MOBILIST

EQUITY IPOs: BLUEPRINT TO LISTING

MOBILIST Product Platform

CONTENTS

1. PREAMBLE

A flagship UK government programme, Mobilising Institutional Capital Through Listed Product Structures (MOBILIST) supports investment solutions that help deliver the Global Goals for Sustainable Development and the climate transition. MOBILIST competitively sources and selects dedicated emerging and frontier market investment products.

Through its research and policy activities MOBILIST strives to create an enabling environment for the proliferation of new listed products. This Blueprint to Listing report is designed to provide prospective issuers with clear and practical guidance on what is required to put together and list specific product structures.

2. INTRODUCTION

There exists a historical preference on the part of asset managers, project promoters, and businesses seeking to raise capital for sustainability themed funds, projects, and businesses in developing countries to do so through the private markets. There are good reasons for this, including the illiquid nature of the underlying assets in question, the underdeveloped state of public markets in many developing countries, and a general lack of familiarity on the part of major global public markets investors. Accordingly, specialist private markets investors, including especially the DFIs and MDBs, have generally been looked to for capital raising purposes.

At the heart of MOBILIST, and by extension its Source, Select, Support (S3) Process, is an understanding that public markets are vital to the SDG financing gap.

As part of MOBILIST's mission to stimulate SDG-aligned investment through the utilisation of public listed markets, the programme seeks both to proactively make the case for public markets through its research activities, and to provide practical educational materials that can close some of the common knowledge gaps and misperceptions around the costs and complexities involved in listing on stock exchanges.

The MOBILIST Blueprint to Listing report is therefore intended as a practical, execution-focused document that provides clear guidance to product promoters who might otherwise be deterred by the perceived costs and complexities of the listing process. The report presents specific, up-to-date, and useable information, including step-by-step guides to completing a new listing.

The second chapter of the report focuses on equity IPOs. Developmental businesses in emerging and frontier markets have tended to avoid selling equity on public exchanges. This is due to a range of factors, from the relatively underdeveloped nature of local capital and public markets to the historical reliance on private markets focused investors, notably including DFIs and MDBs, for their funding needs.

The overwhelming majority of both debt and equity global investment capital is, however, channelled through public exchanges. It is therefore the intention of the Equity IPOs chapter of the Blueprint to Listing report to provide a practical guide for MOBILIST-qualifying business owners and managers considering fundraising options to the key stakeholders and steps to market for any corporate listing.

3. EQUITY IPOS

3.1. What is an Equity IPO?

An initial public offering (IPO) of equity is the mechanism that allows a private company to become a public one by selling its shares to investors on a stock exchange, allowing it to raise capital. The company will decide how many shares it wants to offer and on the advice of an investment bank will determine an offer price for the shares.

Companies can choose the stock exchange that they believe will provide them with the greatest opportunity to raise capital, and they ensure that they conform to both the rules of the exchange and its regulatory requirements.

IPOs present advantages relating to fundraising, publicity, creditability, and exit opportunity and have traditionally been the route taken by businesses once they reach a certain size. In the context of development finance, where the overwhelming majority of equity assets remain private and therefore inaccessible to most investors, public listings present a clear opportunity for businesses seeking capital, and for DFIs and MDBs seeking to mobilise institutional investors.

4. KEY STAKEHOLDERS

An IPO not only contains significant inherent complexity due to the necessary number of stakeholders involved, but it also presents material cost and opportunity costs to the company. Any IPO journey should therefore be undertaken with the requisite consideration for the internal resources required and the level of cohesion and organisation of the various parties necessary for a successful listing.

Once the decision to pursue an IPO has been made, the first step a company should look to take is the creation of an internal 'issuer' team that will approach the process as a project. This should be followed by the appointment of key services providers in the form of legal advisers and investment banks.

Below is an inventory of the likely stakeholders necessary to structure an equity IPO and details on the roles and responsibilities:

4.1. Investment Bank or Underwriter

The selection of an investment bank to take a company through its IPO process is likely to play a significant role in the ultimate success of the offering. Their understanding of the company's market, ability to appropriately price its shares, and visibility and reputation are all important factors.

- **Roles and responsibilities:**
  - Assessment and scrutiny of the business plan and the development of a sales pitch and marketing materials.
  - Creation of a listing plan and management of the process.
  - Management of test marketing and investor roadshow.

- Development of valuation framework and pricing of shares.
- Provision or arrangement of research analysts to position the offering.
- Purchase of part or all of the entire offering to sell on to IPO investors, either on its own or as part of a syndicate, i.e. underwriting.

- **Requirements:**
  - The investment bank should be a good fit for the business. It should understand the industry, be able to sell the company's vision for the future, and have good coverage of target investors.
  - Strong and relevant track record of both the investment bank and the individual bankers. Credibility, experience, and reputation play a significant role in the efficacy of an investment bank in an IPO.
  - Independence and the absence of conflicts of interest – different jurisdictions and exchanges will have different specific rules. Typically, this will extend to the independence of research analyst coverage.
  - Comprehensive distribution capabilities and strong networks with key target investors.

- **Remuneration:**
  - Underwriting fees are charged as commissions and will vary depending on factors such as the offering size, the industry, the exchange, and the state of the market.
  - For example, LSE underwriting fees are typically in the 3-5% range compared to US IPOs at 5-7%.

4.2. Legal Advisers or External Counsel

Legal advisers typically play a coordinating role in IPOs, in addition to their core functions of providing guidance on regulatory and compliance matters and drawing up the IPO documents.

- **Roles and responsibilities:**
  - Advise pre-IPO on business structuring, listing rules and regulation compliance, and conducting of due diligence.
  - Obtain necessary regulatory approvals.
  - Draft, submit and publish the company's IPO documents, while coordinating and taking input from other service providers.
  - Work closely with in-house counsel.

- **Requirements:**
  - In depth understanding of, and experience in, advising similar companies in the same industry.
  - Good working relationships with the various service providers and regulatory bodies.

- **Remuneration:**
  - To be negotiated based on a variety of factors.

4.3. Reporting Accountants and Auditors

The reporting accountant or auditor, depending on jurisdiction, reviews and reports on the financial information contained in the company's IPO offering documentation.

- **Pre-IPO:**
  - Confirming that the company has established procedures that enable the directors to make proper judgments as to the financial position and prospects on an ongoing basis.
  - Advise on internal controls, provide comfort letters related to the audits performed on historical statements and on the adequacy of working capital.
  - Post-IPO, conducting regular, at least annual, audits of the company's accounts to reassure existing and potential investors.
- **Requirements:**
  - A firm with experience and credentials in the sector, preferably with a strong brand.
- **Remuneration:**
  - Reporting accountant and audit fees are typically fixed amounts that are dependent on the company's proposed activities and complexity.
  - A one-off pre-IPO fee to be expected for reporting accountant services.

5. STEPS TO MARKET

Any company considering selling shares on a stock exchange for the first time should be aware of the established set of steps that must be followed to a successful IPO. This section outlines these in simple, practical terms referencing the involvement of the various stakeholders at each point.

5.1. Step 1 – The Decision

- **Purpose:**
  - Considering whether to list a company is a complex matter that requires all potential elements to be thoroughly scrutinised before costs and resources are dedicated to the IPO process.
  - Thinking through the decision in a systematic and thorough manner is a foundational first step on the journey to listing.
- **Who's involved:**
  - Existing owners of the business have ultimate responsibility for the decision.
  - The onus will be on management to provide crucial input on strategic alignment and to provide relevant information on which to base a decision.
- **How it works:**
  - This toolkit is primarily intended for business owners and managers who are interested in better understanding what is required to list on a public exchange.

- The question '**why go public?**' is paramount. Potential reasons include:
  - The need to raise money
  - Opportunity to diversify and reduce investor holdings and to provide liquidity for existing shareholders
  - To acquire other companies with publicly-traded shares
  - To improve the company's brand
- The next question to ask: '**is the company ready to go public?**'. There are several factors to consider:
  - Does the company have a compelling track record and solid future growth prospects?
  - Can the company demonstrate a clear and robust ESG profile and are its products or services highly visible?
  - Which exchange should the company list on? Exchange specific investor information and listing requirement should be sought and considered.
  - Is the market right? Early preparation and service provider engagement is key to mitigating risks and positioning the company to capitalise on buoyant market sentiment.
  - And crucially, is management fully prepared to meet market and shareholder expectations from the outset, including all operational, reporting, compliance, and risk management requirements, as well as investor relations functions?
- Finally, in addition to the mentioned upsides, there are several key factors to consider when asking '**should the company go public?**'.
  - Additional costs of going public, and of maintaining a listed business, must be factored in.
  - Pressure to perform from a much broader array of shareholders, and related concerns around shareholder activism and loss of control.
  - Loss of privacy, particularly relating to required financial performance disclosures and compensation.
  - Heightened litigation risk, most prominently for newly listed companies in the US.

5.2. Step 2 – Preparing for the IPO Process

- **Purpose:**
  - Planning an IPO is complex and the better prepared a company the better its chances of success.
  - Companies should think about the specific requirements for listing but also the requirements of being a successful and prosperous public company.
  - A reasonable preparation window of 12 to 24 months will allow a business to implement the capabilities to think, act and perform as a public company.
- **Who's involved:**
  - In general, it is important for a company to take a cross-function and holistic approach to preparing to list, and to operate as a listed business.
  - Management must set the agenda for IPO preparation, including an IPO timeline and the identification of internal and external roles and responsibilities. In addition, it is responsible for ensuring that operational, strategic, and cultural alignment are created so as to ensure a smooth transition to being a public company.

    - Internal business units will, to varying degrees, need to undertake preparatory work. Accounting and financial teams might, for example, be expected to dedicate more resources to the process.
    - Input from professional advisers including bankers, accounting and audit firms, and independent consultants will be necessary to maximise chances of success.

- **How it works:**
    - An externally conducted IPO readiness assessment is advisable at the outset to identify the preparatory work necessary across all business functions.
    - Important areas of assessment and preparation include the following:
        - Financial statements should be audited by a reputable independent auditor and compliance issues should be resolved in good time.
        - Financial management teams should be fully resourced to meet the heightened transparency and data reliability expectations of a public company reporting – this includes effective systems and controls relating to planning and performance measurement.
        - Regulators will typically expect to be satisfied that acceptable internal audit and control procedures are in place before approving the listing. These can be more or less encompassing depending on the market. The company should take particular care to disclose material risks and weaknesses in its transaction documents as its share price will respond negatively if these are picked up post-IPO.
        - The tax efficiency and compliance structure must be assessed, and key shareholders should think about their own tax planning strategies.
        - The IPO filings will require extensive disclosures around compensation and HR matters. These should be assessed and amended to ensure competitiveness and alignment, and to withstand market scrutiny. An independent body must be established to determine executive pay on an ongoing basis.
        - Building an appealing ESG profile allows a company to understand and address certain material weaknesses, and to communicate where it outperforms peers.
        - Investor relations is a function that is likely to require enhancement. In particular it plays an important role in driving interest in the IPO.
        - Last, but certainly not least, the company must implement appropriate governance structures ahead of an IPO. This will typically include a compelling and cohesive management team, a board that demonstrates credibility, relevant experience, and independence, and a set of key committees.
    - The company must implement a process to decide on the right structure for the IPO. The traditional bank-led, underwritten approach may be the correct route but alternative approaches such as SPACs or direct listings should be considered. The company should obtain a thorough understanding of the respective marketing, time, cost, and risk implications of all options.
    - After deciding on a structure it will be necessary to begin the process of drawing up the necessary transaction documents, which will include detailed financial information, risks, use of IPO proceeds, dividend policy, distribution of shares, compensation, and expenses associated with the offering.
        - Investment banks and/or external counsel will be able to write significant portions of these documents but it is essential that management remains closely involved in the drafting process to ensure they reflect the company's vision.

5.3. Step 3 – Building a Team

- **Purpose:**
  - Any successful IPO will need to call on the experience of a range of specialists.
  - The company has the opportunity to select both internal and external participants in the IPO process.
- **Who's involved:**
  - Company owners and management will need to assess internal expertise and experience in public listings and then determine the level of external advice necessary. As outlined in Step 2 above, there is extensive preparatory work necessary.
  - By appointing key advisers early in the process – for example an independent specialist IPO consultant – the company can save time and reduce risk.
  - Careful consideration must be given to the requirements of listing authorities and regulators, and individuals or institutions with experience in dealing with these are essential to a successful process.
- **How it works:**
  - The following key professional advisers will need to be retained:
    - First and foremost company employees should be motivated and freed up to provide the necessary attention to the process. This may include making additional hires or refocusing near-term strategic targets.
    - Depending on the company's state of readiness, IPO consultants or capital markets advisers can be of value in the early part of the process in identifying and assisting in preparation, and in the selection of underwriters and key advisory firms.
    - External counsel will typically lead the document writing and exchange application process. They must have specific experience in the appropriate industry and the company should be confident that they will protect its interests throughout the process.
    - A reputable underwriter or investment bank plays a fundamental role in the listing process. As described in Step 4 below, their role in providing assurance that the IPO will be properly marketed and supported is crucial. They are also the costliest provider, with overall fee levels ranging from around 3-7% depending on specific services and markets. Investment banks will also appoint their own external counsel.
    - Independent auditors will sign-off on the company's accounts, issue comfort letters, and review and provide transaction documents.
    - In addition to auditors, the company will most likely want to retain a separate accounting firm to provide a range of advice relating to process management, compliance, and technical matters.
    - A transfer agent will offer administrative and operational services associated with trading shares.
    - Other service providers such as printers and PR firms may be required, depending on the nature, scop, and jurisdiction of the IPO.

5.4. Step 4 – Selling the IPO and Obtaining Maximum Value

- **Purpose:**
  - Selling shares in a primary issue on a public market (i.e. an IPO) is a milestone for any company. It brings operational, strategic, and cultural elements sharply into focus, and in many instances it provides a unique communications and marketing opportunity to define the company's position in its market.
  - A successful and well-executed IPO will allow the company to capitalise on all of these elements. A failed IPO risks materially setting the business back. IPO execution is therefore paramount.
  - An IPO will also create the opportunity for existing stakeholders to extract value from the business.
- **Who's involved:**
  - All members of the IPO team will have a role to play. Management and the investment bank in particular bear the responsibility of pricing and marketing the IPO.
  - The narrative that the company will seek to sell to investors is crucial to success, but it is important that there are no misstatements or omissions. Legal advisers will review and flag potential concerns.
- **How it works:**
  - The company, working with its investment bankers, must articulate a compelling narrative that will excite investors and underpin its valuation.
    - This narrative should include information on the company's strategy, its growth drivers, addressable market, and its strengths. These and other factors must clearly demonstrate support for the business' growth thesis.
  - Investment banks and underwriters will assess this narrative and draw on early responses from prospective investors to determine pricing levels for the IPO.
  - Investment banks and underwriters will arrange a series of meetings, known as a roadshow, with prospective investors, analysts, and brokers where the company has the opportunity to 'sell' directly to key buyers.
    - In these meetings it is essential that management is fully prepared to answer questions relating to any matter, at any level of detail, covered in the presentation documents. Management credibility is a significant factor in determining the success of the offering.
  - Once investor sentiment has been gauged final decisions must be made by the company and its investment banks or underwriters regarding the number of shares to be sold and their price.
    - These will also depend on overall market sentiment and the company's past performance, as well as on valuation metrics such as revenue or earnings multiples or comparisons with similar listed businesses.
    - Depending on the market, a so-called 'IPO discount' may be applied to the price to provide for an appreciation in immediate post-listing trade. In the US, for example, this is often in the 10-20% range.
    - Once negotiated, pricing information would typically be included in the final set of offering documents to be filed with regulatory and listing authorities.
  - Within a short period post-IPO a closing meeting will be held where the company will conventionally deliver the registered shares to the underwriters and in return receives payment for the issue.
  - The IPO is now closed, and the company can embark on an exciting and hopefully prosperous new chapter.

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MAKE IT POSSIBLE

EIGHTEEN EAST