

Achieving a Successful IPO

By [Aaron Johnson](#)

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This year has been more challenging for the capital markets than expected. Most market players were initially quite optimistic about the global economic outlook for 2011. The 2008 crisis had seemingly been overcome, and the markets anticipated a rebound. But the devastating tsunami that hit Japan negatively affected the global markets, while the subsequent debt crisis in Europe and the downgrade of U.S. sovereign debt by S&P left little hope for strong growth in the global economy in 2011. Investors hurried to divest risky assets, affecting IPO markets globally.

Russian companies that had earlier this year planned to go public in the spring and summer of 2011 had to revisit their strategy. Many offerings were canceled or postponed, while the companies that did go public often had to reduce the offering price.

But companies with a clear business model, a transparent corporate structure, and are well prepared for an IPO have a chance to succeed even in this challenging market environment. The IPO of Yandex on NASDAQ in May is a good example of a success story.

Russian companies stated that unfavorable market conditions was the main reason for canceling or postponing their IPOs. But what these words usually hide is the frustration that owners feel about their company's valuation.

Before the crisis of 2008, shares in Russian companies had been in strong demand, and owners had been used to selling them at a healthy valuation. But the world has changed since then, and investors are now more careful in their choice of investment targets in Russia.

When offering shares publicly, a company's valuation depends on many factors, such as the financial position, market environment, industry trends and the growth outlook. In addition, there are nonfinancial factors, such as the ability of management to perform in a changing environment, corporate governance, transparency, internal controls and risk management, that also affect valuations.

Owners of Russian companies who wish to maximize the valuation of their company should follow global best practices in preparing companies for an IPO. Quality preparation for going public is time-consuming work. Often Russian companies try to place their shares as quickly as possible and underestimate the importance of being well prepared before launching an IPO. Companies that intend to go public must meet the high standards set by regulators, stock exchanges and investors.

Timely and quality financial reporting under international financial reporting standards and an efficient finance function in general are very important. Management accounting and long-term budgeting are also critical. Management must place sufficient emphasis on building effective and properly documented internal controls.

Proper tax planning in a timely manner is also important. The issuer's choice of jurisdiction should be very well considered. The organizational structure must be transparent and clear to potential investors. Tax minimization practices must be disclosed and, in many cases, fully ruled out.

In addition, building a good corporate governance framework is crucial. Investors are very careful about issues relating to the protection of minority interests. It is essential that the board include independent directors and have audit and remuneration committees.

Companies hoping to achieve a successful IPO must recruit sufficient talent. An IPO is just the beginning of a company's public life and requires considerable ongoing efforts to ensure compliance with the requirements of regulators and stock exchanges and meet investor expectations.

The companies that postponed their IPOs in 2011 have a unique chance to re-evaluate their weaknesses and take specific steps to correct deficiencies. Proper preparation during periods of market uncertainty will pay off as soon as the situation in the capital markets improves and the window for IPOs opens again.

Although some investors may be cautious about Russian companies, the IPOs of companies that manage to properly prepare are likely to attract sufficient attention. Russia remains one of the most attractive rapid growth markets in the world, and I expect IPO activity to rebound as the capital markets become less volatile and uncertain. I hope the companies that canceled

or postponed their IPOs in 2011 will be able to capitalize on the opportunity to prepare for entering the international capital markets and improve their valuations.

Aaron Johnson is partner and CIS IPO leader with Ernst & Young in Moscow.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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