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Capital Markets and M&A Briefing
Achieving A Successful IPO – Becoming Investor Ready and Success Factors
November 2017

Audit | Tax | Advisory

Contents

Introduction

- 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

AIM

Reporting Accountant to
DagangHalal Plc

Placing and admission
April 2016

Operations in:
Malaysia

NEX

Reporting Accountant to
SyQic plc

Placing and admission
December 2013

Operations in:
Malaysia, Philippines and Indonesia

AIM

Reporting Accountant to
Aquatic Foods

Placing and Admission
March 2015

Operations in:
China

AIM

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

AIM

Reporting Accountant to
Aseana Properties Ltd

Placing and admission
April 2007

Operations in:
Malaysia and Vietnam

London Stock Exchange

Reporting Accountant to
Velosi Ltd

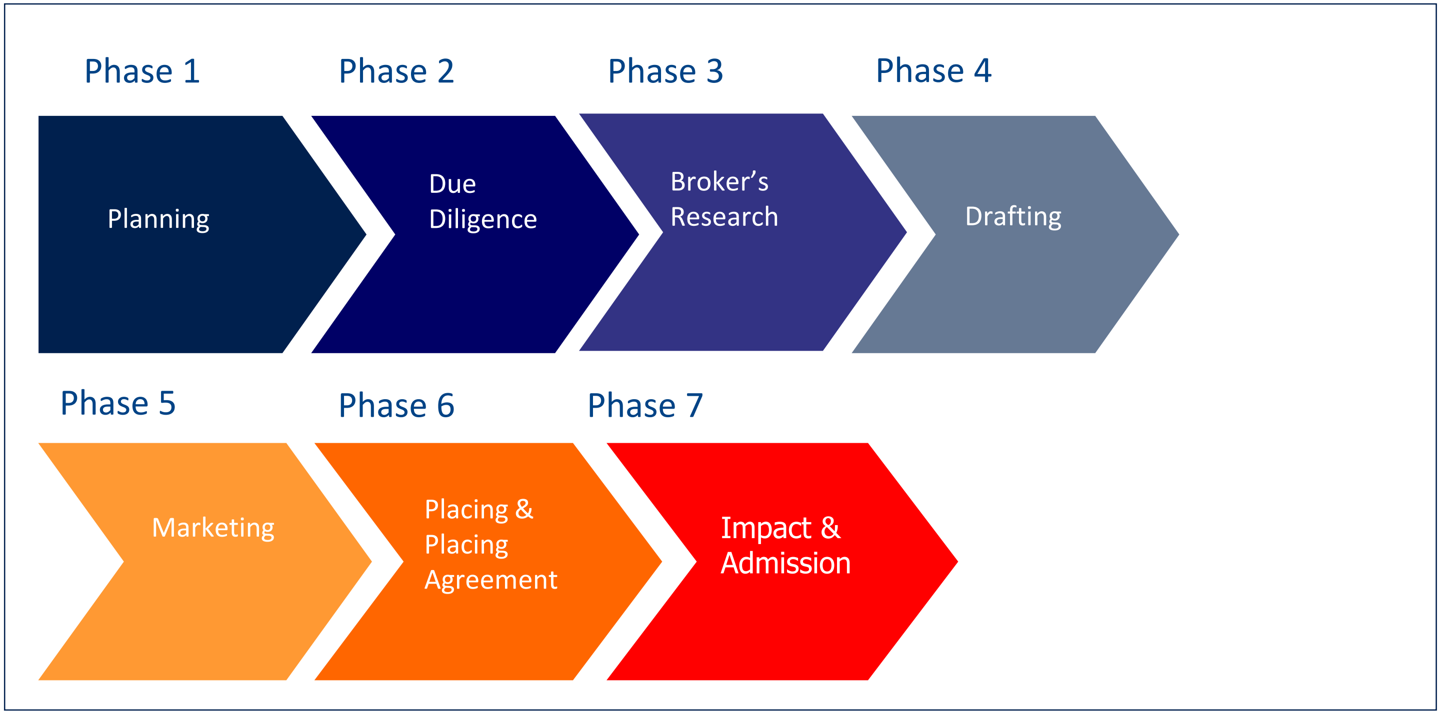
Placing and admission
August 2006

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

AIM

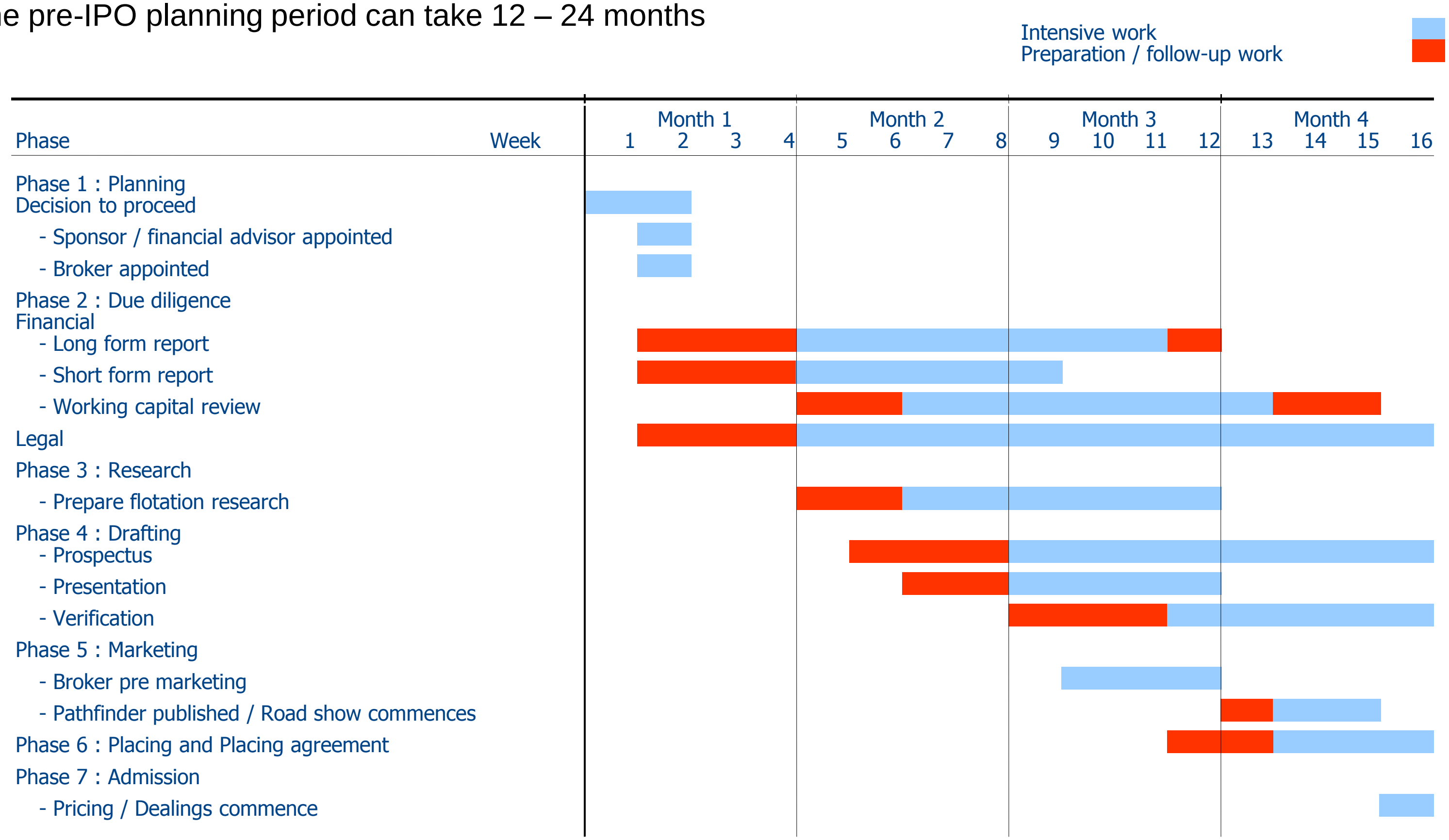
The IPO Process – An Overview

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 – 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 - Has maintained regular communications with the market.

Case Studies – Velosi Group

Sector:	The group was formed in Malaysia and expanded rapidly overseas in the oil field inspection market.
Market:	Joined AIM in 2006
Funds Raised:	Circa £12m

Reasons for IPO:

- Increase financial credibility.
- Raise profile within oil and gas support sector.
- Raise the Group's international profile.
- Providing access to new investors and capital.

Lessons:

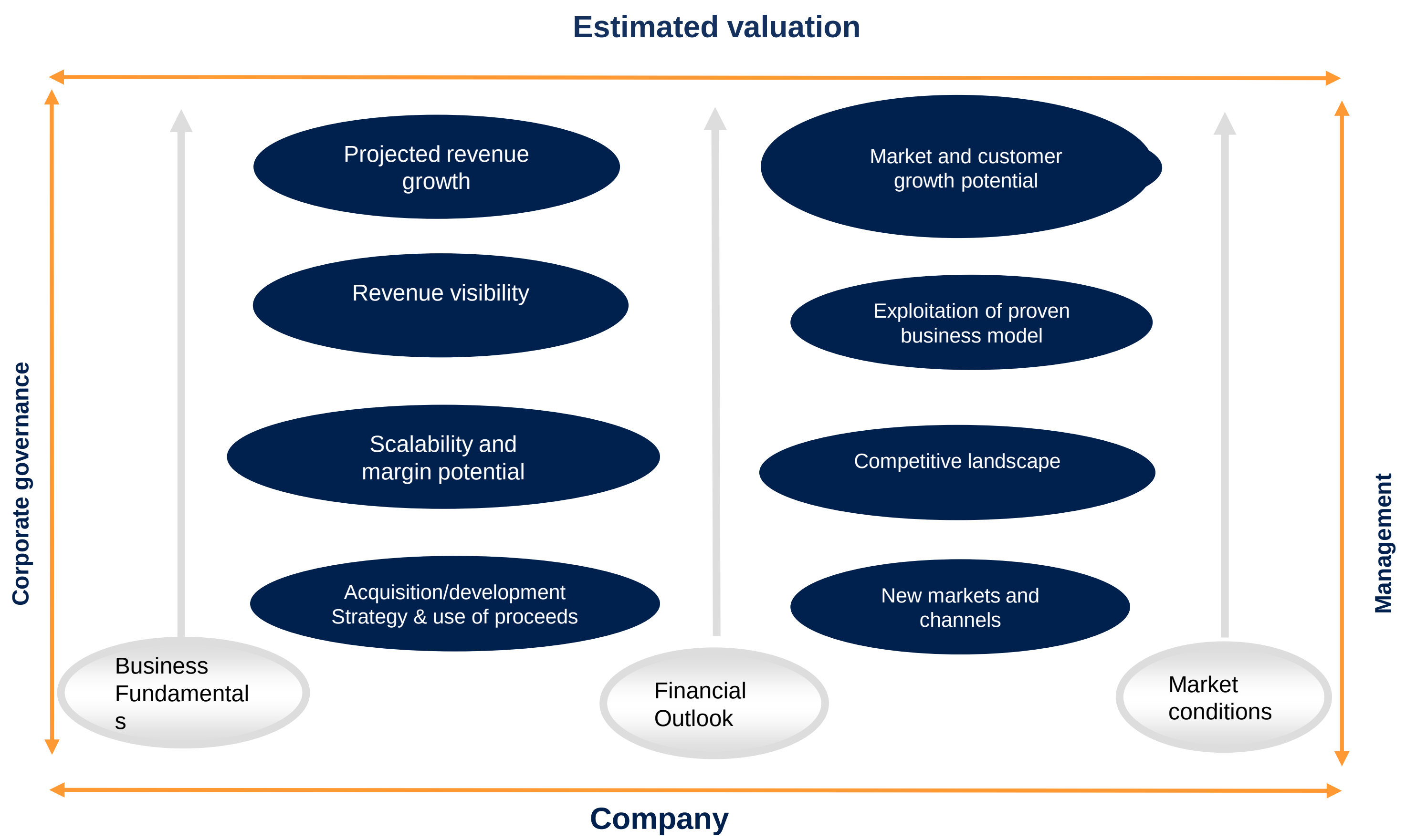
- The funds raised helped the group to grow faster
- The IPO raised the groups profile with potential investors and acquirers
- The group was able to raise further equity on the AIM market
- The group eventually sold at a premium of almost 100% over its share price

How To Become Investor Ready for Sale or IPO

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 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, 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 Forward EV/EBITDA Forward EV/Sales	▪ Investor familiarity, particularly in small/mid cap markets ▪ Includes all charges against profits ▪ Not distorted by differences in capital structure and tax ▪ Facilitates international comparison ▪ Often applied where lack of profits ▪ Used to review valuation levels across the cycle
Discounted cash flow	DCF analysis	▪ Significant sensitivity to a number of assumptions ▪ Overly dependent on terminal value ▪ Often used as a "sanity check"

IPO Capital Structure

Use of an offshore "Listco" – Jurisdiction decision based upon:

- Strong compliance reputation
- Skill pool in service providers
- Tax transparency
- Flexible corporate laws

Other considerations

- Takeover code protections
- Trade shares or depository receipts
- Pre-emption rights
- Shareholder disclosure
- Geography and logistics

Overall choice

- Make it easy for new investors to invest and to understand the structure

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

Potential Accounting Issues - 1

Local GAAP is closely aligned with IFRS. There should now be no significant differences in the following areas:

- Revenue recognition
- Cash flow statements
- Stock / Inventory
- Provisions
- Post balance sheet events
- Retirement benefits
- Foreign currency
- Income tax
- Property, plant and equipment
- Related party transactions

Potential Accounting Issues - 2

Some key differences between local GAAP and IFRS can remain:

Business Combinations

- Transaction costs are often capitalised under local GAAP and expensed under IFRS
- Differences in treatment of, and valuing, contingent consideration

Goodwill

- Local GAAP often assumes a finite life of goodwill, typically presumed to be 10 years. Under IFRS, can assume infinite life, then tested annually for impairment
- Impairment provisions under local GAAP can often be reversed. Under IFRS provisions are permanent
- Negative goodwill is often recognised over period of recovery in local GAAP. Under IFRS this is credited immediately

R&D costs

- Local GAAP – research costs are usually expensed, can choose whether development costs are capitalised. IFRS requires all development costs are capitalised.

Borrowing Costs

- IFRS requires that borrowing costs on qualifying assets are capitalised. Local GAAP can offer a choice between capitalising and expensing

Potential Accounting Issues - 3

Governance and systems issues may include:

- 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
- Developing acceptable accounting systems and controls and timely and effective reporting procedures
- 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 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

Pre Exit M&A – The Principal Role of an Investigating Accountant

- Analyse the quality of earnings and assets
- Analyse the exposure of debt, liabilities or contingencies
- Review relevant contracts and agreements which might have a financial impact on the potential transaction
- Analyse target projections in relation to historical performance
- Review the existing corporate structure, analyse the impact post-acquisition and suggest any necessary efficient integration or restructuring steps
- Assist in formulating purchase price
- Review tax implications

Pre Exit M&A - Common reasons for M&A failure and obstacles to success

Many M&A transactions fail and this is often caused by the following reasons:

Common reasons for failures	Causes
Change market conditions	• Lack of strategic flexibility
Overestimating market size	• Errors / omissions in market analysis
Merged entity too far from core competencies	• Errors / omissions in internal analysis
Wrong partner / focus	• Lack of strategic clarity
Poor leadership post-transaction	• Leadership misalignment on strategy
Cultural difference	• Failure to consider integration issues upfront

Integration failure

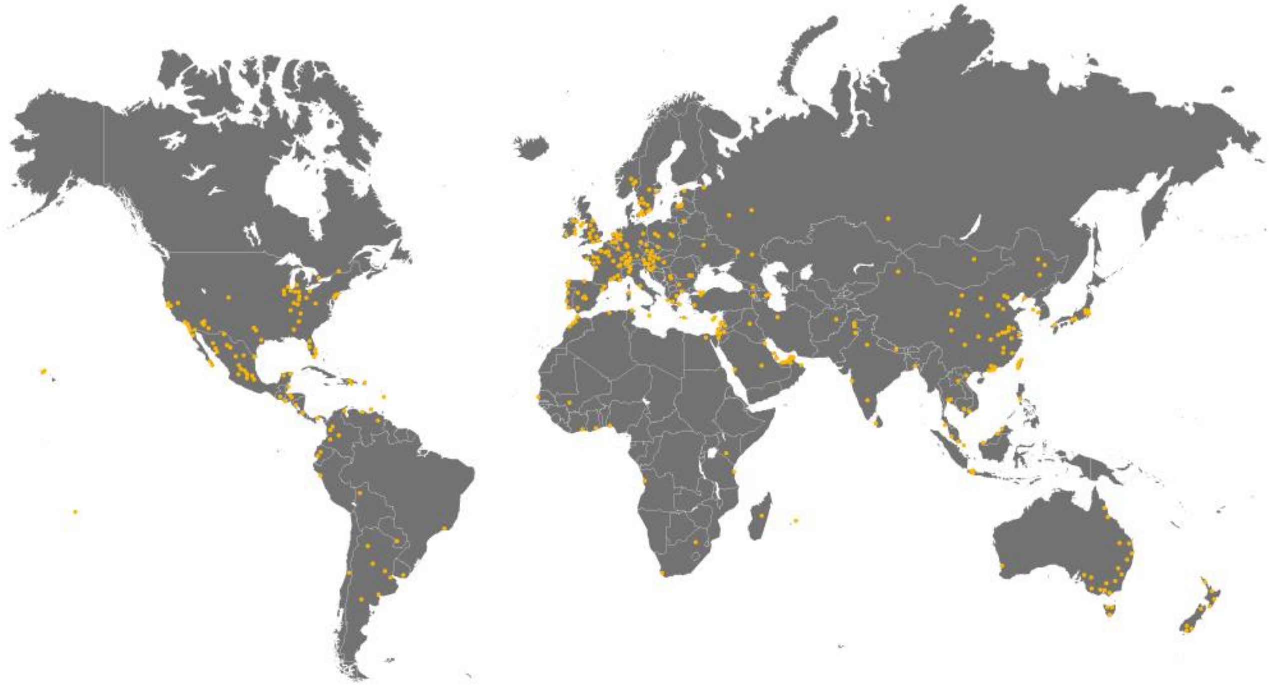
Conclusions

- 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

- Global accounting network 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 129 different countries, annual revenues **US$3.7 billion** and approximately **35,000** 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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