CRITICALEYE
The peer to peer Board Community

What's It Like to IPO?

Life on the public market is no easy ride. **Joshua Tearney** finds out how management should prepare for a successful flotation

Preparation is everything in an IPO. Time and effort should be given to building a board, developing a fact-based story for growth, conducting roadshows and liaising with advisors, while also ensuring the business keeps performing to a high level in the hectic run up to going public.

John Millar, Head of Primary Markets at the London Stock Exchange, comments: "While good initial trading builds a stock's foundation in the investment community, it is that first set of results that allows investors to relax and say: 'The stock's going to be fine'... If you've told them you'll do X and you then do 10 per cent less… the UK market particularly, is very unforgiving."

The good news for businesses that are performing well, is that investors are willing to spend. A look at secondary fundraising on the London Stock Exchange this year shows £11 billion has been raised so far, which is on track to meet or exceed last year's total of £17 billion (the highest since 2010).

In order to take full advantage of this liquidity, management will need to focus on their performance, develop strong relationships with their investors and know how to get the best out of advisors. It's a rapid education and a good Chairman will certainly have an important role to play.

Glen Moreno, Chairman of FTSE 250 bank Virgin Money, which listed last November, and FTSE 100 publishing and education company Pearson, comments: "Success relies on having the right chemistry. You want the new directors to be well integrated with the management."

Criticaleye spoke to a range of executives and independent directors, to find out what it's like to list on the public markets. >

To Find out more about Criticaleye's IPO-Readiness Programme, please email Matthew Blagg, CEO of Criticaleye, at mb@criticaleye.net

Mike Tye
CEO
Spirit Pub Company

“The CEO has to assess what’s coming up”

The biggest part of the preparation for an IPO is making sure the senior team is of the right calibre and is equipped for what’s ahead. They have to step up several gears because you are taking people into a setting which, in most cases, they won’t know or understand. Working in a public environment is actually very different.

You have to ensure every function can operate as a standalone. When I led the IPO of Spirit Pub Company, we span it out of a larger Plc and we underestimated the extent to which things happened for us.

Executives don’t appreciate how much is done in the background, either by their sponsors, parent company or advisers. Then, suddenly, you are standing alone. This is particularly the case in the finance function, the risk function and the people function, where governance requirements mean there is a need to be much better controlled and informed.

For the CEO, once you’ve floated the business, there is a shift towards external events; more time spent with advisers and investors, and you need to be more aware of changes in the market. In a private company, or when you’re part of a conglomerate, if things don’t go perfectly they can be hidden. In a public environment, you can’t afford so many slip-ups.

The public markets like certainty, so the CEO has to assess what’s coming up, good and bad. They need to ask: ‘what do the macro and micro-market trends look like? What’s happening to our consumers? What could our competitors be doing and therefore how should we adapt our plan?’ It’s making sure that people’s heads are up rather than just doing, doing, doing.

Vanda Murray
Criticaleye Board Mentor / Non-executive Director Exova Group

“It’s all about delivery of your business plan”

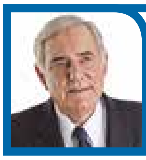
An IPO is a huge drain on an organisation’s resources and it can take up a disproportionate amount of the leader’s time that would otherwise be spent running the company. Making sure the business stays focused is critical, so there needs to be a good senior team that can keep strong control of the company while the CEO’s focus is elsewhere.

Once the business has listed, it’s all about the delivery of your business plan, that’s what really counts. As CEO you have to get back into the business as soon as possible because it will be under a much higher level of external scrutiny. Of course you need to manage communications with the City, but don’t get sucked in too much; it’s about getting the balance right.

When you float a business you have a wonderful opportunity to put together a board that is matched with the medium to long-term strategy of the business. You absolutely need a broad range of complementary skills and diversity of experience and background, but some of the NEDs must have experience of the relevant corporate governance regime.

They need to understand the City environment – where results have got to be produced and that there is a timetable to be followed and managed. They should help the executives get used to that rhythm. When you’re going through the IPO process, it’s good to have people around you who’ve done it, who were expecting the hurdles, and who can offer a sounding board to discuss challenges and help you through it.

Non-executives are there to challenge, absolutely, but I always think of the board as a team that is responsible for ensuring that the business executes its growth plan.



Glen Moreno
Chairman
Virgin Money

“You have to get to know your investors”

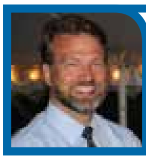
Once you’ve listed a company, executives need to understand that the rules of the game have changed. You’ve got to build a strong consensus along a fairly broad-base of institutions. Things like remuneration have got to be approved in advance for three years and once they’re approved, you’re stuck with them. It’s like the windows open to the outside world and everybody is going to be monitoring your decisions.

You have to get to know your investors and get them on-board because you want them to be there for the long term. There’ll be some hedge funds that are in and out, but find those long-term investors, the stable owners of the business and begin to build a relationship of engagement and trust. That’s what supports your share price and your strategies.

The other side is that the role of the board becomes much more important in a public company. The obligations with the NEDs and the Chair are quite clear and distinct: at the end of the day, the management runs the business but the board is responsible for governance.

It’s a new situation and, while you may be used to making final decisions with a small executive team, you’ve got to realise that a board’s going to be involved as well – success relies on having the right chemistry. You want the new directors to be well integrated with the management; it’s got to be a team with a working relationship that is very informed, policy driven and supportive.

I’ve always believed that the Chairman’s main job is to create an atmosphere and a process in which the executives and independent directors can work closely and constructively together. In other words, his job is to bring his people together to form a solid group with a positive tone.



John Millar
Head of Primary Markets
London Stock Exchange

“The first 100 days as a Plc is an intense period”

It’s absolutely crucial that the expectations set during the IPO process are met, or even exceeded, when the first results are announced after the listing: that’s what really beds down the stock. While good initial trading builds a stock’s foundation in the investment community, it is that first set of results that allows investors to relax and say: ‘The stock’s going to be fine.’

Portfolio managers will analyse what the company can do and the market opportunity, but first and foremost they must believe that management can execute the business plan with the resources at their disposal. If you’ve told them you’ll do X and you then do 10 per cent less… the UK market particularly, is very unforgiving. However, if the company is doing a good job post IPO, producing results at, or slightly better than expected, they’ll invest more money because it’s seen as a safe bet.

Businesses often go wrong when they haven’t hired a good CFO. So, the CEO’s having to run the company and engage with the market – it’s just too much. The first 100 days as a Plc is an intense period and you really need to divide responsibilities. The Chief Exec needs to get back and take firm control of the business, while the CFO has the conversations with investors.

Ultimately, if you’ve done the right preparation prior to the float then the after-market should be quite straightforward. So, in the six months leading up to the IPO, get a good knowledge of the Chairman, and ensure you’ve got the right calibre of independent directors who really can add value and give advice to the management.

If you think it’s business as usual and carry on as a private company though, you’ll be badly shocked at the demands of the market and stumble.

Tom Beedham

Director, Programme Management
Criticaleye

"There is no hiding place for the CEO"

The days of looking to float because an entrepreneurial CEO has seen a series of good results are long gone. A flotation should supercharge a business, providing capital for expansion and an opportunity to install corporate rigour. Investors want to see a compelling growth story and to have absolute confidence in the pedigree of the management team.

It requires a major shift in executive and organisational capability. There is no hiding place for the CEO, CFO and the rest of the senior management team on the public markets. As such, it's vital for companies to increase awareness of any gaps in ability and develop a plan to fill them prior to an IPO, as well as having clarity on roles and responsibilities after listing.

Executives that can find external reference points and spend time improving their collective knowledge will ultimately be more successful. They'll be more confident in themselves and the strength of their business because they will have a much better understanding of how, day-to-day, it's likely to change

An experienced chairman will have a vital role to play in making sure the executive team is fit-for-purpose and that the company, in terms of systems, internal controls and governance, is in the best possible shape. Don't leave this key appointment too late. Bringing in a chair three months before an IPO won't leave enough time for that person to build a robust board and make an impact.

Hard-edged conversations among the executive team will be needed. You simply cannot afford for problems to come to light post-IPO as the public markets will punish you severely and the share price may never recover. Don't fall into the trap of overstating a company's performance and papering over any cracks in the balance sheet. There's just no room for naivety and denial when on the IPO journey.

Ian Stone

Criticaleye Board Mentor / Independent
Non-executive Director, Tencent

"You've got to respect your directors"

For the independent directors, especially in the first 100 days after the float, you have to focus on what you know and how you can apply it to the business. You need to work out why you're there: normally you've come from a particular industry or you've brought a particular experience with you.

At the time of Tencent's float, it was regarded as a mobile, value-add service, and I came from the mobile industry, so I brought that point of view. You need to focus your input, otherwise you get overwhelmed.

The second thing is to read everything, it's a challenge, but you need to know the business. Maybe more importantly though, it's essential for your working relationship with the executive team; you want to show them you're going to put in the effort. I've worked on the other side, and you've got to respect your directors.

In the context of a Chinese company there are some sensitivities with cross-cultural communication and relationships to get to grips with. For example, Chinese executives look for an element of mentoring from their NEDs. As an independent director, one thing you cannot be is overly confrontational. You must question, absolutely you should question, that goes on forever but you don't want to undermine the executives; you should be building up their confidence and trust.

The first 100 days are going to be pretty sensitive for the executives, and you've got to be aware of that. The public eye, the extra pressure of having to answer openly, it's all new to them. While management teams may know about investors – having been through a few rounds of funding before – that's all behind closed doors. As a public company, suddenly they're on the front page and they really have learn to cope with that.