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**9B18N026**

kimly limited: initial public offering[[1]](#endnote-1)

Ruth S.K. Tan, Zsuzsa R. Huszár, Weina Zhang, and Ling Yue wrote this exercise solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On March 8, 2017, food outlet operator Kimly Limited (Kimly) announced a SG$43.5 million[[2]](#endnote-2) initial public offering (IPO) of 173.8 million new shares made up of an insignificant retail tranche of 3.8 million shares and a placement tranche of 170 million shares at SG$0.25 each.[[3]](#endnote-3) The IPO would close on March 16, 2017, and Kimly shares would start trading on March 20, 2017.

Before the IPO, Kimly had two investors, namely, Heliconia Capital Management Pte. Ltd. (Heliconia) and ICH Gemini Asia Growth Fund Pte. Ltd. (ICH Gemini).[[4]](#endnote-4) As part of the IPO agreement, Heliconia and ICH Gemini would hold the shares for at least six months from the time of listing.[[5]](#endnote-5)

Heliconia, a wholly owned subsidiary of Temasek Holdings Private Limited (an investment company owned by the government of Singapore), made a SG$3-million investment for a 1.3-per-cent stake in Kimly through Vanda 1 Investments Pte. Ltd., which was managed and controlled by Heliconia. This investment was converted from a SG$3-million loan into 15 million Kimly shares at SG$0.20 each—a discount of 20 per cent from the IPO offering price of SG$0.25.[[6]](#endnote-6) Heliconia’s head of value creation, Soo Ming Jern, explained the rationale for investing in Kimly:

We believe coffee shops as a grassroots business will continue to be part of our daily lives in Singapore. The business model itself is relatively resilient; but more important for Heliconia, we really like the management of Kimly for its initiatives to drive improvement in service quality and growth through technology.[[7]](#endnote-7)

ICH Gemini (a boutique fund) had similarly converted a SG$2-million loan into Kimly shares at SG$0.20 each for 10 million shares or a 0.87-per-cent stake in Kimly’s post-IPO capital. ICH Gemini’s anchor sponsor and director was Ren Yuanlin, the chairman of mainboard-listed Yangzijiang Shipbuilding Holdings Ltd.[[8]](#endnote-8)

As a retail investor, you knew that the chances of getting your hands on the IPO shares were slim, since only a small number were available. Nevertheless, you were drawn to the issue because Kimly was essentially a family firm and would continue to be driven by the founder after the IPO. In addition, 77.23 per cent of the shares could not be traded in the first six months after the IPO, and only half of that percentage could be traded in the subsequent six months.[[9]](#endnote-9) Although there were pre-IPO placements at a discount, the quantity was small, accounting for only 2.17 per cent. Well aware of the underpricing phenomenon, you saw little risk in applying for the IPO shares, which would close the following day (March 16, 2017). However, you were also contemplating buying Kimly shares in the aftermarket, when the shares started trading on March 20, 2017. With that in mind, you reached out for Kimly’s IPO prospectus and powered up your computer, preparing to spend the next hour poring over the figures and getting some information on potential peers. Specifically, you wanted to decide whether to invest; and if you decided to invest, you wanted to determine your maximum price. You also had a pertinent question involving the investment horizon: should you plan to sell immediately or hold for the long term?

Kimly limited

Kimly was founded in 1990 by executive chair Lim Hee Liat, together with several friends. The business had started as a single coffee shop but had since grown to become one of the leading traditional coffee shop operators in Singapore.[[10]](#endnote-10) Prior to the IPO, Lim Hee Liat held 49.94 per cent of the total issued share capital. After the IPO, he would remain the largest shareholder, with a 42.42-per-cent stake (see Exhibit 1).

Kimly’s business was categorized into two divisions: the outlet management division and the food retail division (see Exhibit 2).[[11]](#endnote-11) The outlet management division comprised coffee shop management and food court management. At the time of listing, Kimly had a network of food outlets made up of 56 coffee shops, three industrial canteens, and five food courts. The five food courts operated under the Foodclique brand; four of these were located at the tertiary institutions Ngee Ann Polytechnic, Singapore Institute of Management, National University of Singapore (NUS) Prince George’s Park, and NUS University Town.[[12]](#endnote-12) The fifth food court was located at Hotel Boss, on Jalan Sultan Road.[[13]](#endnote-13) The food outlets had eight to 12 food stalls each.[[14]](#endnote-14) The 500 stalls in Kimly’s food outlets enjoyed a 98-per-cent occupancy rate.[[15]](#endnote-15) These stalls were leased to tenants who paid rent and management fees.[[16]](#endnote-16) The outlet management division accounted for 56.6 per cent of Kimly’s total revenue in 2016.[[17]](#endnote-17)

The food retail division comprised 36 mixed vegetable rice stalls, 10 Rice Garden Programme[[18]](#endnote-18) stalls, two Teochew porridge stalls, 29 seafood zi char stalls,[[19]](#endnote-19) one live seafood restaurant, and 43 dim sum stalls.[[20]](#endnote-20) This network of 121 stalls carried the company brand.[[21]](#endnote-21) Of these, 11 mixed vegetable rice stalls, two Rice Garden stalls, two Teochew porridge stalls, and 34 dim sum stalls operated 24 hours a day.[[22]](#endnote-22) Kimly’s central kitchen, situated in Woodlands, a town situated in the north region of Singapore, supplied sauces and semi-finished food products to its food stalls to ensure better control over business processes and costs.[[23]](#endnote-23)

Motivation FOR GOING PUBLIC

The IPO aimed to raise SG$40.363 million, SG$30.363 million of which would be used for general business expansion, acquisitions, and joint ventures, while the rest would be set aside for refurbishing Kimly’s exiting food outlets, upgrading its central kitchen, and enhancing productivity and information technology (see Exhibit 3).

Vincent Chia, executive director of Kimly, said, “Consumer trends are changing. It’s a challenge to keep up. We’re traditional coffee boys but we are adopting technology to help us do things better.”[[24]](#endnote-24) Real-time information enabled operation managers to monitor the performance of each stall.[[25]](#endnote-25) Since November 2016, Kimly had partnered with Deliveroo to make its dim sum available to customers through online ordering and delivery.[[26]](#endnote-26) It had a mobile app to track inventory at its dim sum stalls.[[27]](#endnote-27) Kimly planned to expand online ordering to other food items such as seafood zi char.[[28]](#endnote-28) Chia said, “Last November, we launched online delivery service for our dim sum, something that we’re looking to extend to more products. We may be kopi [coffee] boys, but we are forward-thinking kopi boys.”[[29]](#endnote-29) Kimly had also implemented e-payments in tertiary institutions like NUS, and to cater to technology and machinery adoption it was building a four-storey annex factory to expand the capacity of its headquarters and central kitchen.[[30]](#endnote-30)

As of September 2016, Kimly had a market share of 5.8 per cent, with “considerable potential to expand and acquire a larger market share in the coffee shop and food court industry.”[[31]](#endnote-31) According to Chia, Kimly’s relationships with its stall owners set it apart; Chia noted that such relationships were “easier to build when you don’t always talk about money.”[[32]](#endnote-32)

resilient industry

According to Chia, Kimly’s business was highly resilient, with strong cash flows and healthy growth: “We are in a defensive industry that serves a very fundamental market need. This is really a grassroots business—everyone can walk in and have a nice meal at a very affordable price. We don’t talk about income brackets.”[[33]](#endnote-33)

Singapore’s gross domestic product (GDP) and population were growing steadily, as were the number of food establishments (see Exhibit 4). The food industry looked set to enjoy a stable macroeconomic outlook going forward.

Mark Liew, the chief operating officer of PrimePartners Corporate Finance, which was the issue sponsor and manager, pointed out that Kimly had reported steadily growing revenue and profits for the last three financial years and generated strong cash flows from operations. He expected that the IPO would be “well received.”[[34]](#endnote-34)

Revenue had increased from SG$148.9 million in 2014 to reach SG$172.2 million by September 2016, with net income of SG$24.2 million (see Exhibits 5 and 6). Cash and bank balances amounted to SG$29.4 million in 2016, and Kimly had no outstanding debt (see Exhibit 7).

neighboUrhood coffee shops

In the heartlands of Singapore, coffee shops were a common sight.[[35]](#endnote-35) They usually comprised a handful of food stalls in a non-air-conditioned setting, located on the ground floor of Housing & Development Board (HDB) flats—public housing that provided homes to 80 per cent of Singapore’s population.[[36]](#endnote-36) These coffee shops served cheap breakfasts of coffee, soft-boiled eggs, and toast, and other simple meals like chicken curry with roti prata (Indian bread), wonton noodles, and fish-ball noodles. Later in the day, the menu would change to cater to the lunch and dinner crowds. Kimly believed that the growing Singapore population and corresponding increase in the number of heartland residents, who were the company’s main target customers, would have a positive impact on its business.[[37]](#endnote-37)

air-conditioned food courts

Away from the HDB flats, air-conditioned food courts were more common.[[38]](#endnote-38) These were normally located in shopping malls and the city centre. The range of dishes here was not much different from those found in coffee shops, but the prices reflected the higher rents borne by the stall holders.

The announcement of the Singapore government’s proposed plans to develop a second central business district in the Jurong Lake district was a big source of optimism for Kimly, which had operated in the area since 1997 and already had nine coffee shops, two industrial canteens, and 24 food stalls there.[[39]](#endnote-39)

Risk Factors

Kimly faced competition not just from established players but also from newcomers in an industry with low barriers to entry. While it might possess branding and reputation, there were many establishments with similar dining concepts, experiences, pricing, and design.

One of the key risk factors in the food and beverage industry was the potential for outbreaks of food related diseases, the spread of contagious virulent diseases, or food contamination and food tampering—all of which might lead to a reduction in consumption of the affected type of meat or food. Such outbreaks might lead to a loss of consumer confidence and affect the patronage at the affected food outlets.[[40]](#endnote-40)

As with any business expansion, Kimly had to be mindful of market-wide risks such as changes in global and local economic conditions, market sentiment, and funding costs, and of non-systemic risks such as the ability to retain key management personnel.[[41]](#endnote-41)

Although there were attempts to automate through information technology, Kimly’s business remained essentially labour-intensive. This, together with the fact that it employed a significant number of foreigners, meant that it was especially sensitive to labour and immigration policies in Singapore.[[42]](#endnote-42) This was ameliorated in part by its central kitchen, which prepared sauces, marinades, and semi-finished food products. However, incidents such as fire and power failures might disrupt operations at the central kitchen and damage its stored supplies.

In addition, as Kimly leased all the premises for its outlets, it would be susceptible to uncertainty about its ability to renew the leases on acceptable terms.[[43]](#endnote-43)

Upon the completion of the IPO, Kimly would be under the control of its major shareholders (see Exhibit 1). These major shareholders would have significant influence over matters that required shareholders’ approval, such as the appointment of directors and other significant corporate transactions.

Valuation

Based on Kimly’s past financial performance, what would be a reasonable valuation for each of its shares, based on the discounted cash flow (DCF), discounted dividend model (DDM), and relative valuation (RV) methods?

The concept of DCF[[44]](#endnote-44) valuation was based on the principle that the value of a business was determined by its ability to generate cash flows. Historical financial statements (see Exhibits 5, 6, and 7) helped in understanding the relationships behind the revenue and cost drivers of a business. Ultimately, assumptions regarding these drivers were necessary to project the cash flows for the initial few years, after which a reasonable terminal growth rate could be applied in perpetuity (see Exhibits 4 and 8). All projected cash flows would be discounted by using the weighted average cost of capital (WACC), which took into consideration the required return of equity (also known as the cost of equity) and the required return of debt (also known as the cost of debt). To obtain the WACC, the cost of equity would have to be estimated based on the unlevering of the equity betas of selected peers (see Exhibit 9). The unlevering process removed financial risk to give unlevered betas, which reflected only business risk. The next step involved relevering the mean unlevered beta using Kimly’s own leverage ratio to give its equity beta and thereafter its cost of equity. The DCF model provided insights into the drivers of the share value, but it did have shortcomings. Small changes in inputs could result in large changes in the intrinsic value.

The DDM method[[45]](#endnote-45) was based on the theory that a stock was worth the sum of all of its discounted future dividends. The discount rate used was the cost of equity capital. The future dividends were discounted at the cost of equity to give their current worth. Although Kimly had not paid any dividends in the past, its intention was to pay no less than 50 per cent of its net profits going forward.[[46]](#endnote-46) It would be reasonable to assume that the dividends would continue to grow for some years before a terminal growth rate—a constant growth rate, applied indefinitely—could be applied (see Exhibits 4 and 10).

The RV method[[47]](#endnote-47) compared the value of a business to its competitors. Some common multiples or benchmarks were the price-to-earnings (P/E); enterprise value-to-revenue (EV/Revenue); and enterprise value-to-earnings before interest, tax, depreciation, and amortization (EV/EBITDA) ratios. These could be trailing multiples or forward multiples. Trailing multiples were calculated using actual performances, i.e., actual earnings, revenue, or EBITDA. Forward multiples, however, were calculated using projected earnings, revenue, or EBITDA.

The P/E ratio showed how much investors were willing to pay per dollar of earnings. It was a popular metric, but as the denominator was earnings, care had to be taken when comparing peers from countries that were subjected to different accounting regulations. Further, it could not be used if earnings were negative. An alternative was the EV/Revenue ratio, which compared the value of a company to the revenue generated. It was a useful multiple for businesses that had yet to generate positive earnings and for comparing businesses that were subjected to different accounting regimes, as revenue was a top-line figure and therefore less affected by accounting policies. However, as revenue was income from product sales before any costs were taken into account, many dismissed it in favour of EV/EBITDA, which looked at profit-making ability. The EV/EBITDA multiple was one of the most commonly used metrics. It compared the value of a company, inclusive of debt and other liabilities, to the earnings, exclusive of non-cash expenses. It was capital structure-neutral because EBITDA was before interest, tax, depreciation, and amortization and EV was money available to all owners of the company. Thus, it was especially useful for comparing companies with different capital structures. Regardless of which multiple was used, it was important to develop accurate benchmarks. It was crucial to compare only businesses from within the same industry with similar market capitalization. Although information on a number of potential regional and global peers had been gathered (see Exhibit 9), further deliberation would be required to identify a suitable group for comparison.

apply for IPO shares and/or trade in the aftermarket

The chances of successfully getting Kimly’s IPO shares were slim, given the small retail tranche. In addition, the controlling shareholder and other key shareholders were subject to lock-up periods before they could dispose of their shares on the open market, and this would prevent a short-term overhang of the shares. These factors implied that the supply of Kimly’s shares would be scarce in the initial six months after the IPO, which could have a positive effect on the share price.

Apart from these considerations, the question of whether to participate in the aftermarket would also depend on the intrinsic value of the shares.

EXHIBIT 1: LIST OF kimly SHAREHOLDERS before AND after INitial public offering

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **As at the Latest Practicable Date (Adjusted for Share Split)** | | **Immediately Before the Invitation** | | **Immediately After the Invitation** | |
|  | **Direct Interest** | | **Direct Interest** | | **Direct Interest** | |
|  | **No. of Shares** | **%** | **No. of Shares** | **%** | **No. of Shares** | **%** |
| **Directors** |  |  |  |  |  |  |
| Lim Hee Liat | 489,912,165 | 51.25 | 489,912,165 | 49.94 | 489,912,165 | 42.42 |
| Vincent Chia | 14,513,391 | 1.52 | 14,513,391 | 1.48 | 14,513,391 | 1.26 |
| Ter Kim Cheu |  |  |  |  |  |  |
| Wee Tian Chwee, Jeffrey |  |  |  |  |  |  |
| Lim Teck Chai, Danny |  |  |  |  |  |  |
| Ong Eng Sing |  |  |  |  |  |  |
| **Substantial Shareholders** |  |  |  |  |  |  |
| Peh Oon Kee | 99,309,105 | 10.39 | 99,309,105 | 10.12 | 99,309,105 | 8.60 |
| Ng Lay Beng | 77,172,966 | 8.07 | 77,172,966 | 7.87 | 77,172,966 | 6.68 |
| **Pre-Invitation Investors** |  |  |  |  |  |  |
| Vanda 1 Investments Pte Ltd |  |  | 15,000,000 | 1.53 | 15,000,000 | 1.30 |
| ICH Gemini Asia Growth Fund Pte Ltd |  |  | 10,000,000 | 1.02 | 10,000,000 | 0.87 |
| **Other Shareholders** |  |  |  |  |  |  |
| Peter Lim Hee Thong | 606,393 | 0.06 | 606,393 | 0.06 | 606,393 | 0.05 |
| Ng Han Keow | 47,306,862 | 4.95 | 47,306,862 | 4.82 | 47,306,862 | 4.10 |
| Other Employees | 163,108,512 | 17.06 | 163,108,512 | 16.63 | 163,108,512 | 14.12 |
| Other Existing Public Shareholders | 64,057,338 | 6.70 | 64,057,338 | 6.53 | 64,057,338 | 5.55 |
|  |  |  |  |  |  |  |
| **New Public Shareholders** |  |  |  |  | 173,800,000 | 15.05 |
| Total | 955,986,732 | 100.00 | 980,986,732 | 100.00 | 1,154,786,732 | 100.00 |

Note: Lim Hee Liat and Peter Lim Hee Thong were siblings. Ng Lay Beng and Ng Han Keow were siblings. Other employees were 10 employees and their immediate families. The shares did not carry different voting rights. There was only one class of shares.

Source: Created by the authors based on Kimly Limited, *Invitation In Respect of 173,800,000 New Shares*, 60, March 8, 2017, accessed May 29, 2017, http://infopub.sgx.com/FileOpen/Kimly\_Limited\_-\_Offer\_Document.ashx?App=IPO&FileID=5360.

Exhibit 2: KIMLY’s two divisions

|  |  |  |
| --- | --- | --- |
| Kimly Limited | Outlet Management Division | Coffee shop management division (54 outlets under the Kimly brand and five outlets under a third party brand) |
| Food court management division (five outlets) |
| Food Retail Division | Mixed Vegetables Rice (36 stalls) |
| Rice Garden (10 stalls) |
| Teochew Porridge (two stalls) |
| Seafood Zi Char (29 stalls) |
| Live Seafood (one restaurant) |
| Dim Sum (43 stalls) |

Source: Created by the authors based on Kimly Limited, *Invitation In Respect of 173,800,000 New Shares*, 99, March 8, 2017, accessed May 29, 2017, http://infopub.sgx.com/FileOpen/Kimly\_Limited\_-\_Offer\_Document.ashx?App=IPO&FileID=5360.

Exhibit 3: Use of Initial Public Offering Proceeds

|  |  |  |
| --- | --- | --- |
| **Use of Proceeds** | **Amount in Aggregate (SG$'000)** | **Estimated Amount Allocated for Each Dollar of the Gross Proceeds Raised from the Invitation (%)** |
| Acquisitions and Joint Ventures and General Business Expansion (Including Establishment of New Food Outlets) | 30,363 | 69.9 |
| Refurbishment and Renovation of Existing Food Outlets | 3,000 | 6.9 |
| Headquarters/Central Kitchen Upgrading | 5,000 | 11.5 |
| Productivity Initiatives/Information Technology | 2,000 | 4.6 |
| Listing Expenses | 3,087 | 7.1 |
| **Total** | **43,450** | **100.0** |

Note: SG$ = Singapore dollar; SG$1 = US$0.70540 on March 8, 2017

Source: Kimly Limited, *Invitation In Respect of 173,800,000 New Shares*, 54, March 8, 2017, accessed May 29, 2017, http://infopub.sgx.com/FileOpen/Kimly\_Limited\_-\_Offer\_Document.ashx?App=IPO&FileID=5360.

Exhibit 4: SINGAPORE ECONOMIC AND FOOD INDUSTRY PERFORMANCE

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(a) Singapore Economic Growth Rates** | | | | | | | | | | | | | | | |
|  | **2011** | **2012** | **2013** | | **2014** | | **2015** | | | **2016** | | **2017** | | | |
| **Gross Domestic Product at Current Price**1 | | | |  | |  | |  | | |  | | |
| SG$ Billions | 347.1 | 363.3 | 381 | | 394.8 | | 418.1 | | | 427.9 | | 447.3 | | | |
| Growth Rate | 7.7 | 4.7 | 4.9 | | 3.6 | | 5.9 | | | 2.3 | | 4.5 | | | |
| **Accommodation and Food Industry**1 |  |  |  | |  | |  | | |  | |  | | | |
| SG$ Billions | 6.98 | 7.48 | 7.80 | | 8.23 | | 8.34 | | | 8.72 | | 8.86 | | | |
| Growth Rate | 17.95% | 7.13% | 4.21% | | 5.49% | | 1.40% | | | 4.54% | | 1.57% | | | |
|  |  |  |  | |  | |  | | |  | |  | | | |
| **Population**1 |  |  |  | |  | |  | | |  | |  | | | |
| Millions | 5.18 | 5.31 | 5.40 | | 5.47 | | 5.54 | | | 5.60 | | 5.61 | | | |
| Growth Rate | 1.97% | 2.51% | 1.69% | | 1.30% | | 1.28% | | | 1.08% | | 0.18% | | | |
| **Number of Food**  **Establishments ('000)** 1 | 30.3 | 30.7 | 31.3 | | 32.2 | | 33.1 | | | 34.0 | |  | | | |
| Growth Rate | 2.7% | 1.3% | 1.9% | | 2.9% | | 2.8% | | | 2.9% | |  | | | |
| **Number of Licensed Hawkers**  **('000)** 1 | 14.3 | 14.2 | 14.2 | | 14.5 | | 14.1 | | | 13.9 | |  | | | |
| Growth Rate | −1.1% | −1.0% | 0.4% | | 1.7% | | −2.8% | | | −1.3% | |  | | | |
|  |  |  |  | |  | |  | | |  | |  | | | |
| **(b) Other Information** | | | | | | | | | | | | |
|  | **Risk-Free Rate** | | | **Market Risk Premium** | | | | |  | | | | | |
| **Singapore** | **2.25%2** | | | **4.89%3** | | | | |  | | | | | |

Note: The market risk premium was the market return above the risk-free rate as at March 2017. SG$ = Singapore dollar; SG$1 = US$0.70540 on March 8, 2017

Sources: 1 Department of Statistics of Singapore, accessed May 15, 2018, www.singstat.gov.sg/; 2 “Singapore 10-Year Bond Yield for March 2017,” Bloomberg, accessed May 15, 2018, www.bloomberg.com/quote/MASB10Y:IND; 3 “Implied Market-Risk-Premia (IMRP): Singapore,” Market-Risk-Premia.com, accessed May 15, 2018, www.market-risk-premia.com/sg.html.

Exhibit 5: KIMLY’s income statements for the year ending september 30

|  |  |  |  |
| --- | --- | --- | --- |
| **(In SG$ thousands)** | **2014** | **2015** | **2016** |
| Sales | 148,872 | 155,972 | 172,226 |
| Cost of Goods Sold | −117,428 | −122,522 | −135,021 |
| Gross Profit | 31,444 | 33,450 | 37,205 |
| Other Income | 2,093 | 2,482 | 3,566 |
| Depreciation and Amortization | −2,694 | −2,725 | −1,941 |
| Other Expenses | −9,625 | −9,645 | −13,246 |
| Earnings Before Interest and Tax | 21,218 | 23,562 | 25,584 |
| Interest | −3 | −2 | −2 |
| Profit Before Tax | 21,215 | 23,560 | 25,582 |
| Income Tax Expense | −1,160 | −1,067 | −1,365 |
| Net Income | 20,055 | 22,493 | 24,217 |
| **Attributable to:** |  |  |  |
| Owners of the Company | 10,408 | 11,560 | 12,174 |
| Non-Controlling Interests | 9,647 | 10,933 | 12,043 |
|  |  |  |  |
| **Pre-Invitation Earnings per Share (cents)** | **1.06** | **1.18** | **1.24** |
| **Post-Invitation Earnings per Share (cents)** | **0.90** | **1.00** | **1.05** |

Note: SG$ = Singapore dollar; SG$1 = US$0.70540 on March 8, 2017

Source: Kimly Limited, *Invitation In Respect Of 173,800,000 New Shares*, 76, March 8, 2017, accessed May 29, 2017, http://infopub.sgx.com/FileOpen/Kimly\_Limited\_-\_Offer\_Document.ashx?App=IPO&FileID=5360.

Exhibit 6: breakdown of revenue by business segments

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Revenue** | **FY2014** | | **FY2015** | | **FY2016** | |
|  | **SG$'000** | **%** | **SG$'000** | **%** | **SG$'000** | **%** |
| Outlet Management Division | 84,086 | 56.5 | 88,137 | 56.5 | 97,550 | 56.6 |
| Food Retail Division | 64,786 | 43.5 | 67,835 | 43.5 | 74,676 | 43.4 |
| **Total** | **148,872** | **100.0** | **155,972** | **100.0** | **172,226** | **100.0** |
|  |  |  |  |  |  |  |
| **Profit/(Loss) before Income Tax** | **FY2014** | | **FY2015** | | **FY2016** | |
|  | **SG$'000** | **%** | **SG$'000** | **%** | **SG$'000** | **%** |
| Outlet Management Division | 6,847 | 32.3 | 7,875 | 33.4 | 10,928 | 42.7 |
| Food Retail Division | 14,690 | 69.2 | 15,575 | 66.1 | 15,450 | 60.4 |
| Others1 | −322 | −1.5 | 110 | 0.5 | −796 | −3.1 |
| **Total** | **21,215** | **100.0** | **23,560** | **100.0** | **25,582** | **100.0** |

Note: FY = fiscal year; SG$ = Singapore dollar; SG$1 = US$0.70540 on March 8, 2017. 1 Others included the group’s expenses incurred for management and human resources activities and other income that was not allocated to reportable segments.

Source: Kimly Limited, *Invitation In Respect of 173,800,000 New Shares*, 85, March 8, 2017, accessed May 29, 2017, http://infopub.sgx.com/FileOpen/Kimly\_Limited\_-\_Offer\_Document.ashx?App=IPO&FileID=5360.

Exhibit 7: kimly’s Balance Sheet as at September 30

|  |  |  |  |
| --- | --- | --- | --- |
| (In SG$ thousands) | 2014 | 2015 | 2016 |
| **Non-Current Assets** |  |  |  |
| Property, Plant, and Equipment | 3,913 | 3,782 | 4,087 |
| Intangible Assets | 2,065 | 810 | 311 |
| Other Receivables | 3,232 | 3,385 | 4,062 |
| Cash and Bank Balances | 30 | - | - |
|  | 9,240 | 7,977 | 8,460 |
| **Current Assets** |  |  |  |
| Trade and Other Receivables | 2,563 | 3,257 | 2,926 |
| Inventories | 1,059 | 1,086 | 1,239 |
| Prepayments | 185 | 202 | 1,317 |
| Cash and Bank Balances | 26,540 | 29,328 | 29,446 |
|  | 30,347 | 33,873 | 34,928 |
| **Total Assets** | 39,587 | 41,850 | 43,388 |
| **Current Liabilities** |  |  |  |
| Trade and Other Payables | 12,914 | 12,565 | 16,185 |
| Other Liabilities | 4,580 | 4,534 | 6,318 |
| Obligations under Finance Leases | 42 | 47 | 25 |
| Provision for Taxation | 1,087 | 1,048 | 1,174 |
| Provision for Restoration Costs | 150 | 150 | 160 |
|  | 18,773 | 18,344 | 23,862 |
| **Non-Current Liabilities** |  |  |  |
| Other Payables | 794 | 594 | 915 |
| Obligations under Finance Leases | 17 | 25 | - |
| Provision for Restoration Costs | 240 | 250 | 290 |
|  | 1,051 | 869 | 1,205 |
| **Total Liabilities** | 19,824 | 19,213 | 25,067 |
| **Equity Attributable to Owners** |  |  |  |
| Share Capital | 122,478 | 122,478 | 122,478 |
| Reserves | −120,704 | −120,640 | −120,123 |
| Retained Earnings | 9,132 | 10,652 | 7,762 |
|  | 10,906 | 12,490 | 10,117 |
| Non-Controlling Interests | 8,857 | 10,147 | 8,204 |
| **Total Equity** | 19,763 | 22,637 | 18,321 |
| **Total Liabilities and Equity** | 39,587 | 41,850 | 43,388 |

Note: SG$ = Singapore dollar; SG$1 = US$0.70540 on March 8, 2017

Source: Kimly Limited, *Invitation In Respect Of 173,800,000 New Shares*, 77, March 8, 2017, accessed May 29, 2017, <http://infopub.sgx.com/FileOpen/Kimly_Limited_-_Offer_Document.ashx?App=IPO&FileID=5360>.

Exhibit 8: discounted Cash Flow VALUATION ASSUMPTIONS

For the pro-forma profit and loss statement, many line items were projected using the percentage of sales method. These percentages were estimated from Kimly’s past financial data.

* Sales were assumed to grow at an average growth rate of 10.42 per cent in the first five years.
* The terminal growth rate was assumed to be a nominal 2 per cent for free cash flows and dividends. This was conservative, given that the real gross domestic product growth rate was projected at 2.5 per cent.\*
* The cost of goods sold was assumed to be 79 per cent of revenue. This percentage had remained stable in the past few years.
* Other income was assumed to be 2 per cent of revenue. This percentage had remained relatively stable in the past few years.
* Depreciation of plant, property, and equipment (PPE) was projected to be 63 per cent of PPE in the previous year.
* Other expenses were assumed to be 7 per cent of revenue.
* The interest expense was assumed to remain at SG$2,000 per year.
* The company’s effective tax rate was assumed to be 5.11 per cent for the first five years, and 17 per cent subsequently.
* Dividends were paid at 50 per cent of net income, except in the first year after listing. The company prospectus stated that it would pay out an additional SG$11 million in conditional dividends.

For the pro-forma balance sheet, many of the future assets and liabilities were projected based on the percentage of sales method.

* PPE was computed by taking the prior year PPE ending balance less depreciation in the current year plus SG$3 million in capital expenditure. The SG$3 million was derived based on the assumption that the company would use half the SG$30 million proceeds on PPE over a span of five years.
* Net intangible assets were assumed to be zero.
* Cash and bank balances would be the plug-in figure.
* Share capital after share issue was calculated by taking the total number of outstanding shares multiplied by the issue price of SG$0.25. Based on information in the prospectus, there used to be only one outstanding share, which was held by the founder. Between September 2016 year end and the IPO, many new shares were issued to other shareholders. In order to prepare the prospectus, the company multiplied the outstanding shares prior to listing by SG$0.25 to get the share capital. The same approach gave a share capital of SG$288,697,000 after listing.
* Reserves were assumed to be constant.
* All non-controlling interests were bought back, and all subsidiaries became wholly owned. Thus it would be zero in future periods.
* Retained earnings were computed by taking prior year retained earnings plus net income minus dividends.
* Net operating working capital was computed by taking receivables plus inventories and prepayments less payables and other liabilities.

Note: SG$ = Singapore dollar; SG$1 = US$0.70540 on March 8, 2017. \* Lee Meixian, “Moody's Projects Singapore Real GDP Growth for Full Year at 2.5%” in 2017,” Business Times, August 17, 2017, accessed September 23, 2017, www.businesstimes.com.sg/government-economy/moodys-projects-singapore-real-gdp-growth-for-full-year-at-25.

Source: Assumptions made by the authors are based on trends and information obtained from Kimly’s financial statements.

Exhibit 9: key financial data of potential peers

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Company** | **Pricea,b (SG$)** | **Shares Outstanding (mm)** | **Book Debt** | **Cash** | **Earnings per Share** | **EBITDA** | **Revenue** | **Equity Betac** |
| Pavillon Holdings | $0.05 | 387.75 | $0.00 | $11.64 | $0.0015 | −$0.39 | $11.94 | 0.280 |
| Japan Foods Holding | $0.44 | 174.44 | $0.00 | $19.02 | $0.0268 | $10.03 | $68.08 | 0.500 |
| Sakae | $0.35 | 142.00 | $48.70 | $11.40 | −$0.0819 | −$0.82 | $87.45 | −0.070 |
| Old Chang Kee | $0.86 | 121.38 | $7.40 | $16.30 | $0.0151 | $8.61 | $80.36 | 0.780 |
| Neo Group | $0.59 | 145.91 | $72.90 | $10.50 | $0.0023 | $13.90 | $194.28 | 0.720 |
| BreadTalk Group | $1.30 | 281.89 | $192.50 | $112.50 | $0.0306 | $70.71 | $616.75 | 1.410 |
| Katrina Group | $0.21 | 231.52 | $0.00 | $11.37 | $0.0112 | $10.69 | $55.87 | 0.759c |
| ABR Holdings | $0.80 | 201.00 | $0.00 | $79.90 | $0.0380 | $9.00 | $102.51 | 0.060 |
| LifeBrandz | $0.06 | 194.02 | $0.00 | $0.02 | −$0.0449 | −$1.12 | $0.73 | 1.320 |
| Dairy Farm Intl | $12.67 | 1,352.46 | $964.60 | $323.80 | $0.4329 | $864.76 | $15,025.07 | 1.070 |
| Soup Restaurant | $0.20 | 298.50 | $0.00 | $7.62 | $0.0035 | $2.66 | $38.35 | 0.180 |
| Tung Lok Group | $0.11 | 274.40 | $3.28 | $14.02 | $0.0022 | $4.78 | $86.06 | 1.450 |

**Pavillon Holdings** owned six self-managed restaurants and nine franchise restaurants offering Thai Teochew cuisine in Singapore, China, Vietnam, and Indonesia.

**Japan Food Holdings** operated a chain of more than 40 restaurants in Singapore serving authentic Japanese fare under various franchises as well as self-developed brands. Its network extended to Malaysia, Vietnam, China, and Hong Kong.

**Sakae** had over 200 outlets worldwide with brands such as Sakae Sushi, Sakae Teppanyaki, Sakae Delivery, Hei Delivery, Senjyu, Crepes & Cream, Sakae Express, Sachi, Kyo by Sakae, and Nouvelle Events & Catering.

**Old Chang Kee** offered superior quality hot finger food and quick bites through kiosks along the road and retail outlets at petrol stations and shopping malls.

**Neo Group** had five business segments, namely, [Food Catering (buffets for various occasions),](http://www.neogroup.com.sg/brands/) [Food Retail](http://www.neogroup.com.sg/brands/food-retail.html)ing (outlets that served Japanese food), [Food Manufacturing](http://www.neogroup.com.sg/brands/food-manufacturing.html) (which made fish-ball and fish-paste products), [Food Trading](http://www.neogroup.com.sg/brands/food-trading.html) (which supplied fruits, vegetables, and frozen meats), and Other Supplies (which supplied items such as hampers, cakes, and flowers).

**Breadtalk Group** had more than 850 bakeries, 26 Din Tai Fung restaurants, and 60 Food Republic food courts in China, Singapore, Hong Kong, Malaysia, Taiwan, and Thailand.

**Katrina Group** owned and operated restaurants under nine different food and beverage brands including Bali Thai, Pho, Streats, and Indobox.

**ABR Holdings** owned and operated 25 Swensen’s restaurants in Singapore. It owned brands such as Chilli Padi, Tip Top, Season Cafe, Season Confectionery, Sticky Wings, and Yogen Früz.

**LifeBrandz** developed and managed health, beauty, personal care, and lifestyle products under its brands such as Intenz (skin supplements), Extrim (weight loss products), SlimWater (functional water), and Genki Tea (floral teas).

**Dairy Farm International** operated supermarkets, hypermarkets, convenience stores, health and beauty stores, and home furnishing stores across Asia. 

**Soup Restaurant Group** operated a chain of restaurant outlets in Singapore and Malaysia as well as franchised outlets in Indonesia.

**Tung Lok Group** owned and managed over 35 restaurants in Singapore, Indonesia, China, Japan, and Vietnam.

Note: SG$ = Singapore dollar; Figures in SG$ millions, except where noted; SG$1 = US$0.70540 on March 8, 2017; EBITDA = earnings before interest, tax, depreciation, and amortization. a. Price as at March 15, 2017 (day before the close of the IPO)

Source: b. Reuters, accessed September 13, 2017; c. ShareInvestor.com, accessed September 13, 2017; Capital IQ, accessed September 14, 2017. All information found by searching company names on databases.

Exhibit 10: discounted Dividend model ASSUMPTIONS

* Payout ratio:

Kimly had announced its intention to pay not less than 50 per cent of net income as dividends. The pro-forma statements showed that Kimly had a strong potential of generating sufficient cash flow to pay out these dividends.

* Terminal growth rate:

The terminal dividend growth rate was assumed to be 2 per cent.

* Discount rate:

The discount rate for the DDM was Kimly’s cost of equity.

Note: DDM = discounted dividend model

Source: Assumptions made by the authors based on trends and information obtained from Kimly’s financial statements.

Endnotes

1. This exercise has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Kimly Limited or any of its employees. [↑](#endnote-ref-1)
2. SG$ = Singapore dollar; SG$1 = US$0.70540 on March 8, 2017; all currency amounts are in SG$ unless otherwise specified. [↑](#endnote-ref-2)
3. Wong Wei Han, “Kimly Aims To Raise $40m in First Kopitiam IPO,” *Straits Times*, March 9, 2017, accessed May 29, 2017, www.straitstimes.com/business/companies-markets/kimly-aims-to-raise-40m-in-first-kopitiam-ipo. [↑](#endnote-ref-3)
4. Stephanie Luo, “Catalist-Bound Kimly Counts Heliconia Capital as a Pre-IPO Investor,” *Business Times*, March 14, 2017, accessed May 29, 2017, www.businesstimes.com.sg/companies-markets/catalist-bound-kimly-counts-heliconia-capital-as-a-pre-ipo-investor. [↑](#endnote-ref-4)
5. Ibid. [↑](#endnote-ref-5)
6. Ibid. [↑](#endnote-ref-6)
7. Ibid. [↑](#endnote-ref-7)
8. Ibid. [↑](#endnote-ref-8)
9. Kimly Limited, *Invitation In Respect of 173,800,000 New Shares In Kimly Limited: Offer Document*, 62–63, March 8, 2017, accessed May 29, 2017, http://infopub.sgx.com/FileOpen/Kimly\_Limited\_-\_Offer\_Document.ashx?App=IPO&FileID=5360. [↑](#endnote-ref-9)
10. Ibid., 97. [↑](#endnote-ref-10)
11. Ibid. [↑](#endnote-ref-11)
12. Ibid., 101. [↑](#endnote-ref-12)
13. Ibid. [↑](#endnote-ref-13)
14. Ibid. [↑](#endnote-ref-14)
15. Ibid., 104. [↑](#endnote-ref-15)
16. Wong Wei Han, op. cit. [↑](#endnote-ref-16)
17. Kimly Limited, op. cit., 85. [↑](#endnote-ref-17)
18. A social outreach program initiated by the National Trade Union Congress Foodfare in 2009 to provide highly affordable, nutritious meals to the community. [↑](#endnote-ref-18)
19. Zi char literally means cook and fry. It is a general term for food such as fried noodles, sweet and sour pork, and claypot served from food stalls. [↑](#endnote-ref-19)
20. Kimly Limited, op. cit., 98. [↑](#endnote-ref-20)
21. Wong, op. cit. [↑](#endnote-ref-21)
22. Kimly Limited, op. cit., 107. [↑](#endnote-ref-22)
23. Ann Williams, “Kimly Shares Soar 120% On Trading Debut,” *Straits Times*, March 20, 2017, accessed May 29, 2017, www.straitstimes.com/business/companies-markets/kimly-shares-soar-120-on-trading-debut. [↑](#endnote-ref-23)
24. Stephanie Luo, “‘Modern Kopi-Boy’ Kimly Sets Stage for Future Coffee Shops,” *Business Times*, March 9, 2017, accessed May 29, 2017, www.businesstimes.com.sg/companies-markets/modern-kopi-boy-kimly-sets-stage-for-future-coffee-shops. [↑](#endnote-ref-24)
25. Ibid. [↑](#endnote-ref-25)
26. Ibid. [↑](#endnote-ref-26)
27. Ibid. [↑](#endnote-ref-27)
28. Ibid. [↑](#endnote-ref-28)
29. Wong, op. cit. [↑](#endnote-ref-29)
30. Stephanie Luo, “‘Modern Kopi-Boy’,” op. cit. [↑](#endnote-ref-30)
31. Ibid. [↑](#endnote-ref-31)
32. Ibid. [↑](#endnote-ref-32)
33. Wong, op. cit. [↑](#endnote-ref-33)
34. Stephanie Luo, “Catalist-Bound Kimly,” op. cit. [↑](#endnote-ref-34)
35. My Paper, “HDB Towns to Get 41 Coffee Shops by 2017,” Asia One, September 17, 2015, accessed July 23, 2018, www.asiaone.com/singapore/hdb-towns-get-41-coffee-shops-2017. [↑](#endnote-ref-35)
36. “About Us,” Housing & Development Board, accessed July 23, 2018, https://www.hdb.gov.sg/cs/infoweb/about-us. [↑](#endnote-ref-36)
37. Kimly Limited, *Invitation In Respect of 173,800,000 New Shares In Kimly Limited: Product Highlights Sheet*, 6, March 8, 2017, accessed May 29, 2017, http://infopub.sgx.com/FileOpen/Kimly\_Limited\_-\_Product\_Highlights\_Sheet.ashx?App=IPO&FileID=5361. [↑](#endnote-ref-37)
38. Jean Lim, “Food Courts,” National Library Board, Singapore Infopedia, accessed July 23, 2018, http://eresources.nlb.gov.sg/infopedia/articles/SIP\_1636\_2010-01-31.html. [↑](#endnote-ref-38)
39. Kimly Limited, *Invitation In Respect of 173,800,000 New Shares in Kimly Limited: Offer Document*, op. cit., 34. [↑](#endnote-ref-39)
40. Ibid., 19. [↑](#endnote-ref-40)
41. Ibid. [↑](#endnote-ref-41)
42. Ibid. [↑](#endnote-ref-42)
43. Ibid. [↑](#endnote-ref-43)
44. Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe, Joseph Lim, Ruth Tan, and Helen Wong, *Corporate Finance*, Asian Global ed. (Singapore: McGraw Hill, 2015), 296–297. [↑](#endnote-ref-44)
45. Ibid., 277–291. [↑](#endnote-ref-45)
46. Luo, “Catalist-Bound Kimly,” op. cit. [↑](#endnote-ref-46)
47. Ross, Westerfield, Jaffe, Lim, Tan, and Wong, op. cit., 56–57, 291–295. [↑](#endnote-ref-47)