SINK OR SWIM: LESSONS LEARNED FROM THE 2014 IPO SEASON

IN-DEPTH ANALYSIS BY THE MBS GROUP

CONTENTS

1. INTRODUCTION

2014 is the year of the IPO. In the first half of the year, the London Stock Exchange saw 79 new listings, 37 on the Main Market. Of those, 21 have been consumer and retail businesses (Main Market: 12). The trend is set to continue into the second half, but in the first six months of 2014 alone, there have only been 18 fewer IPOs than in the whole of 2013.

Particularly notable floats in the sector have included Poundland, Pets at Home and more recently SSP. Performance has been mixed and there has been much commentary on froth, fatigue and saturation in the market. As a result several IPO hopefuls have cancelled or stalled plans to list, while others have instead opted for entirely different transactions, such as House of Fraser and Travelex, both of which went through a trade sale in the spring.

In the context of such a fluid and changing market, we have set out to understand what it takes to build an IPO-ready business and board that can react quickly to favourable market conditions. We have also examined the effects of the IPO process on a business and its key executives.

In researching this report we have sought a wide range of views, interviewing a mixture of Chief Executives, Chief Financial Officers, Chairmen and Non-Executive Directors from most of the companies that have listed in the sector in 2014 or late last year. We have also interviewed a selection of investors, private-equity backers and advisors, as well as those involved with some of the businesses that were going to float but didn't. Throughout, we have focused on the consumer-facing industries.

2. KEY FINDINGS

1

The IPO process weighs heavily on the CEO, CFO and wider finance team, severely diminishing their ability to focus on the day-to-day running of the business

2

Strength and depth in the management team is vital to ensure smooth operational management while the CEO and CFO are focused elsewhere. During the process, any dent in performance could seriously undermine investor confidence

3

Most businesses reported that they should have appointed their non-executive boards earlier in the process. Many attempted to draw non-executive talent from the same narrow pool, suggesting a need for more robust search processes

4

Across the top teams (CEO, CFO, Chairman and NEDs), just 12pc had prior IPO experience. Meanwhile, 70pc had previously worked in a PLC

5

Many 2014 IPOs were for previously PE-owned companies. There is a significant difference from a cultural, technical and procedural perspective moving from a PE-backed environment to a PLC. Managing the period of transition requires careful consideration and planning

6

Experience of other M&A transactions is good preparation for an IPO, though there are some key ways in which it differs from other types of sale

3.CONTEXT

THE STORY SO FAR

Towards the end of 2013, we saw the pre-cursor for the increased IPO activity that was to follow in 2014 as the likes of Conviviality Retail, the franchised off-license and convenience chain best-known for its Bargain Booze outlets, apparel retailer Bonmarché, London-focused estate agent Foxtons, and leisure operator Merlin Entertainments all joined the London Stock Exchange.

Kicking off the consumer IPOs in 2014 was another convenience chain, this time McColl's Retail Group, which opened its shares up to the public markets at the end of February. Three days later, it was followed by online appliances retailer AO World (formerly Appliances Online), the first of several digital businesses to list. A week on, Koovs, the online clothing retailer that sells in India but is based in the UK, listed on the AIM index.

The middle of March saw the start of the highest profile IPOs. On the 14th, boohoo.com, the Manchester-based fashion e-tailer, made its debut on the market, followed closely by retailers Poundland and Pets at Home, both of which listed on the 17th. It was a mixed day as Pets at Home saw its share price drop by nearly 3pc in the first day of trading, while Poundland's shares soared more than 20pc. The inevitable talk of froth in the IPO market began to occupy investor circles and the commentariat.

The next few weeks also saw a number of smaller businesses join the AIM market – Dalata Hotel Group, which operates in the Republic of Ireland; Scholium Group, a specialist art retailer; boutique hostel Safestay, and; Patisserie Holdings, the business behind the high street bakery and café chain Patisserie Valerie.

The hype continued in early April when technology start-up Just-Eat launched on the market. The online take-away portal floated at the top of its 210-260p intended price range, valuing the business at almost £1.47bn.

A number of other businesses then joined in quick succession, including retailers Card Factory, Shoe Zone and Game Digital, and online businesses MySale and Zoopla Property Group.

June also saw a number of larger businesses float; Lloyds Banking Group launched the IPO of TSB Bank alongside motoring services provider The AA, specialist leisure and insurance business Saga Group, and discounter B&M Retail. The AA was the largest by offering value of all European IPOs in the first half (in part due to the fact that 100 of its shares were made available), followed by B&M Retail.

The final IPO of the first half was Stelios Haji-Ioannou's easyHotel business. Despite pessimism that had developed in the marketplace, the second half of the year saw travel catering giant SSP Group and private hospital network Spire Healthcare push through with IPOs before the summer break.

SHARE PERFORMANCE

Company Name	Intended Price Range (where public) (p)	Float price (p)	Valuation on Float (£m)	Share Performance (%)		
				1 day	1 week	1 month
McColl's Retail Group		191	200	-6.8	-4.7	-6.8
AO World		285	1,200	28.4	24.9	7.0
Koovs		150	£36	22.7	24.0	21.3
Boohoo.com		50	560	40.0	26.0	-2.0
Poundland Group	250-300	300	750	23.3	27.3	23.3
Pets at Home Group	210-260	245	1,175	-2.9	0.4	-14.3
Dalata Hotel Group		€2.50	€305	-8.0	-7.6	-3.6
Scholium Group		100	16	0.0	0.0	-10.0
Safestay		50	7	16.0	22.0	20.0
Patisserie Holdings	170-200	170	170	13.5	17.6	20.0
Just Eat	210-260	260	1,456	8.8	-3.8	-11.5
Card Factory	225-300	225	767	-10.7	-12.0	-6.7
Shoe Zone		160	80	5.6	8.1	10.6
Game Digital	200-220	200	340	-1.5	-2.0	6.0
MySale Group		226	340	-1.3	3.1	-4.0
Zoopla Property Group	200-250	220	919	5.0	3.2	10.0
TSB Bank	220-290	260	1,300	11.5	4.2	8.5
AA		250	1,385	-7.2	-0.8	-2.4
Saga	185-245	185	2,700	-9.7	-1.1	-3.2
B&M European Value Retail	230-290	270	2,700	8.1	5.6	-0.7
easyHotel				9.4	23.8	23.1
SSP Group	200-240	210	997	7.1	7.1	12.9
Spire Healthcare Group	210-300	210	842	0.5	1.9	4.3

ABORTED IPOS

Amongst the negative conversations beginning to surround IPOs, and with such mixed share price performance across newly-listed businesses, 2014 also saw a number of businesses that considered cancelling or stalling an IPO or pursue alternative options. Other market shocks, such as unexpectedly poor results from SuperGroup and ASOS in the fashion sector, and rising geopolitical concerns also weighed heavily on investor sentiment.

During the course of the year lifestyle brand Fat Face, backed by Bridgepoint shelved its IPO whilst online retailer The Hut ruled one out. Meanwhile, department store House of Fraser, A.S. Watson Group, the health and beauty business that counts Superdrug amongst its brands, fashion retailer Blue Inc., online clothing store MandM Direct and foreign currency exchange Travelex all opted for a private sale instead of listing.

Photobox, the business behind Moonpig.com, abandoned its IPO plans due to what it called the "volatile" performance of recent IPOs, securing a credit facility to invest in its future instead, while the airline Wizz Air cancelled its plans due to "market volatility in the airline sector".

Over the summer, regulatory filings show that a number of hedge funds have taken a dim view of how many newly listed businesses' share price will perform, amassing multimillion pound short positions on their stocks.

THE ROLE OF PRIVATE EQUITY

Of the 23 businesses that listed within the consumer sector, 12 had private equity backing. Typically, PE-backers will retain a stake post-IPO, though in late 2013, ECI Partners did make a complete exit from Conviviality Retail when it hit the market. In 2014, as shares in The AA were oversubscribed ahead of the float, Acromas – the holding company of The AA and Saga Group, owned by CVC, Permira and Charterhouse – took the unusual step of floating 100 pc of the company.

Whether or not private equity investors retain a share of the company post-IPO, the dynamics as a business transitions from PE to public ownership represents a substantial shift in all elements of the business, from governance and reporting to remuneration and even culture, to the key executives and their working relationships with investors.

PRIVATE EQUITY BACKERS PRE-IPO

Main Market	The AA	CVC, Permira, Charterhouse
	B&M Retail	Clayton Dubilier & Rice (CD&R)
	Card Factory	Charterhouse
	Game Digital	Elliot Partners
	Just-Eat	Vitruvian Partners (plus VC backers)
	McColl's Retail Group	Cavendish Square Partners
	Pets At Home Group	KKR
	Poundland Group	Warburg Pincus
	Saga Group	CVC, Permira, Charterhouse
	Spire Healthcare	Cinven
	SSP	EQT
AIM	Patisserie Holdings	Risk Capital Partners

THE INTERNATIONAL PERSPECTIVE

In this report we have concentrated on the UK market. However, there has been a similar story of increased IPO activity throughout many bourses across the globe. According to PwC research, in the first half of 2014, European IPOs raised a total of €33.7bn – the highest figure since 2007 by a considerable margin.

In the second quarter, Consumer Services businesses accounted for 31pc of all IPOs by value across Europe, with Consumer Goods accounting for a further 4pc. The vast majority, but certainly not all, of these businesses listed in London.

In June, Elior, the French catering business and competitor to London-based SSP, returned to the markets and joined the Euronext index, marking the country's largest PE-backed listing since 2007. Issuing new shares, the company raised €785m from the float and achieved a market capitalisation of more then €2.4bn by the end of its first day of trading.

Outside of Europe, although the US and Hong Kong both saw a significant uptick in IPO activity compared with the first half of 2013, they could not match the performance in Europe. Against €33.7bn in Europe, proceeds from US IPOs stood at €23.6bn, while in Hong Kong they stood at €7.6bn.

4.THE PROCESS

PRE-IPO PREPARATION

MANAGEMENT TEAM
Ensure the executive team will be able to gain confidence of the market; the layer of management below needs to have substancial operational strength and depth

BUSINESS PLAN
Develop comprehensive strategic plan

FINANCIAL PERFORMANCE
Be able to demonstrate a consistent pattern of top and bottom-line growth and a sound balance sheet (if seeking a Premium Listing, the financial statements needs to adhere to International Financial Reporting Standards [IFRS])

GROWTH PROSPECTS
Develop a financial model quantifying the business plan and expected growth

FUND RAISING
Decide if it is to be a primary offering, secondary offering or a combination of both

USE OF PROCEEDS
Establish the use of proceeds raised in the IPO, the company's future capital structure and consider its ability to pay dividends

FINANCIAL CONTROLS
Ensure adequate systems in place to ensure a flow of accurate, timely information to investors

BOARD
Appoint a board according to the principles set out in the UK Corporate Governance Code, including forming audit and remuneration committees

INVESTOR RELATIONS
Larger companies will create a separate IR function within the business; smaller companies need to consider how it will be managed

Other tasks include wealth management and financial planning, any internal transactions and decisions about the role of controlling shareholders post-IPO

THE IPO

PRIVATE PHASE

- Select sponsor and appoint professional advisers
- Kick-off meetings
- Produce Prospectus, to be approved by UKLA
- Due diligence
- Legal restructuring, documentation and agreements
- Marketing strategy (for investors)
- Analyst presentations

PUBLIC PHASE

- Announcement of Intention to Float (AITF)
- Pathfinder prospectus (near-final prospectus, without details of precise size of subscription and subscription price)
- Management roadshow presentation
- Completion / pricing
- UKLA final approval and applications for listing
- Admission

This is an adapted version of Preparing for an IPO by John Woolland and David Seal of UBS Investment Bank, a chapter within the London Stock Exchange Guide to Listing. The full version is available at: http://www.londonstockexchange.com/home/guide-to-listing.pdf

5. THE IPO PROCESS AND ITS DEMANDS ON THE BUSINESS

THE PREPARATION PHASE

The IPO process can be split into two phases: the pre-IPO preparation and the IPO itself. While the latter phase can be – and was in the case of some of the businesses we spoke to – a quick, whirlwind process, the early preparation typically takes four to six months, and in some cases much longer.

The previous page lists some of the wide range of tasks that must be completed before a business is ready to undergo an IPO. In our interviews, referring to the cost, time taken and workload involved, one chairman likened an IPO to a large-scale IT project: "think of a number and double it".

DEMANDS ON THE CEO, THE CFO AND THE WIDER FINANCE TEAM

The IPO process places its heaviest demands on the chief executive and, in particular, the chief financial officer. The requirement to present several years' accounts demonstrating a track record of top and bottom-line growth, to provide robust financial models for future growth and to unravel complex group structures means that the wider finance function also bears much of the brunt of an IPO.

The CEO and CFO need to build a strong case for investment, for which they must pull together a wealth of information into documents ranging from the company strategy to the final prospectus. The business must be able to demonstrate a credible plan for future growth as well as refining the company story so far. Every detail is painstakingly checked by the finance and legal teams.

By the time they embark on the investor roadshow, the CEO and CFO must be fully on top of their briefs, ready to face probing questions and challenges from potential investors. The CFO, in particular, must have a complete handle on the data and analytics.

SHADOW EXECUTIVE TEAM AND SUPPORT FROM ADVISORS

With the focus of the CEO and CFO firmly on the IPO, it is essential to have sufficient strength and depth in the management team for the day-to-day business to be able to continue unabated from an operational perspective. At a vulnerable time for the business, when any dent in its performance could seriously undermine investor confidence, the executive team needs to be able to fully rely on the level below.

Retail CEOs can typically expect to exclude themselves from trading meetings during the process so will need to have full confidence in the trading team. The CEO should also free themselves of other major projects that would normally take up much of their time, such as a system upgrade or warehouse move.

Underpinning the top team with a strong 'shadow executive' allows the CEO and CFO to engage fully in the IPO process, but this is something that takes time to develop in the preparation phase. The non-executive board can also play an important part, providing oversight and guidance on the day-to-day operations. The pressure on the CFO and his or her team can be relieved somewhat by dedicating a Financial Controller or a Financial Planning & Analysis (FP&A) professional to the IPO, something that was recommended by several people we spoke to in our research.

Also sharing the workload is the team of advisors, including the sponsor, bookrunner(s), lawyers, accountants, financial public relations advisers, remuneration consultants, registrars and more. Depending on the nature of the business, further advice may be sought for specific issues, such as property consultants for retailers with a large estate. However, a chairman who has overseen two IPOs recently cautioned that businesses should avoid hiring too many advisers given the extent to which they need to be managed closely by the CEO and CFO if they are to add the most value.

IMPLICATIONS FOR HOME LIFE

Inevitably such a taxing workload has an effect on the personal lives of the CEO and CFO, who must prepare themselves for an exhausting programme of long days and late nights with little room for days off. It is a schedule that will take its toll on mind and body alike and can challenge even the most driven business leaders who normally thrive on such trials. While the individuals involved will have some idea of the commitment they are making, we found that many underestimated the full extent of the work involved and some felt that they had not adequately prepared their families for the impact that it would have on home life. One CFO reported to us that he had only Christmas Day and Boxing Day off throughout the period.

The strain is even greater for those in businesses with headquarters outside of London and are therefore further away from the underwriters, book runners, investors and professional advisors.

Of course, a key reward for such sacrifice and dedication is the potential for substantial financial returns. Many comment that it is a fulfilling experience from a professional point of view and certainly IPO experience makes for a strong addition to the CV. That said, many also echoed the sentiments expressed by Nick Varney, CEO of Merlin Entertainments, which floated late in 2013, at a recent analyst presentation when he drew comparisons between listing and the new Smiler ride at Alton Towers:

"For those of you who want to know what [Smiler] is like, I liken it to a condensed IPO process… You approach it with excitement but with some trepidation. During the ride, there are lots of twists and turns and you are exposed to an almost physical and mental onslaught – and at the end of it you feel relief, exhaustion, elation. And the vague feeling that you don't necessarily want to do it again in a hurry!"

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NICK VARNEY
CEO of Merlin Entertainments,

THE ROLE OF THE CHAIRMAN

In eight of the 23 IPOs we've analysed this year, a new chairman was brought in ahead of the float. Typically businesses will look to appoint a chair that will give them instant credibility in the investor community. The skills required to steer a PLC board generally differ from those needed in a PE or private company set-up and indeed those in private equity and institutional investor circles can often take a very different view on the ability of the same chairman.

Once appointed, the chairman's first task is to assemble the rest of the board. One senior non-executive director we spoke to recommended that the process should start six to eight months ahead of the float with interviews completed around two months out, though this can depend on the size of the company.

Alongside the CEO, the chairman will take a lead on ensuring the executive and non-executive teams develop a good working relationship, fostering an environment where the executives feel safe raising issues.

After the float the board changes dramatically and the chairman must steer it through the transition period. The nature and format of the meetings will change, especially as the board adopts a more long-term approach than if the company was PE-backed.

The chairman must also take the lead on ensuring the new board meets the regulatory and corporate governance standards required of a public company.

6. APPOINTING THE NON-EXECUTIVE BOARD

MEETING THE REQUIREMENTS OF A PLC BOARD

The process of listing creates a much greater degree of public scrutiny and as a result ushers in new requirements for corporate governance. Though the requirements are not as strict for smaller businesses joining the AIM index, most companies seeking to float are well advised to adhere to the UK Corporate Governance Code when they appoint a board of directors and establish a framework within which to operate.

In many ways, the requirements of appointing the chairman and independent non-executives during an IPO are similar to those of any PLC. The board should both complement and provide challenge to existing skills in the management team, their experience must be matched to the company's current growth (or in some cases recovery) agenda and getting the culture fit right is vital. It is unlike a normal PLC board appointment, however, for the entire non-executive board has to be assembled at the same time – a fact that presents a challenge from a logistical point of view but is also a real opportunity to create a cohesive board from the outset.

Any board appointment – and especially that of a chairman – should enhance the company's reputation amongst the investor community. For a listing business, appointing the right board is a vital step to gain credibility in the market and boost investor confidence. Those with PLC experience are able to act as a sounding board to the management team, with a keen sense of what shareholders will think.

Once the chairman has been appointed they will begin to build out the rest of the board, usually starting with the most technical roles first. Typically, that will mean finding someone to chair the audit committee first, followed by a chair for the remuneration committee. Sometimes extra positions can be appointed after the float, generally if they are less commercial in nature. For example, one business that listed this year will appoint a non-executive director with a creative / design background at a later date.

Although it depends on the size of the company, it is recommended that a business appoints a minimum of three independent non-executive directors to the board. Of those that have listed so far in 2014, the range was between one and five.

ALLOWING SUFFICIENT TIME TO APPOINT THE BOARD

Even though the importance of appointing the right board was well understood, a significant number of businesses reported to us that they should have allocated more time to the task and that they should have done it earlier in the process. Those in the non-executive community tended to agree with one chairman remarking that they were approached to join the board of another business just weeks before the float.

Amongst all of the other time-consuming tasks, it is easy to see why little time is left over for this important part of the process. Since the non-executive board's principal role does not come into effect until after the business has floated, this part of the process is often left late. There is also an added dimension that can cause a delay in appointing the board, which is the cost of the chairman and directors' fees. This final point is all the more relevant when a business is undertaking a dual track process, where a PLC-style board may not end up being appropriate, or for those businesses that decide to postpone or abandon their IPO plans.

There are two issues that come out of appointing the board too late in the process. The first is that it could leave insufficient time for the executive and non-executive teams to get to know one another and properly gel as a unit. Several executives reported to us that they were only able to start getting to know the new non-executives after listing and as such they were not able to draw on them as much as they would have liked during the process. The chairman-designate of one business, which went through a private sale just days before the intended float, pointed out that the company would have listed without the board ever having been in one room at the same time.

The second is that a rushed hiring process makes it harder to do an extensive search and instead relies too heavily on lists of usual suspects. It also allows less time to test the cultural fit, which is more important than ever during a period of change. Several NEDs we spoke to pointed out that they had been approached for roles with more than one of the 2014 IPO cohort. This was even truer amongst the small group of women who were appointed to the boards of 2014 IPO businesses.

Amongst those businesses that floated, some used executive search firms to appoint their boards and some did not. Those in the latter camp generally made use of their existing networks within the business, amongst their advisers and that of the chairman once appointed. When so many companies in the same sector are listing around the same time, the need for a full, robust search process is clearer than ever.

PREVIOUS IPO AND PLC EXPERIENCE

Our analysis of the businesses that have floated this year shows that just 26pc of newly appointed chairmen had prior IPO experience. Amongst the new contingent of independent cohort of independent non-executive directors, the number is even smaller, at 10pc. Meanwhile, 78pc of the chairmen and 80pc of the non-executives brought prior PLC experience to their new roles. Though it is clear that previous IPO experience on the board would be an advantage, it is important to remember that the board's primary duties relate to the business once it is a PLC, rather than to the process itself.

THE BOARD'S ROLE DURING THE PROCESS

Whether or not the new non-executives bring prior IPO experience, the board has an important roles to play during the process assuming they are in situ in time. It can support the executive team through its involvement in the due diligence process and reviewing the multifarious documents – particularly the prospectus – produced during the IPO.

More specifically, the chairman will establish the framework for the board, establishing its various committees. The new chair of the remuneration committee will get to work immediately, having to completely overhaul employee pay structures.

GENDER

Looking at the executive teams of the businesses that have listed this year, there were two female chief executives: Carol Kane (Co-Founder and Co-CEO, Boohoo) and Kate Swann (CEO, SSP). There were no female CFOs.

On the non-executive side, there were also no female chairmen. Amongst the 62 NEDs appointed, just 19 were women. Marisa Cassoni joined AO World as an NED and was also set to join the board of MandM Direct before its IPO plans were abandoned in favour of a private sale.

Given the emphasis on appointing women to the boards of FTSE-listed businesses, it is perhaps surprising that so few joined with the 2014 cohort of IPO businesses.

THE ROLE OF THE CEO

Planning for an IPO starts early for the chief executive. One of the first tasks is to ensure that there is sufficient strength and depth in the management team that the business will be able to rely on for the day-to-day operations during the process. Assembling the team and giving it the space to bed in requires plenty of time. During the process itself, the CEO's specific workload might not be as intense as that of the CFO but the tasks involved are hugely important.

Externally, the CEO will generally attend countless meetings with the advisors and, more importantly, with potential backers on the investor roadshow. The schedule will be long and intense and the CEO must be comfortable spending a great deal of their time with the CFO for a prolonged period. Many, but not all, CEOs and CFOs will undergo media training ahead of an IPO.

Internally, it is important to keep staff morale high while the business is under strain – particularly as it starts to face intense public scrutiny and sometimes negative press.

Once the business has listed, the CEO must lead efforts to ensure that the culture of the business pre-float is maintained so that the company is able to deliver the plan it sold itself on to investors.

Also after the IPO, the CEO will need to be aware of the risk of key executives leaving once their shares are liquid and begin succession planning.

In the event of a failed IPO, the CEO will have the unbelievably hard task of re-building staff morale.

7. MANAGING THE TRANSITION TO PLC

THE START OF A NEW CHAPTER

The IPO process is undoubtedly a long and intensive one. But once the bell rings on the first day of trading, that is of no interest to the new investors. As one gruelling chapter closes the next opens up immediately and there is no let up. Managing the transition from pre- to post-IPO, therefore, requires careful consideration and planning to ensure a smooth changeover.

Both the chief executive and the chairman must take the lead as the business moves through the transition, while the chief financial officer's key role is to ensure the new technical and procedural requirements of being a public company are met.

CULTURE AND MORALE

The culture of a business pre-IPO is often a key part of the story that the leadership develops in their pitch to the investor community, and indeed it is a central reason why investors back a company. The leadership's ability to maintain that culture even under a new ownership structure will be vital to uphold investor confidence and continued operational performance.

Equally important is the need to re-galvanise a workforce that will typically be exhausted including even those that have not been directly involved in the process. The intensity of activity and pressures on the leadership will inevitably be felt right across the business. Once the intention to float has been announced the business can expect to be opened up to far greater scrutiny in the press than staff will be accustomed to. The best approach is to very clearly articulate the purpose and benefits of listing to the workforce ahead of time; maintaining regular communication during the process is critical.

An aborted IPO can be particularly damaging to morale, right up to the most senior level; re-igniting the team can be testing for any leader at this time. Poor share performance after the float can also have a bearing. One chief executive told us that he has asked people to remove their shareholder app from their phones. He stressed that nothing had changed in the business and the focus must be to continue the growth in the company. Share performance, he said, is better judged in two years' time, not on a daily basis. His view was echoed by a chairman, who counselled that his business must stick to its guns and not panic.

RETENTION – RISKS AND OPPORTUNITIES

Executives going through an IPO typically stand to receive a significant financial reward for their efforts. The ability to realise that cash after the IPO, combined with a sense that the business is entering a new phase anyway, can lead them to consider their next role earlier than they otherwise might have done. While the CEO and CFO are likely to be tied in longer – both by limits on when they can sell their shares and by the need to see the IPO through for their own professional credibility – directors of other functional roles might feel less attached.

Equally the level below the executive team, which was heavily relied on for the operational management of the company during the float, may also be seeking ways to capitalise on the skills and experience they will have gained in the process.

Prior to the float, there is not much the CEO can do to prepare for this, but it should rise up on their agenda once the business has listed. In the meantime, the way in which executive pay is structured will change drastically, led by the new chair of the remuneration committee and external consultants. Salaries, bonuses, long-term incentives, pension arrangements have to be completely re-structured. Retention of key staff will be front of mind, but reward structures that are commonplace in a privately-owned or PE-backed business are often unfeasible in the public markets.

On the flipside, the structural changes brought about by an IPO can also present an opportunity to incentivise in ways that would otherwise be prohibitively expensive. For example, when Conviviality Retail listed last year, it created a franchisee incentive plan to help drive improvements in performance and standards and to boost loyalty.

PROCEDURAL AND TECHNICAL CHANGES

For some businesses, the transition to PLC standards of accounts, reporting and financial controls does not constitute a major change as they have been working to them already. It may not be practical or cost-effective for some smaller businesses to do this in advance, but the requirements for listing off the main market are also less onerous.

There will be a marked difference in the structure of board meetings post-IPO. Whereas a pre-IPO board, particularly in a PE-backed business, might previously have allocated most of the time to getting into the detail of specific management issues, PLC board meetings must allow time for committee chairs to report on relevant regulatory duties. Comparing the difference, one private equity partner told us that the CEO would speak for about 75pc of a meeting prior to the float, but only 25pc after it.

The biggest changes often come from the changing relationships with investors and how the leadership team interacts with them.

INVESTOR RELATIONS AND THE DIMINISHING ROLE OF PRIVATE EQUITY

Post-IPO, a thicker line is drawn between the executives running the business on a day-to-day basis and its shareholders. As well as developing a new working relationship with the fresh group of investors and analysts, the relations with existing shareholders will also shift. This is particularly true where private equity backers are involved.

In a private equity scenario, management will often need to go deep into the detail with the investors as they make decisions, which can mean it takes a while before a decision is made. However, once it has been taken, management can move on quickly. In a PLC environment, by contrast, management is often freer to make decisions more quickly, giving consideration to how shareholders may react, but without having to take them through it at the time. However, once a decision has been taken, it lingers for longer as the rationale will have to be explained to shareholders later.

It is easy to underestimate the additional workload that comes from dealing with the broad base of PLC investors and it is therefore important to give due consideration to an investor relations function, the company secretary and additional public relations advisors ahead of the float. Better support will make the transition for key executives easier as they get used to what they can and cannot say (internally and externally) in a public company.

Most PE firms will retain a stake in the business after an IPO and their representatives will often remain on the board, albeit in a reduced capacity. No longer will they be intensively involved in the detail on a day-to-day basis and the board's outlook will switch to a much longer-term focus, guided by the all-important quarterly cycle. PE representatives that remain on the board after the IPO generally sign a relationship agreement in accordance with the UK Corporate Governance Code's provision that no individual or small group of individuals can dominate the board's decision taking.

The role of the chairman is critical to manage this change, being sensitive to the PE representatives' knowledge about the business but robust enough to ensure their approach adapts to the new environment.

THE ROLE OF FOUNDERS, POST-IPO

The same is true of founders, who must also resign themselves to having less influence after the IPO. The following businesses have all floated with their founders staying actively involved:

AO.com
John Roberts
(Founder and CEO)

Boohoo
Mahmud Kamani / Carol Kane
(Co-Founders and Co-CEOs)

McColl's
James Lancaster
(Founder and Executive Chairman
– set to retire within 12-24 months of the IPO)

MySale
Jamie Jackson
(Founder and Executive Vice-Chairman)

Zoopla
Alex Chesterman
(Founder and Chief Executive)

Shoe Zone
Anthony Smith
(CEO, Co-Founder's son)
Charles Smith
(COO, Co-Founder's son)

THE ROLE OF THE CFO

There is no question that an IPO is a serious undertaking and much of the work falls on the CFO and the finance team. A quick scan through the tasks involved in an IPO process demonstrates why the burden is so high. One chairman we spoke to put it at 80pc of the grunt work versus 20pc for the CEO. Previous accounts must be presented to show previous growth, financial statements must be brought in line with PLC standards, as must all financial controls and systems.

Financial models for future growth are developed and the business's group structure needs to be evaluated and re-organised. Depending on the size of the business this can be a complicated task, especially if it has private equity backing. As is the case for the CEO, the CFO needs to be able to rely on the support of his or her team not only to complete these tasks, but also to continue the day-to-day running of the department. The slightest dent in performance during this critical time could rapidly knock investor confidence.

Many businesses look to appoint an internal financial controller or an FP&A professional dedicated solely to the process. Throughout the process the CFO needs to be prepared to forgo any social or family life. If, as is often the case, the CFO is also the Legal Director for the company, this is only intensified.

The external role of the CFO in presenting to the market is very important and they need to be completely on top of their brief – fully in command of the data and analytics and able to meet the probing questions and challenging insight of tough investors.

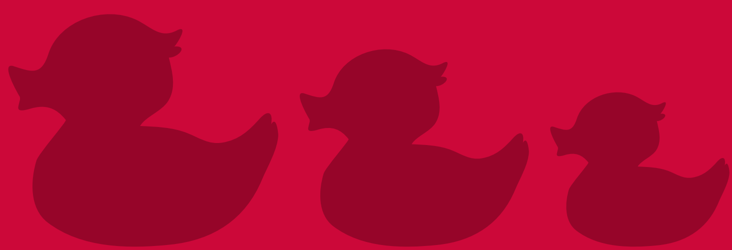
The CFO must therefore blend a financially-geared mind with the charisma and gravitas to get investors onside, blending the right and left side of the brain. As is the case for many CEOs, it is common for CFOs to undergo media training ahead of an IPO.

Planning for post-IPO is equally essential. For the finance team, there is no let up after the float, often going straight into the next reporting cycle.

As a reward for all this effort after the IPO, the CFO stands to make a significant financial return. And of course, a successful float is always a great addition to the CV, even if you don't want to go through another in a hurry.

“IT’S NEVER TOO LATE TO START PREPARING AND ALWAYS HAVE A PLAN B”

RETAIL CEO



8. THE IPO PROCESS VERSUS OTHER M&A TRANSACTIONS

HOW AN IPO STACKS UP AGAINST OTHER TRANSACTIONS

Businesses choose to list for a number of different reasons including raising capital for future growth or working capital, repayment of debt and realising previous investment. But an IPO is not the only option available to accomplish those aims. Given how quickly a buoyant market can disappear, most businesses sensibly keep an open mind to alternatives.

Many businesses that were working towards an IPO this year decided to pursue alternative routes as they viewed investor appetite for IPOs waning. Instead, some went through a trade sale, secured credit facilities or postponed/abandoned their plans altogether.

There are some broad similarities between an IPO and other transactions. Therefore, previous experience of another kind of deal can stand the leadership team in good stead ahead of an IPO. If the business itself has been through another transaction relatively recently (or even if it has just prepared for one) that can also help form the building blocks for a lot of the work that needs to be done in an IPO.

A significant way in which IPOs differ from other transactions is the way in which investor meetings are structured. In a PE or trade sale, for example, the process begins with the executive meeting a broader range of potential investors and over time that list is narrowed down, while strong relationships and alignment are built up. By contrast, in an IPO the list widens and directors have to speak to more and more people, generally developing a new relationship from scratch every time. The intensity seems to only increase.

The chief executive of one of the best-performing IPOs in 2014 summarised his advice to us, saying; "it's never too late to start preparing and always have a Plan B."

RECOVERING FROM AN ABORTED IPO- THE CHALLENGES

Like any other sale, an IPO will not get away if the business is unable to achieve a decent valuation. However well prepared the business, the public markets are very dynamic and can move against you quickly. If there is no alternative plan in place, recovering from a failed IPO is a tough task.

During the process the CEO has taken the team to the top of the hill and shown them the view (many will have already taken stock of the money they stand to make) only to have to lead them back down again. Revitalising staff and re-incentivising them is then a very tall order, especially when the CEO may no longer stand to make a life-changing amount of money themselves.

Businesses float for a reason so if the IPO does not get away, attention must turn quickly to alternative options. In a PE-backed business that will mean new options for an exit or refinancing, while for privately owned businesses it will typically mean searching for alternative sources of capital.

9. SUMMARY

The first half of 2014 saw IPO activity return to near pre-crisis levels and, despite talk of investor fatigue, the trend looks set to continue into the autumn.

Businesses within the broad consumer sectors have made up a significant proportion of those IPOs; so far, Europe has dominated over other markets and London has shone particularly brightly.

But it hasn't all been plain sailing. Several companies that intended to float earlier this year pursued alternative options or abandoned their plans altogether in the face of a changeable market.

An IPO is a hugely onerous task that puts a great strain not only on the leadership team but on the wider business too. It is not something to be taken lightly, but through early planning, careful preparation and having a contingency plan in place, many more businesses will be able to make the most of a buoyant market.

We look forward to seeing how the rest of the year pans out.

ACKNOWLEDGMENTS

We would like to express our sincere thanks to everyone who took time out of their busy schedules to talk us through their IPO experiences. In our research we spoke to a mixture of the CEO, CFO, Chairman and NEDs of most consumer-facing businesses that listed in 2014 or late 2013, as well as some that intended to float but didn't. We also spoke to investors, private equity backers and advisors.

FURTHER READING

LONDON STOCK EXCHANGE: A GUIDE TO LISTING ON THE LONDON STOCK EXCHANGE
www.londonstockexchange.com/home/guide-to-listing.pdf

PWC: IPO WATCH Q2 2014
www.pwc.co.uk/audit-assurance/publications/ipo-watch-europe.jhtml

FINANCIAL REPORTING COUNCIL: THE UK CORPORATE GOVERNANCE CODE
www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.pdf

FINANCIAL TIMES: HEDGE FUNDS AMASS SHORT POSITIONS IN PRIVATE EQUITY-BACKED IPOS
www.ft.com/cms/s/0/2dd40242-1bf9-11e4-9db1-00144feabdc0.html#axzz3AML6wRUW

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