What does it take to go public

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Key takeaways:

- *IPO readiness entails a transformation and planning ahead is important to ensure success.*

We have seen an upsurge of activity in the Indian and global capital markets over the last few years, and it shows no signs of abating. Going public is a once-in-a-lifetime event for a company, and it requires a lot of careful planning and effort. While no one can guarantee a successful public offering (given the role the markets play), one can always invest in preparing for life as a public company. The process of going public is a demanding one and requires intensive efforts, that touch upon all parts of the organisation. While the real journey starts once the company is listed, before the listing one needs to,

- Engage with a number of advisors and service their myriad information requirements
- Interact with the regulators to secure the necessary approvals
- Market the offering to the right investors.

Being public is more difficult than going public, and one needs to be well served to plan ahead for this and to ensure that the transition goes as smoothly as possible.

In this article, we look at some areas that need your attention to prepare you for life as a public company. These are essential building blocks for any successful organisation and will serve to set the foundation for growth and scalability.

Structure

This is really a starting point. Leaders need to evaluate if their organisations are set up in a tax-efficient manner with an appropriate corporate structure. Regulators and investors will scrutinise the structure critically. Most initial public offerings (IPOs) involve existing shareholders diluting their shareholding, and that inevitably has tax consequences, which should be assessed to explore avenues for optimisation. One also needs to take a look at the corporate structure to ensure that businesses that are being planned to be taken to the market are cohesive and core to the equity story. Any businesses that are not, should be evaluated for hiving off pre-IPO.

Financial reporting

Depending on the chosen market, companies typically need to present two or three years of historical financial statements in accordance with specified accounting standards. This also forms the bedrock for writing a large part of the offering document. However, what is increasingly important is to benchmark accounting policies and disclosures with existing listed peers locally in order to pre-empt and address queries from potential investors and analysts. The historical financial statements may also need to be supplemented with additional financial statements to show pro forma effects of planned transactions such as acquisitions and individual financial statements for significant subsidiaries or associates. What is even more important is to gauge the changes required to augment the finance functions to be able to service the enhanced reporting requirements for listed companies including the requirement to report financials on a quarterly basis or to address queries from investors and others post listing. This may entail additional investments in augmenting processes, reskilling, or upskilling people and hiring additional resources and/or automation of current processes.

Internal controls and corporate governance

Most developed capital markets require companies to adopt enhanced requirements or disclosures related to internal controls. Setting these up requires investment of time and effort. The enhancement and documentation of controls is a time-consuming activity and requires careful consideration as controls should facilitate business and not serve as an impediment to them. Companies need to be able to assert to the existence and effectiveness of their internal controls and subsequently the auditors also need to opine on both these aspects.

The transition to being a public company also entails a significant uplift in corporate governance, whether it is the composition of the board and necessary committees, disclosures and approval of related party transactions, complying with specific regulations mandated by stock exchanges and regulators. Failures in corporate governance can cause significant erosion of value for companies, post listing. It is also important to start getting accustomed to running your firm like a public company in advance of the IPO.

Environmental, social and governance (ESG)

There has been a huge focus on the non-financial aspects of value creation and articulation, especially among new age companies who are still some distance away from profitability. Few newly listed/soon-to-be listed companies have faced adverse reactions from potential investors and analysts on instances of ESG lapses such as treatment of employees/vendors or issues related to governance. The key in a pre-IPO situation would be to identify the drivers of non-financial value creation, which could be captured by defining the right metrics and using them to embellish the equity story. That would enable the issue to be marketed to ESG-focused investors as well as avoid any value depletion by pre-emptively addressing concerns that potential investors may have.

IT systems and processes

One needs to ensure right investments in technology to be able to support the scalability and meet enhanced information requirements of public companies. Often, companies embark on implementing significant investments in technology such as implementing an enterprise resource planning (ERP) system in tandem with their preparation to go public. Unless managed properly with the right investment in bandwidth and skills, this can mean a serious drain on senior management bandwidth, create bottlenecks and even delay the IPO preparedness. The solution lies in planning ahead and ensuring that projects with competing requirements of time receive adequate attention and do not intersect with each other. Another aspect that is increasingly receiving attention is the preparedness to deal with cyber security. To be public or recently listed companies can be easy targets for cyberattacks and it is important to invest in appropriate safeguards for preventing and dealing with such attacks.

Organisation structure

Making the transition to being a public company requires a cultural shift to be able to align the organisation with its enhanced exposure to investors, customers, vendors, regulators and other external stakeholders. This requires a fresh look at how people are hired, their performance measured and how are they rewarded. Aspects that receive extra scrutiny are the relative magnitude of compensation especially for senior executives and the linkages between their performance and compensation.

It is also typical to grant or make changes to share-based compensation awards closer to or prior to the IPO. These require careful consideration from a structuring, tax and compliance perspective in order to ensure that they achieve the desired objectives without adverse tax or financial reporting implications.

Investor relations

Engaging with investors and analysts requires senior management to adequately address their information requirements and keep their interest in the stock alive, post listing. Companies need to build their investor relations functions in advance of the IPO to ensure that the teams are familiar with the equity story and are able to assist with the pre-IPO roadshows too. In addition to the team, companies also need to create appropriate collaterals such as investor presentations, develop an investor relations section on their website, and prepare for holding earnings calls and interactions with investors and analysts.

Project management

As noted earlier, going public is a lifetime event. As companies gear up to deal with a number of advisors and handle multiple workstreams in preparing for the listing, it is important to have dedicated resources devoted to the project and for it to be managed. It has to be a 24/7 job until the company gets listed. It is also important to have the right bandwidth focusing on the project to ensure that senior management's attention is not diverted from the business. It is critical to ensure that the company's performance remains on track in the run up to the IPO. Developing a proper plan and monitoring progress with appropriate escalation is critical.

While one cannot time the markets, companies can ensure that they make the right investments in preparing to go public to ensure that they are ready when the markets are. Ideally, one should start preparing for the transition at least 18-24 months in advance of the IPO to ensure that they are able to enhance, articulate and preserve value during the pre-IPO phase and post listing. The areas highlighted above are essential building blocks for any successful and well governed companies, and the benefits that one can get from investing in these go beyond getting ready for an IPO.