

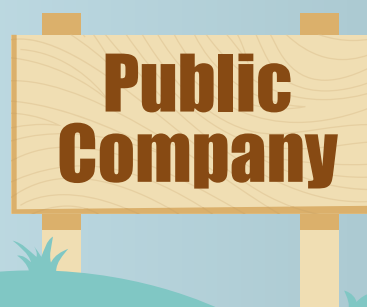
Transitioning from a Private to a Public Company



By **CHAN YU MENG**

Partner – Corporate Department,
Lee & Lee

There are many reasons why private companies go public. Taking a company public is just the first step in a new and exciting journey of transitions.



One of the main reasons for a company to list its shares for public trading is that it has reached its maximum potential, financially and operationally. In order to achieve greater growth, the company needs to have access to public capital markets to raise funds that cannot be obtained from just private equity funding.

In Singapore, there are two boards on the Singapore Exchange Securities Trading Limited (SGX-ST) that a company can be listed on: the Mainboard and Catalist.

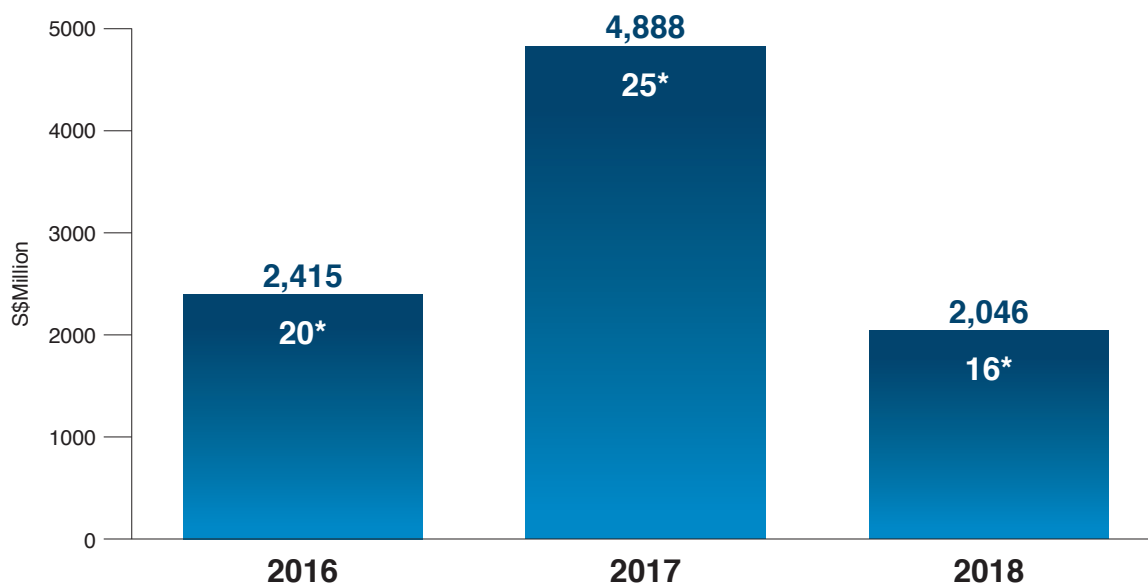
A company intending to list on the Mainboard must meet certain minimum prescribed quantitative requirements, for example, having a certain amount

of track record of operations, pre-tax profits, market capitalisation or operating revenue.

By comparison, a company seeking to join the Catalist board has no minimum quantitative criteria to satisfy. However, the company must appoint a sponsor for the listing and the sponsor will need to be satisfied about the company's suitability to list following due diligence and will also use its own selection criteria to determine if it wants to sponsor the listing. Once listed, the company must continue to be sponsored at all times.

From 2016 to 2018, a total of 61 companies were listed on the SGX-ST with total proceeds raised of approximately S\$9.3 billion (see table below).

Singapore IPOs, 2016 to 2018



* Numbers of IPOs

Source: SGX

The listing process

Bringing a company public and keeping it listed is not for the faint hearted. The listing process in Singapore can take anywhere from six to 15 months to complete. There is no assurance that every listing application submitted will be approved. After listing, companies are also

required to pay an annual listing fee which is calculated based on the market value of the securities listed.

See below a summary of the listing process (“Five stages in the listing process”) that a company must go through before it can go public.

Five Stages in the Listing Process



Preparation Stage

Assemble competent management and finance team. Establish financial and operational infrastructure appropriate for a listed company.



Execution Stage

Draft offer document or prospectus and prepare three years of financial statements for inclusion. Commence stringent financial and legal due diligence.



Submission Stage

Submit offer document or prospectus to regulators and authorities for listing application and pre-lodgement review. Respond satisfactorily to queries and concerns raised.



Lodgement Stage

Lodge preliminary offer document or prospectus on the SGX Catalist website (Catalodge) or MAS' website (OPERA) for public exposure and feedback.



Registration Stage

Proceed to register the offer document or prospectus, after which the public offer can be launched.

Before the final Registration Stage, a preliminary or red herring offer document or prospectus will have to be lodged and subject to public exposure. This is to allow the public to examine and comment on the offer document or prospectus. This is a critical stage of the listing process as some companies have been known to receive poison pen letters. Depending on the severity and authenticity of the allegations made in such letters, a company's listing plans may have to be withdrawn indefinitely.

If a company survives the public scrutiny, it can proceed to launch its public offer.



Benefits and drawbacks

To be publicly listed has its advantages.

A public company has greater access to capital, with the initial public offering of its newly-listed shares serving as a source of funding. Thereafter, listed companies can raise further capital through private placement of shares to specific persons, rights issues of shares and warrants and also by issuing debt instruments like bonds.

Public companies also enjoy the obvious increase in prestige and publicity, which in turn attracts more funding, recruitment of more talented employees and exposure to new business opportunities and affiliations.

There are however also many changes and restrictions that come with being publicly listed as well.

One main change that founding shareholders have found difficulty in coming to terms with when transitioning to a public company is the realisation and acceptance that they now do not own their company anymore and must share it with other public shareholders.

After going public, even if such founding shareholders hold more than half of the shares in the listed company, they still cannot operate and run the listed company in any manner they please. This is because as a listed company, it will be subject to compliance with new rules and regulations that did not apply when it was private. These new rules and regulations include the listing rules of the SGX-ST, the Code of Corporate Governance and the Code on Take-overs and Mergers.

Under the listing rules of the SGX-ST, a listed company cannot, without seeking shareholders' approval, issue shares beyond a certain amount,

engage in transactions with interested persons (including its directors and controlling shareholders) or acquire or dispose of assets beyond a certain value.

Increased scrutiny

Founding and major shareholders cannot dictate the composition of the board members of a listed company. Under the Code of Corporate Governance, the board should have an appropriate level of independence and at least the majority of the board should be made up of independent directors in the case where the Chairman is not independent. Independent directors are directors who have no relationship with the listed company, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the best interests of the company.

The Singapore Companies Act also requires all Singapore listed companies to have an audit committee, comprising board members of whom a majority are independent and who are not executive directors or related to an executive director. The function of the audit committee, amongst other things, is to ensure the integrity of the financial statements of the company and any announcements relating to the company's financial performance.

There are even restrictions placed on owning shares in a public company. Post-listing, if a shareholder holds less than 30 per cent of the voting shares in the listed company, he and his associated concert parties must comply with the Code on Take-overs and Mergers and cannot increase their shareholdings to 30 per cent or more without being obliged to make a mandatory take-over offer for all of the voting shares in the

listed company held by the other shareholders. If the shareholding is between 30 and 50 per cent, he and his associated concert parties cannot increase their shareholdings by more than one per cent in any period of six months, otherwise they will be obliged to make the aforementioned mandatory take-over offer.

Listed companies are expected to be transparent to public shareholders and must keep shareholders informed of all material and price sensitive information. As such, all listed companies must make periodic announcements of their financial results. All director and executive officer appointments must also be announced together with disclosures of any familial relationships with any directors and substantial shareholders and also any conflicts of interest.

Listed companies are also expected to be run in a professional manner with good corporate governance. Board members are expected to take adequate steps to ensure compliance with legislation and regulatory requirements. They are also responsible for ensuring that the company has an adequate and effective system of risk management and internal controls, which essentially is a system of checks and balances designed and instituted to help detect and prevent fraud and to safeguard shareholders' interests and the company's assets.

Taking a company public requires a heavy investment of resources and commitment.

A common misconception is that a public listing is seen as the final destination of a journey and the last milestone in the evolution of a company. The truth is that this is actually just the first step of a new journey. To traverse the path successfully, one has to adapt to new requirements and transition to a new phase of corporate life. ■