

No other financing method requires as radical a change from a company as an Initial Public Offering (IPO). By going public, a company voluntarily decides to step into the limelight and subject itself to the constant scrutiny of financial markets in return for investors' support. In order to satisfy the expectations of an entirely new set of stakeholders, businesses need to explain their financial performance, the suitability of their management and their plans for the company's future growth. It also demands that the management of the company is constantly asking themselves why investors should invest in their company. **Rupert Young** and **Alex Blake-Milton**, Partners in Brunswick the global corporate and financial communications firm, explain the critical elements of an IPO communications strategy and the changes businesses face before, during and after the IPO process.

IPO Communication

Getting the story right



Listing a company's shares on a public exchange is one method of raising capital, usually to fund expansion. But the consequences of becoming a publicly-listed company have a fundamental impact on the way the company is run. In return for their capital, institutional and retail investors have the right to follow closely the company's performance and all the factors affecting it. The company's management has, for the first time, to become accountable to its investors and the market, and must comply fully - at all times - with the detailed regulations designed to protect investors' rights concerning transparency and the flow of information from the company.

About 18-24 months before a company plans to list, it is normal to give the business a thorough independent health check to establish what structural and operational changes may be required to prepare the company for life as a listed company. Amending the composition of the Board, adopting new accounting principles, strengthening corporate governance – all of these can take time to implement. Added to which the company must develop an approach to communication that recognises that its investors represent a new set of long term business partners who demand regular and open communication in order to earn their trust and support. Given that most family businesses are managed very privately,

the preparation for an IPO can involve a significant cultural shift which is irreversible and raises sensitive questions about the retention of control, the decision-making process, succession planning, transparency, governance and how to manage communication with stakeholders. The preparations should start early and will produce benefits for the company which will continue long after the IPO process has been completed.

What is IPO communication?

The communication required to support an IPO falls into three distinct categories: building understanding of the business, explaining the IPO transaction and managing the company's disclosure obligations to the market after it has listed.

About six months before the IPO when the company's preparations for becoming a publicly-traded entity are well under way, the company should develop its communication with its

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stakeholders including the investment community – building the profile of its business, its management team and its aspirations. There should be no mention made of the IPO and all planning for the transaction must remain strictly confidential to preserve the company's ability to call off, or delay the transaction without damaging its reputation.

How far in advance of the IPO a company should begin stepping up its communication will depend on the company, how well its business is already known and its existing reputa-



tion. For example, a retailer with a high profile "High St." brand would, in general, take less time than, for example, a specialist hi-tech company that is largely invisible to the investment community.

The point of no return is reached when a company formally announces to the market its 'Intention To Float'. Calling off an IPO after the ITF announcement is severely detrimental to the company's reputation, which is the main reason why, until the ITF, the IPO should remain a closely-guarded



secret. The ITF announcement is the first in a sequence of formal announcements that communicates the details of the transaction to potential investors. It is also the point at which formal regulations apply to the company regarding what it can and cannot say publicly. The formal communication of the transaction continues until the first day of trading the shares on the market.

As a publicly-listed entity, the company is required by the market regulator to disclose information about its perfor-

mance, its management and its business. This is a permanent requirement of the company, beginning from the moment its shares are listed.

The IPO process enables companies to progress to the next stage of their development. It carries with it the requirement for substantial preparations and an exposure to regulations that can fundamentally change the way the business is managed. In the short term, these changes are needed in order to raise the capital required by the company. In the long term,



the IPO is a transitional process that pushes companies to adopt best practice management techniques and processes, including communications, that ultimately deliver enhanced performance.

IPO communication for family businesses

Some feel that the family business is a matter that only concerns the family members. The fact that the family's wealth and its business are so intertwined results in many families fiercely protecting the privacy not only of the family, but also of their business from the ever curious outside world.

Many family businesses have gone public successfully and it is even claimed that some have been more successful than non-family firms. All have faced the considerable task of changing their mindset from being privately-managed com-

panies to becoming transparent and publicly-accountable. The family needs to prepare itself for dealing with an investment community that is objective and concerned predominantly with knowing whether the family business is a well-managed company and whether it will produce satisfactory returns on investment. It is a high profile moment for most families and emphasises the need to allow plenty of time for careful and detailed preparation to ensure the success of the transaction, the security of the family's reputation and the development of the business.

An IPO is not the only option for raising capital and it may not be suitable for all families. It is critical therefore to have a thorough analysis conducted of all the available financing options and to have a clear understanding of why an IPO may be the optimum solution. Whichever option is preferred, the analysis will be important for addressing potential internal concerns.

It can initially be sensitive for businesses to disclose their numbers for the first time and to share their reasons for management changes, as these are typically matters that would otherwise remain within the confines of the family.

An IPO has to be seen for what it is – a means to an end. It is about developing the company and pursuing its long term growth aspirations. For family businesses this often means going through a phase of formalising the process of taking decisions and the systems for governing their implementation. What matters ultimately is that the IPO preparations get the company in the best possible condition so that the strength of the business can be communicated to the investment community and to its other stakeholders.

But however good the preparation, most family businesses may still be apprehensive about the questions asked by investors. Broadly, investor interest will focus on three key areas that should form the basis of the communication strategy for family businesses preparing for IPO: the quality of the management team, past financial performance and the company's growth strategy.

Damage control

It is inadvisable to raise the profile of any company without also ensuring that adequate defences are in place to protect its reputation. In the context of an IPO, this means undertaking a full audit of risks and ensuring that strategies are in place to mitigate their potential impact on the company's reputation. This starts with making sure that all plans to list the company are kept strictly confidential and that a strategy is put in place to deal with any leaks.

Recommendations

Reputations take time to establish. An IPO is a critical moment for all corporate reputations and their family owners. Getting the communication right, demands adequate preparation time and expertise. In general the following recommendations can be made to both family and non-family businesses in order to manage communication effectively during the IPO process and afterwards as a publicly-listed company:

Hire experienced people: A lot of companies promote someone that is already part of the company into managing the communications. It is recommended to ensure that investor relations is a position held by an experienced communications professional who has prior experience, particularly in managing financial disclosure obligations.

Compliance: As a public company you are assuming the constant burden of market scrutiny and accountability. It is therefore recommended to appoint a compliance officer reporting directly to the Board and with appropriate authority to ensure full compliance with the applicable regulations and legislation relating to public companies.

External and internal communication: Start to behave and communicate like a publicly-listed company as early as possible. In addition to strengthening communication with external stakeholders, it is important to recognise as well that an IPO can be unsettling for employees if it not properly explained by the senior management. It should be made clear how the company will benefit from the IPO process and

what provision has been made for employees to participate.

Mindset adjustment: In many ways, a company should be run as a public company whether it is listed or not. Having proper governance structures in place and regular reporting, as well as conforming to regulations and standards, can only have a positive impact on the performance of any organisation. However, it is important to emphasise that in order to become a public company the change of mindset is a prerequisite for success. A company not prepared to commit fully to adhering to transparency and disclosure should probably seek an alternative source of capital to an IPO.

Third party advisors: An IPO is a spotlight moment for a company. It makes sense to hire the best available expertise to ensure that the company and the family is properly advised regarding its finances, legal obligations, accountancy, communications and governance.

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IPOs are not the only means available to family businesses for raising growth capital. The standards required for a company to list its shares are beneficial for the company's long term development. Managing a company's communication with its stakeholders should be an integral part of the business strategy for all businesses, particularly for any company looking to IPO ◆

AUTHORS

Rupert Young, Partner, Brunswick Dubai office, UAE
ryoung@BrunswickGroup.com

Alex Blake-Milton, Partner, Brunswick Dubai office, UAE
ablakemilton@brunswickgroup.com