MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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Calls for simpler processes to ensure viability of LEAP to ACE transfers

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Five years since Bursa Malaysia introduced the Leading Entrepreneur Accelerator Platform (LEAP) to give start-ups and small and medium enterprises (SME) an alternative platform to raise capital, there is finally momentum on the long-awaited framework to facilitate the transfer of eligible listings from LEAP to the ACE Market.

"The framework is long overdue [and is] definitely a step in the right direction as LEAP Market-listed companies will now have a framework to elevate themselves to the ACE Market," says Minority Shareholders Watch Group (MSWG) CEO Devanesan Evanson, noting that LEAP Market Listing Requirements came into effect on June 16, 2017.

"Since all investors can participate in the ACE Market (as opposed to only sophisticated, high-net-worth individuals for the LEAP Market), there will be greater vibrancy, more liquidity and better price discovery. All this will augur well for the LEAP Market companies that can be listed on the ACE Market. Also, minority shareholders will have more companies to invest in," he tells *The Edge* when asked to comment on the Aug 10 consultation paper issued by Bursa.

Some RM252.55 million has been raised by 51 initial listings on the LEAP Market. As at end-July, there are still 46 corporations listed on LEAP with a combined market capitalisation of RM5.19 billion. While many LEAP companies may trade below their intrinsic value due to a lack of liquidity, managed network and security services company MyKRIS Asia Sdn Bhd, for instance, was acquired for RM157.5 million by Maxis Bhd last October following price discovery on LEAP.

"If the framework is finalised, more SMEs will be rushing into the LEAP Market because it's a good way to get positive exposure and the low requirements to enter also make it attractive. All they have to do is provide an information memorandum instead of a full corporate prospectus.

"Now that the framework is in place, although not complete, it will encourage potential LEAP debutants to feel positive about ACE prospects at some point too," says Datuk Chong Toh Wee, managing director of Cosmos Technology International Bhd, an integrated water technology solutions provider that debuted on LEAP in March 2020 and in July 2021 announced plans to seek an ACE transfer.

Similarly, Penang-based automated machine vision solutions provider TT Vision Holdings Bhd, which listed on LEAP in May 2019, received Bursa's nod to delist from LEAP in April, with the aim of listing on ACE.

While the release of a public consultation paper has been lauded by some as a step forward for LEAP companies seeking to tap a bigger pool of investors to meet their funding needs, there are also those who say "it's as good as [having] nothing". Industry players contacted by *The Edge* also point out grey areas in the proposed framework that need to be addressed by the regulator.

Devanesan: The framework is long overdue [and is] definitely a step in the right direction

Fredericks: The requirements of the draft framework in its present form are such that the costs for a transfer are likely to be equal to or even higher than a direct ACE listing

Wong: We should have a more accommodative transfer listing framework, instead of a stringent process treating the entire journey for [a transfer to an ACE listing] as a fresh application

Higher cost to relist on ACE and onerous requirements

Among other things, the regulator needs to relook at how much it could potentially cost companies seeking to transfer from LEAP to ACE, a market observer says, referring to the cost of exiting LEAP and subsequently seeking to relist on ACE.

The cost of relisting can vary widely. The underwriting fee typically makes up the largest direct cost that a company incurs when it seeks listing. This is followed by other expenses such as legal, accounting and tax costs that significantly add to the cost of going public.

"To get listed on the LEAP Market, it costs companies approximately RM1 million to RM1.2 million. This cost doubles when they seek listing on the ACE Market, which is typically around RM3 million to RM3.5 million," the observer tells *The Edge*.

Bursa's proposed framework does not provide details on these fees, specifically whether there is any cost reduction for a LEAP company versus a non-listed entity also seeking an ACE or Main Market listing from zero.

This is important given that 43 LEAP companies only made a cumulative profit of RM138.3 million for FY2021, which averages out to RM3.2 million each, back-of-the-envelope calculations show. This essentially means that delisting from LEAP and subsequent ACE relisting fees and expenses could completely wipe out a LEAP company's entire net profit made in a year.

The amount of fees is still sizeable even though fresh capital can be raised when listing on ACE, given that there is a difference in free float requirement between the LEAP Market (minimum 10%) and the ACE Market (25% + 200 shareholders) (see Table 1).

Thinkat Advisory Sdn Bhd managing director Karl Fredericks concurs that cost will remain a concern for companies.

"The requirements of the draft framework in its present form are such that the costs for a transfer are likely to be equal to or even higher than a direct ACE listing.

"Hence, from a cost perspective, companies may be reluctant to incur duplicate expenses. For example, the draft framework requires for an exit offer to be carried out coupled with a full prospectus — these will incur very high costs for the transfer applicant," he says.

Delisting together with an exit offer is likely to rack up bills for companies, says Fredericks, noting that the draft framework also imposes onerous requirements, which could result in a transfer being more cumbersome and costly than seeking a fresh listing on the ACE Market.

Since the LEAP and ACE markets have different regulatory regimes meant for different groups of investors, Bursa's proposed framework requires companies that withdraw from LEAP to make an exit offer to allow sophisticated investors to exit from the LEAP Market in a fair and reasonable manner if they do not wish to continue participating in the ACE Market following the transfer. Bursa is also asking feedback on whether companies seeking an ACE transfer should be listed for at least two years on LEAP.

Table 1

Listing requirements for ACE and LEAP markets

ASPECT	ACE	LEAP
Public spread	At least 25% of the company's total number of shares, and Minimum of 200 public shareholders holding not less than 100 shares each	At least 10% of the company's of ordinary shares at admission
Financial position & liquidity	Sufficient level of working capital for at least 12 months from the date of prospectus	Not applicable
Type of investors	Public	Sophisticated investors only
Quantitative admission criteria	No minimum operating track record or profit requirement	No minimum operating track record or profit requirement
Core business	Core business must not be holding of investment in other listed companies	A clearly identifiable core business
Sponsorship	• Engage a sponsor to asses the suitability of lisiting • Sponsorship is required for at least 3 full FY post listings and the sponsor who submitted the listing application must act as the sponsor for at least 1 full FY following upon admission.	Engage a sponsor to asses the suitability of lisitng • Secure and maintain a continuing adviser for at least 3 years post listing and the approved adviser who submitted the listing application must act as the continuing adviser for at least 1 FY upon admission.

Table 2

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Key processes of the proposed transfer framework

1 **Appointment of sponsor for the transfer of listing to the ACE Market ("Proposed Transfer")**

2 **Approval of board of directors**
- Board of directors to deliberate on, and approve, the proposed transfer, including the withdrawal of listing from the LEAP Market
- Announce the proposed transfer including withdrawal of listing from LEAP Market

3 **Approval of shareholders**
- Issue a circular containing the prescribed information
- Convene a general meeting to obtain shareholders' approval

4 **Exit offer**
- Submit offer document to SC for the exit offer
- Submit independent advice letter/circular to SC for the exit offer

5 **Pre-admission consultation**
- Prepare and submit the pre-admission consultation pack at least 1 month prior to the submission of the listing application
- Undertake pre-admission consultation with the Exchange

6 **Submission**
- Submit the listing application and prospectus together with supporting documents to the Exchange

7 **Approval**
- If approval is obtained from the Exchange, announce the decision and provide tentative timelines to implement the proposed transfer and exit offer
- If application is not successful, to announce the decision and remain listed on the LEAP Market

8 **Implementation**
- Issue the offer document for the exit offer and complete the exit offer
- Issue the prospectus
(i) Closing of application for the IPO shares
(ii) Balloting of application

9 **Allotment and transfer of the shares**

10 **Delisting of the securities from the LEAP Market and listing of the securities on the ACE Market**

According to the 10 steps in Bursa's proposed framework appended in the public consultation paper, LEAP companies wanting to migrate to ACE are required to submit an offer document to the Securities Commission Malaysia for the exit offer and submit an independent advice letter/circular to the SC for the exit offer (see Table 2).

Fredericks, for one, agrees with Bursa's proposal on the utilisation of proceeds and that LEAP companies should be listed for at least two years before a transfer, but reckons that the exit offer to sophisticated investors "would be hard to justify".

Eligible sponsors

Astramina Advisory Sdn Bhd founder and managing director Datin Wong Muh Rong says the proposed transfer listing framework "totally ignores the role played by the current sponsors of LEAP Market companies".

"When LEAP companies are migrating to ACE, Bursa should allow the existing sponsors, who have been supporting these SMEs over the years, to continue to accompany them ... Why is there a need to have another sponsor to reassess the suitability of a listing on the ACE Market?" she asks.

From where she stands, corporate finance (CF) firms should be allowed to undertake corporate exercises such as a private placement and offer-for-sale on the ACE Market, where they can work with existing investment bankers in the market as underwriters in order to raise fresh capital and increase public spread for these companies.

If CF advisers are not allowed to grow with LEAP companies on the ACE Market, and LEAP companies have to delist and resubmit listing applications for ACE, it "defeats the main objective of having a LEAP Market in the first place", Wong says.

"As it is, LEAP companies need to delist and relist. For a delisting, they need CF advisers like us to make an exit offer. For the relisting, they need to get investment banks (IBs), which is expensive, costing them roughly RM1.5 million. Essentially, companies will be paying fees twice and, obviously, this will wipe out their profits. Also, I don't think cutting fees per se is the solution, but to simplify the migration process. If CF advisers can continue to do the job (to be the sponsors for these companies when they are migrating to the ACE Market), I believe the overall transfer costs can be halved," Wong says.

"We should have a more accommodative transfer listing framework, instead of a stringent process treating the entire journey for [a transfer to an ACE listing] as a fresh application. The highest expenses are due diligence. The current sponsors are already very familiar with the companies. If you ask the IBs to step in and conduct a due diligence, it will take more time and money as this is an additional obligation. Regulators should give more opportunities to the existing CF firms, who are licensed by the SC and Bursa, to grow together with the LEAP companies," Wong says. "All capital market practitioners, whether IBs or other licensed entities, should be given equal opportunities to service their clients and it should not be restricted by existing rules which, if need to be amended, should be considered to be renewed or revised in line with capital market development."

Price discovery mechanism unclear

Market observers also reckon that details of the price discovery mechanism proposed in the transfer listing framework need to be spelt out.

"At this point, this is one of the technical issues that is still in the clouds that requires greater attention from the regulator. It is really not a straightforward issue," says an observer. "The issue here is if you move from one market (LEAP) to another market (ACE), there has to be an equilibrium price that everyone will accept. There is no one way of doing this," the observer adds.

The proposed framework states that transfer applicants must ensure there is a clear price discovery mechanism for the transfer applicant's shares which will be transferred to the ACE Market. Such price discovery must reflect the current valuation ascribed to a similar business or sector as the transfer applicant and be supported with sound and verifiable bases and justifications.

"As the LEAP Market caters only to sophisticated investors, the trading volume and liquidity of the shares in LEAP listed corporations are generally low.

"The price discovery mechanism, which is typically based on demand and supply of the transfer applicant's shares, would enable the transfer applicant to readjust the value of its shares in conjunction with the transfer to the ACE Market. A clear price discovery mechanism must also be disclosed in both the circular and prospectus, to ensure informed investment decisions by shareholders and potential investors," Bursa says in the consultation paper.

"How the price discovery mechanism will work in practice is yet to be seen and may be challenging for companies trading at high valuations on the LEAP Market," Fredericks says.

Bursa welcomes written comments on the issues set out in the public consultation paper until Sept 21. E