

BY YAP WEE KEE

# EMBARKING ON THE IPO JOURNEY

Going public is a major business consideration, and the decisions taken on the journey can significantly impact the business

**S**TRATEGIES for growth can take many forms, from organic growth – which includes innovation, research & development (R&D), capital investments, recruitment – to strategic alliances, joint ventures and mergers and acquisitions. And for many small and medium-sized enterprise (SME) owners, the idea of an initial public offering (IPO) is invariably tossed around when conversations turn to funding future growth and expansion. The considerations for an IPO may vary across businesses and markets but there are two fundamental questions a business owner must answer before embarking on the journey:

1. *What are the reasons for listing?*
2. *Which is the right stock exchange for the company?*

## • Considerations for IPO

Business owners take their company public for a variety of reasons but key for the majority is access to additional sources of long-term capital to expand and grow their businesses. It is an opportunity for owners to monetise a portion of the business and to reward and incentivise employees to contribute to the growth of the company. And with listing comes greater brand and market exposure, which – if managed strategically – could enhance the company's ability to attract new talents and global partners for international expansion.

In considering an IPO, the ability to commit time and resources to manage the IPO process will be crucial to the success of the listing. Companies without the breadth in bench strength will find that embarking on an IPO can be a distraction and – in some instances – may impact daily operations as IPO preparations can take anywhere from two to three years.

Once listed, the company's business practices and performance will also be subjected to additional and greater scrutiny from its various stakeholders which may include retail investors, investment firms and regulators.

## • Choosing the right exchange

Selecting the right stock exchange for listing a business is not unlike choosing the right home. Price/earnings multiples should not be the only consideration. Location, relevance and size matter too.

## • Location of stock exchange relative to business activities

The location of the stock exchange relative to the business activities of the company is an important consideration. If the company is listed in an exchange far from the principal place of business, the company's management will find themselves spending a considerable amount of time travelling between locations to manage the business and stakeholders. Management will also have to keep up with listing changes and business regulations of the market where the company is listed as non-compliance with regulatory

requirements could impact management. Over time, such activities will add to business costs without incremental value.

## • Relevance of business in the country of listing

When choosing the country of listing, pay attention to the shareholder community. While pre-listing roadshows can help raise awareness of the business, interests will wane if the listed business does not resonate with the shareholders and investing community at large. Analysts might even stop covering the stock if the trading volume remains low, and this could result in a drag on the stock price.

## • Big fish in a small pond or a small fish in a big pond

Size matters, and listing in the right stock exchange could enable a business to leap-frog into bigger ponds to access longer-term capital. In our conversations with SME owners of technology companies, they expressed a desire to be the next Nasdaq unicorn. But to achieve that size, they will need access to long-term capital for growth quickly. Thus it is important that the business continues to obtain sufficient coverage from analysts and generate interest among members of the investing committee. This can only happen if you are a big fish in a small pond.

## • Maximising the value of your IPO

Companies embarking on an IPO invest considerable time and resources to preparing for the listing but often overlook the need to maximise the value of the business at IPO. To avoid falling into this trap, ask:

- *Are all the entities structurally optimised?* In setting up entities, due consideration must be given to business and regulatory practices that are unique to a country or region where the entities operate. These could include restrictions on repatriation of monies from overseas, favourable tax treaties between countries and transfer pricing arrangements that should be in place.
- *What is the IPO story?* The story has to communicate a compelling vision. Often, business owners include varied businesses into their IPO with hopes of increasing the profitability and correspondingly, the valuation. However, from our experience, more does not mean better, especially when the businesses are not complementary. It only clouds the IPO story.
- *How will the company achieve sustainable growth and earnings?*

Investors favour companies that are focused on value creation, thus there needs to be a clear strategy on achieving sustainable growth – one that can be executed in the lead-up to and following the IPO.

Business owners need to clearly articulate why they are tapping into capital markets and how the use of the proceeds would translate into more value for shareholders.

- *Is the right team in place?* Investor confidence will be a significant factor in determining the effort required to sell the IPO. As such, it is crucial that professionals from within and outside the company (eg underwriters, lawyers, auditors, financial or tax advisers, investor relations) come together to help take it public. Their work will enable the company to position itself as an attractive investment because it has a compelling strategy that is backed by demonstrated performance and good leadership.

Going for IPO is a major business consideration, and the decisions taken on the journey can significantly impact the business. It is imperative that you own your story, work with the right professionals from the start, and engage and speak to capital market professionals early in the IPO journey. ■

*The writer is partner, Capital Markets, KPMG in Singapore*



PHOTO: ISTOCKPHOTO