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FINANCIAL STATEMENT ANALYSIS TO DETERMINE IPO READINESS: EVIDENCE FROM GEORGIAN STATE-OWNED JOINT STOCK COMPANIES

Abstract:

This paper analyzes financial statements of Georgia's two of the largest state-owned joint stock companies (JSC), Georgian Railway and Georgian Oil and Gas Corporation to determine their readiness for Initial Public Offering (IPO). The above-mentioned firms represent 21% of the country's JSC population by turnover and their IPO success index incorporates liquidity, profitability and capital and asset ratios. Series of tests illustrate that liquidity is one of the biggest determinants of IPO success with a 74% influence on the index. Liquidity also improves Return on Capital Employed by 53% and Return on Assets by 47.5%. Furthermore, we conclude that Return on Assets improves firms' chances of successful IPO by 31%. Consistent with our previous research, we believe that protection of minority shareholders' interests is crucial to the development of securities exchange and suggest specific legislative changes to that effect. We also suggest using constant currency financial reporting to eliminate the effects of currency fluctuations in short-term period.

Keywords:

Financial Statement Analysis, Initial Public Offering, State-owned Joint Stock Companies, Constant Currency Financial Reporting, Protection of Minority Shareholders' Interests, Liquidity, Accounting Standards

JEL Classification: M41, O16, G15