London Stock Exchange

IPO Forum
Insights

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On 1 May, London Stock Exchange hosted its IPO Forum, bringing together CEOs and CFOs of listed and private companies, institutional investors and professional advisers, to discuss, network and learn about listing on a public market. At this invitation-only event, panellists addressed a wide range of issues. These are just some of their insights.

Investor perspectives: what are investors looking for?

A clear intent and purpose for the IPO
Investors want to see a business with strong reasons for conducting an IPO and a management team that wants to run a listed company. They are looking for a variety of characteristics such as strong operational momentum, a strategically unique market position, a global network, or strong IP.

Time to learn about the business
Investors do not want to be rushed. Remember, they do not have a long-established view of the company. They want to learn about the business and see evidence of its track record while it is still in the private domain. The ideal time to engage should be 12 to 18 months ahead of an IPO, said one investor. This enables investors to get to know the company – and vice-versa.

A well-structured board
A key aspect of the regulatory environment in the UK Capital Markets is its clear guidance on corporate governance. Investors want to see a board in place well before the IPO. A new chairman and/or non-executive directors should not be appointed late in the process – when there are only weeks to go before the IPO.

A healthy size of an IPO
Investors see the IPO as the start of the journey and the market discovery of a company. They will be more focused on the size of the deal than the percentage of the free float.

> "Good non-executive directors can create enormous value so make sure they are in place well ahead of the IPO."
>
> **Investor**

> "Think about your dividend policy as it can expand your addressable audience of investors and widen the investor base."
>
> **Investor**

They recognise that managers who have built up a business will want to take some money off the table. They also want to see the management team keeping 'skin in the game'; retaining a majority of their shareholding after IPO is an important investor metric. They are wary of a financial sponsor selling a majority stake. There is a balance between liquidity requirements and selling too much – and investors will be clear about whether they believe that balance is being struck.

A smaller free float has to be balanced with the deal being sufficiently large to enable investors to participate. One investor said that lower free float situations were acceptable as long as there was the right balance between the scarcity of the asset and quality of the shareholder base – that they would rather have two bites of the apple.

> "I would love to see more well-established family-owned businesses coming to market."
>
> **Investor**

Visibility and clarity after the IPO
After IPO, investors want visibility and clarity. A management team must be extremely confident in the numbers it provides during the roadshow and it is vital that its maiden numbers as a public company are met – otherwise this will risk a strong reaction. A similar reaction may follow if the CEO or CFO leaves their post within a year of IPO, said one investor.

Preparing for the IPO journey: considerations and timeline

Begin early
There are many processes and work streams to be understood and planned. Planning your resources is crucial to cope with the IPO process work while maintaining momentum in the business. Choosing the right advisers early is critical.

Start by addressing internal capabilities
Readiness for an IPO begins by focusing on the internal operations and capabilities of the business: the articulation of the equity story; the structure of the business; the rigour of its corporate governance; the strength of the financial team; and the building of its financial history. The earlier these issues are addressed, the smoother the IPO process will be. Managers may not be able to control the markets but they do have control over whether their business is ready to IPO, said one adviser.

> "Managers under-estimate the time it takes from where they are to where they need to be."
>
> **Adviser**

Build a solid financial story
Strong financial information underpins a strong equity story. Companies should ingrain early the practices of reporting as a public company; one adviser recommended that financial reports should provide a minimum three-year track record of the core business, with the information provided in the final year of that cycle being at the level of a public company.

External communications are key to the IPO process
Before announcing the intention to float, make sure that the online profile of the business and its executives is accurate and active, and build a support base among the media, as this will help to gain accurate and balanced coverage. Investors will have different concerns and questions about your equity story than the financial media – but they influence each other. Rehearsals for media presentations should happen in tandem with those for investor presentations.

> "There are certain things over which you have no control. What you do have control is whether you are ready to go to the market."
>
> **Adviser**

The length of time for an IPO will depend on the complexity of the business
As examples, advisers said that carve-out operations from larger corporates, or an acquisition-led growth strategy, and preparedness for IFRS, were the type of factors that take time to assess, adjust for and subsequently audit.

Appoint new board members early
The public markets expect a credible board of directors, said one adviser, but finding the right individuals can be challenging. The board building process should not be left too late.

Don't under-estimate the time
Transforming the business to one that is ready for the public markets is a time-consuming and exhausting process which must be executed while maintaining the growth of the business. Founder-run companies can be run as very lean operations and may not have adequate resources in place, said one adviser, but they should not look at the IPO process as an expense, it is a journey for the business.

The IPO process: key considerations and challenges

An IPO can be executed fast
An organised, efficient team that is well-prepared and well-advised can hit its IPO timetable hard.

Build an internal IPO team with the right skillsets
There is no single formula: some companies have hired additional internal executives, while others have fully utilised the capacity of their advisers. Executives underlined the importance of having the right chemistry with those advisers.

> "The best thing about an IPO is opening the market. The next minute, reality kicks in!"
>
> **Executive**

An IPO process is both a marathon and a sprint
It can be a complex and pressurising experience for the internal project team. The management of the stress and pressures placed upon them is a key role of the CEO. Initial education from the advisers is vital, explaining the jargon and the process as well as practical matters, such as how to cope with assimilating and responding to multiple demands, particularly in the due diligence process.

Research is an important component before and after the IPO
While it may add time to the process to have research published, it provides greater visibility for the company and enables investors to understand the business and its sector.

Own the equity story, but listen to investor feedback
As one executive said, it's when you nail your colours to the mast. But when making investor presentations, understanding the audience – and refining and conveying the story appropriately – is as important as telling the story itself. Management should interact with investors early and listen carefully to feedback.

"A CEO needs unvarnished advice from advisers that he or she trusts."

Executive

Early look meetings build trust and relationships with investors. Management teams may meet some investors several times, enabling them to build relationships and guide subsequent share allocation decision-making. Investor timescales will vary widely – some will be on the register overnight while others will be focused on the long-term. Be clear about which investor serves which purpose. And recognise that investor perspectives also differ: what one investor admires as a CEO's passion may be seen by another investor as hubris.

Prepare for a different pace
A public company runs to a different rhythm. It is not a sprint but maintaining a strong steady jog, said one executive.

Life as a listed company: executing on your growth story

Listen to the shareholders even harder
The transition to a public company means being attentive to your shareholder base and understanding how their requirements may be changing. For example, investors' views on leverage have shifted over the past few years.

"An IPO does have burdens attached but you also have share liquidity to make acquisitions and to provide incentives – and a platform to project the business."

Executive

The equity story changes profoundly from private to public markets
The rhythm of the public markets is not geared to investment cycles or securing an exit; a company has to learn to work to an infinite timescale, said one executive.

"You need a catalyst if you want to push for new investors. The amount of investors out there is huge but so too are their opportunities."

Adviser

Think of the IPO as a start not a finish line
The IPO is an opportunity for management to deliver on long-term growth. It is a journey that will accelerate. Being a public company is an opportunity to build momentum for a business. It unleashes enormous potential, said one executive.

Plan your management of the after-market
Careful advance planning of management of the after-market is required to ensure that the company can meet its ongoing requirements of being a listed company while not entailing significant additional resources.

"There was a fear among our employees that our culture would be damaged by being a public company – it has been just the opposite."

Executive

It's a different mindset
Keeping the market informed has to be front of mind; this is a discipline that becomes second nature after time. But management must always stay in control of the equity story. Execute on long-term growth and vision; watch the share price by all means but don't get emotional about it.

Use your advisers
The listed environment is different, in terms of the level of scrutiny and its regulatory obligations. Take advantage of your advisers in the initial post-IPO period in order not to be caught out or surprised.

Be open and clear with investors and analysts
A CEO or CFO should prepare to spend at least 25 per cent of their time with investors. Keep the story simple! The role of the CFO changes in the public market, as they are responsible for guidance and consensus figures.

Maintain regular media communications
Telling your story to the media helps to clarify and unify your messages. Regular, informed coverage can help to attract support from retail investors; it also sends positive signals to your employees, customers and suppliers.

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