

PREPARING FOR AN IPO



Ritva Kassis
Interview by Frank Dangeard

Becoming publicly listed is a major event in the life of a company. An Initial Public Offering of shares (“IPO”) requires months and sometimes years of preparation and hard work on the part of the company’s management and key shareholders, surrounded by armies of external advisors, lawyers, accountants, bankers and PR consultants. During the preparatory phase, interactions with regulatory and stock exchange authorities, which have to approve the IPO documents and the quality and level of the disclosure, are frequent and detailed. Almost everything and everyone in

the company becomes subservient to the IPO process and timetable.

Therefore, embarking on a going-public transaction - either to raise funds from the public markets or to provide liquidity for the company’s shares through a public listing - is not to be undertaken lightly. The challenges are numerous, mistakes can be expensive and correcting them is always time-consuming. Mediocre IPO processes lead to uncomfortable lives on the public markets.

The views expressed in this article are the interviewee’s and do not represent the views of DP World.

Ritva Kassis talks to Frank Dangeard about her experience as deputy company secretary during the preparation of the listing of DP World, one of the largest marine terminal operators in the world, on Nasdaq Dubai in 2007 and again a few years later on the main market of the London Stock Exchange in 2011. She draws on these experiences to reflect on what makes an IPO process successful.

Contrary to general belief, the technical aspects of an IPO and the amount of work required are not the main challenges faced by a company getting ready for a listing. External advisers are there to provide the required advice, and these processes are standard for all experienced firms.

In Ms. Kassis' experience the real challenges are internal – cultural and managerial. Senior managers and board members (if a board is already in place) almost never realize the amount of change they are going to have to go through in order to adapt to a world where they become a publicly listed entity.

So what does it mean for a company to be “public” as opposed to “private”?

A listed company uses funds belonging to investors. It therefore becomes accountable to these investors, and generally to the public markets, about how it operates, about what it discloses and the quality of its disclosures, and about the way its governance works and the check-and-balances it has in place. Its reputation, and that of each member of the senior management of the board, is at stake if it disappoints. Regulatory authorities, whose purpose it is to ensure the protection of investors, the integrity of the public markets and the reputation of their stock exchange, will be quick to question, audit and, if necessary, impose penalties.

With this as background, how does a company deal with these challenges?

Ms. Kassis insists on the need to discuss these issues with senior management and board

members right from the start, when the idea of a listing is first mooted. The presence in the top management of executives who have gone through an IPO process or have worked for listed companies is a must – in the case of DP World, several were experienced in public company processes, and played an essential role in putting all the issues on the table and discussing them openly with the CEO and the Chairman.

Ms. Kassis believes that a strong and IPO-experienced company secretary is important for a successful IPO process. The company secretary can act as the key architect of the governance and compliance strategy - this includes everything from managing the corporate lawyers and regulators to drafting governance policies and contributing to reviewing the IPO prospectus.

These senior managers also need to have the trust of their colleagues and the personality to encourage an open dialogue about complicated issues, which Ms. Kassis believes are mainly in the areas of disclosure, control, governance and communication.

Disclosure: The amount of information a publicly listed company must provide often comes as a shock to the management or board of a privately-held company. And it is not only financial information, but also information about products and market shares, competitors, future plans and strategy. Disclosure documents also include information regarding individual remuneration, careers or current activities. Senior management and board members have to reconcile themselves with these obligations – they are not optional.

Control: A public listing entails some dilution of control, or at least the obligation to explain publicly what was before left to the privacy of closed-doors sessions between the management and its main shareholder, or needed no explaining at all. Decisions are scrutinized and have to be explained in the open. Shareholders comment, loudly and often unkindly, on performance and managerial decisions. Regulations weigh on the complete autonomy of decision-making, and always require

a degree of formality rarely encountered in private settings, even with demanding shareholders.

Governance: A board is always accountable to its shareholders. But the amount of obligations and responsibilities of a public-company board are very significant indeed, and seems to be increasing every day. Board members have to realize that they can come under pressure from regulatory authorities, investors and the press. Each director suddenly becomes somewhat of a public figure. Not all board members are either willing or able to adapt to that new situation and status.

Communication: Disclosure does not stop at the IPO documents – those are only the beginning. Regular external communication becomes mandatory. It is highly choreographed and regulated. To understand what investors need, to know what to say and when to say it, is both a science, which must be mastered from the start, and an art, which comes with practice. The pressure is particularly strong on the Chairman and the CEO, who become the “faces” of the company to the outside world, and whose every words are scrutinized and analyzed. They must learn to act the part, and rehearse multiple times before investor meetings and press conferences, whatever their experience in business and their seniority in the business community. Some of these sessions can feel like the rehearsal for a movie audition or a TV interview.

What about the role of the board? “Simply fundamental”. In addition to an experienced IPO working group and senior involvement, a competent board is a major success-factor in any going-public process. For Ms. Kassis, this starts with appointing the right board early in the process, then ensuring board and committee oversight of all aspects of the IPO process, and also putting in place the right due diligence for board members to take responsibility for the IPO documents.

Appointing the right board early: Privately held companies can accommodate very different styles and levels of governance, and therefore end up with boards of varying competence. This cannot be

the case of publicly listed companies. A company should have from the start a very thorough recruitment process for new experienced directors. The independent directors and committee chairs should all have relevant domain expertise and years of publicly listed company experience. At DP World, the board was able to play a very active role in overseeing the many months of preparation.

Oversight of the process: The board gets involved progressively as its approval is required, but the number of formal approvals is quite mind-boggling, from terms of reference to financial statements, remuneration structures and specific remuneration packages, IPO documentation (prospectus, investor presentations, PR statements), etc. A lot of the oversight and of the approvals are delegated to committees - the Audit Committee, the Remuneration Committee and the Governance Committee - because of the sheer amount of work required and the pressure of strict timelines. In the last months of the IPO process, meetings are frequent, even weekly, and approvals by circulation are the only way for the board to keep up.

“Induction” of the board: The board takes responsibility for what is said about the company and its financial statements. All directors must therefore be brought to the same level of comfort with the disclosures in the IPO documentation. This requires that a high quality “due diligence” or “induction” process be put in place, during the preparation of the IPO itself, adding to the workload of both senior management and directors.

In short, says Ms. Kassis, setting up a board for an IPO is not simply “window-dressing”. The right board will add value and become the arbiter of the “right thing to do” whenever different options are discussed.

Ms. Kassis also notes that an IPO process lasting 18 to 24 months necessarily has an impact on how the company is managed. Because every process is scrutinized by the IPO advisors and has, to some extent, to be described and explained, the

management team often makes changes for the better during that time.

There may also be changes to the management team. In the same way as a shareholder and a chairman must put in place the “right” board, the board and the CEO must ensure that the “right” management team is in place for this new phase of the company’s life. Some members of management will adapt and learn, indeed thrive as senior executive of a listed company, whilst unfortunately the challenge will not suit others to the same extent.

Ms. Kassis finally points out that the issues that come up during an IPO process can be difficult, leading to engaged discussions amongst senior executives, between them and the advisers, between them and the board, or amongst the board itself. The main shareholder also gets involved, sometimes creating another degree of complication. For the process to be successful and seamless, experience and trust between those involved is the only option – it has to be created early on and maintained for many months in a row.



