AUSTRALIAN IPO ACTIVITY IN 2018

# IPO WATCH AUSTRALIA

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Disclaimer – The analysis presented in this report relates to all initial public offerings (IPOs) that have resulted in the listing of an entity's securities on the Australian Securities Exchange (ASX) with the exception of compliance, backdoor listings and offers of non-equity securities.

The term "small cap" is used to refer to companies with a market capitalisation of no more than $100 million. All analysis by reference to market capitalisation on listing is based on the price at which new securities were issued.



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# FOREWORD

**MARCUS OHM**
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In 2018, a total of 93 new listings occurred on the ASX. The number of new listings in 2018 was consistent with the previous five year average of 88 listings. However, the 2018 total was less than the previous year which saw 110 new market entrants.

There was a significant increase in funds raised in 2018, a total of $8.44 billion, an increase of 106% over the total in 2017 when $4.09 billion was raised.

The underlying reason for the increase in amounts raised was a small number of $1 billion+ cap companies listing in 2018, with the three largest IPOs for the year representing 56% of the total funds raised in 2018. These three companies (Viva Energy Group, Coronado Global Resources Inc. and L1 Long Short Fund Limited) raised a total of $4.75 billion between them. There were no similarly sized IPOs in the previous year.

The remaining 90 IPOs in 2018 raised a total of $3.69 billion, with a decrease in average funds raised. The number of new small cap market entrants decreased in 2018. There were 72 entities with a market cap less than $100 million completing their IPOs during the year, compared to 88 companies in the previous year. As a proportion of the IPO market, small cap listings represented 77% of the total number of new entrants, continuing the trend of an increasing proportion of the IPO market being made up of smaller cap companies, as was the case in both 2016 and 2017.

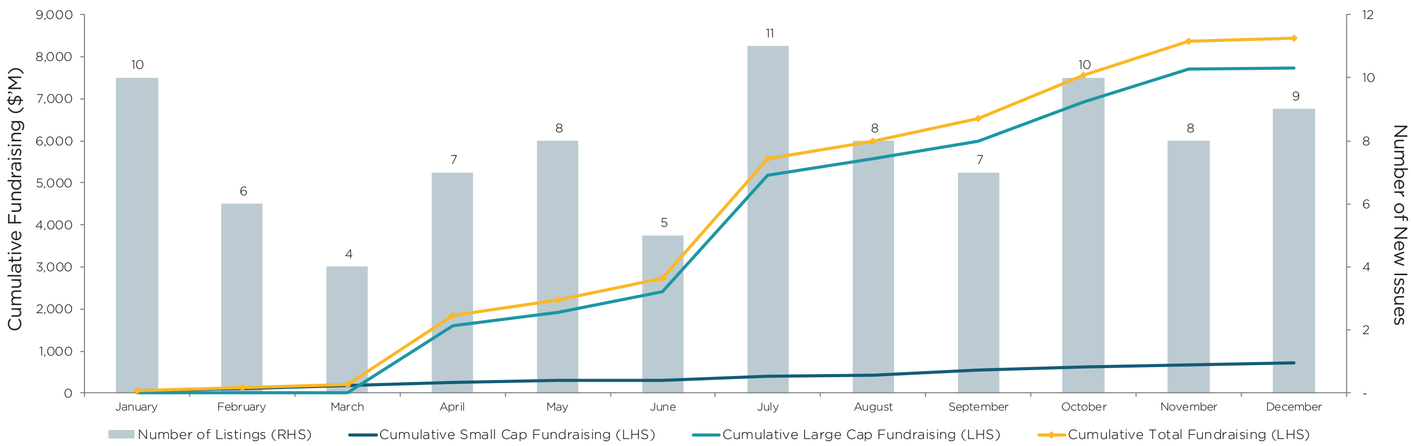
This total also remains well above the previous five year average of 50 listings.

The most active market segment was the $10-25 million bracket, with 31 listings making up 43% of all small cap listings for the year.

In terms of funds raised by small caps, the year saw a total of $0.71 billion being raised (or 8% of the total funds raised of $8.44 billion). This is a reduction compared to the total in 2017 of $1.14 billion (or 28% of the total funds raised in that year). Average funds raised by small caps also decreased for the year at $9.86 million in 2018 compared to $13.01 million in the previous year. This reflects the trend that small cap companies throughout the year failed to attract the same level of investor interest as in 2017.

The smallest market entrants (those with a market cap below $10 million) saw 12 successful listings in 2018 compared to 10 listings in 2017 and four listings in 2016. These very small listings contributed $61.41 million to the total funds raised, an increase of 23% on the previous year's result of $49.95 million, and were almost entirely represented by Materials stocks (11 listings).

The strong contribution of the Materials sector was not just limited to the smallest market cap stocks, the sector also had four listings with a market cap over $100 million on listing.



As well as being one of the few growing IPO segments for the year, the Materials sector recorded the most listings. Materials had 35 listings (compared to 29 in 2017) representing a significant 38% of all new IPOs (increased from 26% in 2017). The Software & Services sector had the same number of listings as in 2017, with 11 new entrants. However, these listings were still down compared to the peaks the sector experienced in 2015 and 2016.

Other notable sectors had a reduced number of listings during the year. These include the Investments sector with seven listings (2017: 10 listings), Technology Hardware & Equipment with three listings (2017: six listings) and Pharmaceuticals, Biotechnology & Life Sciences with three listings (2017: seven listings). A total of 20 different industry sectors had IPOs in 2018, the same number as the previous year.

Further evidence of some companies having difficulties raising capital is reflected in the total number of IPOs meeting or exceeding their capital raising goals. Only 72% of all new listings were able to meet their target, which was down on both 2017 (79% of targets met) and 2016 (83% of targets met).

On average, IPOs in 2018 experienced an underwhelming share price performance subsequent to listing. New market entrants recorded an average first day share price gain of 5% (10% within the small cap sector). Only 47 new listings, or 51% of all IPOs during 2018, ended their first day above their listing price. This is a rather poor performance given that the issue price of these IPOs was typically discounted.

Year end gains were disappointing as, on average, new IPOs for the 2018 year decreased in share price by 18% by year end. This is a worse performance than other market indicators, with the ASX 200 recording a decrease of 7% for the calendar year. This is the only time in recent history (previous seven years) that a loss has been made on year end performance for new IPOs. This performance is reflective of the overall market and is also indicative of the specific risk environment that new IPOs present.

There were 93 new listings on the ASX in 2018, with an increase of 106% of funds raised in comparison to 2017.

**93** LISTINGS

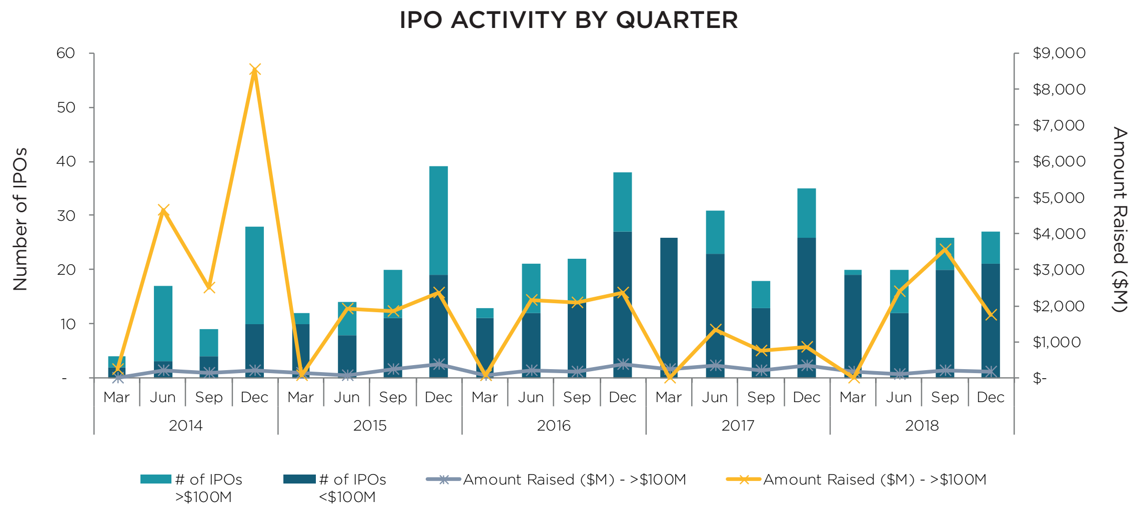
**$8.44** BILLION RAISED

**72** SMALL CAPS

**35** MATERIALS LISTINGS

# IPO ACTIVITY BY QUARTER

## Consistent activity throughout 2018




IPO activity for 2018 was fairly consistent with new listings occurring evenly across the year. This is in contrast to the trend in previous years of a significant number of companies listing in the final quarter.

The March quarter performed well with 20 companies listing, compared with the five year average of 15 companies listing in this quarter. All of the new market entrants in the first quarter, except one, were small caps. Due to the size of the entrants, 2018 had a slow start to the year in terms of funds raised, with the first quarter raising just 2.5% of the total for the year.

The June quarter was significantly down on the prior year with only 20 companies listing compared to 31 in 2017. However, due to the prevalence of larger listings during this quarter, it contributed 29.8% of the funds raised for the year. The year continued to further improve in the September quarter, with 26 new listings comprising 45% of the funds raised for the year. This quarter also had the highest average raising by quarter of $146.05 million.

In terms of year end share price performance, the June quarter was the worst performing quarter with an average year end share price decrease of 27% for companies listing in this quarter.

The December quarter saw 27 new companies listing, compared with the five year average of 33 companies. Interestingly, new market entrants in this quarter recorded an average first day share price decrease of 1% where typically day one gains are stronger due to issue price discounting. By year end, on average, there was a loss of 8% for these listings.

## THE ROAD AHEAD

The year end losses made by a significant number of IPOs in 2018 and general market conditions suggests that there is likely to be a reduction in IPO activity in the coming six months. Unsurprisingly, only 17 companies had applied to list on the ASX at the end of 2018, well down on the 37 that had applied at the same time in 2017. The companies that have applied are hoping to raise $179 million, which is a 70% reduction on the $603 million sought at the end of 2017.

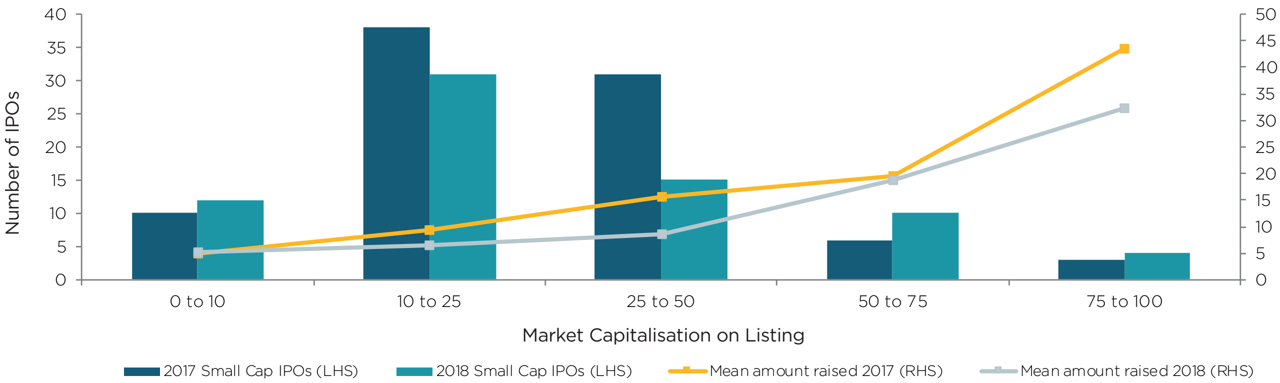
Materials stocks make up the majority of the proposed listings with seven listings in this sector (2017: nine), showing market sentiment still remains for this sector. Technology listings are down significantly with only three applications at year end. These three proposed listings are seeking only $19 million compared with the prior year where eight technology listings were seeking $228 million, demonstrating a significant reduction of new activity within this sector. The largest proposed listing in the pipeline is China Track Limited which is seeking $40 million. This company is part of the capital goods industry and is involved in the manufacture and supply of aftermarket replacement undercarriage parts for use in crawler type construction equipment.

Overall the pipeline appears to be soft and reflects the performance of IPOs and the wider market, evidenced in the final quarter of 2018 with sentiment perhaps being an important factor. Companies considering listing will need to clearly articulate their offerings and provide sound investor communication.

# IPOS BY MARKET CAPITALISATION

## A strong contribution by the small cap sector

NUMBER OF SMALL CAP IPOS BY MARKET CAPITALISATION




The number of large cap company listings (those over $100 million market cap) continued to fall in 2018. Overall large cap listings were down (2018: 21) compared to the previous year (2017: 22). Since its peak in 2014 with 39 new large cap listings, the total number has decreased every year. However, 2018 saw the return to market of very large listings, with three $1 billion+ market cap companies listing and raising a total of $4.75 billion.

The largest listing of this size was Viva Energy Group (ASX: VEA), one of Australia's leading integrated downstream oil companies. Viva raised a total of $2.65 billion, 87% of the high range target that was sought of $3.06 billion. This listing is the largest Australian IPO since the Medibank and Healthscope floats in 2014.

Disappointingly, these very large IPOs in 2018 have performed poorly since listing with an average year end loss in listing price of 27%.

There was a reduction in the number of small cap IPOs in 2018, in line with the general fall in IPOs. There were 72 new small cap listings compared to 88 in the prior year. However, small caps still made up 77% of all new listings in 2018. This activity continues the five year trend of small cap IPOs contributing an increasing percentage to the overall number of listings.

Companies that fell within the $25-$50 million bracket had the largest reduction in listings (2018: 15), down 52% on the previous year's listings (2017: 31). The most active market segment continued to be the $10-$25 million bracket, with 31 listings making up 43% of all small cap listings for the year and raising $204.27 million in total funds.

LARGEST IPOS WITHIN SMALL CAP SEGMENT IN 2018

| CODE | NAME | INDUSTRY | AMOUNT RAISED ($m) | MARKET CAP ($m) |
|---|---|---|---|---|
| TGO | TRIMANTIUM GROWTHOPS LIMITED | Software & Services | 70.00 | 94.87 |
| SIL | SMILES INCLUSIVE LIMITED | Health Care Equipment & Services | 35.00 | 57.93 |
| VEN | VINTAGE ENERGY LTD | Energy | 30.00 | 53.44 |
| HLA | HEALTHIA LIMITED | Health Care Equipment & Services | 26.85 | 63.03 |
| WWG | WISEWAY GROUP LIMITED | Transportation | 26.07 | 94.83 |
| PGX | PRIMERO GROUP LIMITED | Capital goods | 25.00 | 57.65 |
| STG | STRAKER TRANSLATIONS LIMITED | Media | 21.23 | 79.42 |
| DBF | DUXTON BROADACRE FARMS LIMITED | Diversified Financials | 21.11 | 65.30 |
| AGH | ALTHEA GROUP HOLDINGS LIMITED | Pharmaceuticals, Biotechnology & Life Sciences | 19.65 | 40.66 |
| 14D | 1414 DEGREES LIMITED | Capital goods | 16.31 | 60.30 |

# HISTORICAL ANALYSIS

## A look back at the past seven years

The 2018 year was an exception to the trend which, since 2012, has seen a year-on-year increase in the number of new market entrants. IPO activity over the last seven years reached its peak in 2017 with 110 new listings. In 2018 we saw a decrease in total listings to 93, however this still remains above the five year average of 88. A total of $8.44 billion was raised through IPOs during the year, up on the seven year average of $7.34 billion. The 2014 year saw the greatest amount raised at $16.14 billion due to the privatisation of Medibank.

The number of large cap listings has been decreasing, averaging 35 listings over the three year period to 2016, but then dropping down to 22 listings in 2017 and 21 in 2018. The three most represented sectors in large cap listings over the past seven years has been Investments (18 listings), Software & Services (16 listings) and Retailing (15 listings). The Insurance sector stands out with new companies raising, on average, $1.04 billion over this seven year period. The Utilities sector is also noteworthy with an average amount raised of $461.98 million per listing.

In the small cap market, there has been strong growth since 2014 in the number of new listings The average amount raised by these companies in this period was $12.76 million, with an average of 58 new listings per year during this time. It is no surprise that the small cap market is best represented in the Resources (137 new listings) and Technology sectors (69 new listings) in the past seven years.

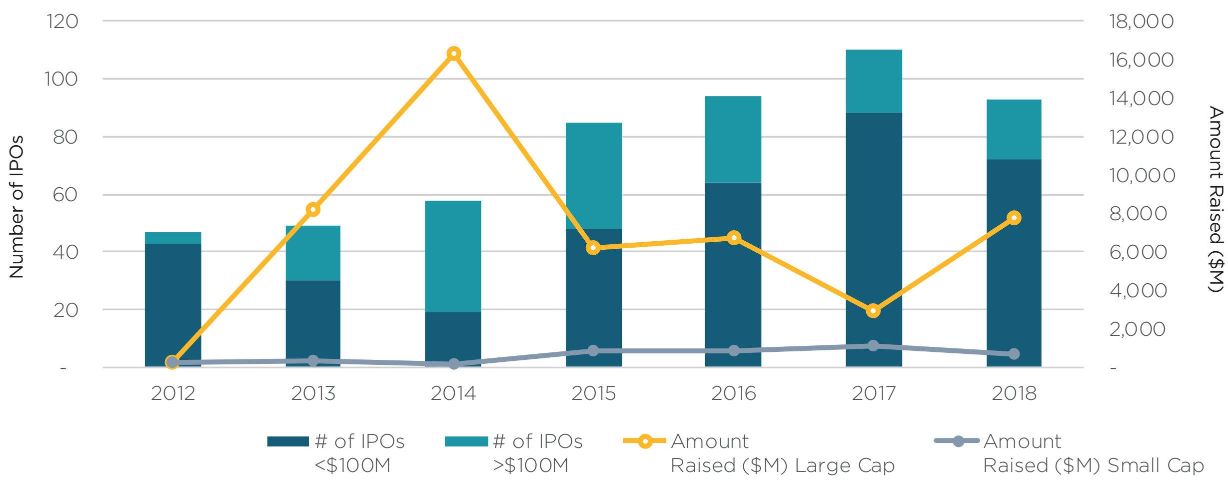
In terms of the year end share price performance, 2018 was the first time that, on average, new entrants recorded a year end loss over listing price. This is in contrast to recent years where IPOs have performed well in terms of average year end gains. The years 2015 (12% average year end gain), 2016 (16% average year end gain) and 2017 (46% average year end gain) were all very positive in terms of share price performance.

The Resources sector (comprising Materials and Energy) peaked in 2017 with an average year end gain of 68% for the companies listing. Outside of the 2017 result, average year end share price performance results have been poor, with three of the last seven years recording a loss and only an 8% average gain for the remaining three years. An average year end loss of 15% was recorded in 2018.

The Technology sector (comprising of Semiconductors & Semiconductor Equipment, Software & Services and Technology Hardware & Equipment) has had a number of strongly performing years across this seven year period. The 2013 (176% average) and 2017 (77% average) years provided solid returns to investors. However, in line with other key sectors, Technology also recorded an average year end loss of 14% in 2018.

Health and Biotechnology sector (comprising Health Care Equipment & Services and Pharmaceuticals, Biotechnology & Life Sciences) listings have been enjoying a sustained period of strong year end performance, averaging a year end gain of 37% over the three years until 2017. In 2018 the average year end loss over listing price was 11%.

### IPO ACTIVITY BY YEAR



# SECTOR ANALYSIS

## Two sectors dominate listings

| | ALL LISTINGS | | | | SMALL CAP ONLY | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| Industry | Number | Amount Raised | Number | Amount Raised | Number | Amount Raised | Number | Amount Raised |
| Automobiles & Components | - | - | 1 | 59 | - | - | - | - |
| Banks | - | - | - | - | - | - | - | - |
| Capital Goods | 4 | 59 | 5 | 79 | 4 | 59 | 4 | 33 |
| Commercial & Professional Services | 1 | 8 | 6 | 520 | 1 | 8 | 4 | 58 |
| Consumer Durables & Apparel | 1 | 6 | - | - | 1 | 6 | - | - |
| Consumer Services | 2 | 120 | 4 | 174 | - | - | 2 | 25 |
| Diversified Financials | 5 | 651 | 5 | 393 | 1 | 21 | 3 | 70 |
| Energy | 2 | 2,680 | 3 | 22 | 1 | 30 | 3 | 22 |
| Food & Staples Retailing | - | - | 1 | 8 | - | - | 1 | 8 |
| Food, Beverage & Tobacco | 3 | 28 | 5 | 46 | 3 | 28 | 5 | 46 |
| Health Care Equipment & Services | 4 | 74 | 6 | 360 | 4 | 74 | 4 | 72 |
| Hotels, Restaurants & Leisure | - | - | - | - | - | - | - | - |
| Household & Personal Products | 3 | 32 | 2 | 29 | 2 | 12 | 1 | 4 |
| Insurance | - | - | - | - | - | - | - | - |
| Investments | 7 | 2,811 | 10 | 1,476 | 1 | 4 | 4 | 165 |
| Materials | 35 | 1,421 | 29 | 310 | 31 | 190 | 28 | 307 |
| Media | 2 | 27 | 1 | 4 | 2 | 27 | 1 | 4 |
| Pharmaceuticals, Biotechnology & Life Sciences | 3 | 33 | 7 | 72 | 3 | 33 | 7 | 72 |
| Real Estate | 1 | 185 | 1 | 11 | - | - | 1 | 11 |
| Retailing | 2 | 6 | - | - | 2 | 6 | - | - |
| Semiconductors & Semiconductor Equipment | 2 | 84 | - | - | - | - | - | - |
| Software & Services | 11 | 160 | 11 | 161 | 11 | 160 | 10 | 136 |
| Technology Hardware & Equipment | 3 | 21 | 6 | 66 | 3 | 21 | 6 | 66 |
| Telecommunication Services | 1 | 6 | 2 | 17 | 1 | 6 | 2 | 17 |
| Transportation | 1 | 26 | 2 | 226 | 1 | 26 | - | - |
| Utilities | - | - | 3 | 55 | - | - | 2 | 30 |
| Total | 93 | 8,438 | 110 | 4,088 | 72 | 711 | 88 | 1,146 |

There was a noticeable concentration by industry in listings in 2018, with the majority of listings coming from just two sectors. The Materials and Software & Services sectors combined to make up 49% of all new listings for the year. A total of 20 different industry sectors were represented during 2018, the same number as the prior year. Interestingly, there were two sectors which had multiple listings in the prior year yet little activity this year. Those sectors were Commercial & Professional Services (one listing in 2018, six listings in 2017) and Utilities (no listings in 2018, three listings in 2017).

The Materials sector continued to grow in size in terms of new listings, with 35 in total. The total amounts raised by the sector contributed $1.42 billion or 17% of the total raised by all companies. This was a sharp increase on the previous year which had been considered a strong year for the sector. In relation to small caps, the sector made up 43% of small cap listings and 27% of small cap fundraising. On average these small cap Materials listings performed poorly, with an average year end loss of 24%. It will therefore be interesting to see if this affects investor sentiment going forward.

Software & Services listings remained steady at 11 listings during the year. All of these listings were within the small cap bracket, with two listings having a market cap of approximately $90 million and the remaining listings having a market cap of $41 million or less. There was only one large cap listing in the Software & Services sector in 2018.

The only other sectors with five or more listings were Investments (seven listings) and Diversified Financials (five listings), further demonstrating the lack of IPO activity in remaining market segments.

The majority of segments underperformed for the year resulting in an average year end loss, which was consistent with the overall trend for the year. Only four sectors ended the year with an average gain.

# IPO SUBSCRIPTION RATES

## Small caps listings well supported

Subscription rates were reasonable in 2018 and broadly in line with what was experienced in 2017, with 72% of all IPOs meeting their subscription targets. Total funds raised during 2018 were, on average, 90% of their targeted subscription amounts. However, this percentage drops to 81% when L1 Long Short Fund Limited is excluded, which closed massively oversubscribed.

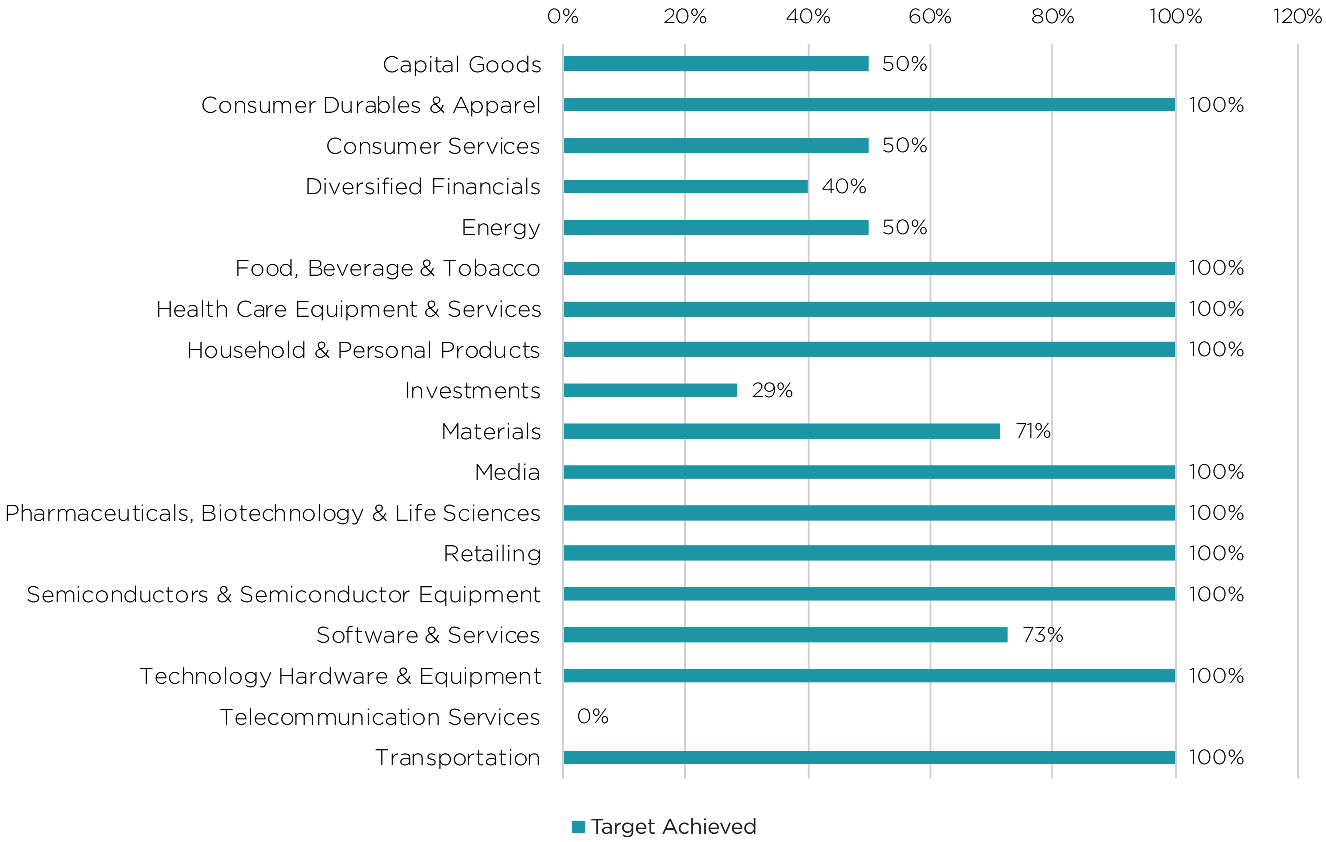
The small cap sector contributed strongly to overall subscription rates with 55 of 72 small cap companies in total obtaining or exceeding their goals, with all listings in the $75-$100 million bracket meeting their target. All of the sectors on average obtained over 93% of the funds sought, except for the $50-$75 million bracket at 84%.

A total of 10 different industry sectors overall had all their constituent companies meet their subscription targets, up from seven in the previous year. Only three sectors had a success rate of less than 50% for companies meeting their targets, being Diversified Financials, Investments and Telecommunication Services. The Materials sector was slightly below average in terms of subscriptions with only 71% of its entrants meeting or exceeding their targets, down from 79% previously. Software & Services had 73% of companies achieve their target subscriptions.

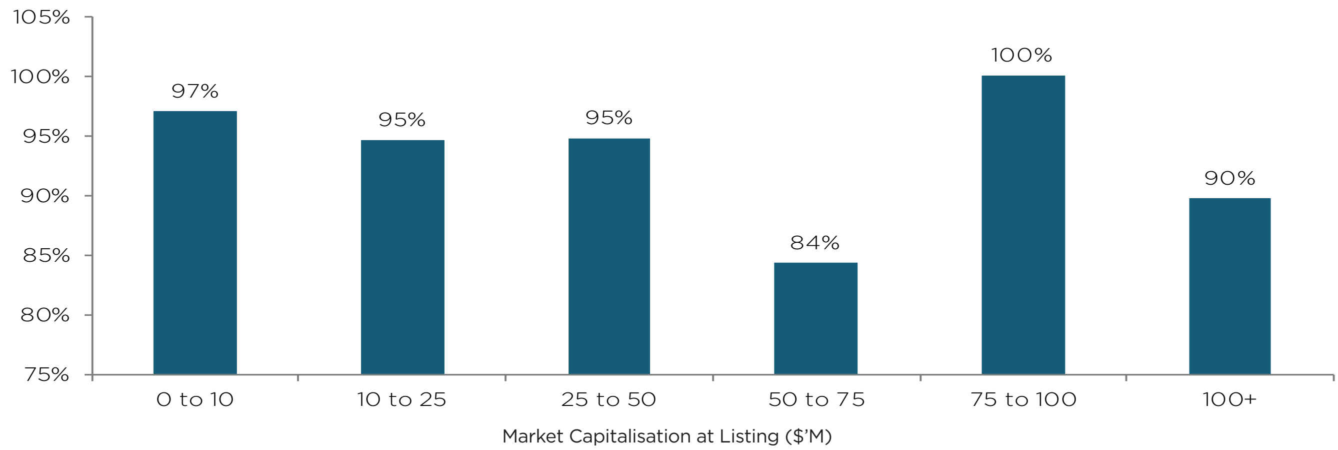
Underwritten, or partially-underwritten offers, met or exceeded their targets 81% of the time which compared favourably to those offers not underwritten, which only reached 70%. The underwriting of offers continued to decrease, with only 17% of offers being underwritten in 2018. This figure has steadily dropped each year since 2015 when it was at 44%.

While year end market performance showed losses for most listings, those that met their subscription targets tended to perform better than other listings. On average those listings that met their targets had a modest 12% average year end loss, compared to a much larger 26% for those who did not. This is not surprising, as the offers that investors were most interested in backing ended up being the better performing listings.

### % OF SUBSCRIPTION TARGET ACHIEVED BY SECTOR



### % OF SUBSCRIPTION TARGET ACHIEVED [1]




[1] Based on the funds target being the midpoint of any allotment range (some companies do not have a range). This means actual fundraising can exceed "targeted" fundraising (i.e. oversubscription).

## **100%** OF SUBSCRIPTION TARGET ACHIEVED

CONSUMER DURABLES & APPAREL

FOOD, BEVERAGES & TOBACCO

HEALTHCARE EQUIPMENT & SERVICES

HOUSEHOLD & PERSONAL PRODUCTS

MEDIA

PHARMACEUTICALS, BIOTECHNOLOGY & LIFE SCIENCES

RETAILING

SEMICONDUCTORS & EQUIPMENT

TECHNOLOGY HARDWARE & EQUIPMENT

TRANSPORTATION

# SHARE PRICE PERFORMANCE

## Overall a poor performance for 2018

Share price performance by IPOs for the year was poor by recent historical standards, with only 20 of 93 listings for the year posting a year end gain. Companies, on average, recorded a loss of 18% against their issue price by the end of the year, with 23 listings recording a loss of 50% or greater for the year. This is not dissimilar to the overall market performance, with the ASX 200 dropping 10% in value from the peak reached in August 2018 and the All Ordinaries index showing similar results.

The small cap segment specifically had an average decrease of 22% compared to the initial listing price, slightly worse than the overall result. These results are in contrast to 2017 and recent years where new IPOs have outperformed the overall market when comparing year end results. The best performing small caps stock for the year were Adriatic Metals PLC (ASX:ADT, +188%) and Exopharm Limited (ASX:EX1, +175%). Other strong return performers included Atomos Limited (ASX:AMS, +96%) and Keytone Dairy Corporation Limited (ASX:KTD, +75%).

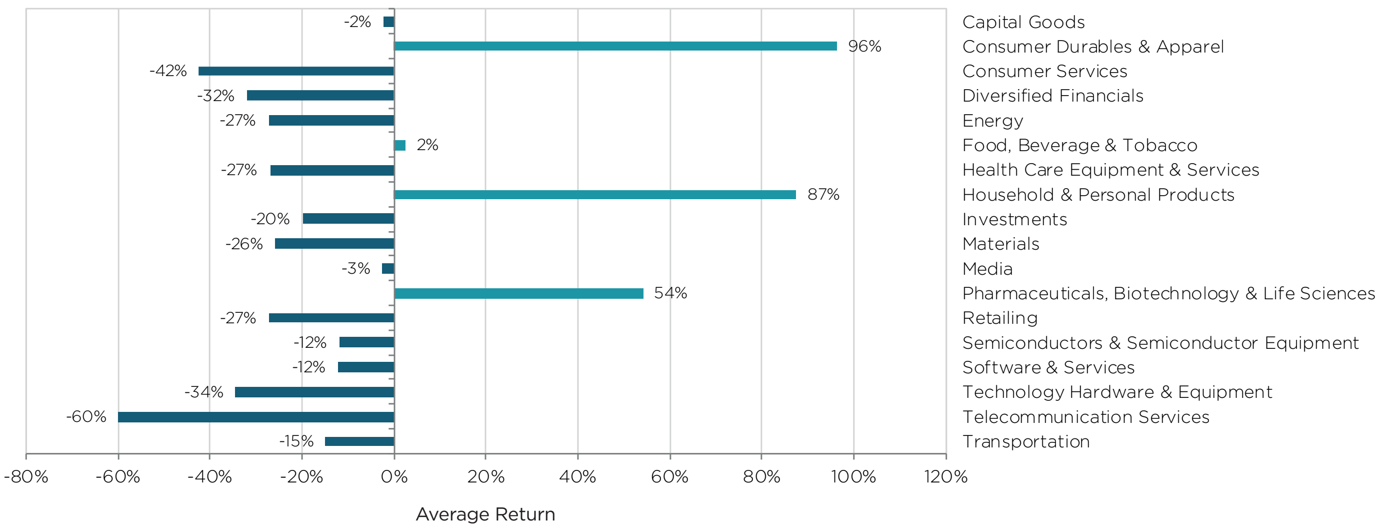
Of the large cap stocks, Elixinol Global Limited (ASX: EXL) was the standout performer, closing the year at $2.50 representing a gain of 150% on issue price. This was one of only three large cap stocks which recorded a year end gain, with the other two only recording gains of 7% or lower.

Some segments performed strongly during 2018, such as Household & Personal Products with an average year end gain of 87%. Pharmaceuticals, Biotechnology & Life Sciences also outperformed other segments with an average year end gain of 54%. The sole listing for the Consumer Durables & Apparel segment also performed well, with Atomos Limited having a year end gain of 96% on listing price.

In looking at the segments with five or more IPOs for the year, there was the Materials sector (26% average loss for the year), Software & Services sector (12% average loss for the year), Investments sector (20% average loss for the year) and Diversified Financials sector (32% average loss for the year).

In terms of first day performance, 47 companies recorded first day gains (2017: 69). Of these, only two had a first day gain of at least 100% — Exopharm Limited (ASX: EX1, +160%) and Althea Group Holdings Limited (ASX: AGH, +180%) with both IPOs going on to record strong year end gains. There were 37 IPOs that had poor first days with four listings recording losses of 25% or more, a similar result to the 2017 year.

### 2018 IPO SHARE PRICE PERFORMANCE BY INDUSTRY [1,2]




[1] Reflects the overall gain from a notional investment of $1 in each IPO, based on the share price at 31 December 2018.
[2] Data not presented for industry sectors with less than three IPOs.

# RESOURCES SECTOR ANALYSIS

## Western Australia leads the way

**BRAD MCVEIGH**
Partner, Corporate & Audit Services
**PERTH**

The resources sector, which comprises both Materials and Energy stocks, continued to contribute a large number of IPOs during 2018. Overall there were 35 new resource listings for the year raising a total of $4.08 billion. Viva Energy Group led the way raising $2.65 billion. However, outside of this only six companies raised over $10 million, with there being a significant number of small listings overall.

Share price performance post-listing was underwhelming. On average resource IPOs posted a first day gain of 2% but the average result by the end of the year was a loss of 27%.

On a state-by-state basis, Western Australia led the way with 27 new resource listings across the year raising $394.95 million. Western Australian listings had the strongest day one gains of any state averaging 12% but suffered an average year-end loss of 26%. The other traditional mining state, Queensland, only had one listing in 2018, Mako Gold Limited, which raised $6 million. Victoria recorded two listings this year compared to five in 2017. New South Wales had a total of four IPOs raising $998 million in total with an average year end loss of 27% over listing price.

For the first three quarters of 2018, Resources subscription rates were solid with an average of 92% of the amounts sought being successfully raised.

The December quarter however saw subscription rates fall dramatically to just 68% on average which coincided with overall market conditions in the final quarter. This activity was also against the backdrop of the December quarter being the only quarter to record a significant average first day loss of 8%.

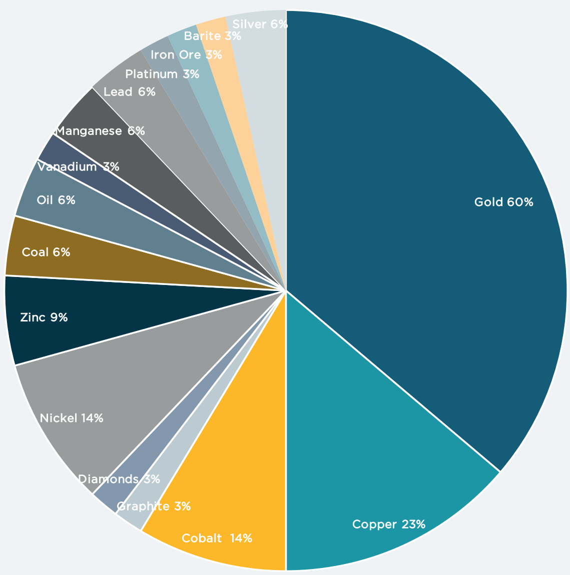
It was the March quarter that saw the worst year end share price performance against listing price with an average loss of 50%. These companies experienced the longest period of the downturned market given that they listed in the first quarter of the year.

Resource IPOs were heavily weighted towards gold with 21 of the 35 listings having significant gold projects (including polymetallic explorers seeking multiple commodities). Copper projects appeared in 23% of resource IPOs, and both Nickel and Cobalt were well-represented with five listings each. It is worth noting that there were no new lithium IPOs in the current year perhaps correlating with price retractions from historical highs and uncertainty over the extent of supply side issues.

There are seven resource listings in the pipeline so far for 2019, compared with nine at this time last year, which is a significant proportion of the overall pipeline at the date of this report. With the recent rise in gold price to A$1,800+ per ounce, we see that the gold sector is likely to continue to dominate the IPO space.

*Disclaimer: The ASX GICS codes in 2018 included two IPOs as Material listings which were not directly involved in the mining, exploration or oil and gas industries. For the purposes of the analysis within the IPO Watch Report, these listings have been included within the respective sector as opposed to within Materials.*

## IPO BY COMMODITY




Over half of the listings included Gold projects (60%). Copper (23%) and Cobalt (14%) also made up more than a third of resources IPOs.

GALILEO Mining

## GALILEO MINING LIMITED (ASX:GAL)

# CASE STUDY

Stars align for Galileo Mining as IPO bolsters WA market

**$15 MILLION RAISED**

Despite lingering uncertainty on the short-term outlook of equity markets, a public float proved all too attractive for West Australian-based miner, Galileo Mining Limited (ASX: GAL), in May 2018. Fortunately, the decision was met with enthusiasm from investors who helped the cobalt and nickel-focused exploratory company raise $15 million in a heavily oversubscribed IPO.

According to Galileo Mining's managing director, Brad Underwood, the decision to pursue an IPO was carefully considered by the company's board and stakeholders, particularly amid a backdrop of patchy business confidence in the local market, and the implications associated with declining domestic and global sharemarkets.

"We took confidence from the fact that we had assembled a strong, experienced team who adopted a number of strategies intended to mitigate transactional risk," he said.

Since its incorporation in 2003, the company has been exploring mineral projects in-house at the Creasy Group. In order to continue the development of these projects, it needed to raise funds by way of a public listing. Galileo's key stakeholders took the view that projects had progressed to a stage where it could support an appropriate valuation from the market and attract interest from investors and the mining community at large.

Mr Underwood said that despite the success of the listing for both investors and the staff involved, he and the board are cognisant of not resting on their laurels. Listed entities attract far more regulatory obligations and stakeholder liaison compared to private companies.

"A listed company needs to be well prepared to deal with continuous disclosure, financial reporting and corporate governance after the listing date, and it is vitally important they have the mechanisms and skills in place to meet these obligations prior to listing," he said.

Looking ahead, Galileo intends to focus its efforts on exploring for cobalt, copper and nickel resources at its Norseman and Fraser Range projects over the coming three to five years. In the longer term, the goal is to develop mining operations at these projects, provided exploration results support the economic viability. Mr Underwood said much of this wouldn't be possible without having undertaken the IPO.

"Since listing, Galileo's corporate brand and reputation has grown exponentially, and this has indirectly allowed us to attract and retain premium talent which is critical to future success.

"The greatest advantage to listing however, is the ability to access a level of capital required to advance our projects to the next level," he said.

Mr Underwood praised Norman Neill and his team at HLB Mann Judd in Perth and said Mr Neill, alongside other key advisors, helped to ensure a smooth listing which – perhaps most critically – was both timely and effective.

"The role requires rigorous financial and accounting due diligence to help disclose the necessary financial information required for the prospectus.

"The role of the investigating accountant is an integral part in the listing process. If you're asking organisations or individuals to invest in your company they need to be able to make an informed decision and work out if the numbers stack up for them."

The HLB Mann Judd Audit and Assurance team provided a robust financial review and transparency to the preparation for a float. As a private entity Galileo had not been audited for some time, so a reasonable amount of work and liaison with HLB Mann Judd was required to ensure the financial information was at the standard expected for a listed company.

"That HLB Mann Judd were able to quickly understand the operations and processes of Galileo in a short space of time, was crucial to the success of the listing.

"The role HLB Mann Judd played in due diligence and the way they worked with the legal counsel involved, helped ensure a smooth and efficient process," he said.

"We took confidence from the fact that we had assembled a strong, experienced team who adopted a number of strategies intended to mitigate transactional risk."

**- Brad Underwood, Managing Director, Galileo Mining**

**SIMON JAMES**
Partner, Corporate Advisory
**SYDNEY**

# THE PROSPECTUS OF TOMORROW

## How the new Accounting Standards may impact your IPO

**Two new Accounting Standards will affect financial results in different ways. Companies looking to list should be aware of the impacts as ASIC requires consistent disclosure of financial information.**

The overarching principle under ASIC's Regulatory Guide 228, is that the information contained in a prospectus should be clear and concise. To be so, ASIC requires the financial information to be comparable. To be comparable the financial information must be prepared under the same accounting standards and policies.

### The new accounting standards

The new revenue standard, AASB 15 *Revenue from Contracts with Customers,* applies to reporting periods beginning on or after 1 January 2018, and may have a significant impact on the revenue recognition policies of entities that earn contracted revenues. For most companies affected by the change in the standard, revenue is more difficult to recognise and therefore entities will have more deferred revenue sitting as a liability on their balance sheet and historical retained earnings will be lower.

AASB 16 *Leases* applies to reporting periods beginning on or after 1 January 2019. All leases (including property rental) will be recognised as liabilities, therefore impacting the balance sheet and gearing of companies. The previous rental expense will be classified as a depreciation charge of the 'right of use asset' that is also created when the lease is signed.

### What impact will the new accounting standards have on the decision to include forecast information?

A prospectus which paints a picture of future growth and strong returns will often be considered an enticing investment opportunity when compared to a company showing only historical financial information.

ASIC's RG170 requires that any forecast financial information disclosed in a public document must have "a reasonable basis". Preparing forecasts based on assumptions that will pass the reasonable basis requirements can be time consuming and costly both for the internal team and the Independent Accountant during an already busy time.

As of 30 November 2018, 25% of the 84 entities which made successful initial public offerings (IPO) on the ASX included forecast financial information within the prospectus.

For forecast financial information prepared for the year ending 30 June 2019, the new revenue standard will apply, which brings with it an issue regarding the comparability to the historical financial information prepared and audited under the old revenue standard. For certain companies the differences between the accounting policies will have a material impact which would likely require the restatement of the historical financial information under the new revenue standard to comply with the requirements of RG228.

The same will occur for the year ending 30 June 2020 with the introduction of the new Lease standard.

These new standards will impact revenue, profit and ratios which may significantly influence investors' decision-making, as historic profit and loss accounts and balance sheets could look different under the new standards.

### Going forward

While we have discussed the impact of the new standards on the inclusion of forecast financial information in prospectus', going forward the historical financial information will also no longer be comparable and, subject to any decision made by ASIC in the future, will require restatement. The earlier the conversions, the better. This may fundamentally change the look and feel of the profit and loss and balance sheets included within the prospectus.

**JUDE LAU**
Partner, Audit & Assurance
**MELBOURNE**

# SEEKING IN-PRINCIPLE ADVICE FROM THE ASX:

## A consideration for any proposed listing

**In December 2016, a series of changes took effect which impacted the requirements for admission to the ASX official list.**

One of the changes centred on seeking in-principle advice from the ASX if it is anticipated that there may be issues about an entity's suitability for admission to the official list. This change has had its greatest impact on Early Stage Enterprise (ESE) and those entities with operations in an emerging market (or referred to as emerging market issuers, EMI), whereby a greater level of upfront scrutiny of the entity's suitability is undertaken by the ASX.

The ASX introduced in-principle advice to ensure it:

- continued to be a market of quality and integrity
- remained an internationally competitive market, particularly at a time where more companies are considering cross-border international listings
- upheld its listing admission standards as well as continued to support and provide a pathway for ESE to list and access capital.

### What does the application process involve?

A prescribed form (the application) must be completed. The application is available for review and download from the ASX website. The details required to complete the application are comprehensive. For any company completing the form, there are several noteworthy points for consideration:

### Directors and management

We have observed that the ASX has become increasingly critical in its assessment as to whether a director or a proposed director is able to meet the good fame and character requirements. The ASX is looking for companies that have directors with proven ASX company and corporate governance experience. Concurrently, management must demonstrate that they are ready for the entity to go public and attend to the necessary compliance requirements expected of being a listed company.

### Corporate advisers

Corporate advisers refer to the company's legal counsel, auditor, investigating accountant and lead manager/underwriter. It is our experience that the

ASX has been strongly encouraging companies to engage the services of reputable and quality advisers. Companies that have engaged advisers who have strong track records working with ASX-listed companies and understand the IPO process prior to, and post-listing, tend to be preferred by the ASX.

### Business operations

The details provided in the application are akin to those needed to prepare the prospectus. A comprehensive overview of the business operations helps the ASX assess the entity's suitability. EMI are increasingly subject to a higher level of review as there are often more risks associated with such entities.

### Financial statements

The level of financial information needed is similar to those which would be ordinarily included in the entity's prospectus. Additionally, the financial information included must be audited or reviewed. In our experience, having audited/reviewed financial information as part of this process has often assisted with the eventual prospectus preparation process. To recap, a minimum of two years' worth of audited financial information is required and it must be compliant with International Financial Reporting Standards.

Upon completion, the application is submitted to the ASX for assessment and consideration. The ASX charges a fixed fee of $5,000 plus GST for providing the in-principle advice in advance of, and in connection with, an application for admission to the official list.

Advisers of entities seeking to list are strongly encouraged to consider applying to the ASX for in-principle advice prior to listing. It may uncover or address any issues before going through the rigorous effort and expense of lodging an application for admission to the ASX official list.

# Recent Transactions

## HLB Mann Judd is proud to have assisted in the following transactions in the past 12 months

# ABOUT HLB MANN JUDD

The HLB Mann Judd Australasian Association consists of nine member firms and three representative firms across Australia, New Zealand and Fiji. It represents a group of specialists providing business advice and services to a wide range of business organisations and private clients.

HLB Mann Judd is a member of HLB International, the global advisory and accounting network. HLB has a history of innovation, collaboration and is dedicated to helping clients grow across borders. Through the power of 25,000 professionals across 150 countries, HLB combines local expertise and global capabilities to service clients' needs.

HLB Mann Judd firms offer a comprehensive range of professional services to listed clients and companies pursuing an IPO. In addition to acting as corporate advisers, investigating accountants, and tax and accounting advisers, we have extensive experience in assisting clients in their preparation for an IPO and in evaluating the benefits and feasibility of an IPO against alternative strategic options.

Our assistance to companies pursuing an IPO typically includes:

- Investigating accountant's reports on historical and forecast financial information
- Independent expert's reports
- Analysis and advice on feasibility and alternatives to an IPO
- Pre-IPO diagnostic review
- Corporate and structuring advice
- Financial and taxation due diligence
- Valuations
- Company and shareholder tax advice and planning
- Accounting advice.

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TOGETHER WE MAKE IT HAPPEN