Deloitte 2017 IPO report
A game of snakes and ladders

March 2017
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Foreword

2016: A year of black swans
The year 2016 ended up being one of many surprises.

Rewind 12 months, when we witnessed the largest downturn equity capital markets had seen since the 1987 crash, only to see stock markets soaring to new records by mid-year. Global events – think Brexit and the election of President Donald Trump – unfolded that few predicted, and perhaps even fewer can plan for with confidence.

If such a mixed bag of volatility and uncertainty taught us anything, it’s that investors are quick to trust opinion polls, with much of 2016’s market volatility a result of taking the short odds.

A key question on everyone’s mind in 2017 is what effect President Trump and his unorthodox policies will have on both the US and global economies. At a high level, his fiscal plans to boost infrastructure and defense spending, and pass big tax cuts for families and corporations will accelerate US economic growth and inflation. This will lead to further strengthening in the US dollar, which could underpin US yields and threaten bonds in emerging markets. This foresight is what saw US and global stock markets surge after the November presidential election.

On the other hand, the extent (and even the legality) of Trump’s measures to restrict migration and his position on free trade are less well known at present. Along with changes on, for example, the health and environmental fronts, their effect will likely play out over a longer time period.

Australia upbeat on 2017 M&A and ECM volumes
Back home, the Australian share market has also followed a similar path of slump to jump following our federal election. In the short term, the Financial Services sector is also responding positively with an expectation that big financial institutions worldwide would be given a longer regulatory leash as Trump signed an executive order to review the Dodd-Frank Act.

Impressive as this is for our institutions, we can’t see Trump’s presidency influencing Australia’s economy significantly, other than shaping investor sentiment through prominent media headlines. If Trump is successful in imposing a punitive tariff on Chinese imports, our financial markets may be rattled as such a move would hit China’s supply chain, in which Australian exports play a key role.

More prudent to watch in 2017 will be the current volatility emanating from China, US Federal Reserve tightening, and the political uncertainty in Europe.

Underlying all of this, however, is a generally positive picture of global growth.

So how did IPOs perform in 2016?
The local investing community was backed by record low interest rates, a weaker Australian dollar and our prized AAA credit rating (which remains safe for now). And while 2016 was a softer year for our capital markets, IPO offerings remained robust, delivering returns of nearly 12% on a weighted basis to the end of December 2016, outperforming the All Ords which closed up 7% for the year.

While uncertainty in the lead up to the US election, a rise in interest rates earlier in the year and the mixed performance of some more recent floats saw a number of IPOs – such as Inghams and Charter Hall – being revalued or put on the backburner, IPO volumes remained strong, with 94 listings finishing just shy of 2015 volumes of 97.

We continued to see a move towards smaller market cap listings, with only 38 in 2016 having a market cap in excess of $75m and representing 89% of the total market cap of listings and 93% of all capital raised during the year.

While investors are increasingly discerning and expect a demonstrated track record and growth profile beyond just the prospectus forecast period, there is increasing optimism in the pipeline of IPOs and dual-track M&A processes as we head into the second quarter of 2017.

M&A activity this year is likely to be driven by large corporates who are increasingly taking a ‘back to basics’ approach evidenced in recent and upcoming demergers. From a demand perspective, this is supported by an increase in institutional capital, largely from private equity and infrastructure investment pension funds and increasing their allocation into alternative options. We expect increasing activity in long-term yield assets (Transport and Energy), a continued focus on Healthcare and a turnaround in Mining and related services sectors.

Ian Turner
National Leader, Corporate Finance
Deloitte Financial Advisory
Economic fundamentals

While the political and economic headlines might be about uncertainty in 2017, Australia’s economic outlook is still robust.

Low interest rates are likely to persist, keeping downward pressure on the dollar. The RBA expects inflation to remain subdued over 2017, but the current state of the housing market is enough of a reason to discourage much, if any, further cutting of rates. These macroeconomic fundamentals have been pivotal in offsetting the drag on growth generated by the post mining boom business investment downturn, which is expected to continue over the next year, offset by net exports and consumption. Deloitte Access Economics is forecasting the real economy to grow by 2.3% over 2017.

Globally, growth will improve in 2017, and interest rates are expected to rise modestly. The prospect of US fiscal expansion alongside global repair is fuelling higher inflation expectations. Central banks, beginning with the US Federal Reserve, will reverse the monetary easing seen during the GFC and return interest rates to ‘normal’ levels.

For investors, this means steepened yield curves, with the prospect of shifting toward shorter-maturity bonds, preserving liquidity and otherwise seizing opportunities in the growing global market.

There is one important thing to look out for, in how China manages its slowing growth and transitions into a mature economy. In 2016, Australian income growth slipstreamed the resurgence in ‘old economy’ sectors in China, and it is likely that China will be good news for Australia’s economy in 2017.

However, Chinese debt continues to rise, with no immediate plans to address excess capacity, or rebalance away from construction and inefficient state-owned enterprises. Given its challenges of stimulating economic growth, China could devalue its currency. Such a policy response could trigger a competitive depreciation in Asian currencies and amplify global financial instability.

Going forward, one eye should be watching China, and the other, policy movements in the US. In a dynamic global economy however, Australia has plenty of opportunity to come up on top, if it focuses on local emerging sectors, such as tourism, international education and agribusiness.

“Although investors are increasingly discerning and expect a demonstrated track record and growth profile beyond just the prospectus forecast period, there remains optimism in the pipeline of IPOs as we head into the second quarter.

Expect to see increasing activity in long-term yield assets (Transport and Energy), a continued focus on Healthcare and a turnaround in Mining and related services.”

Ian Turner
National Leader, Corporate Finance

Stephen Smith
National Leader
Deloitte Access Economics
2016 Year in review

Of the 94 listings during the year with a total market capitalisation of $14.5bn and $7.9bn of capital raised, 38 exceeded $75m in market capitalisation, accounting for 89% of all new capital raised. The weighted average performance of all firms which listed in 2016 was 11.5%, up from 7.9% the previous year.

Listings, total market capitalisation and capital raised

<table>
<thead>
<tr>
<th>Year</th>
<th>Total market capitalisation</th>
<th>Total capital raised</th>
<th>Number of listings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$25,868</td>
<td>$17,003</td>
<td>73</td>
</tr>
<tr>
<td>2015</td>
<td>$17,561</td>
<td>$8,585</td>
<td>97</td>
</tr>
<tr>
<td>2016</td>
<td>$14,461</td>
<td>$7,906</td>
<td>94</td>
</tr>
</tbody>
</table>

Source: ASX

Listing volumes were marginally lower, down from the peak of 97 observed in 2015, and average capital raised per listing was down 5.0% to $84.1m. Consistent with our 2016 half year IPO market update, small caps continued to exhibit the best share price performance over the period, including Aurora Labs (up 1,395%), Abundant Produce (up 230%) and CFoam (up 135%).

The momentum of larger growth stocks, over the $75m market capitalisation threshold continued in the second half, with Afterpay Holdings (up 152%), MotorCycle Holdings (up 88.5%), Oneview Healthcare (up 77.4%) and WiseTech Global (up 68.7%).

There were 38 larger cap listings (>=$75m) with an average market capitalisation of $340.3m, which raised a total of $7.4bn in new capital. The weighted average performance for these listings was 10.5% to December 2016.

Fractional property investment platform provider Domacom and emerging gaming market operator Silver Heritage Group were the poorest performers of 2016 in the over $75m category, down 72.7% and 52.5% respectively. US Select Private Opportunities Fund III and Elanor Retail Property Fund closed flat for 2016.

The year’s two largest listings were Viva Energy Real Estate Investment Trust (which owns and manages a portfolio that consists entirely of service stations), with a market capitalisation at listing of $1.5bn, and Reliance Worldwide Corporation (plumbing supplies manufacturer), which listed for $1.3bn. Both saw positive post listing gains of 9.1% and 28.0% respectively.

At the other end of the spectrum, the 56 small cap listings had an average market capitalisation of $27.3m and raised just under $10.0m in capital on average. Despite the predominately smaller nature of these raisings, performance averaged 20.3% for the small caps.
IPO performance in 2016 was relatively subdued. The weighted average performance of large listings to December 2016 was 10.5%. This compares with large listings in 2014 which delivered gains of 16.7% to December 2014 and 18.0% to December 2015.

### Performance of 2016 listings >$75m, to December 2016

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afterpay Holdings Ltd</td>
<td>152%</td>
</tr>
<tr>
<td>MotorCycle Holdings Ltd</td>
<td>88.5%</td>
</tr>
<tr>
<td>Oneview Healthcare PLC</td>
<td>77.4%</td>
</tr>
<tr>
<td>WiseTech Global Ltd</td>
<td>68.7%</td>
</tr>
<tr>
<td>Broo Ltd</td>
<td>65.0%</td>
</tr>
<tr>
<td>GTN Ltd</td>
<td>43.2%</td>
</tr>
<tr>
<td>Freedom Insurance Group Ltd</td>
<td>42.9%</td>
</tr>
<tr>
<td>Apollo Tourism &amp; Leisure Ltd</td>
<td>32%</td>
</tr>
<tr>
<td>Reliance Worldwide Corporation Ltd</td>
<td>28%</td>
</tr>
<tr>
<td>Range International Ltd</td>
<td>20%</td>
</tr>
<tr>
<td>Viva Energy REIT</td>
<td>9.1%</td>
</tr>
<tr>
<td>Autosports Group Ltd</td>
<td>4.6%</td>
</tr>
<tr>
<td>WAM Leaders Ltd</td>
<td>4.5%</td>
</tr>
<tr>
<td>Inghams Group Ltd</td>
<td>1.3%</td>
</tr>
<tr>
<td>Australian Unity Office Property Fund</td>
<td>0.5%</td>
</tr>
<tr>
<td>Charter Hall Long WALE REIT</td>
<td>0.2%</td>
</tr>
<tr>
<td>Elanor Retail Property Fund</td>
<td>32%</td>
</tr>
<tr>
<td>Midway Ltd</td>
<td>28%</td>
</tr>
<tr>
<td>Antipodes Global Investment Company Ltd</td>
<td>20%</td>
</tr>
<tr>
<td>Frontier Digital Ventures Ltd</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Watermark Global Leaders Fund Ltd</td>
<td>-3.2%</td>
</tr>
<tr>
<td>QANTM Intellectual Property Ltd</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Bravura Solutions Ltd</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Murray River Organics Group Ltd</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Tegel Group Holdings Ltd</td>
<td>-9.7%</td>
</tr>
<tr>
<td>Australis Oil &amp; Gas Ltd</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Propertylink Group</td>
<td>-12.4%</td>
</tr>
<tr>
<td>Dreamscape Networks Ltd</td>
<td>-16.0%</td>
</tr>
<tr>
<td>Scottish Pacific Group Ltd</td>
<td>-17.2%</td>
</tr>
<tr>
<td>9 Spokes International Ltd</td>
<td>-20.0%</td>
</tr>
<tr>
<td>Kogan.com Ltd</td>
<td>-25.6%</td>
</tr>
<tr>
<td>Shaver Shop Group Ltd</td>
<td>-28.6%</td>
</tr>
<tr>
<td>China Dairy Corporation Ltd</td>
<td>-30.0%</td>
</tr>
<tr>
<td>Ding Sheng Xin Finance Co Ltd</td>
<td>-34.2%</td>
</tr>
<tr>
<td>RedBubble Ltd</td>
<td>-34.6%</td>
</tr>
<tr>
<td>Silver Heritage Group Ltd</td>
<td>-52.5%</td>
</tr>
<tr>
<td>DomaCom Ltd</td>
<td>-72.7%</td>
</tr>
</tbody>
</table>

Source: ASX
TMT was the dominant sector of 2016 in terms of volume with 26 listings, which raised $778m in capital, representing 10% of total market issuance. The sector provided attractive returns to investors, with a weighted average performance since listing of 34.9%.

The property and construction sector raised $2.8bn in capital, which accounted for 36% of all market issuance, with several large real estate investment trusts and property funds listing in 2016. The largest listings in this sector were the Viva Energy and Charter Hall Long WALE real estate investment trusts, which accounted for a combined $2.3bn.

Activity in the financial services sector was strong again, accounting for around 20% of total capital raised. However, performance since listing was below market expectations at (10.6%), in particular stocks included Ding Sheng Xin Finance Co (down 34.2%), Scottish Pacific Group (down 17.2% on its issue price) and CoAssets (down 72.5%).

Despite being hailed as a future driver of Australian economic growth in the Asian century, no companies in the education sector were involved in equity issuance in 2016. Infrastructure and logistics firms were also notable absentees from capital raisings.

“Technology, Financials, REITs and Consumer were the dominant sectors in 2016. Although listings have again on average outperformed the local indices, this year was very much a mixed bag of winners and losers with volatility looking significantly more pronounced on IPO stocks.”

Tapan Verma
Director, Corporate Finance

ASX listings by sector (2016)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Capitalisation</th>
<th>Capital Raised</th>
<th>Percentage of total IPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial services</td>
<td>9</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Consumer goods &amp; services</td>
<td>22</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Energy &amp; resources</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Financial services</td>
<td>19</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Healthcare</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Infrastructure &amp; logistics</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Property &amp; construction</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Retail</td>
<td>10</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>TMT</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: ASX
The private equity debate

Private Equity exits - IPO vs trade sale

On a value weighted basis, Private Equity exits via IPOs were at par with trade sales in 2016, however we have seen a significant decline in activity from the peak of $7bn in 2014. The reduction in the number of IPOs and capital value of PE-sponsored IPOs in 2016 largely reflects the exit of a number of significant investments over the last three years (including Healthscope, Spotless Group, Link Group and MYOB), and the current stage of Private Equity fund raising.

Private equity backed IPOs accounted for 18.1% of total capital raised in 2016, which was down from the historical average of 44.6%, from 2013 through to 2015 inclusive.

2016 Private Equity sponsored IPO share price performance post listing

Source: ASX and AVCAL 2016 yearbook
Of the five PE-backed floats in 2016, the most impressive performance was the 88.5% return on Archer Growth Fund listed, MotorCycle Holdings. This was however, in contrast to a decline in Scottish Pacific Group’s share price following an earnings downgrade shortly after listing. Scottish Pacific was expected to significantly outperform by institutions.

Overall, private equity listings from the start of 2013 have delivered average gains of over 33%, even though the performances of certain large floats such as Dick Smith, Nine Entertainment, Estia Health and Spotless Group continue to grab media headlines.

The mixed performance (across all listings and not limited to private equity) has led to some uncertainty as institutional investors become more discerning in their assessment of the quality of listings and assets. We would expect to see a sharper focus from investors on the track record of earnings of IPO candidates, as well as the sustainability of the earnings estimates beyond simply the prospectus forecasts.

As we go to press with this report, the potential $1 billion listing of Accolade Wines has been reportedly shelved for now as the company focuses on delivering value through its expansion into China and integrating the recent acquisition of the portfolio acquired from Lion.

However, the market appears to be reasonably optimistic with a reported pipeline of sizable floats including Quadrant Private Equity’s Zip Industries, Navis’ Retail Apparel Group and Archer’s Quick Service Restaurants. The pipeline over the next 12-18 months remains strong with assets including Blackstone’s investment in Ixom, Affinity’s holdings in Velocity Frequent Flyer, Varde and KKR’s investment in GE Money (now Latitude Financial), and a number of recent automotive roll-ups that are expected to come to market following the successful listing of Autosports Group.

The key sectors where Private Equity continues to show interest remain unchanged and include Healthcare, Education and Financial Services driven by the broader macroeconomic fundamentals.
Class of 2013–2015

Performance to date 2013, 2014 and 2015 listings

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple average</td>
<td>(6.8%)</td>
<td>29.6%</td>
<td>9.9%</td>
<td>27.1%</td>
</tr>
<tr>
<td>Weighted average</td>
<td>8.1%</td>
<td>24.1%</td>
<td>7.9%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Cumulative ASX 200 benchmark</td>
<td>21.9%</td>
<td>5.9%</td>
<td>4.7%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

The table above shows the weighted average performance of recent ASX listings through to 31 December 2016, compared to the cumulative ASX 200 index for the same period. IPOs listed in 2013 have underperformed relative to the benchmark but in 2014, 2015 and 2016 IPOs have significantly outperformed the wider market. We would expect IPOs to outperform on a weighted average basis, given the market prices in addition risk associated with growth businesses to yield higher returns, relative to established value stocks.

Top 5 best and worst performers of 2015 listings, >$75m, to December 2016

| Class Ltd                      | 186% |
| Superloop Ltd                  | 174% |
| BWX Ltd                        | 170% |
| Updater Inc                    | 125% |
| Megaport Ltd                   | 93.6%|
| Future Fibre Technologies Ltd  |       |
| Wellard                        | -74.3%|
| Temple and Webster             | -83.8%|
| Building IQ, Inc               | -84.5%|
| Premiere Eastern Energy Ltd    | -90.5%|
|                                |       |

Overall, the class of 2015 listings achieved weighted average share price performance of 7.9%, outperforming the ASX 200 benchmark by 3.2%. Of the total 97 listings in 2015, 53 have experienced declines from their initial share price.

There have been various reasons for listed businesses failing to meet financial performance expectations in the two to four year period after listing.

These range from changing market dynamics, management turnover, operational execution issues, failing to maintain growth trajectories due to value dilutive post IPO acquisitions, and an increasing focus on short term performance at IPO.

We have recently seen the share price of a number of companies fall due to failing to deliver sustained financial performance after the disclosure period. Although not disclosed in the prospectus, companies considering listing must clearly understand that the market implicitly assumes sustained financial performance from listing date onwards.

We believe it is crucial for companies to stay on message, delivering on growth objectives, earnings stability and dividend payout ratios.
2017 outlook

In 2017 we expect the Australian IPO market to remain active and on trend with 2016.

Improving economic fundamentals will provide an impetus for increasing capital markets activity in 2017. Although interest rate hikes and ongoing geopolitical uncertainties may dampen investor sentiment, deal activity in 2017 is looking better than 2016. A key driver of IPOs is still liquidity and funds for capital and we also expect a number of mature companies that delayed listing in 2016 to go public as market conditions improve and greater political certainty emerges.

Already in 2017, we have seen a number of large listed corporates including Origin Energy, Wesfarmers and Fairfax considering spinning-off established, successful business units into separate publicly listed vehicles.

We expect Private Equity sponsored listings to continue in 2017 with investors more focused on the quality of the business and growth opportunities than the background of the vendor. Quadrant Private Equity’s Zip Industries, Navis’ Retail Apparel Group and Archer’s Quick Service Restaurants have been speculated to be making a run of the ASX boards in 2017.

In the small to mid-cap space, we expect pre-IPO capital raisings to be an increasingly common means of securing capital to expand business scale, invest in new equipment or technologies and improve balance sheet strength prior to listing. Pre-IPO capital raisings provide an opportunity for investors, predominantly institutional, to invest at a risk and liquidity discounted price in businesses ultimately seeking to become publicly listed.

We expect the capital market interest in commercial real estate investment trusts to continue in 2017 with strong demand continuing for new listings in the TMT, financial services and consumer goods & service sectors. As noted above, the speculated listing of Origin Energy’s conventional oil and gas business will test the appetite of the capital markets for energy sector stocks.

“One eye should be watching China, and the other, policy movements in the US. In a dynamic global economy however, Australia has plenty of opportunity to come up on top, if it focuses on local emerging sectors, such as tourism, international education and agribusiness.”

Kristian Kolding
Director, Deloitte Access Economics
Insights from the Board

Tom Pockett is currently the Independent Chairman of Stockland and Autosports Group, and Non-Executive Director of Insurance Australia Group and Sunnyfield Independence Association. Tom previously spent over 11 years as CFO and seven years as Finance Director with Woolworths, along with senior roles at Commonwealth Bank and Lend Lease.

We spoke recently with Tom around his thought process when approached by IPO candidates for Director roles, and his insights, learnings and challenges through the process.

The thought process when approached for an NED role

The business history and growth story are very important considerations. Things that come first and foremost to mind are of course market structure and dynamics - is the sector contracting, growing or consolidating, competitive positioning - what are the organisation’s competitive advantages in the sector and are they sustainable, future disruptions and threats to the sector.

Satisfying yourself that the company has not been dressed up for sale, and that the long-term earnings expectations are reasonable and achievable is crucial for a NED. These are similar decision processes you would use in making a prudent investment in any company. This is logical because as a Director you are about to invest a great deal of your time, your personal reputation and money into this IPO.

Making an assessment of the current owners of the business is very important. Assessing how the business was run in the past, and their personal reputation and brand in the market. A good outcome of the DD process is you are able to assess the health of the company through the extensive legal and accounting reviews that are undertaken. I would encourage NED’s to seek as much information as can be obtained during all stages of an IPO process.

One of the key factors important to me was ensuring the existing owners and/or management remained involved in the business for a significant period after the IPO together with them maintaining a significant financial investment in the business. These are the key people that have created this business and it is critical for them to be locked in to allow for normal and orderly succession planning to occur as time evolves.

Many IPO companies have not had the governance requirements imposed on them as rigorously as a public company. Therefore, Directors need to quickly establish the governance structures many of which can be created during the Due Diligence process.

Over the first year of operation as a listed entity, it is important to embed these governance processes through the organisation. Whilst the Board has an important role here, the critical role is undertaken by the CEO and senior management team. A very important element for a NED is how this team proactively accepts, rolls out and embeds these practices into the culture of the organisation.

Another key consideration is the depth of experience and longevity of the management team. This is crucial for any company however this is a key element of success in launching the company into the public markets and builds the confidence required for shareholders to invest.
My own learnings and challenges

Unless a NED has undertaken an IPO, the amount of workload to be undertaken in preparing for an IPO and completing the required DD process is always underestimated. Despite this I would recommend Directors be involved in as much of the process as possible.

It is a great way to obtain a deeper understanding of the company and the sector, it exposes you even further to key management, it allows you to guide the governance processes and to obtain a very good understanding of the prospectus process, requirements and obligations. Therefore allowing sufficient time to be involved is critical.

Another element that is understated is bringing senior management, during the DD process, through the governance requirements of a listed entity. The obligations are significant and the laws complex so ensuring the teams are educated along the journey will ensure future success and ensure they know what they are in for going forward.

It is critical to assess the need to train and educate the senior executives that are to undertake the investor presentations to the market. Not only ensuring they understand the disclosure rules in terms of presenting the materials, but importantly training them to have the presence that gives investors the confidence, and the skills to respond to questions and to ensure their answers are in line with the prospectus and investor disclosure materials.

Recommendations

For businesses looking to prepare

My first question for a company considering an IPO is why? Why do you want to do it and do you know what you’re in for? Many very successful private companies enjoy the comfort of anonymity. However, once listed they are thrust into the limelight with significant personal exposure, not to mention governance complexity. Therefore the answer to that question must be clear and unambiguous for a Director to get comfortable that the foundations for a successful IPO are in place.

Neither of the IPOs I was involved in had a formal Board structure which then needed to be created. As with any Board, getting the right Directors with the right skills, experience, breadth and depth is critical. Specific factors to consider for an IPO are public company experience, governance experience and industry experience, supplementing with any specific skill sets required.

Tom Pockett
Chairman of Stockland and Autosports Group.
Non-Executive Director of Insurance Australia Group and Sunnyfield Independence Association.
Asia market update

In 2016 all IPO markets in the Asia Pacific region felt the impact of global geo-political and macroeconomic influences including the United States presidential election and Brexit. Concern of weakness in the Chinese economy and global political uncertainties early in 2016 were shrugged off in the latter half of the year by improving economic conditions reported in China and Japan and continued quantitative easing measures in Europe.

IPO markets will continue to be impacted by global geo-political and macroeconomic influences in 2017. Global and regional economic performance including monetary policy decisions and currency trends will inherently influence investor appetite for IPOs and the financial performance of businesses seeking to list in 2017.

Of particular note in 2016, new listings from Chinese financial services institutions constituted nearly 70% of the total funds raised in the market, a jump from about 53% in 2015.

The 2016 listings were geographically diverse reflected by the highest numbers of new listings from international companies over the last decade.

Despite a solid pipeline, Hong Kong’s IPO fundraising capability especially for mega IPOs may come under pressure in 2017 from macro-economic and political developments including the ongoing depreciation pressure on the Renminbi. Four to five significant IPOs from Chinese financial services firms will hold center stage in Hong Kong’s IPO market while life science and health care, aviation services, technology, media and communications and international companies are expected to attract the market spotlight as well.

Listings in these sectors will be spurred by the capital reserve requirement, financial innovation, ongoing Chinese healthcare reform and continuing strong demand for new economy assets.

Hong Kong’s active market, international investor base and role as a mutual market in Asia, will also help draw small- and medium-sized enterprises from other Asian countries to list in Hong Kong.
Mainland China
The number of listings in the Mainland China market gained momentum in the second half of 2016 as the Chinese economy recorded a better performance. Similar to its Hong Kong peers, in 2016, the Mainland China A-share market (Shanghai and Shenzhen stock exchanges) saw a significant share of the total funds raised in the market driven by Chinese financial services institutions.

The Shanghai Stock Exchange continued to surpass the Shenzhen Stock Exchange by raising more capital from a lower number of new listings, a trend that was sustained from 2015.

The market is expected to accelerate to enable the long queue of companies seeking to gain access to capital assuming the market environment remains supportive. The pace of IPO approvals since the second half of 2016 also indicates that more IPOs will be brought to the market in 2017.

A few large offerings, individually with proceeds exceeding more than RMB 5 billion, are expected to come from the financial services sector and the investors will continue to eye on new listings from Chinese commercial banks. In terms of the number of IPOs, the majority will still come from small and medium-sized manufacturing and technology businesses, sustaining recent trends.

Japan
2016 was another challenging year for the Japanese IPO equity markets and broader economy with the number of IPOs in 2016 down compared to 2015 (86 compared to 98). This should be considered in the context that activity levels continue to be well above the 2008 to 2013 period that averaged only 39 new listings per year.

In 2016, the number of high growth and emerging stock IPOs on the Tokyo Stock Exchange was 54, representing approximately 63% of all IPOs in Japan. The decision of the Tokyo Stock Exchange to improve the listing rules to increase confidence in high growth and emerging stocks and invigorate the market in 2011 has been a driver of increasing IPOs in this market sector.

Total capital raised in high growth and emerging stocks in 2016 was 107.6 billion yen and average capital raised was 2 billion yen, which is lower compared with 2015. 2015 saw some exceptionally large IPOs in high growth and emerging stocks such as Bay current Consulting (28.3 billion yen), Ai mobile (8.4 billion yen), and Akatsuki (7.3 billion yen). On the other hand, 2016 saw a number of IPOs for less than 1 billion yen leading to the comparatively small size of average capital raised.

In 2016, 66% of Japanese IPOs were in Information & Communication, Services and Retail Trade industry sectors (number of IPOs: 25, 24, and 8 respectively). Additionally, market interest in the Real Estate and Construction industry was strong in 2016 (nine new listings) influenced by low interest rates and the 2020 Olympic Games to Tokyo.

The largest IPO in 2016, based on day one market capitalisation, was LINE which went public in Tokyo and New York in July with a day one market cap of 692.9 billion yen. Additionally, Kyushu Railway debuted firmly on the Tokyo Stock Exchange in the second largest IPO of 2016, with a market capitalisation of 416 billion yen.

From a regulatory perspective, on December 2, 2016, Tokyo Stock Exchange announced the review of viewpoints and operations of listing examination for relisting after management buyouts. There have been a large number of MBOs from 2007 to 2012 and considering the typical investment period of MBOs, it is anticipated that the number of relistings will increase in future periods.

It is anticipated that the Japanese IPO market will continue on a rising trend reflecting expectations of the broader Japanese economy partially influenced by the uplift in spending demand ahead of the 2020 Tokyo Olympics and continuing strong interest in high growth and emerging stocks.

A notable forthcoming IPO is Akindo Sushiro, Japan’s biggest operator of conveyor belt sushi restaurants, who has applied to relist on the Tokyo Stock Exchange with an aim of returning in March. It is expected to hold one of the larger public offerings of 2017, valuing it at more than 100 billion yen.
South East Asia

In the South East Asian region, Singapore and Thailand are the dominant equity markets as indicated in the table that summarises capital raised from IPOs in the 2014 to 2016 period.

Capital raised from IPOs by country in South East Asia

Across the region, in 2016 113 IPOs raised capital of S$7.5 billion relative to 154 IPOs and S$5.3 billion of capital raised in 2015. The number of IPOs in the region was influenced in both years by efforts of the Vietnamese Government to privatise state owned enterprises (IPOs in Vietnam 2016: 38; 2015: 72).

Of the S$22.1 billion of capital raised over the 2014 – 2016 period from IPOs in South East Asia, S$8.7 billion has been raised in the real estate sector including real estate investment trusts (REIT) of S$6.1 billion (Singapore: S$3.8 billion; Thailand: S$2.2 billion).

Other key sectors have been Energy & Resources (S$5.3 billion), Consumer Business (S$3.9 billion) and Industrial Products (S$1.5 billion).

In 2016, in the Singapore market there were 16 listings with two company and three REIT listings on the SGX Mainboard raising capital of S$235 million and S$1.9 billion respectively. There were a further 11 Catalyst IPOs raising capital of S$106 million.

Being developing nations with strong government efforts in revitalising stock markets, Thailand and Indonesia have a good pipeline of eligible home grown companies primed for listing and have shown a stable number of IPOs and capital raised in recent years. Indonesia, which has South East Asia’s largest population and largest economy, plans to start an exchange dedicated to emerging technology companies, while Thailand’s government has also highlighted the importance of the country’s capital markets.
Corporate governance considerations for companies preparing to list

Directors and management of companies preparing to make a run for the ASX boards are generally cognisant of the importance of achieving forecast targets disclosed in a company’s prospectus. As we are now well beyond the IPO hiatus of 2009 to 2012, there have been a number of well highlighted examples of companies that have failed to sustain investor expectations beyond disclosures and representations made in their prospectus.

There have been various reasons and explanations for recently listed businesses failing to meet financial performance expectations in the two to four year period after listing, ranging from changing market conditions and management turnover to poor investment or other management decisions post-IPO, as well as an increasing focus on short term performance at IPO.

Regardless of the reasons given to recent under performers, we expect investors and regulators to become more attuned and place greater focus on corporate governance requirements and expectations of companies considering listing in the near to medium term as means to deliver sustained long term performance.

There are a number of phases in planning and executing an IPO process where corporate governance should be considered.

The key consideration is ASX Listing Rules Guidance Note 9 which provides guidance on the necessary disclosures of Corporate Governance practices for seeking admission to the official list as an ASX Listing and covers:

- The requirement to produce a Corporate Governance Statement which summarises the extent to which the entity has followed the ASX Corporate Governance guidelines
- Particular guidance on Recommendations 2.2 (Board Skills Matrices), 4.2 CEO and CFO Certification and 7.4 Sustainability Risks.

Underpinning this document is the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations which provides clear guidance on the 8 principles of corporate governance that listed entities should disclose whether they follow on an ‘if not why not’ basis.

Emerging Corporate Governance Insights

Corporate governance is a continually evolving area both in Australia and internationally.

United Kingdom (UK)
The UK is recognised as having a world-leading corporate governance framework with a unitary board system which makes directors collectively responsible for the decisions of the board and a Corporate Governance Code operating on a ‘comply or explain’ basis which continues to evolve in line with emerging good practice.

2016 Green Paper
The UK Government released a Green Paper in 2016 to consider changes in the corporate governance regime. The paper focuses on a number of areas including:

- Ensuring that executive pay is properly aligned to long-term performance
- Giving greater voice to employees and consumers in the boardroom.

The Financial Reporting Council (FRC) has announced that it is planning a ‘fundamental review’ of the UK Corporate Governance Code and will consult on its proposals later in 2017. This review will consider the issues raised in the Government’s Green Paper on Corporate Governance Reform and the Government’s response to the Green Paper.

This is likely to include proposals to help boards take better account of stakeholder views and better link executive remuneration with performance. The review will also encompass other recent areas of FRC focus including succession planning, executive diversity and culture.

Longer term viability statement
The 2014 UK Corporate Governance Code introduced the requirement for a longer term viability statement for listed companies and their directors for the September 2015 reporting period end onwards.

Directors are required to take a series of decisions in preparing for and drafting the statement, which are dependent on the complexity of the business and its industry.
Disclosures are required to be informative about the basis on which the directors formed their ‘reasonable expectation’, and include a brief description of the planning and forecasting process as well as, where necessary, drawing out any demand or market assumptions and risks and financing requirements.

Fundamental to the longer term viability statement is the drive from investors and regulators to obtain more valuable information and insightful understanding of the Directors perspectives on a company’s longer term performance and principle risks to achieving the performance beyond the forecast period.

For the majority of companies, the introduction of the statement has meant disclosure of an assessment addressing the next three financial periods. The FRC recently commented that only 15% of the statements reviewed by the FRC were considered ‘comprehensive’ from the second year of reporting since the introduction of the longer term viability statement requirement.

As with the introduction of any new disclosure requirement of listed companies, the outcomes are continually being refined to find the right balance between companies, their directors, investors and regulators. It is the current view of the FRC that the key focus areas for companies to improve their longer term viability statements are:

- A clear rationale for choice of timeframe
- What qualifications and assumptions were made
- How the underlying analysis was performed.

While the shape of the longer term viability statement will continue to evolve in the UK, it remains to be seen if such forward looking disclosures will be adopted in Australia.

Australia

From an Australian perspective, the 2014 revision to the Corporate Governance guidelines placed an increasing focus on sustainability, particularly oversight and disclosure of material social sustainability risks from an investor perspective.

There is an increasing awareness and accountability being expected from entities around sustainability risk which extends to fair and equitable remuneration of employees as well as senior management. This also extends to knowledge of an entity’s supply chain both locally and globally not only from the bottom line but also whether the supply chain is socially sustainable.
# Accounting standards

## Australian accounting standards

<table>
<thead>
<tr>
<th>AASB 15 Revenue from contract with customers(^1)</th>
<th>AASB 9 Financial Instruments(^1)</th>
<th>AASB 16 Leases(^2)</th>
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<tr>
<td>AASB 15 provides a new framework for revenue recognition and measurement, with the introduction of a five step approach to determine when and how much revenue is to be recognised. Some of the key considerations of the new standard include the determination of whether contracts are in the scope of AASB 15 and the increased level of judgement required by management in the determination of numerous and often complex estimates. New rules and application guidance around multiple topics have also been introduced, including the identification of distinct performance obligations and stand-alone selling prices where goods/services are bundled and the accounting for contract modifications, variable consideration, licences, warranties and rights of return.</td>
<td>The Financial Instruments accounting standard has been in transition since the progressive replacement of AASB 39 Financial Instruments: Recognition and Measurements commenced in 2008. The completion of AASB 9, effective for the financial periods beginning on or after 1 January 2018, amends the classification and measurement model for financial assets and the general hedge accounting requirements as well as introduces a new expected loss impairment model superseding the previous incurred loss model from AASB 139. The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.</td>
<td>While the introduction of AASB 16 is expected to have a minimal impact for lessors (except in respect of identification of leases, subleases and sales and leasebacks), lessees can be expected to have a significant impact, particularly for entities that have previously kept a large proportion of their financing off-balance sheet in the form of operating leases. All other leases within the scope of AASB 16 are required to be brought on-balance sheet by the lessee, resulting in the recognition of a right-of-use asset and the related lease liability at commencement of the lease, with subsequent accounting generally similar to the finance lease model under AASB 117. This can be expected in most instances to increase recognised assets and liabilities of the lessee, front end an increasing portion of lease expenses and potentially shift lease expense classification from operating expenses to financing costs and amortisation (i.e. moving below metrics such as operating profit, EBITDA or EBIT).</td>
</tr>
</tbody>
</table>

1. Effective for the financial periods beginning on or after 1 January 2018
2. Effective for the financial periods beginning on or after 1 January 2019
Critically for businesses preparing to list, there are important commercial considerations – including the impact of changes in the amounts reported for various purposes including on key financial performance metrics, debt covenants and management compensation. In addition, the changes may require system and process improvements to calculate the impact and satisfy ongoing reporting requirements and analyse any potential tax impacts.

<table>
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<tr>
<th>AASB 15 Revenue from contract with customers$</th>
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<tr>
<td>Of importance to businesses preparing to list in 2017 is understanding the transitional approaches allowable under AASB 15 (of which there are three), particular the transition of existing long term customer contracts.</td>
<td>Businesses preparing to list in 2017, particularly those with a broader range of activities including financial assets (for example treasury, debt lending or insurance activities), should have an understanding of the impact on both the profit or loss and other comprehensive income from the completion of AASB 9. Businesses should be prepared to quantify the impact on pro forma historical and forecast financial information disclosures had AASB 9 been introduced before commencement of the disclosure period presented in their prospectus.</td>
<td>Consideration should be given to a number of aspects of the application of AASB 16 that will require the exercise of judgement – particularly in respect of the definition of a lease and the assessment of the lease term.</td>
</tr>
</tbody>
</table>

1. Effective for the financial periods beginning on or after 1 January 2018
2. Effective for the financial periods beginning on or after 1 January 2019

Although the majority of prospectuses issued in the first half of 2017 will not disclose forecast financial information relating to financial periods beginning on or after 1 January 2018, we expect investors will seek explanation of the probable impact on financial performance and position when the new standards are introduced.
Regulatory update

ASIC guidance
In November 2016 Australia’s regulatory authority, the Australian Securities and Investments Commission (ASIC) released an updated Regulatory Guide 228 Prospectuses: Effective disclosure for retail investors with a focus on improving the disclosure of historical financial information in prospectuses.

The updated Regulatory Guide 228 has tightened the guidance to improve the consistency of historical financial information disclosure by issuers across the market and restrict the disclosure of unaudited historical financial information, particularly with regard to recent business acquisitions.

The key financial information disclosure aspects of the updated Regulatory Guide 228 for prospective businesses considering listing in Australia are:

- Historical financial information disclosed in a prospectus should include at least three financial years of audited financial information or at least two years of audited and a half year of reviewed financial information depending on the date of the prospectus.

- Historical financial information disclosures should include a statement of cash flows with a minimum inclusive of operating and investing cash flows.

- The financial information requirements apply to businesses acquired by the listing entity within the three or two and a half year historical period.

- A ‘significant business acquisition’ defined as the acquisition business representing more 25% of the listing entity’s consolidated revenue or income (EBITDA or EBIT or NPAT) or assets or equity.

- For a significant business acquisition occurring in the twelve months prior to listing or where the business will use the funds of the IPO to make a significant business acquisition, the acquired business should be included in the historical financial information disclosure. In addition, the historical financial information disclosure should be compiled from financial information of the acquired business that has been audited for at least the last two financial periods.

A business acquisition, as opposed to an asset acquisition, will be determined with reference to the application of AASB 3 Business Combinations.

Within Regulatory Guide 228, ASIC has set out a number of examples of circumstances where the historical financial information disclosures may not be expected for the entirety of the three or two and a half year historical period. Such a limitation should only occur in the circumstances where the information is not relevant to an informed assessment or it would not be reasonable for investors to expect such information to be disclosed.

Examples of circumstances limiting historical financial information disclosure include:

- A major change to a business (such as a material divestment) may deem the earliest period to not be relevant.

- Acquisitions more than 12 months before lodgement may not be reasonable to expect audited financial information for the periods preceding the acquisition. In this circumstance ASIC will expect the most recent annual financial period to include the audited historical financial information of the acquired business.

- ‘Roll up’ acquisition strategies (the acquisition of many businesses that are considered immaterial on an individual basis) prior to listing will now be expected to have a minimum of 75% of historical financial information subject to audit for at least one annual financial period.

We recommend that businesses considering listing in 2017 carefully review the requirements of the updated Regulatory Guide 228. Businesses that have been or intend to be acquisitive in the lead up to a listing, be that a significant business acquisition or a number of relatively small acquisitions on an individual basis, need to heed particular attention to the historical audit and financial information disclosure requirements of this regulatory guide.

“Recent updates to listing requirements should lead to improved quality and liquidity of stocks listing here, and brings Australia into alignment with other major exchanges. The regulatory changes are also expected to significantly improve the credibility of historical financial information disclosed to investors.”

Ben Kennare
Director, Corporate Finance
ASX Listing Rules
Effective December 2016 the Australian Securities Exchange (ASX) announced changes to the listing admission requirements. The ASX has amended the Profits test and Assets test as follows:

Profits test
• The financial threshold of consolidated profit from continuing operations for the 12 months prior to admission has increased from $400,000 to $500,000. Other financial threshold requirements remain unchanged.

Assets test
• The listing entity must have either net tangible assets of $4.0 million (previously $3.0 million) after deducting offer costs or a market capitalisation of $15.0 million (previously $10.0 million)
• All entities, regardless of industry or sector, must have working capital of $1.5 million taking into account budgeted revenue for the first full year post listing and allowing for budgeted administration and acquisition costs referred to in the prospectus.

We do not expect changes to the Profits test and Assets test will have a significant impact on the vast majority of businesses considering listing on the ASX. Small mining exploration companies and other early life cycle stage businesses are likely to be impacted by changes to the Assets test. As noted by the ASX in their response to the consultation period, aspects of the admission tests in some cases had not been updated since the 1990s and as such required update to the current environment.

Additional changes of note to the admission requirements are as follows:

New minimum free float requirement of 20% at listing: ‘Free float’ is the percentage of securities that are not ‘restricted securities’ or subject to voluntary escrow, and that are held by ‘non-affiliated’ security holders.

Changing spread requirements: Single tier spread test of at least 300 non-affiliated security holders each holding a $2,000 parcel of securities. Holdings of restricted securities and securities that are subject to voluntary escrow will be excluded under the test. No Australian residency requirement has been mandated but the ASX retains discretion to impose such a requirement. The ASX will generally exercise this discretion for applicants from emerging or developing markets by imposing a requirement for at least 75% of the minimum spread to come from Australian resident investors.

Backdoor listings: New policy that requires an entity who announces a backdoor listing transaction to either:
• Make an announcement that includes information prescribed by the ASX in Guidance Note 12 (which includes information about the material terms of the transaction, target’s principal activates and business model, key risks, impact on capital structure and control, details of securities issues and financial accounts of the target); or
• Have its securities immediately suspended from trading - until the above information is released, the entity has re-complied with the ASX admission and quotation requirements, or announces that the transaction is no longer going ahead.

In our view, the minimum free float requirement and spread requirements brings the ASX into alignment with other major indices and will facilitate liquidity in the secondary market post listing. The new backdoor listing requirements will improve disclosure in relation to the intended transaction at the time of announcement.
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