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# Listing in Today's Challenging Business Climate

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For many emerging companies, going public through an Initial Public Offering (IPO) is a path to raise capital into the company through the issuance of shares to the public. The capital raised from going public can be used to fund growth organically or through acquisitions. Going for an IPO also allows a company to reward employees through share option schemes as well as providing a major payday for entrepreneurs, venture capitalists and business partners after years of hard work in building a successful business.

## What does it take to go for an IPO?

So what does it take for your company to list on Bursa Malaysia? Firstly, you have to assess if your company is suitable for listing. This depends on whether you intend to list on the Main Market or the ACE Market. Generally, the Main Market is suitable for larger companies, and this is reflected by certain quantitative requirements. For example, to qualify for the Main Market, a company needs to have a profit track record of 3 to 5 years. On the other hand, there is no such requirement for the ACE Market, which is a sponsor driven market for companies with good growth potential. Companies that list on the ACE Market and continue to grow may eventually move into the Main Market. Secondly, an IPO candidate must demonstrate that it has competent management, good corporate governance, a strong financial position and cash flow, and strong risk management policies.

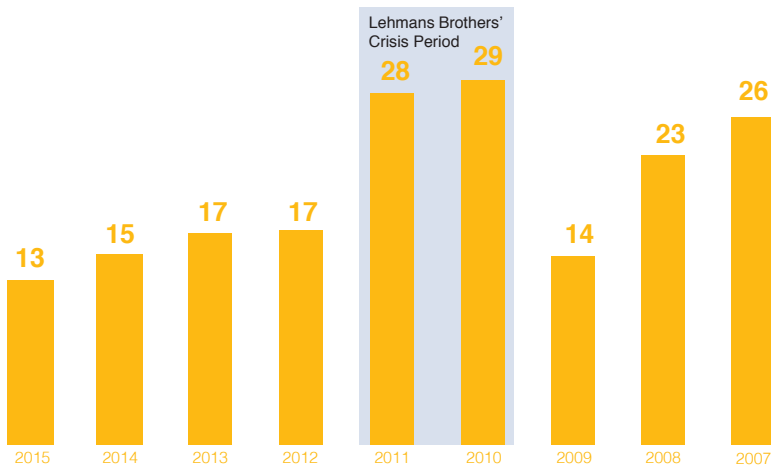
## Timing an IPO

One of the often-asked questions is whether there is a right timing to go for an IPO. While it is common wisdom that the best timing is during a bull run where the share price is expected to perform better, it is difficult and more often than not futile to time an IPO in such a way.

## Main Market vs. ACE Market Benchmarks

Main Market	ACE Market
For established companies with a profit track record of three to five full financial years or companies with a sizeable business	Alternative sponsor-driven market designed for companies of all business sectors that have an excellent growth potential.
A company will be assessed in terms of quality, size, operations, management experience and expertise, integrity of directors and key personnel, and public interest by the SC before approving a listing on the Main Market.	A listing on the ACE Market can only be done through a Sponsor (usually an investment bank) and in reviewing a listing application on the ACE Market, Bursa Malaysia relies on the Sponsor to determine a company's suitability.
A company must also possess the following attributes: <i>Identifiable core business</i> <i>Effectively managed by people with experience and qualification and with management continuity in place</i> <i>No conflict of interest</i> <i>Positive cash flow from operating activities and sufficient working capital for at least 12 months</i> <i>Good corporate governance policies and practices</i>	A company seeking a listing on the ACE Market must possess the following attributes: <i>Visible growth trajectory within the foreseeable future</i> <i>Leadership team who has demonstrated the capability and ability to grow a business</i> <i>Sufficient systems, procedures, policies, controls and resources in place to ensure continuous compliance with relevant rules and regulations</i> <i>Responsible directors</i> <i>Possess internal control and risk management</i> <i>Good corporate governance policies and practices</i>

### No. of New Listings



Source: IPO Summary extracted from Bursa Malaysia

In fact, a company going for IPO during challenging times may get more investor attention, since there will be less companies seeking funds during this period.

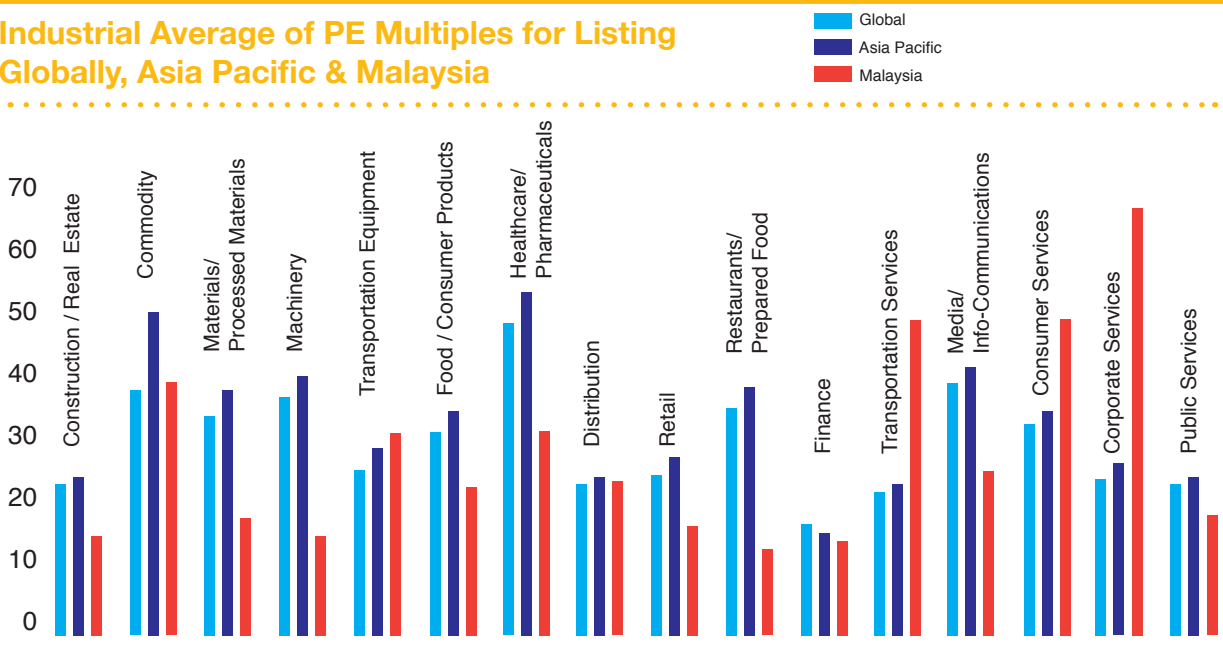
### Pricing of the Company

One of the most important considerations when preparing for an IPO exercise is the valuation of the company. A higher valuation will allow the owners (normally referred to as promoters) to raise more funds while minimising dilution in the company. But how are companies valued exactly? There are a few key considerations, such as how profitable the company is, the expected growth rate, the industry it operates in and performance of the company compared to its competitors. The valuation is generally reflected by what is called the price to earnings multiple (or PE multiple). A higher PE multiple would indicate a higher valuation. An analysis of PE multiple of different industries across different geographical markets is as follows:

It may be better to plan the IPO according to the company's financial needs and preparedness, for example, when the company is going through its growth phase and is looking for funds to do this.

A good IPO candidate, regardless of the market cycle, will attract the right investors. This can be seen from the IPO of companies even during times of market uncertainties.

### Industrial Average of PE Multiples for Listing Globally, Asia Pacific & Malaysia



Source: Data extracted from Industry Analysis Platform, SPEEDA)

Another trend which is being considered is the exchange itself. For example, the valuation of a company can be different depending on where it is listed. A common trend is for technology companies to list on the London AIM Stock Exchange which may value such companies at a higher valuation than Bursa Malaysia. Where such a valuation difference is high enough, a company may consider listing overseas in spite of the higher cost of IPO. The difference in valuation can be very significant as shown in the above chart.

Another factor to consider when deciding on whether or not to list overseas is the prestige associated with a particular exchange. For example, the NASDAQ and London AIM exchanges are known for technology companies while the Australia ASX during its heyday was known for the IPO of mining companies.

IPO continues to be a viable, and in many instances the preferred option, for companies to raise capital to grow their businesses notwithstanding the present challenging business environment. A company with the right business model and which can fulfill the requirements of the stock exchange will take this path so long as it is able to raise the required funds within a reasonable valuation. In addition, companies are spoilt for choice as there are now more options for companies seeking IPO with the successes of Malaysian companies listing on overseas stock exchanges as well.

Ultimately, the choice boils down to a company's long-term strategy and agenda. To find out more about how we can assist in your company's IPO aspirations, get in touch with Crowe Horwath today.