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Secrets of successful IPOs

A guide to going public: For fast-growing private companies seeking to raise capital, an IPO can be a superior route to funding growth.

An IPO is the first sale of a company's shares to the public and the listing of the shares on a stock exchange. It allows a company to raise capital to build its business by creating and selling new shares.

Not all businesses are suited to life in the public eye. But for many fast-growing private companies, an IPO can raise the capital they need to accelerate growth and achieve market leadership.

Find out about the secrets of companies with highly successful IPOs:

Prepare early

- Begin the IPO readiness process early enough so that your pre-listed company acts and operates like a public company at least a year before the IPO
  Commit substantial resources to the IPO process and build the quality management team, robust financial and business infrastructure, corporate governance and investor relations strategy that will attract the right investors
- Properly assess the amount of time the IPO journey will take, or the level of scrutiny and accountability faced by a public company

Outperform competitors on key benchmarks

- Investors base an average of 60% of their IPO investment decisions on financial factors especially: debt to equity ratios, EPS growth, sales growth, ROE, profitability and EBITDA growth
- Investors base an average of 40% of their IPO investment decisions on non-financial factors especially: quality of management, corporate strategy and execution, brand strength and operational effectiveness, and corporate governance
- Articulate a compelling equity story backed up by a strong track record of growth which sets you apart from your peers while maximizing value for owners

A useful alternative

The "Locked Box" mechanism, an alternative to the deal completion phase, can speed up and simplify deal completion by:
  Providing greater certainty over the price that needs to be paid for a target business on completion, which for the seller frees up capital for reinvestment.
- Removing the need for a post-completion "true-up" process.

Evaluate capital-raising options

- Consider a "multi-track approach" and the expanding number of capital-raising strategies — including a strategic sale to a trade or financial buyer, joint venture, private placement or a foreign listing
  Pursue pre-IPO transactions to achieve maximum value — especially debt financing and refinancing, corporate reorganization, private placements or business alliances

Address investors' current concerns

- Recognize the need for enhanced corporate governance — especially recruiting qualified non-executive board members, improved internal controls, and forming a qualified audit committee
- Fine-tune your internal business operations — especially working capital management, regulatory risk and rationalizing the business structure

- Deal with current accounting challenges — especially asset valuation impairment, consolidated subsidiary financial statement issues and revenue recognition

The IPO process should be a structured and managed transformation of the people, processes and culture of an organization. We refer to this process as the IPO value journey.

Although the IPO event itself generally lasts 90 to 120 days, the value journey begins at least a year or two before the IPO and continues well beyond it.

While an IPO should be a key turning point in the life of your company, market leaders don't treat an IPO as simply a one-time financial transaction. They recognize the IPO event itself as just one defining milestone in a complex transformation from a private to a public company.

IPO planning phase

The IPO journey: 12 to 24 months before IPO: market leaders make thorough planning an important first step in their IPO value journey.

Step 1: Preparing for the IPO journey

Going public is not for everyone. The potential pitfalls are numerous and the stakes are high. You must evaluate the benefits and disadvantages of an IPO in the context of shareholder and corporate objective

Going public

Pros	Cons
▸ **Greater access to funds** since company can return to public markets for additional capital and access alternative financing on favorable terms from private investors as well	▸ Highly distracting and **time consuming** due to need for periodic reporting and investor relations
▸ Provides a more **liquid** and diversified share capital base and a liquid currency for acquisitions	▸ **High costs** due to initial and ongoing expenses, including payments to external advisors for regulatory compliance and maintaining a listing
▸ Enhances **prestige**, brand image, public profile and credibility	▸ **Limits on management's freedom to act** including need for approval of board or shareholders on many major matters
▸ Facilitates future **acquisitions** of other businesses, which may be paid for at least partially in a public company's shares	▸ Potential **loss of control** and privacy since there is a need to reveal highly sensitive information in public reports
▸ Achieves **higher valuations** than private enterprises since greater disclosure of information reduces uncertainty around performance and increases value	▸ **Shareholders' expectations** can create pressure on management to perform
▸ Provides a potential **exit strategy** and liquidity for investors, owners and (or) shareholders	▸ **Difficulty in recruiting** good non-executive directors for board
▸ Attracts, retains and **rewards valued employees** through share option plans	▸ **Limited window** of opportunity of access to IPO markets so compromise on price may be necessary
▸ **Enhances benchmarking** operations against other public companies from same industry	▸ **Corporate governance** requirements include business process improvements and non-executive directors' oversight
▸ Retains future **upside potential** in business	
▸ Opportunity for **reducing debt or refinancing**	

To determine the feasibility of an IPO, you need to consider your company's fundamentals including:

- Business model and management capability
- Growth potential and market size
- Financial track record
- Valuation and comparative value
- Shareholders' objectives
- Current stage of development in company life cycle
- Prospects and position within industry
- Investor base and analyst coverage

Step 2: Keeping your options open

An IPO may be your favored approach to raising capital. But it's important to evaluate all possible transactions that could serve as stepping stones.

Your alternatives may include any combination of the following:

- Sale to a strategic buyer through the M&A market
- Sale to a private equity firm
- Private placement, often as a pre-IPO step
- Joint ventures and strategic alliances
- Refinancing to release funds for partial exit

Step 3: Timing the market

Timing is crucial. If timed correctly, you may price your IPO at a time that provides your company with an optimal valuation and will provide your IPO investors with the greatest upside in their investment in the months and years after the IPO.

Detailed timeline for IPO value journey

12 months before IPO	6–12 months before IPO	6–24 weeks before IPO	1–6 weeks before IPO
▸ Develop a robust business plan including the objectives of going public, as well as a Plan B ▸ Establish internal team that will manage the IPO process, and enhance if necessary ▸ Appoint external advisors including financial, accounting and legal advisory team, and work with them to draw up schedule and timetables ▸ Adopt leading-practice corporate governance and reporting processes ▸ Make all efforts to help ensure compliance with laws and regulations ▸ Complete strategic initiatives and pre-IPO transactions (e.g. acquisitions) ▸ Begin preparation of historical financial information ▸ Establish financial reporting procedures ▸ Review management information systems and operational and compliance controls ▸ Consider ownership and tax issues ▸ Consider nationality of holding company	▸ Finalize preparation of historical financial information ▸ Commence initial due diligence ▸ Make necessary changes to the executive board and begin recruiting additional board members ▸ Start building financial model and business plan ▸ Meet with stock exchange representatives ▸ Consider investor relations strategy and equity story ▸ Implement financial reporting procedures ▸ Discuss transaction with the relevant stock exchange ▸ Agree draft timetable	▸ Finalize timetable ▸ Begin financial and legal due diligence ▸ Consider adequacy of working capital and use of proceeds ▸ Produce draft prospectus and other documents ▸ Do initial review of pricing issues ▸ Review public relations presentations ▸ Begin initial marketing ▸ Commission expert reports if required ▸ Appoint non-executive directors ▸ Eliminate deal breakers and resolve any potential litigation or due diligence issues ▸ Comply with all reporting requirements ▸ Prepare road show presentations to targeted potential investors	▸ Begin formal marketing ▸ Price and allocate the offering ▸ Register prospectus/admission document ▸ Have underwriter perform marketing of securities ("book building") ▸ Admission to stock exchange is granted and trading commences

*Source: Ernst & Young's *Top 10 IPO readiness challenges* – a measures that matter global study, 2008

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You will need to examine the specific markets you operate in, how comparable companies are doing and whether investors are receptive to new issuances in your sector.

Many factors influence the market — political developments, interest rates, inflation and economic forecasts, just to name a few. Underwriters can help to track these changes to anticipate when investors are likely to be receptive to new offerings.

IPO execution phase

1 to 12 months before IPO: IPO readiness involves the acceptance and implementation of change.

Step 4: Building the right management and advisory team

Secure the right executive team with experience in IPOs and appropriate incentives functioning prior to the IPO.

Your IPO external advisory team and its key responsibilities

Underwriter

- Develop the key "equity story" and selling messages for the IPO
- Structure the offer
- Conduct IPO due diligence process
- Devise and manage the IPO marketing campaign, including the road show
- Manage the retail and institutional investor offers and pricing process
- Target and distribute shares to specific investors
- Help to ensure a strong and stable market for shares, to review share-trading performance and assist with broader investor marketing
- Help post-IPO with the secondary offerings and beyond, for the long-term, which will make or break share price performance

Reporting accountant*

- Produce a specific set of reports based on an audit of a company's financial statements and internal controls
- Lend credibility to offering
- Help evaluate the advantages and disadvantages of going public and if appropriate, explore alternative routes to monetization
- Provide guidance in preparation of final disclosure package for the company prospectus
- Facilitate the registration process to help avoid costly delays
- Analyze the IPO's tax implications, a step vital to clarifying the tax positions of both the business and the individual shareholders and directors.

Independent auditor*

- Fulfill regulators' requirements for independent audit of historical financial statements – usually three years' worth, prepared according to local GAAP or IFRS
- Produce long-form report, the traditional due diligence document looking into various aspects of the business which provides reassurance that your company is fit to go public
- Produce short form report, which is published as part of the prospectus and provides the accountant's view on the business' financial track record
- Produce working capital due diligence report, which provides the company's projected working capital position for the 12 months following IPO
- Evaluate financial forecasting to ensure that your forecasting is accurate and robust enough to withstand increased scrutiny and help reassure the market that you are in complete control of the business

Legal counsel

- Prepare, file and complete listing application
- Provide guidance on the risks and regulation of the IPO transaction, including publicity and disclosure
- Provide guidance on the roles of the key regulatory players, and exchange listing and securities rules
- Help ensure that everything is checked and verified and no issues will expose the business to claims after the IPO
- Address the key legal areas of:
  - Material contracts (e.g. with suppliers and customers)
  - Litigation (pending, threatened or existing) or potential disputes
  - Intellectual property and information systems rights/ownership/control
  - Regulatory issues (licenses/consents)
  - Third-party consents (e.g. banks, shareholders)

Public and investor relations professional

- Build strategy and guide communications with stakeholders, including media
- Sustain the market's interest in the company
- Communicate with shareholders and the public
- Attract a pipeline of new investors and sell-side research coverage
- Manage regulatory and liability risk
- Educate the public about the company's position in the industry
- Provide update of forecasts
- Identify any key business issues that could impact the company
- Maintain compliance with applicable disclosure regulators.

Other advisors

- An insurance broker to assist in identifying, calibrating and managing risk through prudent corporate governance
- Advisors for internal audit, tax and compensation structuring and transaction management and strategy
- Advisors in areas such as information systems, business process improvement, printing and personal financial planning

* This describes the typical responsibilities of a reporting accountant and independent auditor in the UK. Auditing requirements differ from market to market with the minimum requirement usually being three years unqualified audit reports in accordance with recognized GAAP.

Market leaders look at innovative ways to recruit and reward their key senior talent with compensation. Management incentives include performance-based compensation structures, share options, greater transparency and employee involvement. Such high-level incentives and shared ownership by management creates the motivation that often leads to strong performance.

Step 5: Building your business and financial processes and infrastructure

A robust infrastructure can facilitate regulatory compliance, protect against risk exposure and provide guidance to meet or beat market expectations.
Hence, you must define and implement, well in advance, the infrastructure of people, systems, policies and procedures. They will enable the production of quarterly and annual reports in compliance with regulations.
Currently, compliance of the infrastructure with local and foreign regulations is a significant task, as a company may need to change from its local accounting standard to IFRS standards (depending on the listing exchange's requirements). However, as more countries around the world require IFRS for listed companies, differences between local and foreign regulations will diminish.

How to improve your infrastructure:
- Improve budgeting and forecasting capabilities
- Put financial statements in order
- Prepare to comply with local securities laws
- Address potential IPO accounting and financial reporting issues
- Develop appropriate corporate, capital and management structures
- Properly document transactions with owners and management

Step 6: Establishing corporate structure and governance

The media and general public placed partial blame for the 2009 financial crisis on poor corporate governance. Many believe that boards failed to understand and manage risk and incentives appropriately. With the charges of fraud and market manipulation that arose out of the financial downturn, investors are placing a premium on corporate governance and high stock exchange standards.

Corporate governance reform is now at the top of agendas for investors, regulators and boards. Boards are reflecting on how to be more involved with governance and create greater audit committee oversight of the risk management processes.

How directors can improve board performance:
- Have loyalty to shareholders, not management
- Challenge management to simplify and explain the business
- Serve as ambassadors and promoters of the business
- Carefully evaluate executive remuneration plans
- Improve audit committee oversight of risk management

Step 7: Managing investor relations and communications

Communicating the right messages about your business is always important. But it is particularly crucial when you are moving into the public arena. You need to maintain close relationships with your financial backers. Private companies are often unaware of the level of accountability and scrutiny faced when going public.

The IPO marketing process:

1. Premarketing	2. Road show – formal marketing	3. Pricing
▸ Developing and fine-tuning the equity or investment story ▸ Preparing and distributing research reports about company (although regulations may limit communications in the pre-filing period) ▸ Targeting investors and educating them about transaction prior to road show ▸ Preparing the management for road show meetings	▸ Publishing the preliminary prospectus ▸ Presenting management road show, including one-on-one meetings with prospective investors ▸ "Book-building" to determine investor interest in company's shares	▸ Setting the price ▸ Allocating shares to long-term investors ▸ Stabilizing share prices during first days of trading to facilitate distribution of shares (with most IPOs trending about 10% to 15% above the issue price)

They often underestimate the time and skill needed to court a new pipeline of public investors and to maintain aftermarket support. When newly public, you acquire a new range of stakeholders that will demand much greater transparency in your business.

Your team will need an investor relations professional who has the ability to work well with your bankers and is familiar with your industry sector and potential investors. He or she will help to build your strategy and guide communications to stakeholders and the media.

Step 8: Delivering an effective road show

Investors are looking for businesses with growth potential that translates into cash generation and bottom-line performance.

Completion of a high-quality road show is a critical event in the IPO process.

Every firm approaching an IPO is competing in a crowded marketplace for institutional investors' attention and money. To maximize the company's selling price, you need to stimulate interest in your company.

Institutional investors will rarely visit the companies they invest in. They prefer relying on information presented at the road show meetings and other sources. The road show will likely be the only time a company's senior management actually communicates directly with potential investors.

When drafting the presentation, you must keep two audiences in mind: the sales desk of your chosen broker and the institutional investors you meet on your road show. You will also need three to five key messages for an elevator pitch when you have only a few minutes to convey your investment story.

IPO realization phase

1 to 24 months post-IPO: The real work of being a public company begins.

Attracting the right investors and analysts

At first, many newly public companies enjoy high share prices fuelled in part by investors' interest in IPOs and by the press coverage for such companies.

However, unless the market's interest in the company is carefully maintained after the IPO, the initial euphoria will quickly fade. The trading volume and value of the company's shares will also decline.

You must have an aftermarket strategy. Once the IPO is over, the process of retelling and fine-tuning the company's equity story begins.

You must develop a proactive investor relations strategy that will attract the optimal ownership mix and long-term pipeline in the aftermarket. Successful executives target the type of investor that will maximize liquidity and valuation.

Step 10: Delivering on your promises

Once your company goes public, the real work of running a newly public company begins. You must meet or beat the expectations that you set. Market leaders deliver the post-IPO shareholder value promised to stakeholders by demonstrating operational excellence.

This means executing on your business plan, meeting financial targets consistently and attracting the right investors.

Areas of risk post-IPO:

Risk	Examples	Strategy
1. Financial	Accounting and reporting, market, liquidity and credit, tax, capital structure	Set realistic financial targets. Your new stakeholders will want your business to meet expectations and to be financially transparent. Do not surprise the market. Market confidence can slip in the face of surprises, whether good or bad – along with your credibility and share price!
2. Strategic	Planning and resource allocation, communications, investor relations, major initiatives, competitive market dynamics, M&A, divestitures, macro-market dynamics	Don't lose sight of your strategy. Be careful and well considered as you approach new initiatives to accelerate your growth, such as acquisitions or rapid expansion into new geographical markets. A robust approach to corporate development is essential.
3. Compliance	Governance, regulatory, legal, code of conduct	Investors are becoming increasingly focused on corporate governance. As a newly public company, you have to comply with a host of new regulations, legislation and filing deadlines. Thus, you need to get the right controls in place and communicate clear policies and procedures.
4. Operational	IT, physical assets, sales and marketing, people, R&D, supply chain, hazards	You need to reconsider your current infrastructure, systems and controls, as you now need to provide timely and appropriate information to your stakeholders. Keep your team focused and fully aware of their new or expanded responsibilities.

Life as a public company

1 to 24 months post-IPO: the real work of being a public company begins.

Renew and recreate

The IPO value journey is a recurring series of challenges for executives. Market outperformers continue to accelerate the business, all the while building the infrastructure and management practices that a mature public company requires. You may need to return periodically to the beginning of the cycle and recreate strategies and processes.

What will your equity story be a year after the IPO? Will it be as compelling as it was before you went public? Companies must not be blinded by the euphoria of the IPO. Companies are often well supported until the IPO, and then once they are public, things get complicated. Companies need to be well prepared for what follows.

How to be a public company:
- Manage capital raised to execute strategic initiatives and transactions
- Re-evaluate the management team
- Create and execute a strong communication plan
- Ensure transparency with no surprises
- Manage risk across the entire organization

Focus on being a public company - not just on going public

Throughout the IPO value journey, senior management's focus should be not only on going public but also on being public. IPO readiness can lead to a successful IPO outcome. But all of the best financial engineering will not create business prosperity — only proper planning and adherence to strong operational execution will forge the path to long-term success.

The transformation from a private company to a public enterprise is a life-changing process for any organization. And it will continue long after the actual IPO transaction.

The IPO may be the most important transaction in a company's life, but it's often just one more milestone along the road to market leadership.