GEMM Insights

CORPORATE FINANCE TRENDS & DEVELOPMENTS

15TH EDITION

OCTOBER 2023

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Introductory Message

Dear reader,

GEMM Insights 15th edition will focus on Corporate Finance Trends & developments.

Corporate finance is a field of finance that deals with the financial decisions made by corporations and the various methods used to fund the company's operations, investments, and growth opportunities. It involves analysing the financial performance of the company, identifying potential investment opportunities, determining the best ways to raise capital, and managing the risks associated with financial decisions.

Risk, timing, and market conditions are critical factors that can impact corporate finance decisions for companies in general. Every company faces risks, whether they are related to market volatility, regulatory changes, or unexpected events such as natural disasters or pandemics. Companies need to assess these risks and develop strategies to manage them effectively, such as through risk hedging, diversification, or insurance.

In today's ever-evolving financial landscape, it has become increasingly important to stay ahead of the curve and keep a keen eye on emerging trends within the world of corporate finance. With globalization, sustainability, digitalization, and regulatory changes playing a critical role in shaping the way businesses operate, it is crucial for organizations to adapt and respond strategically to the shifts that will undoubtedly impact their bottom line.

Our newsletter will delve into the key corporate finance trends that are dictating the financial decision-making for companies across the globe, shedding light on essential insights and actionable strategies necessary for navigating the complexities of this dynamic sector. The major trends that we have identified are the following:

- Intangible Assets ("IA") and intellectual Property ("IP") valuation
- Digital transformation / Advanced data analytics & Artificial Intelligence ("AI")
- Alternative finance & crowdfunding
- Sustainable finance
- Blockchain & cryptocurrency

Yours faithfully,

George M. Ioannides

Founder & CEO

GEMM Business Consultants

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Intangible Assets (“IA”) & Intellectual Property (“IP”) valuation.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Intangible assets & Intellectual property valuation (1/2)

General overview

An intangible asset has no physical substance, is clearly distinguishable and controllable, provides a future economic benefit and/or arises from any contractual or legal rights.

IA can be classified broadly into the following categories:

- **Market related intangible assets** – Brand name, registered trademarks, trade names, service & collective marks, internet domain names and non-competition agreements
- **Customer related intangible assets** – customer contracts, customer relationships, other backlog, customer lists
- **Contract based intangible assets** – supply/service contracts and distribution agreements, supplier relationships, franchise agreements and licenses.
- **Technology based intangible assets** – computer software, knowledge and knowhow, patented and unpatented technology and databases.
- **Artistic related intangible assets** – Plays, books, magazines, newspapers, songs, musical work, pictures & photographs and video & audio-visual material.

Why value Intellectual Property?

As economies shift from manufacturing to service industries, an increasingly large proportion of the firms derive their values from intangible assets ranging from technological patents to human capital. In addition to these systemic changes, international accounting practices place pressure on firms to recognize and value all identifiable intangible assets of a firm as part of a transaction.

As a result of these trends, proper valuation of IP, followed by measures to protect that value, have become a key element of the success and viability of a modern firm.

The GEMM's proposed IP valuation framework is a combination of three main valuation approaches and captures special valuation considerations.

- **Income Approach -** The income method values the IP asset on the basis of the amount of economic income that it is expected to generate, adjusted to its present-day value. The most used valuation methodologies utilised under the income approach are the following:
  - Relief from Royalty method ('RRM')
  - Multiperiod Excess earnings Method ('MPEEM')
  - With and without Method ('WWM')
  - Real Option Pricing ('ROP')

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Intangible assets & Intellectual property valuation (1/2)

Why value Intellectual Property? (cont.)

- **Market approach -** The market method is based on a comparison with the actual price paid for the transfer of rights to a similar IP asset under comparable circumstances.
- **Cost approach -** The cost method establishes the value of an IP asset by calculating the cost of a similar (or exact) IP asset. The cost method is particularly useful when the IP asset can be easily reproduced and when the economic benefits of the asset cannot be accurately quantified. The valuation methodology we utilise under the cost approach is the Replacement cost method less obsolescence.

There are several important factors to establish and take into consideration when performing an IP valuation. These include:

- Clear identification of the IP.
- Unambiguous title to the asset.
- Qualitative and quantitative characteristics of the IP.
- Earnings capacity and profitability relating to the IP.
- Market share supported by, or as a result of, the IP.
- Legal rights and restrictions, competition, barriers to entry, and risks associated with the IP.
- Product life cycles and positioning.
- Historical growth and prospects for the future.

Concluding remark

Today's economy reflects a transition from industrial forefront to a service and information-oriented business. The increasing number of acquisitions have started revealing the hidden value of intangible assets. Knowledge based assets are primarily accountable for such an increase in value. The key stakeholders are looking beyond the financial statements and are also looking at the market capitalisation driven by intangible factors such as the brand, customers and supplier relationships, human capital and many others.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Digital transformation

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Digital transformation (1/2)

General overview

The future of corporate finance will see a significant push toward digitization, with companies adopting digital tools and technologies to streamline processes, reduce costs, and improve decision-making.

The process of digitalization and the competitive pressure to catch up with this development has led to a shift in the traditional role and self-perception of the finance function in many organizations.

Based on our experience so far and following our discussions with the finance departments of various of our clients we have witnessed the following two trends:

The first trend is that in some organisations finance executives accept the digital change as an external factor, with the likely consequence of being trimmed to efficiency alongside a potential self-reporting through the business units.

The second trend, is that the finance function combines operational and financial data (bid data) and uses **advanced analytics** and **Artificial Intelligence ("AI")** to enhance business decisions while acting as a service provider for the entire organization.

How to transform the value offering from finance

To increase the relevance of Finance to the business, the first question to be addressed is the role and self-perception of the finance function. Generally, traditional role models face a trade-off between efficiency and value proposition to the business, as increases in output are directly linked to an increase in input (i.e., resources).

Digitalisation can help to resolve the target conflict between the role as pure and cost efficient versus comprehensive and value contributing at high costs.

The first objective, cost efficiency, is triggered by automation, which helps to redesign and streamline processes with support of robotic process **automation technologies**, valid especially for transactional processes.

The second objective, relevance to the business, is mainly leveraged by data driven insights. The key requirement for data driven insights, is neither availability of data nor the technological infrastructure, but the process and way of evaluating available date on a structured, efficient and targeted method. This is where **data analytics** come into play.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Digital transformation (2/2)

Data-driven decision making

Technological advances, provided to corporate finance teams access to more data than ever before. This data can inform financial decisions, help assess risk, and identify growth opportunities. However, to make the most of this data, companies must invest in data analytics tools and hire employees with the skills to interpret and utilize data effectively.

They will also need to be careful not to allow data to override their judgment or lead them to make decisions that are not in the company's best interests. Otherwise, they could find themselves making financial decisions not supported by data.

Some examples of how CFOs can use data to drive better decision-making include:

- Analysing customer data to identify spending patterns and trends
- Using market data to inform pricing decisions
- Utilizing financial data to improve forecasting accuracy

Automation

With the rise of artificial intelligence and machine learning, more and more tasks are being automated. This includes financial tasks such as bookkeeping, invoicing, and payments. As automation becomes more widespread, it will free up corporate finance teams to focus on more strategic tasks, such as developing long-term financial plans and identifying growth opportunities. At the same time, it will be necessary for companies to ensure that their automated systems are accurate and reliable, as they will be relied upon to make critical financial decisions.

There are many ways automation can be used in corporate finance, including:

- Automating the process of creating financial reports
- Generating automatic alerts when certain financial thresholds are met
- Setting up rules-based systems for approving or rejecting transactions

In corporate finance, automation can take away many tedious tasks that employees are currently responsible for. This will free up finance teams to focus on more strategic tasks to help grow the business. Automated systems are usually more accurate than humans, reducing errors and improving decision-making.

Overall, automation is a trend that is here to stay and one that businesses should be prepared to utilize. Those who embrace it will be better positioned to compete in the future landscape of corporate finance.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

GEMM. Business Consultants

Alternative finance & crowdfunding

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Alternative finance & crowdfunding (1/2)

Alternative finance general overview

Based on reported statistics (source: allied market research) the global alternative finance market was valued at US$173,9 billion in 2022 and is projected to reach US$920,9 billion by 2032, growing at a CARG of 18,5% from 2023 to 2032.

The traditional banking system is no longer the only source of business financing. In recent years, alternative lenders like peer-to-peer platforms and online lenders have become increasingly popular, offering loans and lines of credit with more flexible terms than traditional banks.

These alternative financing options will become even more popular as companies look for ways to obtain funding without going through the traditional banking system.

Some examples of alternative financing options include:

- Peer-to-peer lending
- Debt based Crowdfunding
- Invoice trading
- Online lenders

These new financing options will continue to grow in popularity as they offer businesses a way to get the funding they need without going through a traditional bank.

SMEs and alternative financing

Small and medium enterprises (SMEs) represent the backbone of the European and worldwide economies. According to Eurostat estimates, SMEs account for more than 99% of companies in the EU, more than 66% of employment, 60% of value added and 56% of investment. They also represent the main innovation driver in many sectors, and exploiting their full potential would benefit both the economy and society in general.

A major hindrance faced by SMEs in pursuing opportunities for growth, development and entrepreneurial initiatives is undoubtedly access to external financing. Traditionally, bank financing (loans, overdrafts, credit lines) accounted for the overwhelming majority of external financing, with the rest coming from equity contributions from the business owners, and effective debt and credit management with suppliers and customers. Difficulty in gaining access to bank financing was compounded by the global financial crisis and it is significantly harder since the introduction of stricter regulatory requirements under the Basel II regime

Alternative finance channels generate undeniable funding and growth opportunities for SMEs and entrepreneurs. However, they also present challenges due to a limited or uncertain regulatory landscape that companies and regulators must both carefully navigate.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Alternative finance & crowdfunding (2/2)

Growth drivers

The main drivers and top impacting factors in the increasing popularity of the alternative finance are the following:

- **Advancement in technology** - The recent rise of technology-enabled financial services (fintech) has been able to, if not solve, then at least alleviate the shortage of external funding for SMEs by providing them with valid, alternative financing channels. Such channels, usually grouped under the name of alternative finance, are 'alternative' in the sense that they are, for the most part, not provided by banks but from individuals and institutional investors
- **Lack of access to traditional finance** – Currently individuals and corporates are underserved by traditional financial institutions, which can be slow to approve loans or may require collateral that many individuals and/or corporations may not have.
- **Change in consumer preferences and regulatory environment** – The trend in consumers is that they are currently increasingly looking for financial services that are more transparent, convenient and tailored to their needs. The regulatory environment for financial services has evolved in recent years, creating both opportunities and challenges. In some cases, regulations have created barriers to entry for new alternative finance services while in some other cases, regulations have provided the framework for alternative finance services to operate within, creating more trust and stability in the market.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

GEMM.
Business Consultants

Sustainable finance

GEMM.
Business Consultants
© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Sustainable finance

Integrating sustainable finance into corporate finance processes

The hallmark of sustainable finance is the integration of ESG factors in the fabric of a financial institution, from strategy to investments, credit offerings to risk mitigation and finally to external communication and reporting. ESG risks cover a wide range of issues ranging from a company's response to climate change, to the promotion of ethical labour practices, to issues around data privacy and governance. The number of investors, both institutional and retail and in developed and emerging markets alike, who consider ESG risks as a screening test for their portfolio companies, have been on the rise.

Many issues fall within the ESG categories, and these can be classified in a variety of ways depending on the rating body, perceived material relevance and the disclosure framework used for reporting.

Environmental (E)	Social (S)	Governance (G)
Climate change	Human Capital Management	Board quality
Natural Resource Scarcity	Product / Service Safety	Reporting, Transparency, Ethics
Pollution & waste	Diversity, Equity & Inclusion ('DEI')	Supply chain management

For European companies, the goals of the European Commission to promote sustainable finance, for example through re-orienting capital flows to sustainable investments, establishes a clear linkage between ESG and finance. Although not binding on non-EU companies, the EU Taxonomy is expected to have a ripple effect globally as the foreign subsidiaries of European companies respond to achieve the corporate ESG objectives in their local markets and its expected use by financial sector companies in launching new sustainable financial products.

The corporate finance function has, in many cases, undergone a significant evolution from its roots as a function focused on funding activities. The corporate finance function is expected become a pivotal partner in driving forward-looking data insights to evaluate an organization's performance against its purpose. To effectively respond to ESG issues such as sustainable finance, integrated reporting and ESG metrics, there is often a need for upskilling of the corporate finance team on ESG issues relevant to business operations.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Blockchain & cryptocurrency

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Blockchain & cryptocurrency (1/2)

Blockchain in Corporate Finance

In the era of the digital revolution, organizations are surrounded by disruptive technologies and find themselves constantly in the middle of change processes.

In recent years, blockchain technology has evolved tremendously, and in the future, it may fundamentally influence and change the finance and accounting domain of the early 21st century.

Originally the blockchain technology was created only as technology to introduce the cryptocurrency Bitcoin, however by now the blockchain is considered by experts as a major innovation beyond its initial scope. In light of these changing circumstances, innovative opportunities, as well as new challenges, arise. This creates many questions and academic debates among researchers all over the globe as to which business models and functions in the financial sector may become obsolete or where to streamline and enhance processes through blockchain applications

Blockchain in Practice

According to the literature review, there are many examples of potential uses of blockchain technology as follows:

- Property records/smart property
- Banking/online payment
- Supply chain auditing
- Anti-money laundering
- Stock trading
- Crowdfunding
- Smart contracts
- Intellectual property (IP) rights

Funding innovation in the Blockchain age

A disruptive change can be assumed in the context of corporate funding. In this context, blockchain technology and smart contracts have been identified to be the core technology behind the initial coin offering (ICO) mechanism.

This new funding mechanism shows several parallels to the initial public offering (IPO) process. Both funding models sell rights on the public capital market to investors. According to Robinson, the public coin-offering has become the fastest growing capital market in the world. However, in terms of funding volume, ICOs are much smaller than IPOs.

Blockchain in auditing and accounting

A further disruptive change driven by the blockchain technology can be anticipated in the accounting and auditing domain.

Nowadays, auditors can only give reasonable assurances as opposed to a full audit on the performance of the organization but with the blockchain technology, this shortcoming can be improved given that transactions in the blockchain are already validated by the transaction parties and approved by the consensus mechanism. As the timestamped and hashed data cannot be altered, auditors can better assess with an increased reliability the entire value chain including all transactions of the organization.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Blockchain & cryptocurrency (2/2)

Concluding remark

The blockchain technology may fundamentally influence the current business setting and eventually offering solutions in matters of trust. However, there are several uncertainties regarding technicities and legal aspects due to missing or little expertise.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

GEMM. Business Consultants

GEMM's tailored made solutions

GEMM. Business Consultants
© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

How can we help (1/2)

GEMM Business Consultants Limited portfolio of services draws on our core capabilities of research, benchmarking, modelling, analysis and strategy development to help companies determine the best way forward with precision and confidence.

Clients can rely on us to define clear, practicable solutions for their challenges and opportunities while seeking our support during their transition, ensuring they have the relevant capability and commitment to change.

Our Business and Management consultancy capabilities are briefly outlined below:

- Strategy & ESG
- Business valuation & appraisals
- Forensic & Fraud Investigations / Expert Witness
- Mergers & Acquisitions
- Audit Specialist reviews
- Startup advisory services
- Capital advisory & Capital raising / Project & Infrastructure finance / Real Estate Solution services
- Private Equity & Portfolio appraisals / External Valuers
- Financial due diligence / Vendor due diligence
- Restructuring & Re-organization services

For more information about GEMM Business Consultants Limited core services and capabilities please visit our website: www.gemmcy.com.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

How can we help (2/2)

GEMM has built up strong strategic partnerships with esteemed Cyprus based originations aiming to offer a full-scope services adapted to our international and local-based clients, encompassing large multinationals, banking institutions, and high-net-worth individuals. Services include, among others, Fiduciary, Company Administration, Secretarial, Accounting & Bookkeeping, Escrow, Payroll, and Fund Administration services. These include:

- Compliance advisory services (FACTA & CSR, DAC 6 & DAC 7)
- Company registration administration & secretarial services
- Banking services
- Accounting & Payroll
- Trustee services
- Fiduciary services
- Fund administration services
- Immigration services

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

Contact details

ADDRESS

Arch. Makariou III, 88
1077 Nicosia, Cyprus

Contact Person & Position

George M. Ioannides
Founder & CEO

HOURS

Mon-Fri 08:30 to 18:00
weekends closed

Mobile

+357 – 99 - 566558

E-MAIL

gioannides@gemmcy.com

info@gemmcy.com

Phone

+357 – 22 - 267105

WEBSITE

www.gemmcy.com

LinkedIn / Facebook / Instagram

GEMM Business Consultants Limited

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

GEMM. Business Consultants

www.gemmcy.com

The information contained herein is of general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future.

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability companies. Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034

© Copyright 2022-2023 GEMM Business Consultants Limited, a Cyprus Limited Liability company.
Copyright protected with ProtectMyWork.com Reference Number: 20483190423S034