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How to Prepare for an IPO

The IPO process can be fraught with hurdles, making advice a great asset. **Mary-Anne Baldwin** asks leaders what they've learned from their recent floats

While a slowdown in IPOs is to be expected given the volatility in the global economy, plenty of chief executives will be keeping their options open over the course of 2016. Should they decide to go public, current market conditions serve to reinforce the need for a business to be in the best possible shape.

Although the number of IPOs on the London Stock Exchange in 2015 (92) didn't match the highs of 2014 (137), there were plenty of significant flotations. It shows that investors will continue to back companies provided the fundamentals are in place, such as a strong growth story, sensible pricing and a good blend of skills and knowledge between the executive and non-executive team.

As ever, sound preparation ahead of a flotation is going to make a world of difference in terms of business performance.

Tom Beedham, Director of Programme Management at Criticaleye, says: "In the 12-18 months prior to a listing, the executive team needs to be fully aligned and aware of what it takes to go through the IPO process. Certainly, securing an experienced non-executive chairman and creating an effective board will also help to fill any of the executives' gaps in knowledge about what it's really like to run a Plc."

Here, a number of leaders share advice based on their own recent experiences of conducting an IPO.

Richard Segal
Chairman, On the Beach Group

Build Momentum in Your Growth Story

The short-haul package holiday firm, On the Beach, floated on the London Stock Exchange in September 2015. The listing valued the company at £240 million and raised £90 million at £1.84 a share.

"Our business has a first rate management team with a proven track record, so my key task as Chairman was to ensure there was no cap on their ambition. It was about making sure the management team took the business to a higher level as quickly and efficiently as possible.

On the Beach had grown at a very exciting rate and on the back of that, a number of banks started approaching the private equity owner, Inflexion, saying that it was ripe for the capital markets.

The market then came alive with IPOs of digitally disruptive businesses, such as Just Eat and AO World, and the capital markets were putting attractive valuations on businesses.

We'd only been under Inflexion ownership for about a year. We spoke to advisors more seriously towards the end of 2014 and agreed to have a limited number of introductory and educational meetings with selected investors.

Based on the feedback, we concluded it would be slightly premature in going to the market. So, we put our head down and focused on delivering impressive financial results and expanding the business. Come 2015, after a strong performance, we re-engaged with our advisors. It was clear that the business had achieved a lot in that period.

Our performance was ahead of what we had told investors we would achieve and we had a highly compelling story. That gave the board the confidence to fire the starting pistol."

Ron Kalifa

Vice Chairman and Executive Director
Worldpay

Work Hard on Investor Relations

The payments processor joined the London Stock Exchange in October 2015. It was the UK's largest IPO of the year and the largest ever Fintech IPO. It floated at £2.40 a share with a market value of £5 billion and £2 billion in proceeds.

"Investor relations are critical and it's important to start planning well in advance of the IPO. Being a carve out of a bank, we were little understood and not very visible, so it was crucial that we spent time and resources telling investors what we do.

We set very clear objectives in terms of the investor relations strategy to promote the company's activity and reputation to external stakeholders, helping them to understand how the business would be run post-IPO.

In the build up to the IPO we met with about 400 potential investors, which seems a lot but because the business was little known on a global stage it was really important we did that.

One way we communicated well with our stakeholders was by producing a range of data and corporate information on Worldpay – factsheets for the media, presentations for the analysts and a very regular and intense set of commercial updates to highlight our drivers and business performance.

We then started to anticipate the needs of the stakeholders, which was key. We spent time with all of our analysts and investors to ensure we knew their expectations of us, and how we can have the right data and content to address any specific questions they have. It's a case of being prepared for the issues that may emerge in the process of the IPO."

Nicky Pattimore

HR Director, Equiniti

Motivate and Manage Your Team

Equiniti, which provides payment solutions, was carved out from Lloyds Banking Group in 2007. It floated in October 2015 at £1.65 a share, netting around £315 million and giving it a market capitalisation of £495 million.

"The right leadership team is crucial to the successful sale of the business. If you've got leaders with the right drive and ambition they will naturally want to – and be able to – do a good job.

They need to be resilient because they'll be working really hard to juggle the IPO with business as usual. Don't underestimate how tough it's going to be.

The ability to prioritise is key. Understand in advance how intense the process will be so that you can prepare your team and loved ones at home for what's coming.

Everyone focuses on the IPO but actually what comes after can be even more critical. Depending on the timing of the sale you may have a really intense three or four months after the IPO.

You're fully back in the business and need to focus on performance and delivering the year-end numbers you've committed to your shareholders.

You need to motivate your team, not just through a successful IPO, but to maintain a successful business after you've floated.

If you're looking at incentive and reward arrangements for the senior team, they absolutely have to align with the shareholder value. You also need a balance of reward for today and a lock in for tomorrow."

Mark Payton
CEO, Mercia Technologies

Select the Right Help

Mercia provides seed capital to support high-growth UK technology businesses. It listed on AIM in December 2014 at £0.50 per share, raising £70 million to expand the business and had a market capitalisation of £106 million.

"There are a number of planets that you hope will align to make your transition to the public markets smooth, and ours had thoroughly aligned. We had the dream team in terms of advisors, a perfect share register and the capital markets were open.

I had quite a large shopping list of 'must haves' to ensure the IPO happened. Based on the context that we were going onto AIM, we were looking for a best-in-class Nomad and broker. Somebody who had an excellent reputation of raising capital and supporting businesses as they prepared to come to market was fundamental.

Second was the accountancy firm. Moving from a limited liability to a Plc requires the implementation of a raft of new accountancy standards, so we needed a top-tier firm in that regard.

We required a legal company that was absolutely cognisant of the needs of our share register, the City, our business model and aspirations of the management team. We picked the very best of all our advisors from an extensive beauty parade.

We also needed to build our share register wisely; we wanted shareholders that understood our business and our model, and were with us for the long-term as we started the next phase of our growth story. If we couldn't have achieved the level of capital raised from such a high quality share register, we wouldn't have floated – and we wouldn't have those shareholders without our advisors."

Jeff Harris
Partner, Corporate Finance, BDO

Your IPO Checklist

The perfect IPO is a rare thing, warns **Jeff Harris**, Partner in Corporate Finance at BDO. But with his tips you can jump the common hurdles:

- ☐ **Prepare a coherent business plan:** Question why you want to float and what you're going to use the money for. Look at alternatives such as bank, venture capital or private equity finance.
- ☐ **Check the ownership structure:** Is everything you want to IPO under one ownership structure? Similarly, are there parts of the business you don't want to IPO and need to separate?
- ☐ **Assess your management team:** Make sure the people you've got are appropriate for a public company and can manage the IPO process.
- ☐ **Have an honest look at your company:** Deal with any issues, such as customer disputes or tax, before the IPO process or risk losing trust and wasting time.
- ☐ **Get your records in order:** You'll need audited accounts and must convert them to IFRS.
- ☐ **Consider share incentives:** Think about giving your team equity in the business before the IPO process when the value, and therefore the tax exposure, increases.