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5 Tips to Help You Execute a Successful IPO

By Gary Schweitzer

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All happy IPOs are alike. Each unhappy IPO is unhappy in its own way."

This paraphrase of the first line of Leo Tolstoy's "Anna Karenina" can teach us much about Russian IPOs. A happy IPO is one in which the sellers receive maximum value for their investment, giving due consideration for the need of a price bump to benefit day-one investors, and the new public company delivers on the promises it made during the pre-IPO road shows. An unhappy IPO is characterized by the opposite: a disappointing price either initially or after trading begins and disappointing performance as a public company.

All happy IPOs are alike because of planning, execution and realization. Why is each unhappy IPO unhappy in its own way? The IPO process is complex and long, with many participants and stakeholders. The company must prepare internally, analyze the impact of the IPO on current financing, price the IPO, execute it during what may be a narrow window of opportunity and then realize the IPO by performing like a public company. At each phase of the IPO process, there are many critical steps that may be overlooked or ignored, any of which can cause an unhappy IPO.

Ernst & Young recently published the first quarter edition of "Capital Insights," which includes an article on the current state of the global IPO market and a reminder of the keys to success.

Maria Pinelli, global strategic growth markets leader at Ernst & Young, said that reduced stock market volatility, assertive action from central banks and brighter economic prospects could persuade companies to list this year.

There are three main reasons for an IPO: to provide an exit for current shareholders, to finance innovation and growth and to increase visibility and credibility with stakeholders. Often, all three will be present. Whatever the reason, volatile markets pose difficulties for companies. Companies should keep the following five keys to success in mind:

1. Know when to move. Rising markets are hard to predict and often differ by industry, geography and market segment. Even if a rising market creates a window of opportunity, volatility created by other events could close it quickly. Companies need to know how long they are prepared to wait for a rising market and should consider alternatives to the IPO such as a mergers and acquisitions transaction, trade sale or private equity deal.

2. Plan early and move fast. Taking advantage of an opening in a rising market means early preparation. Planning should start one to two years beforehand. Companies need to consider whether the IPO is right for management, investors and other stakeholders. The company should also conduct a pre-IPO readiness assessment, looking at issues such as finance, risk, compliance, governance, investor relations, the readiness of management and the timeline. Many of these issues will be part of the due diligence process when the time for the IPO arrives. IPO readiness means being able to move fast.

3. Keep investors informed. Investors and the market like information. The more the better. Companies usually dislike disclosing anything but good news. Get used to operating like a public company. Understand what you can and should disclose and when. Accounting policies should be clear. Road show materials can be very detailed and require precise explanations. Practice being able to tell your IPO story, what promises you will make to the market and how you plan to keep those promises.

4. Keep prices down. This is where the difference between a happy IPO and an unhappy IPO gets complicated. In the present climate, the happy IPO goal of maximizing price competes with the happy IPO goal of delivering on promises. This may require an IPO price at the low end of the range to allow for a day-done price bump or at least to prevent a price decline on the first day of trading. Pricing is increasingly linked to the number of shares offered. And the number of shares is often linked to the exit strategy and purpose of the IPO. Determining the right number of shares to offer for a happy IPO takes planning and preparation.

5. Location, location, location. Where to list the shares is a strategic decision. Old stereotypes and unwritten rules of where certain companies should list are outdated. Understand the options, explore the alternatives and understand the applicable rules and obligations of each listing location. The location decision needs to be integrated into every exit strategy

and IPO plan.

The period after the flotation is critical to building on the initial confidence and ensuring that the shares remain stable in a volatile market. This is where the happy IPOs deliver on their promises. And that goes back to the planning phase. Transforming your company from a private to a public company means adopting the financial reporting, corporate governance and other features required by the market. Start behaving like a public company a year in advance so that the management team is already used to acting like a public company when the IPO comes. It's then easier to maintain the momentum after the float.

IPOs can be a tough challenge when it comes to raising capital. But well-prepared companies can still use the markets to raise substantial sums. Plan, execute and deliver on the promises for a happy IPO.

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