



Discussion of the Small Business Financing Crisis

Malaysian Presentation:

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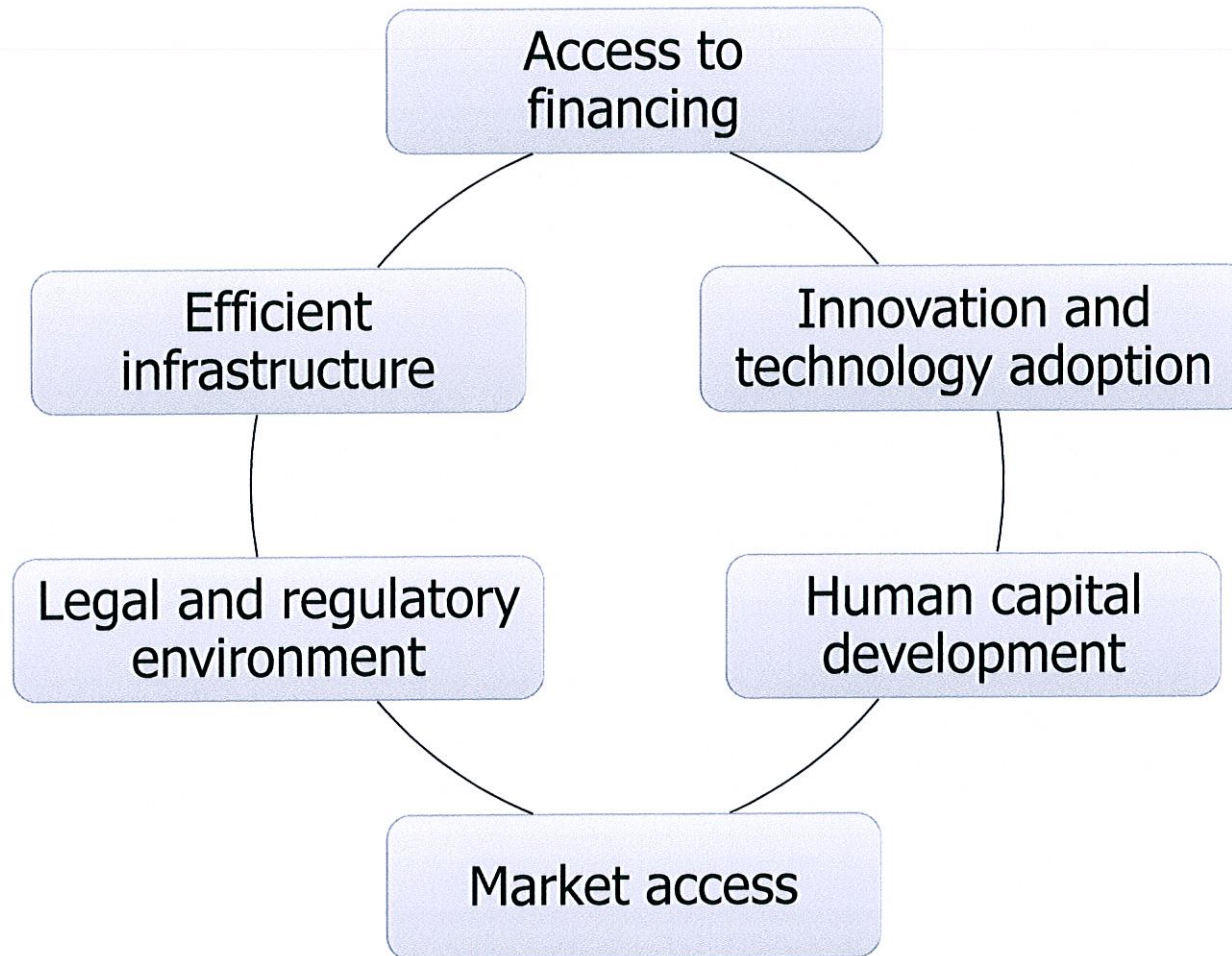
OSK Investment Bank

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CHALLENGES faced by Malaysian small companies to raise equity financing

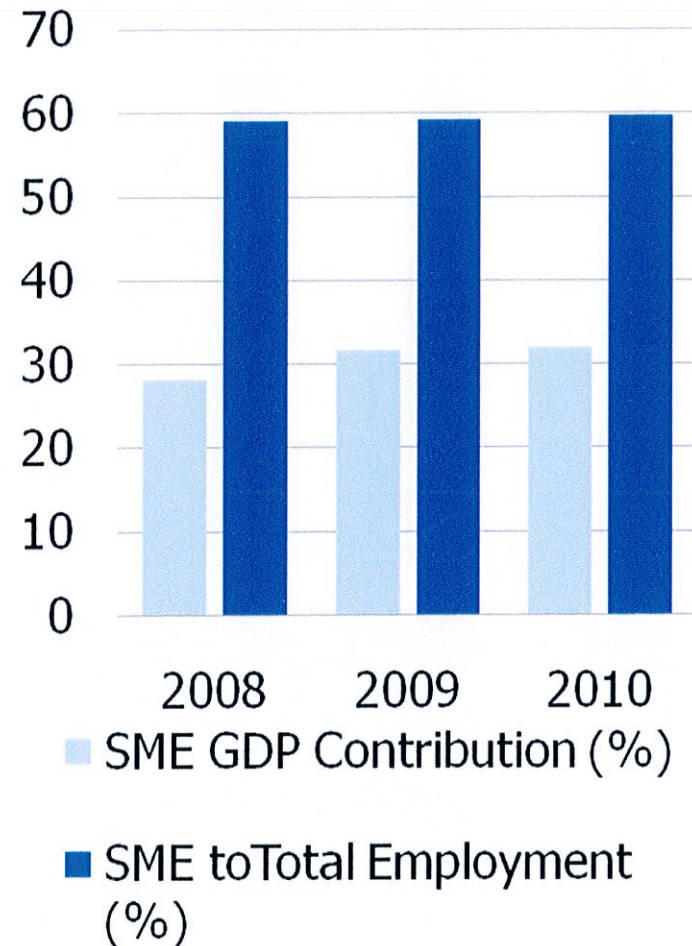
Key requirements for operating efficient small business markets



Increasing focus on small business markets

SME Masterplan targets by 2020:-

- a) GDP Contribution of 41% (2010:32%)
- b) Employment of 62% (2010: 59%)
- c) Exports of 25% (2010: 19%)



Challenges

- Reasons for private sector/ institutions not investing:-
 - a. Lacking familiarity about venture capital ("VC") as an asset class
 - b. Risk-averse nature
 - c. Lack of inadequate incentives for investors
 - d. Regulatory hurdles, for example, VC is not an approved asset class for insurance or pension funds
 - e. Concern about outsourcing of funds to relatively new fund managers without transparency of a necessary track record

Challenges (Cont'd)

1. Funding

- a. Government funding expected to decline significantly
- b. However, private sector is lacking momentum as well
 - ❖ Corporates & Individuals provided 41% of VC funding but self-invested (not outsourced to VC)
 - ❖ Banks provided 7% but self invested (also moving to PE)
 - ❖ Pension funds & Insurance provided 2.6%

“The ultimate objective in transforming Malaysia’s venture capital/private equity landscape is to attract funding from private investors, including institutional investors, to supplement Government funding for innovation”

~ BCG Report 2007

Challenges (Cont'd)

2. VC Players lacking drivers

- a. In 2011, estimated a drop of 66% from 22 to only 9 active VCs
- b. The VC industry is also constrained by high staff turnover and a lack of technical expertise/ talent to assist successful commercialisation of technology based ventures
 - ❖ Local VCs are mainly 'Generalists' – traditional diversified investment strategy to mitigate risk, as opposed to global VCs with value-adding, deep sector knowledge
- c. Also, having many VC players who are not effective is of limited use to entrepreneurs
 - ❖ of 9 active players, 5 are managing funds of RM50m< (OSPs), 1 @ RM80m (First Floor/ Mayban Ventures, 1 @ USD150m (Burrill) and 1 @ RM1bn (Mavcap)

Challenges (Cont'd)

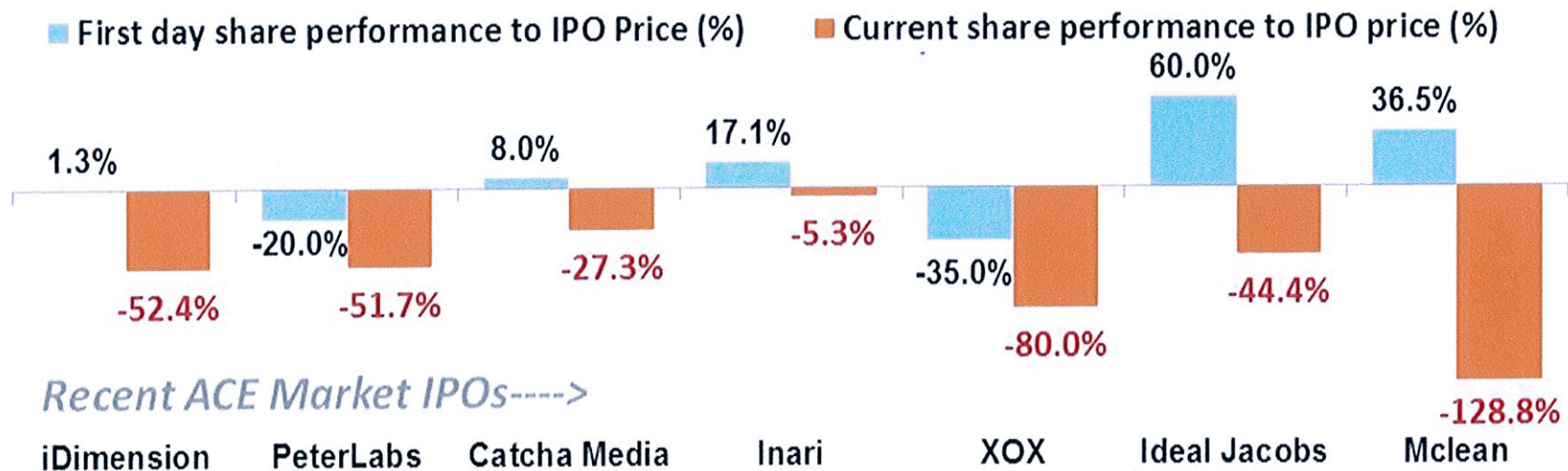
3. Deal Flow and exit

a. Lack of good deal flow is one of the biggest issue facing VC industry:-

- ❖ Funding difficulty - Lacking 'fundable' ideas, track record

b. Exit remains an issue

- ❖ Poor performance post-IPO (ACE Market of Bursa)



Challenges (Cont'd)

- Launch of the ACE Market in 2009 to provide more efficient access to investments and capital, particularly to SMEs

- Main characteristics of the ACE Market:-
 - a) More market-based regulatory approach
 - b) No minimum on IPO price and market cap post-listing
 - c) No minimum operating track record

- ACE Market performance thus far has been disappointing in terms of recent number of listings and post-listing performance

- Reasons for lack of investor appetite:-
 - a) Vulnerability to speculative activities
 - b) Concern over quality of companies
 - c) Loss making companies common

Listing requirements on Bursa Malaysia

	Main Market	ACE Market
Listing Fee		
Initial Listing Fee	0.01% of total market value listed (min. RM20,000 and max. RM200,000)	0.01% of total market value listed (min. RM10,000 and max. RM20,000)
Additional Listing Fee	0.01% of total market value listed (min. RM10,000 and max. RM100,000)	RM10,000
Annual Listing Fee	0.0025% of total market value listed, (min. RM20,000 and max. RM100,000)	a) RM10,000 (if nominal value < RM50mil) b) RM20,000 (if nominal value > RM50mil)
Financial requirements		
Profit test	Uninterrupted PAT of 3-5 full financial years with aggregate of at least RM20 mil	No min operating track record or profit required
Market	PAT of at least RM6 mil for the most recent full FY Total market cap of at least RM500 mil upon listing Incorporated and generated operating revenue for at least 1 full FY prior to submission	
Cash flow	Positive cash flow from operating activities	
IPO Price	Min RM0.50 each	No min

Challenges (Cont'd)

- Increasing disparity in quality of listed companies between the main and SME market

1. ASEAN Trading Link (ATL)

- ❖ Integration of seven bourses across the region to increase ASEAN's profile as a highly investable asset class
- ❖ Combined market cap of US\$2 trillion

2. Recent tightening of listing requirements on the Singapore Exchange reflects it's effort to attract bigger firms

	SGX (Main Board)	Previously
Profit test	Operating record of at least the last three years	Min PAT of S\$1m for the last three years
	PBT of at least SG\$30m for the most recent full FY	PBT of at least S\$7.5m for the last three years
Market	Total market cap of at least SG\$150mil upon listing	Total market cap of at least SG\$80mil upon listing

Part B

Suggested Solutions

Solutions

Ensuring sufficient demand for SME listings

- Characteristics of an SME market that is able to attract investors:-
 - a. Offer investors liquidity in individual shares
 - b. Wide choice of companies
 - c. Cross national boundaries
 - d. "Foyer" or junior market

- Challenges include:-
 - a. Start ups are usually illiquid assets
 - b. Growth of alternative solutions for SME financing (e.g. crowdfunding and peer-to-peer)
 - c. Revealing progress to investors on a three or six monthly schedule could prove too much for early stage companies

Solutions (Cont'd)

Crowdfunding - potential?

- Relatively new concept in Southeast Asia;
 - Increasingly common in the US, via digital platform
 - could potentially replace traditional “family and friends” method of funding
- However, in Malaysia there is a lack of regulation and incentive schemes to promote crowdfunding for companies
 - Law does not allow return for equity
- Lack of perception: Investors prefer “low-hanging fruit, visible” options e.g. real estate, listed equities
 - Current take-offs are mainly for investment in projects / non-for-profit
- Also a hurdle in Singapore : has legislations to protect start-up investors

Solutions (Cont'd)

Transforming the PE & VC industry

- Fund of funds (FoF) approach, jointly funded by the Government and private sector
 - A platform for increasing private sector involvement
 - Government involvement would provide comfort to investors

- Sector focused funds to be managed by JVs or partnerships with local and foreign VCs who have expertise
 - Strengthen effectiveness of local VCs by developing sector knowledge
 - Partnering foreign VCs with a solid track record would provide confidence

- FoF to invest in Shariah Compliant funds
 - In line with Malaysia's aspirations to be leading Islamic financial centre

- Ensure there is an agency overseeing the process

THANK YOU