Philip Chen – Chairman, Taipei Exchange, Taiwan



For biotech companies, the costs involved in IPO on TPEx is more realistic than those on other major international markets. Besides, TPEx listing requirements for biotech enterprises are more relaxed compared to those of Hong Kong Stock Exchange and Shanghai Stock Exchange.

20.09.2019

Tags: Taiwan, Investment, IPO, TPEx

Philip Chen, chairman of the Taipei Exchange, discusses the capital market condition, elaborates on the significance of biotech, and shares the competitive advantages of innovation companies listing on TPEx. Chen goes on to highlight the importance of assessment criteria and transparency in decreasing the information asymmetry, a key mission of the organization.

TPEx holds an important role as a protagonist of economic vitality and the cradle of successful businesses. Please begin by introducing the organization.

The Taipei Exchange (TPEx) was founded in 1994 and plays a vital role in Taiwan's capital market not only by helping enterprises raise funds but by meeting their needs at every stage of development. Our mission is to help companies prosper and contribute to Taiwan's economic prosperity.

TPEx focuses on serving SMEs which dominate Taiwan's business environment. In fact, the World Bank in its research highlights TPEx as one of the key global exchanges that enable SMEs raising funds.

How would you describe the current capital market of TPEx?

As of May 2019, there are a total of 773 companies listed on TPEx including 34 foreign enterprises. The average market capitalization of companies listed on TPEx is USD 125 million[1]. The electronic sector including semiconductor, ICT, IC design, telecom, etc. accounts for 55.7 percent of listed companies while biotech and medical care sector accounts for 11 percent. Together, these two sectors account for over two-thirds of the enterprises listed on TPEx and dominate the total trade activity on the Exchange.

How is TPEx differentiated from the Taiwan Stock Exchange (TWSE) and what are the eligibility criteria for biotechnology companies to list on TPEx?

TPEx and TWSE have similar listing criteria, the little differences are TPEx provides more flexible requirements in profitability and capital size which will be helpful for SMEs accessing to the capital market. Aside from TPEx, TWSE is the other major stock exchange in Taiwan. As of May, it has 933 publicly listed companies, including 74 foreign enterprises, with an average market capitalization of about USD 1,077 million. However, much more biotech and medical care companies are now listed on TPEx.

It is very difficult for innovative start-up companies without profits to raise funds. These organizations may include emerging high-tech and R&D driven biotech companies. With the commitment to support the enterprises in achieving growths, TPEx aims to encourage these early-stage businesses with proven technologies that demonstrate the market potential to access to the capital market. Therefore, TPEx has identified particular listing criteria which apply to “technology-based enterprises” since 1997. The technology-based enterprises must present the Letter of Opinion containing a clear assessment issued by a competent authority. Suitable authorities include the Industry Development Bureau (IDB) of the Ministry of Economic Affairs (MOEA) and any other industry-specific professional institution designated by TPEx. In the Letter of Opinion, it must state that the applicant company is a technology-based enterprise with marketable products or technology. With the Letter of Opinion, the company does not need to meet the requirements of profitability and the number of years of corporate existence.

Last year, you traveled to Kuala Lumpur to meet with and encourage Malaysia-based companies to list on TPEx main board. What are the strengths and competitive advantages for companies to list on TPEx?

Last year we visited Malaysia, Thailand and Vietnam in an effort to encourage businesses to list on TPEx. Not only is TPEx's market outperforming with high turnover rates and P/E ratios in comparison with other major markets, but another important consideration for coming to TPEx is also the transparency of the IPO application process. We provide a very detailed and predictable schedule for the IPO process in addition to shortening the examination term. Moreover, it is comparatively easy for TPEx-listed companies to raise funds by conducting SPO to meet their subsequent funding needs.

Some people may think that because of the high turnover rate the market will be prone to fluctuation. However, we set a very high regulatory scheme for our listed companies, especially for the transparency of operations which must be disclosed.

Taiwan's regulation amendment to allow pre-revenue biotechs to IPO has been a significant step in bolstering the country's biotech landscape. Now that Hong Kong and China are also following in Taiwan's footsteps, how can the country continue to compete as a regional destination for biotech investment?

For biotech companies, the costs involved in IPO on TPEx is more realistic than those on other major international markets. Besides, TPEx listing requirements for biotech enterprises are more relaxed compared to those of Hong Kong Stock Exchange and Shanghai Stock Exchange. Some of the listing criteria that are applicable in our neighbor markets like minimum market capitalization, approval documents for phase II clinical trials of at least one product, and the cornerstone investors are not the requirements set by TPEx. Since the development of the high-tech market has been tremendously successful here in Taiwan for decades, we can leverage the experiences and replicate these mechanisms in developing the biotech market.

Through our experiences in supporting the biotech market, we have observed that the biotech companies in Taiwan have been developing their unique business models. As the companies listed on HKEX may care more about large amounts of international capital while those listed in mainland China may care about consumption, in Taiwan, listed biotech companies are more innovative and flexible in the business strategy and operation. For example, after phase I or II trials, some biotech companies chose to license out their products or patented technologies to larger players or multinational companies as a way to turn into more capital. Listing on TPEx suits the biotech model, especially for the companies with niche skills or technologies, allowing the enterprises to raise funds without completing the entire development process from R&D to commercialization.

How does TPEx assess the technology of companies listed on the exchange to ensure that the best companies are listing?

Our first step in assessing technology is cooperating with the outside expertise. As I mentioned, the biotech companies applying for listing as technology-based enterprises must obtain a Letter of Opinion from a competent authority, either being the IDB or other designated industry-specific professional institution. This is a crucial step in our evaluation process.

IDB invites outside experts for the examination meetings to determine whether the applicant companies' technology is innovative enough and their products have market potential or not. Since last year, we have been attending the IDB meetings to have a better understanding of their evaluation criteria and earlier involvement in the assessment process. Afterward, when the companies come back to apply to TPEx, we conduct our own listing examination procedures. We also invite two independent experts for a final review of the market potential of applicant companies' technology or products.

In your opinion, are Taiwan's investors informed enough about the biotech industry to make calculated investments in the area?

For the investors, especially retail investors, there is a challenge which is lack of knowledge about biotech terms, therefore, having sufficient information is always important. In Taiwan and some other international markets, most of the retail investors who enter the biotech space do not understand the meaning of complex R&D schedule and different kinds of approvals. These risks may cause price fluctuation in the market. Therefore, now TPEx requires more detailed disclosures from the operational perspective of our listed biotech companies to enhance transparency of the biotech market. TPEx will keep improving the transparency and fairness in the market.

What vision and goals do you have for TPEx's capital market within the upcoming five years?

Personally, I look forward to the growing quantity and improved quality of TPEx market. We aim to add approximately 30 new companies to our stock exchange each year, including innovative biotech. We hope to play a key role in these companies' access to the capital market, helping them

to raise funds and set up systematic transparency practices.

Taiwan has been historically successful in the cultivation of high-tech industries. With this background, we look forward to being a key driver in the development of Taiwan’s biotech landscape. I believe that biotechnology has the potential to be Taiwan’s next industry giant, propelling economic growth. Additionally, TPEx will stay committed to reduce the risk caused by information asymmetry.

On a personal note, what motivates you in the job as you help to grow Taiwan’s SMEs market?

My motivation is to enhance the market to become more efficient while simultaneously creating a safe environment for investors and bringing opportunities to emerging companies. Other than KPIs, my most important focus is on creating a fair market with efficiency and helping Taiwan’s capital market grow to be healthier and more prosperous.

[1] The average capital of TPEx listed companies is around USD 31 million, while the average capital of TWSE listed companies is around USD 200 million.

See more interviews