

DATASONIC: GOING PUBLIC

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At 8.00 am on January 6, 2012, the Chief Operating Officer (COO) of Datasonic was entering his office which was located at its headquarters in Kuala Lumpur. Raymond, the COO, began looking at all the documents that were placed on his table. All these papers have to be scrutinized and a report prepared before the historic culmination of a new journey. Although Raymond was already exhausted thinking about the numerous events leading to the new chapter of the company, he was adamant about forging ahead. His company was on the verge of pursuing an initial public offering (IPO) and was about to experience a big and important change soon. Just as he was thinking even further, the telephone on his table rang. In fact, the telephone in his office had been ringing incessantly over the past few days. There was an urgency hanging in the air as the telephone rang today. It appears as if Raymond would be unable to reject any calls at all today for it rang so clearly, so loudly and so importantly. As Raymond picked up the mouth piece to speak, he could hear a familiar voice, that of the founder of Datasonic, Datuk Abu Hanifah, who was on the other end.

“Hi Raymond, we have to be more detailed in our prospects and growth to convince the clients before they walk away with their money”.

The COO took a deep breath and evaluated the vision for the company. He then headed into the preparation and marketing phase of the IPO. The pressure of going public and “buying” call shares from the investment bank had taken Datasonic to unexpected turns with the company’s IPO being successfully listed on September 3, 2012. The company’s IPO offer price had increased 15 percent on the day of its listing and this had put a smile on everyone’s face, especially those who had worked extremely hard, putting all their efforts into making the IPO a success. It was clear that the investors’ confidence had motivated them to strive on despite their busy day- to-day activities in their bid to expand the group’s business.

Barely four years in the industry, on February 4, 2016, after the clock had turned 11.30 pm, the COO turned out the lights in his office and was about to leave when the office’s telephone

rang. Judging from the way the telephone set was placed on the table and from the sound of the ringing tone, the call seemed to be an important one. Putting his keys perhaps inside his pocket, the COO eagerly *answered* the call without switching on the lights, “*Yeah Raymond*”, the founder of Datasonic’s voice roared at the other end, “*How is everything going on?*”

COMPANY’S BACKGROUND

Datasonic began its operations on October 22, 1980, selling Information Communication Technology (ICT) products in the form of imprinters of credit cards and computers. These were supplied to the various financial institutions in Malaysia. Initially, the company was known as *Bumi Packaging & Storage (M) Sdn. Bhd.* but subsequently, on March 13, 2008, the company was rebranded as Datasonic Group Berhad.

Over the years, Datasonic’s business, despite being a Small-Medium Sized Enterprise (SME), has been growing rapidly. In fact, Datasonic introduced more diversified products and services such as ICT software and hardware systems and solutions into this country than any other company. Apart from its products and services, Datasonic also manages projects and ICT related projects for various agencies. Datasonic also provides services such as technical consultancy and R&D to other organizations.

The core business of the Datasonic group is smart card personalization such as secure ID, debit cards, credit cards and bank cards. The other products include customization of software and hardware solutions, ICT consultancy, R&D and technical consultancy services.

As a company, Datasonic operated as *Bumi Packaging & Storage (M) Sdn Bhd.* in the early stages of its development. However, in 1983, the company ventured out with Datacard Corporation and in 1991, both companies carried out a joint venture and Datasonic Corporation was awarded the distribution rights for Datacard, a Central Issuance System and Solutions provider, in Malaysia. On June 1, 1999, Datasonic Corporation, through Dibena Enterprise, was awarded the contract to design, set up and supply smart card personalization systems and solutions to various agencies as well as to provide the necessary technical support to the National Registration Department (NRD) of Malaysia.

As a sole ICT vendor, Datasonic handles three major smart card programs (government multi-purpose cards (MyKad), payment multi-purpose cards as well as Europay, MasterCard and Visa Card migration) in the country. In 2001, Datasonic launched the new smart card

project with multiple applications for all Malaysian citizens. This was followed by the ATM smart card and the EMV chip-based credit card migration throughout the country.

In February 2006, Dibena Enterprise acquired the entire shareholdings from Datacard Corporation in order to expand its services and technology. A year later in 2007, Dibena Enterprise acquired Datasonic Technologies which was involved in the project management for implementation of ICT system solutions specifically, for government ministries, agencies and other large industry players in healthcare, telecommunication and other sectors. To accommodate the increasing demands of the clients, Datasonic Corporations established its own center with the cooperation of Bank Simpanan Nasional. The services it offered include the provision of PMPC i.e. ATM with chip-based cards and the EMV credit cards for migration within the country.

To provide the services of R&D and technical consultancy to both Datasonic Corporation and Datasonic Technologies, Smart Consult Solutions was incorporated in April 2004 and by May 2012, Smart Consult was granted the MSC status by the Multimedia Development Corporation (MDEC). Among the key projects of Datasonic Technologies at that time were:

- The Visa and Pass system for the Immigration Department of Malaysia,
- The BPA system at the Prime Minister's department,
- The OKU (*Orang Kurang Upaya*) project under the Ministry of Women, Family and Community Development,
- The SMOKU ('*Sistem Maklumat Orang Kurang Upaya*') project for the Ministry of Women, Family and Community Development,
- The NGN project for Telekom Malaysia *Berhad* and Huawei Technologies (Malaysia) *Sdn Bhd.*,
- The Call center services for PTPTN (*Perbadanan Tabung Pendidikan Tinggi Nasional*),
- Supplier of the new raw MyKad chips with 100% polycarbonate material,
- Maintenance of the data center and help desk for the Immigration Department of Malaysia,
- Maintenance of the existing passport printer for the Immigration Department of Malaysia,
- Supplier of the new polycarbonate passport datapage and laser engraving equipment for the Immigration Department of Malaysia, and

- Overseer of other projects including the supply, delivery, installation, commissioning, testing and maintenance of other ICT projects across various government agencies and private institutions.

Over the years, the businesses operated by Datasonic have grown. As the only ICT vendor in Malaysia providing and serving three major smart card programs - the Multi-purpose cards (national ID card, MyKad), payment through multi-purpose cards (PMPC) and Europay, Mastercard and Visa cards migration within the country, Datasonic was very much sought after. This propelled Datasonic to aim at being a listed company.

Private to Public

A country's economy is mainly driven by business operators of various sizes and industries. In the Malaysian context, the Small and Medium Enterprises (SMEs) play a significant role in generating Malaysia's economic growth. However, despite their contributions, the role SMEs play in the economy is still constricted due to the inherent challenges and obstacles. SMEs lack the ability to access experts and raw materials. SMEs appear to be unable to find the right mix of expertise to assist them with their technical knowledge inadequacies and with their business management in terms of securing relevant raw materials for their industry. Among these, the most crucial challenge faced by the SMEs is access to expand their capital through loans and investments.

To assist the SMEs in their daily operations, *Pemandu* (Performance Management and Implementation Unit) introduced the continuous strategic reform initiative (SRI) which is aimed at ensuring that the development of *Bumiputra* small and medium- sized enterprises (SMEs) is at par with that of other companies in the country. It is also meant to promote the growth and expansion of *Bumiputra* small and medium-sized enterprises (SMEs). *Pemandu* is a unit under the Prime Minister's Department that is tasked to achieve the objectives of the Economic Transformation Program (ETP) as well as realize the vision of the Government's Transformation Program. Undoubtedly, it is such an initiative and strategy that helped Datasonic to become a listed company.

Since its' inception, Datasonic has never looked back because by early 2012, the enterprise was generating significant revenue growth. It was then that the founder of

Datasonic began to realize that the firm had to raise additional capital to expand and sustain its business growth. The balance sheet of the company showed a healthy financial position which surpassed the performance in 2011. This was an indication that the company was almost ready for listing.

Initial Public Offerings (IPOs)

The decision to become a public listed company is an important one in the company's life cycle. This is a stage where the company or firm would place Initial Public Offering (IPOs) for the first time to third party investors. Typically, young and rapidly growing businesses face the pressure of raising additional capital. As an organization, a company could raise capital either through a private equity or through public offerings. In private equity transactions, the company raises funds through privately owned non-financial institutions in the form of stocks or other securities that might be convertible to stocks. In contrast, the public issue comprises of companies selling equities to the public for the first time. Through a public issue the company is able to increase its paid-up capital more quickly. IPOs are usually in the form of offer for sale or public issue or a combination of both to the public. According to the *Bumiputra* Equity Requirement for public listed companies, all corporations seeking to be listed must meet the 25 percent public spread requirement stipulated under *Bursa* Malaysia's listing rules. This was imposed as a measure to motivate the redistribution of wealth and ownership among the *Bumiputra* shareholdings as well as to promote an open and attractive market that encourages a healthy competition among others in the same industry. Nonetheless, the government's ruling changed, effective from June 30, 2009 the requirement for *Bumiputra* shareholdings to participate was reduced to 12.5 percent.

There are rules for IPOs. Firms that plan on going public in the Malaysian Stock Exchange are expected to be registered firstly and then to acquire approval from the Securities Commission (SC). Such firms therefore, need to comply with the threshold layout of the regulators including the listing criteria. In the Malaysian context, the determinants used for ensuring that companies are suitable for listing could be traced to the regulatory and market benchmarks. The regulatory benchmark consists of the rules and eligibility for listing in the market whereas the market benchmark focuses on the perception of the

investors with regards to the prospects of the company. Prior to listing a company must determine its own suitability for listing, whether on the Main Market or the ACE Market which stands for 'Access, Certainty, and Efficiency'. The Main Market is mainly a listing avenue for large and stable companies while the ACE market caters to companies that are related to technology, small sized companies and high growth companies. To be listed, a company must prepare and register its prospectus. The decision of the application is based on the evaluation of the report provided by the Securities Issuance Department, the Equity Compliance Unit, the Asset Valuation Audit, the Investment Division and the Prospectus Department.

There are a variety of reasons for companies to conduct an IPO but the benefits of being a listed company are unrivalled, particularly when preparation meets opportunity. Upon listing, companies are not just able to raise funds for their own expansion and growth, they are also given more choice in terms of avenues to raise money for their future investment and development. The outcome of these strategies will foster and sustain the growth and expansion of the respective company's business plans. In this regard, it is important for any company to ensure that its goals and objectives are properly aligned with the interests of the investors and stakeholders. Moreover, the company also needs to brace itself in facing the impact of being listed because if the company is fortunate enough to pitch the deal during listing, its IPOs will be successfully promoted among the investors.

Winning the potential aftermarket transactions is crucial because the costs involved in becoming public listed are sizeable. There are a few costs associated with the IPO itself – direct and indirect costs. The indirect cost refers to the time invested by the management in the process of becoming listed, its financial commitment with the IPO process and other additional disclosures that would enable the company to maintain the listing, not to mention the time and resources engaged by the company in trying to fulfill market expectations. The direct cost, in comparison, includes several types of fees such as underwriting fees, auditing fees, independent market researchers' fees, issuing house fees, accountant fees, tax advisers' fees as well as legal fees. Thus, the listing costs could be sizeable. However, these fees may be paid through the proceeds raised from the listing. Nonetheless, the initial cost of listing at the start of the process, has to be incurred by the company itself.

A company faces many challenges for it to be listed successfully. Therefore, support and commitment from all parties, especially the shareholders, are important. Further, to be listed successfully, the management of the company must endeavor to disclose all the necessary information to the public via the prospectus. This includes the company's financial status, stakeholders' holdings and the utilization of the IPO proceeds. Thus, it could be said that behind the success of every company's listing lies the great support of the management team including the company's founders, senior management, institutional investors and underwriters - all of whom put in effort to anchor the deal.

In pitching for the company to be listed, the lead in the process will be conducted either by one or more investment banks. Investment banks normally play an important role in the planning as to how to conduct the IPO, how to evaluate the company and how to make recommendations to the company regarding which stock exchange to be listed. Based on all these information, the company has to consider seriously before appointing its lead investment bank. In other words, the investment bank will act as the primary agent responsible for the successful listing of an IPO. Its function is to identify the perceptions of the public and institutional investors and convey them to the company. As investment banks are engaged to lead the IPOs, they are paid based on a commission basis. These fees are normally charged to the issuer and investment banks are paid through the proceeds realized from the IPO. The fees of the investment banks vary according to the company size and the reputation of the investment bankers selected. In the Malaysian market, fees charged by investment banks range from 2 to 3 percent of the IPO proceeds. In the case of Datasonic, the fees of its investment banks, to be paid from the issuance of the public issue, is 2 percent of the underwritten value of the public issues while the fees for the offer for sale and placement range between 0.5 percent to 2 of the IPO value, which is the usual charge.

Apart from that, the additional fees involved are printing fees, brokerage fees, legal adviser fees and other miscellaneous fees such as traveling and communication. To be listed on the ACE market, the company must secure sponsors for at least three full financial years after being listed in the ACE market. Other costs incurred after being listed include the cost of raising the additional capital and annual fees payable to the Exchange for maintaining the shares. The main cost of being listed is the privacy and autonomy of private businesses, thus, sole owners may become less secure.

THE PROCESS OF GOING PUBLIC

In tracing the process of going public, we return to the COO, Raymond. At his office, Raymond scanned the to-do lists on his long table. As he was looking and thinking, Raymond was jolted to a sudden awareness; this company requires a lot of effort from him towards preparing for the IPO. To generate growth and meet the financial needs of the company, Raymond was planning on filing the prospectus of Datasonic to the Securities Commission (SC) by the end of 2012. Preparing for an IPO is not easy and Raymond began to recall the few options provided by the underwriters as a means of managing the IPO process. Raymond believed that it would be good to have the principal adviser from the local banks rather than approach the international or global bankers. The reason is that a local adviser and banker, being locals share a common understanding of the Malaysian culture and given similar backgrounds would share a common thread of thinking and making decisions in determining the listing process. Further, as a private company, it would be extremely difficult for Datasonic to navigate its own IPO process without the help of an adviser. Datasonic's management would be hard pressed to manage the process of going public on its own as the employees and management team are already occupied with the daily operations of running the business. Therefore, hiring an investment banker would assist Datasonic in its listing endeavor. Undoubtedly, investment bankers have diverse market perspectives, approaches and experience in conducting the IPO. Therefore, it is important to choose an adviser whose way of doing things is aligned with Datasonic's vision.

With that in mind, Datasonic met with several advisers and underwriters including the Maybank Investment Bank Berhad, Alliance Investment Bank Berhad and CIMB Investment Bank Berhad. Finally, the Datasonic team selected and appointed the Alliance Investment Bank *Berhad* as its principal adviser and underwriter, the HwangDBS Investment Bank *Berhad* as the joint underwriter and Mainstreet Adviser Sdn Bhd. as the joint adviser. Meeting his team, Raymond then explained that the next level of the process would be difficult to forecast. Hence, he made the call, "*I want each one of us to get involved in the IPO; it is only going to be once in our lifetime business*".

The Malaysian Issuing House (MIH) managed two important tasks for Datasonic. It managed the application of Datasonic to be listed on the main market and the

administration process of the IPO subscription and the type of capital needed. MIH has been established since 1993 and it offers several types of services for securities to be offered in the primary market. The issuing house is regulated by the Securities Commission and it is licensed under the Capital Markets and Services Act of 2007. To date, MIH has been working closely with *Bursa Malaysia Securities Berhad*, administering more than 525 companies including Malaysia's biggest IPO namely Astro, AirAsia, Maxis Bhd, Petronas Chemicals, Felda Global Ventures and UMW Oil & Gas.

As mentioned earlier, for it to be listed, Datasonic needs to prepare its prospectus which provides the information related to the offer for sale of securities that are registered under the SC. Datasonic also needs to submit a copy of its prospectus to the Registrar of Companies. During the application process, an abbreviated version of the prospectus would be published in the newspapers but the official prospectus would be posted on *Bursa Malaysia Securities Bhd*. The prospectus is a document that is used by the issuer to invite the public to invest in the company. It contains relevant information of the company so that investors can assess the risks and benefits involved before investing in the company. However, prior to the distribution of the prospectus, the company concerned must ensure that it has received the approval from *Bursa Malaysia* to do so and that the prospectus has been approved by the Securities Commission (SC) and has been registered under the Registrar of Companies (ROC).

Datasonic's prospectus was issued for the first time on August 3, 2012 at 10.00 am. The application form for subscribing and a printed copy of its prospectus were distributed by MIH to the public investors, the stockbrokers as well as the investment banks concerned. The completed application forms were collected from the investment banks, the stockbrokers and also other media such as the Electronics Share Applications A and the Internet Share Applications (ISA). At the closing time of the application at 5.00 pm on August 17, 2012, all the application subscriptions received were manually counted before the internal and external audit checks were performed. This is to assure accuracy in the counting.

Thereafter, on August 23, 2012, the subscription results were presented to the directors of Datasonic to determine the basis of the allotment of shares. The directors decided on balloting taking into account its fair distribution process. The applications

were then categorized as *Bumiputera* and non-*Bumiputera*. This was meant to fulfill the requirement of the listing as well as to meet the minimum public share spread's requirement. After deciding on the basis of the allotment, the balloting was performed. The outcome of the successful applications from the balloting was then conveyed to the Securities Commission, *Bursa* Malaysia and the media on August 30, 2012.

After the balloting process, MIH, would check and verify the applications by making sure that the payees had correctly stated their names and the amount they wish to subscribe and that the applications were complete. The application forms would then be forwarded to *Bursa* Malaysia Depository *Sdn Bhd* for verification of the successful applicants' details. In case of any discrepancies noted in the information provided in the application, *Bursa* Malaysia Depository *Sdn Bhd* would replace them with the reserve applications from the ballot as *Bursa* Malaysia Depository *Sdn Bhd* is in charge of the applicant's data. Following this, the CDS accounts of the successful applicants will be credited. The partially successful applicants would be given refunds which will be processed electronically.

DATASONIC IPO

One month after filing its prospectus with the Securities Commission, Datasonic was scheduled to be listed on the Main Market of *Bursa* Malaysia on September 3, 2012. The IPO issuance was meant to fulfill several objectives:

- (i) to enable the company to gain access to the capital market and to broaden its capital- raising avenues so that funds can be raised for future expansion and growth;
- (ii) to provide an opportunity for investors and institutions to participate in the continued growth of the group; and
- (iii) to improve the stature of the company and elevate its public profile besides increasing market awareness about its products and services thereby, expanding its customer base.

The trigger

The market capitalization of Datasonic had increased more than 17 times since its listing in September 2012. Over the 52 weeks ending January 2016, the company's share price increased 21 percent overall. However, from the beginning of February 2016, the stocks began to decline significantly. At the time of IPO listing in 2012, the price was RM 2.00 but as of February 4, 2016 the price was RM 1.13, reflecting a decrease of almost 76 percent (refer Figures 2 and 3). In the light of this, in February 2016, the management team began to reevaluate their decisions on going for public.