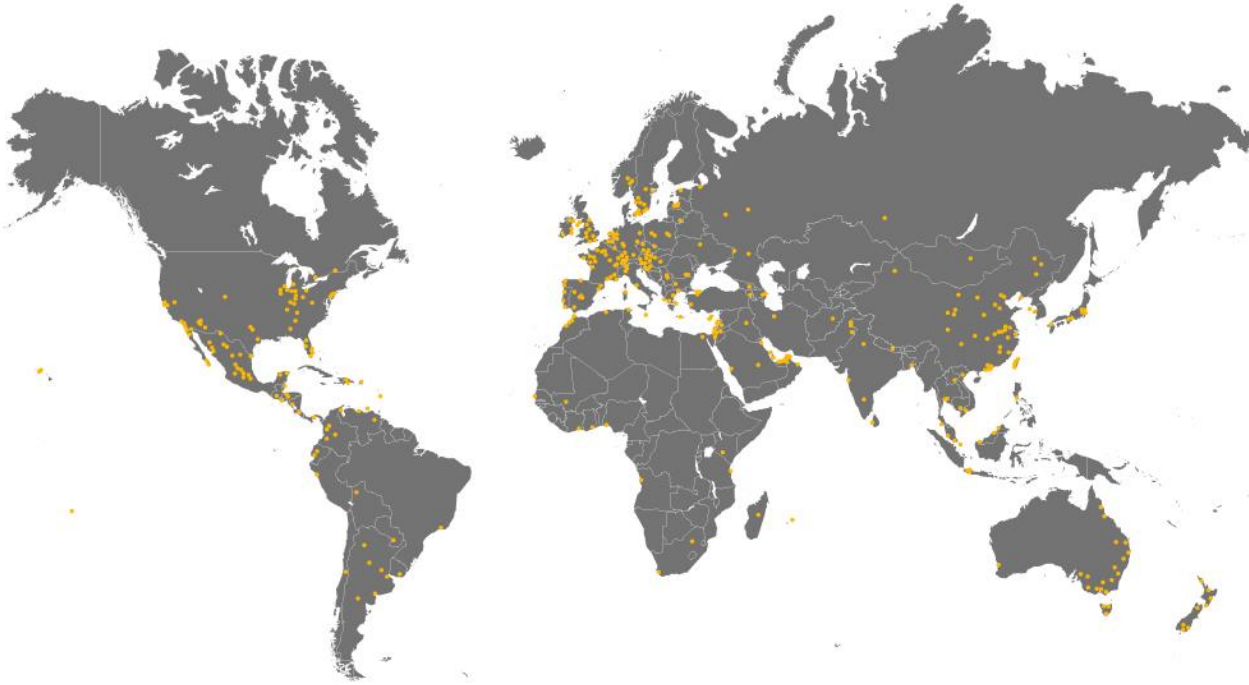
- Demonstrate **Quality, Good Governance** and **Value**
- Moving a privately owned company to a public market will take time, detailed planning is required
- Increasing the “Quality” of profits will increase the value of your business
- The value of the business on IPO is less important than the value 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 125 different countries, annual revenues **US\$3.4 billion** and approximately **31,000** 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	205
Countries	125
Offices	726
Partners	3,544
Partners & Staff	31,040
Revenue	US\$ 3,436M

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