



## Listing in London Workshop

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

Jakarta – October 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  
**Green & Smart PLC**

Placing and Admission  
March 2016


Operations in:  
Malaysia



Reporting Accountant to  
**DagangHalal Plc**

Placing and admission  
April 2016


Operations in:  
Malaysia



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**

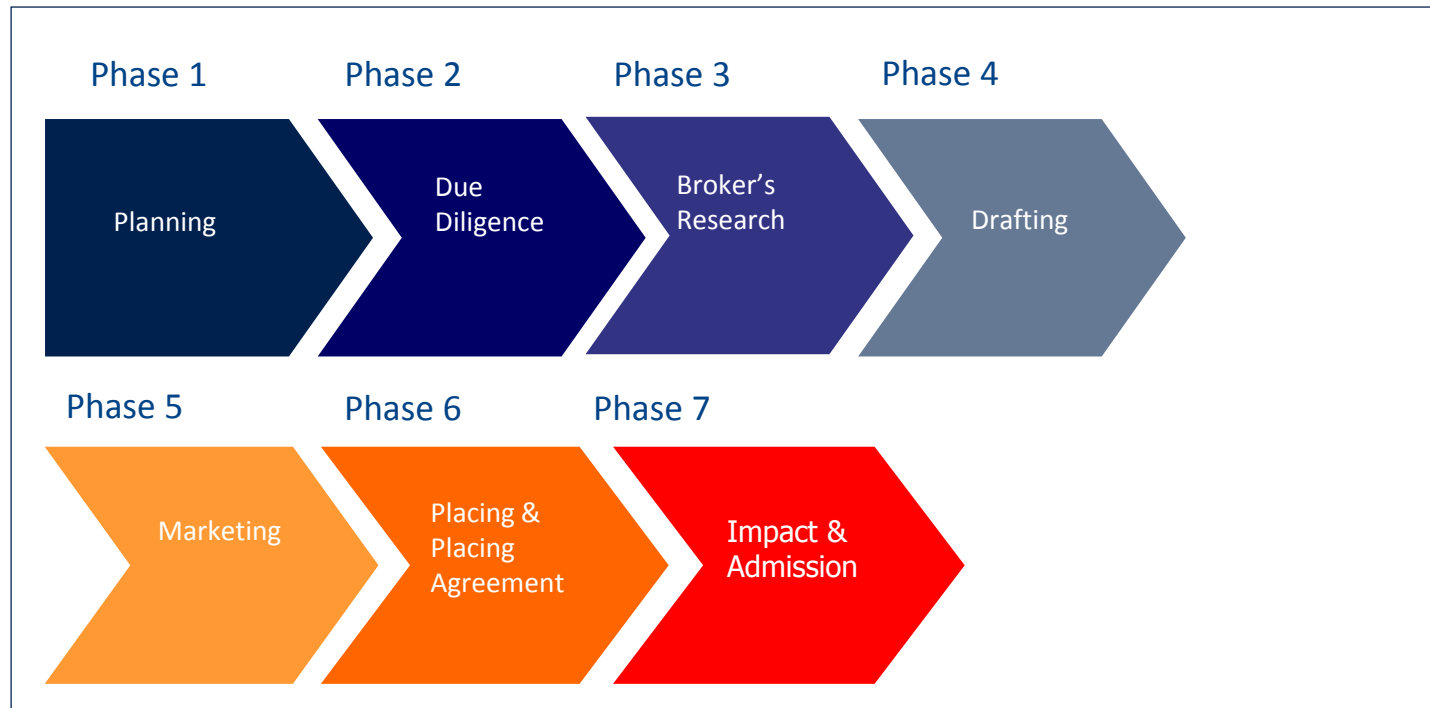
Placing and admission  
August 2006

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



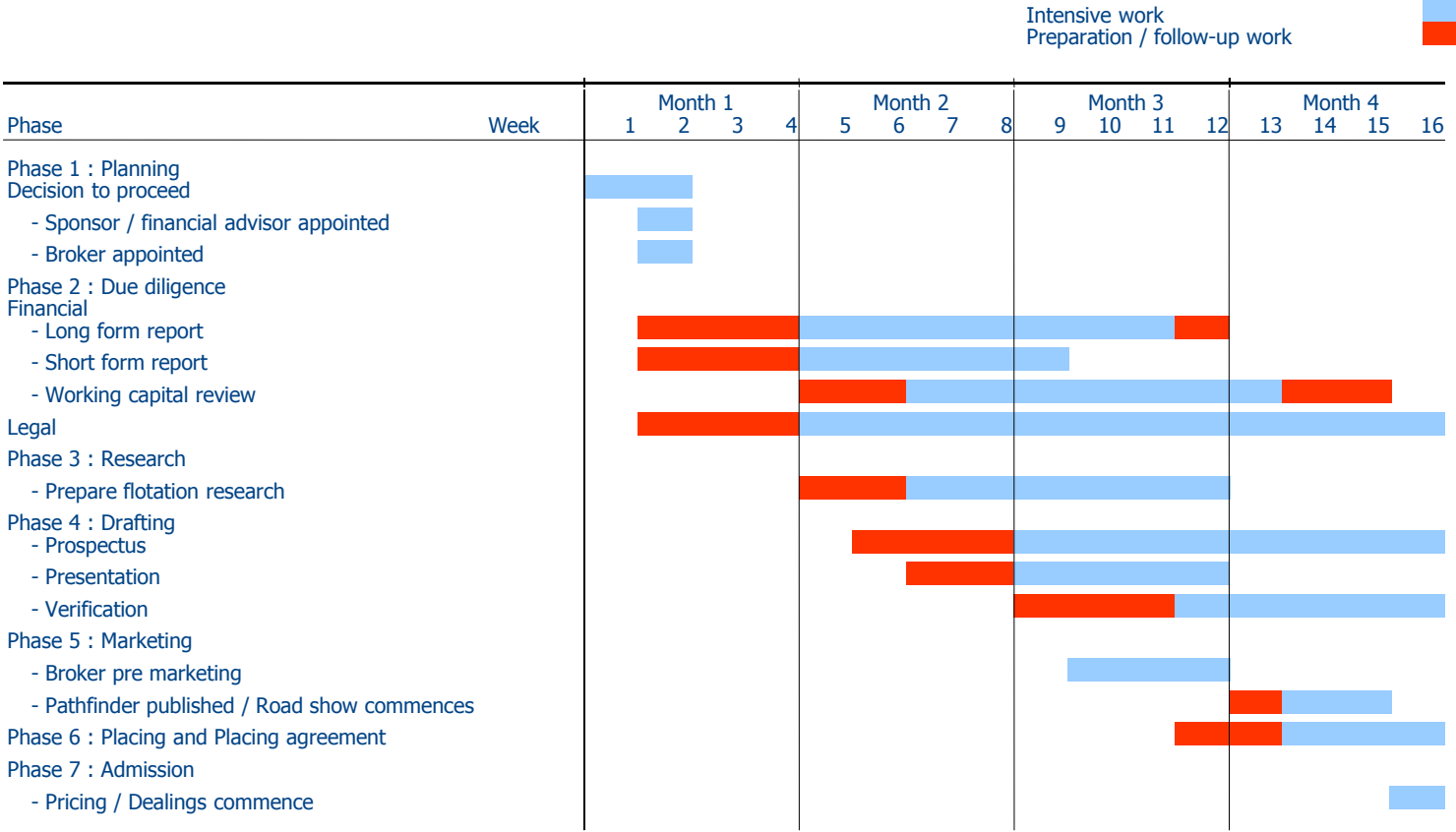
# The IPO Process – An Overview

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 – DagangHalal plc

- Sector:** The world's first global e-commerce platform to provide Halal verification. Allows Halal suppliers and consumers to deal in confidence knowing that the products and services being purchased are Halal. Also provides an online repository for Halal and certificates, organising trade fairs and training Halal applicants.
- Market:** Joined ISDX Growth Market in April 2016
- Funds Raised:** £4.6m
- Reasons for IPO:**
- ♦ Increase financial credibility.
  - ♦ Raise profile within the food industry and with consumers.
  - ♦ Raise the Group's international profile.
  - ♦ Providing access to new investors and capital.
- Lessons:**
- ♦ The geographic location of new investors can be crucial as regards free float.
  - ♦ The ISDX rules provide more certainty than AIM.
  - ♦ ISDX can provide the required profile and liquidity for emerging companies.

# 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” – Jurisdiction 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

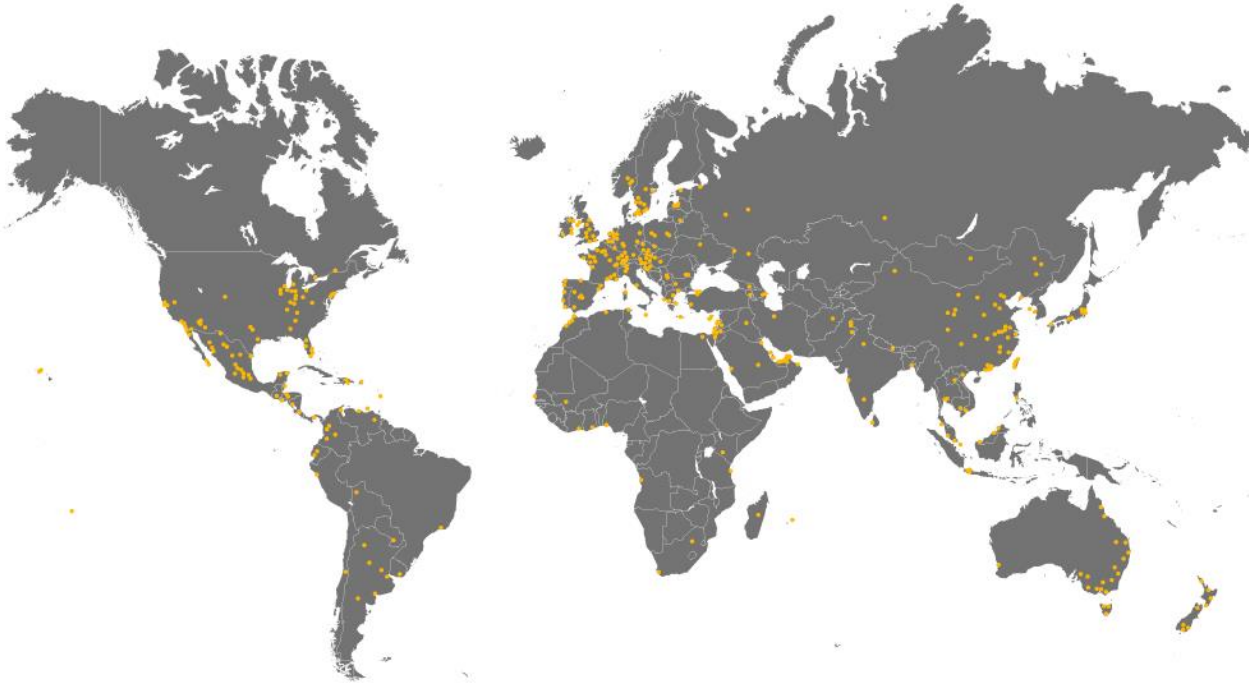
- Demonstrate **Quality, Good Governance** and **Value**
- Moving a privately owned company to a public market will take time, detailed planning is required
- Increasing the “Quality” of profits will increase the value of your business
- The value of the business on IPO is less important than the value 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 **200** 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 130 different countries, annual revenues **US\$3.5 billion** and approximately **33,000** 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	209
Countries	130
Offices	752
Partners	3,700
Partners & Staff	33,200
Revenue	US\$ 3,507M

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