

Smart decisions. Lasting value.



# NEX Exchange Asia Roadshow

## Achieving A Successful IPO – Becoming Investor Ready and Success Factors

### Spring 2017

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# Introduction

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- Moving a privately owned company to a public market and planning for an eventual sale 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 Accountants to  
**Healthperm Resourcing**

Admission  
September 2016

Operations in:  
UK, Philippines and  
UAE



Reporting Accountant to  
**MayAir Group Plc**

Placing and Admission  
May 2015

Operations in:  
China and Malaysia



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**

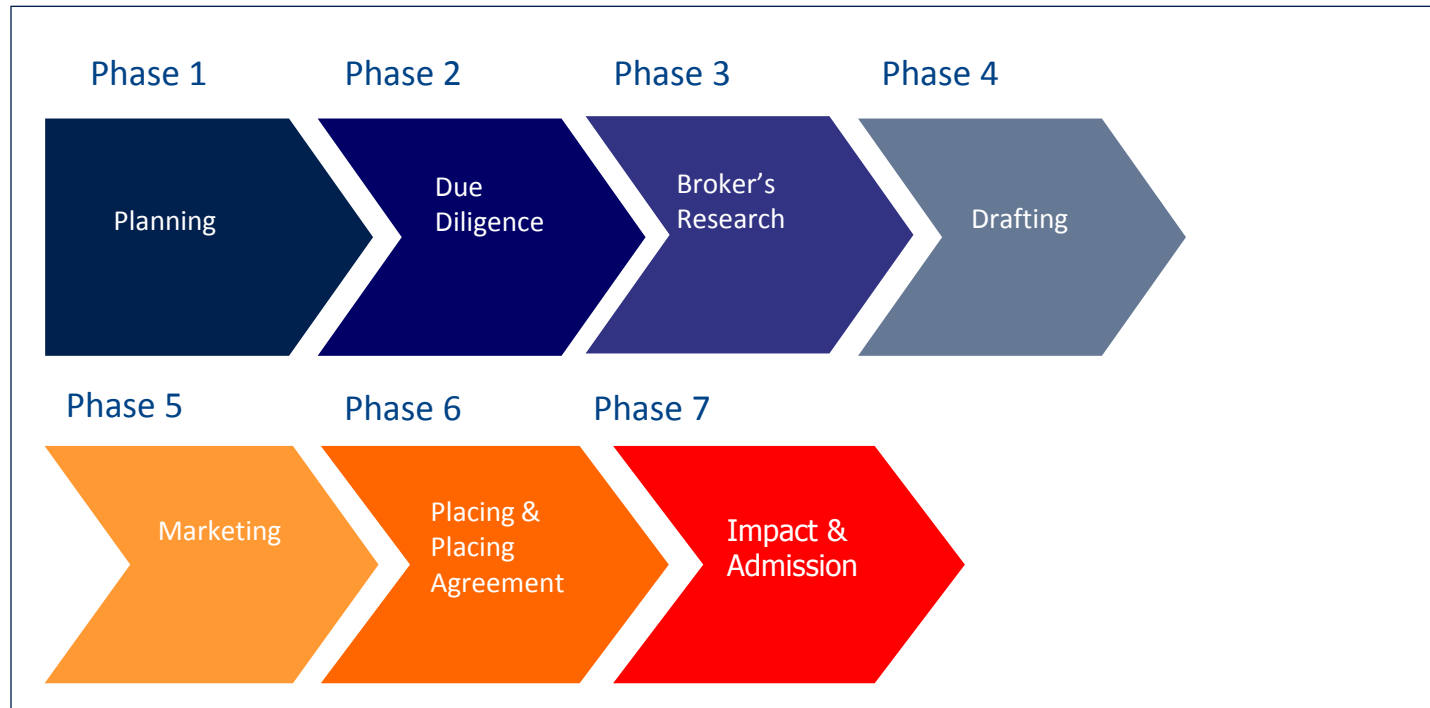
Placing and admission  
August 2006

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



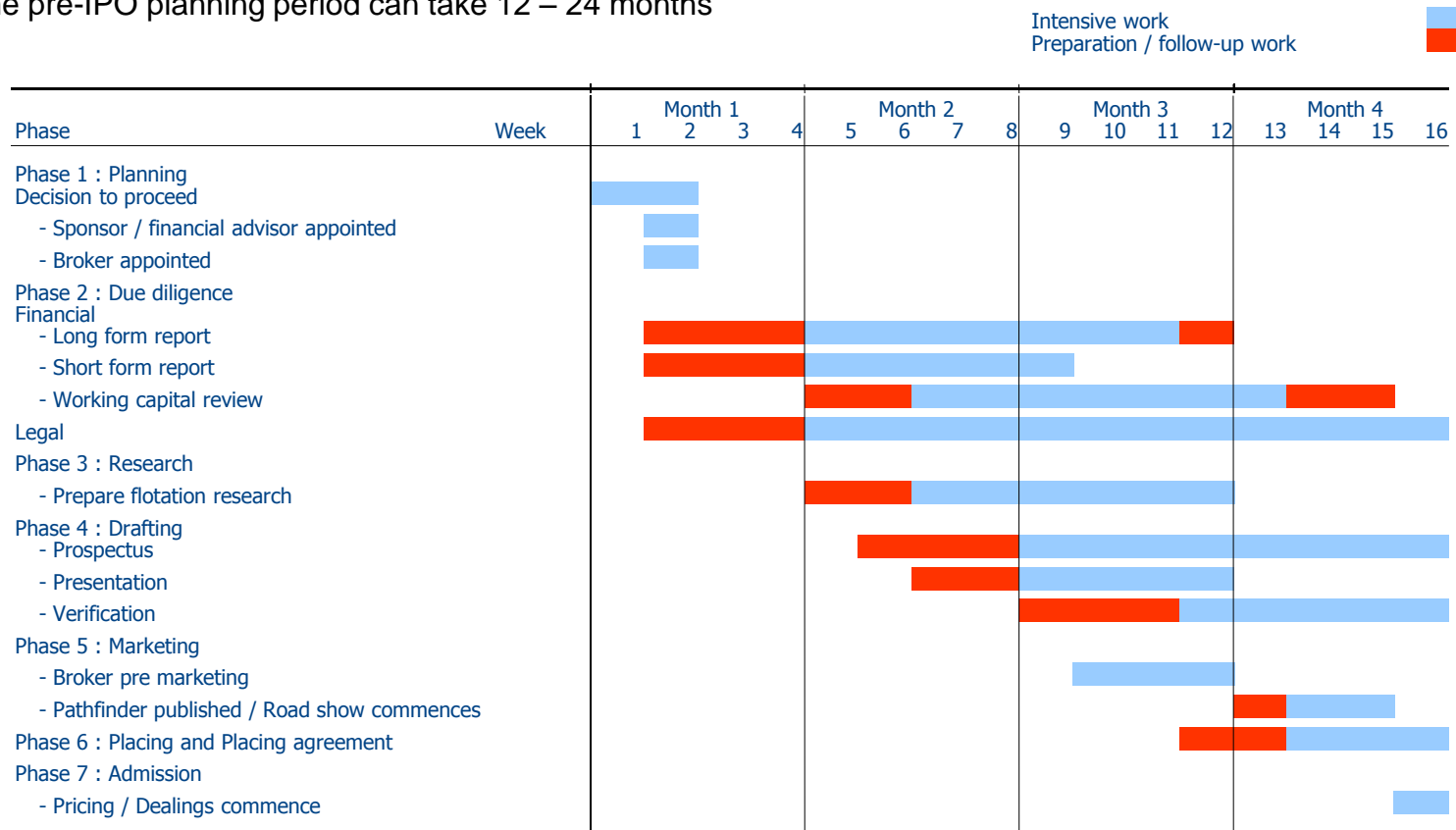
# The IPO Process – An Overview

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?

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- 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

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- 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 – DagangHalal plc

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- 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, now NEX, 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 – Healthperm Resourcing

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- Sector:** Supply of qualified healthcare professionals to the international market. A reverse takeover of a former AIM shipping company and transition to NEX.
- Market:** Admitted to ISDX Growth Market, now NEX in September 2016.
- Transaction Value:** Acquisition value of £11.2m. Further fundraise to follow.
- Reasons for IPO:** To expand the supply chain of qualified nurses in South East Asia and the customer based in the Gulf and Europe
- Benefits:**
- ♦ A well –regulated trading platform allowing existing and new shareholders to maintain liquidity in the company’s shares;
  - ♦ Clear rules on the technical requirements for issues such as free float and the proportion of UK shareholders.
  - ♦ International profile to assist in building relationships with suppliers, customers, third-party funders and shareholders.
  - ♦ Well balanced and cost effective admission rules and ongoing disclosure requirements and
  - ♦ The potential to use unissued share capital as currency for future acquisitions.

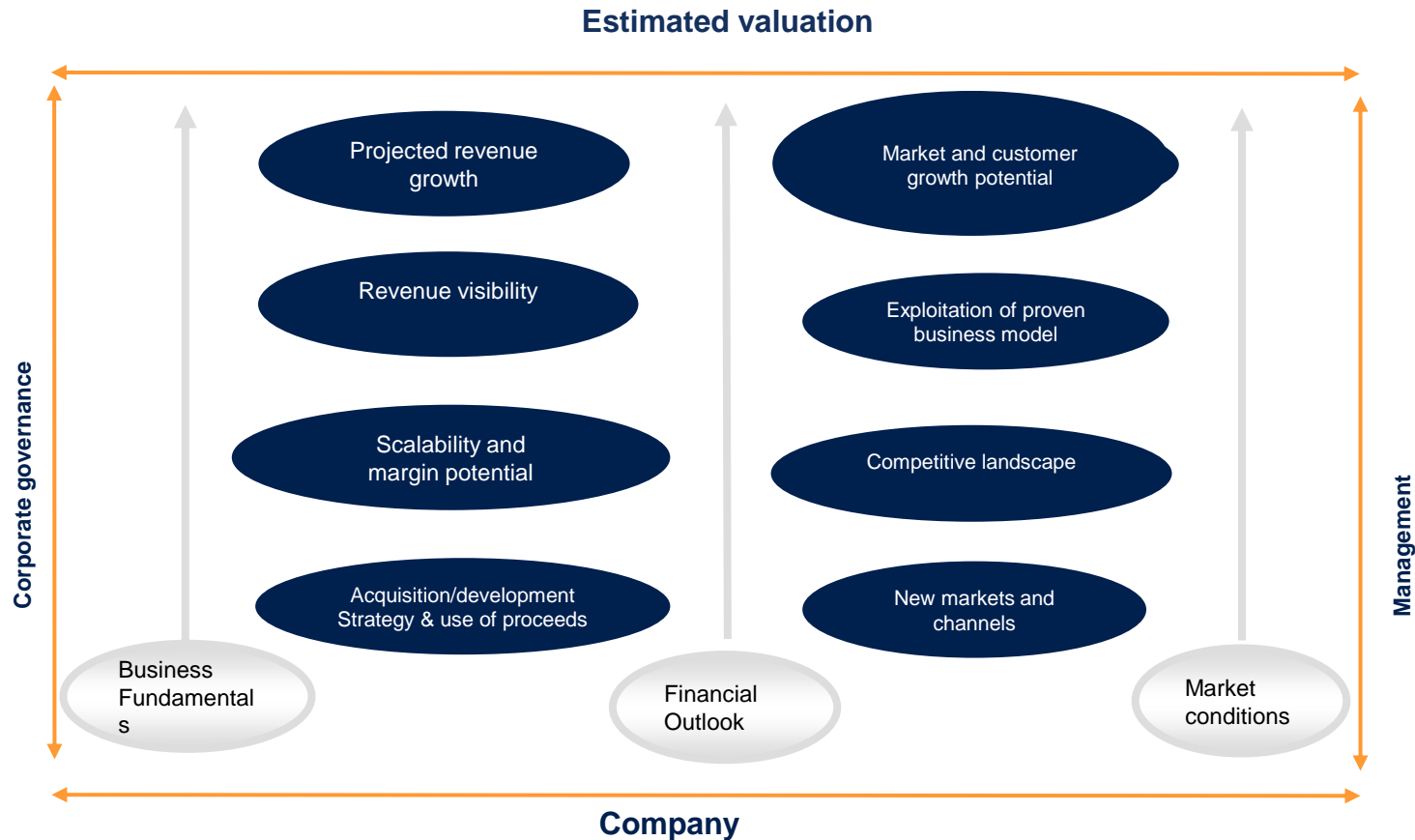
# How To Become Investor Ready

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## 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

# How will investors value your business?



# Valuation methodologies

	Method	Comment
Multiples	Forward P/E	<ul style="list-style-type: none"><li>▪ Investor familiarity, particularly in small/mid cap markets</li><li>▪ Includes all charges against profits</li><li>▪ Not distorted by differences in capital structure and tax</li><li>▪ Facilitates international comparison</li><li>▪ Often applied where lack of profits</li><li>▪ Used to review valuation levels across the cycle</li></ul>
	Forward EV/EBITDA	
	Forward EV/Sales	
Discounted cash flow	DCF analysis	<ul style="list-style-type: none"><li>▪ Significant sensitivity to a number of assumptions</li><li>▪ Overly dependent on terminal value</li><li>▪ Often used as a “sanity check”</li></ul>

# IPO Capital Structure

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## **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

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## **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**

# Potential Accounting Issues

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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
- Potential IFRS conversion issues – the treatment of borrowing costs, goodwill and research and development
- 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

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- 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 substance and determining from where central management and control is exercised
- Reporting requirements under OECD's Base Erosion and Profit Shifting for MNEs and their subsidiaries
- 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

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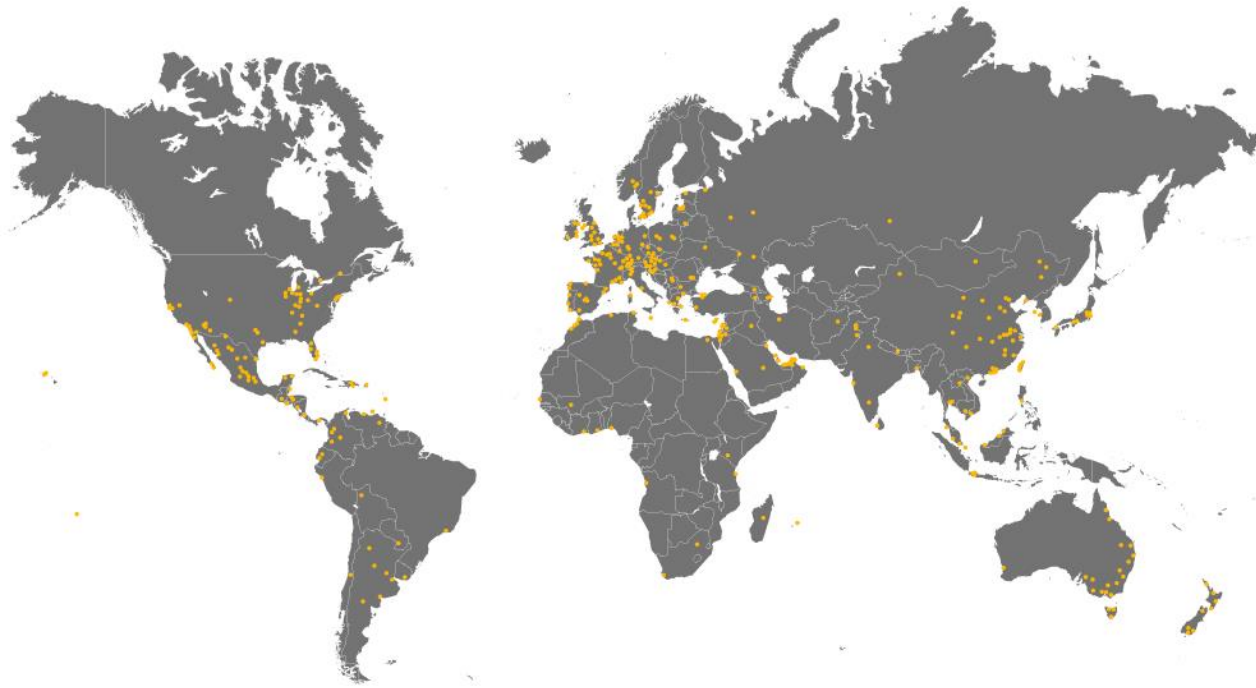
- Demonstrate **Quality, Good Governance** and **Value**
- Moving a privately owned company to a public market or preparing it for sale will take time, detailed planning is required
- Increasing the “Quality” of profits will increase the value of your business
- The value of the business on IPO is less important than the value 12 months later, do not over value
- The eventual value of a business on sale maybe significantly increased by an IPO
- Admission to a market is the start of a process that will eventually lead to a disposal, its not an end in itself
- Liquidity and valuations must be developed – **“Invest time and effort in the market and the market will invest in you”**

# Crowe Horwath International

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- 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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