

# What companies should know before going for an IPO

A Q&A with Stone Forest Corporate Advisory Pte Ltd director Doreen Quek:

**Q: Based on your experience, what is the average age of the company among first-time IPO applicants? Do they vary across industries?**

A: The average age of first-time IPO applicants is at least three years. One of the profit criteria for main-board listing is they need a cumulative profit before tax of \$7.5 million in the last three financial years. For technology-related companies, there were examples of listing with two years' profit track records. Even for Catalist listing where there is no need for profit track records, the sponsors in Singapore still require at least of two years of operating revenue and profits.

**Q: How early should a company start its preparations for an IPO and why?**

A: The Company should start to prepare for an IPO as early as one year before the listing application. This is because the company's directors and management team must be prepared to put in place strong internal controls and corporate governance before the IPO. Certain companies need to restructure and take out non-core assets, resolve potential conflicts of interests, resolve shareholders' conflicts, etc.

All these take time and have to be done before the IPO application. The company needs to maintain good public image and create awareness of its service offerings and products. This takes time to prepare and has to be done before the IPO application.

**Q: At what stage should a company be considered suitable for an IPO?**

A: An overriding criterion is the integrity of the management team. Our regulators scrutinize the background and character of the promoters.

A key milestone any listing aspirant must achieve is the appointment of a chief financial officer who must be independent and is a Certified Public Accountant or has the requisite accounting and financial experience and training to be able to prepare a set of financial statements that comply with the Singapore Financial Reporting Standards. The listing aspirant must also put in place good internal control systems and corporate governance before the listing application.

**Q: Many companies are known to be active on the business awards arena, a few years before they submit their IPO applications. Would you recommend that?**

A: I do recommend an IPO aspirant company to participate in such awards. First, they have to put their house in order and they have to be able to articulate a clear vision and business strategies so as to pass the scrutiny of the assessors. Such exposure is very good for an IPO aspirant and it prepares them to deal with independent directors, regulators and independent shareholders.

Second, they need to create awareness so that the investing public knows more about the management team, the company's vision and business strategies as well as the company's products and service offerings. This will help give a positive image to the potential investors.

**Q: Going by what you've seen, what are the main challenges faced by many companies in their IPO journey?**

A: Many of the IPO aspirant companies came from family businesses. Many of their siblings and relatives are in the business. It can be very challenging to manage the relationships and emotions especially when some of these relatives are not contributing and yet drawing salaries. This must be resolved before any IPO application can be filed.

Many IPO aspirant companies also do not have strong financial reporting systems that will enable them to produce management reports that provide insights on the key customers, key suppliers, profitability of each product/ service lines, comprehensive cost analysis, etc.

**Q: Many SMEs are in the B2B business, which means they are not well-known household names. How can they make themselves more attractive to retail investors who do not know them at the pre-IPO stage?**

A: We don't see this as an issue. If they have sound business models with strong growth and profit track records and their operating revenues are from reputable institutional users, these pieces of information will be disclosed in the prospectus which the retail investors will be able to read and learn more.

*This article was published on The Business Times on the 2nd March 2010.*