

Preparing for IPO

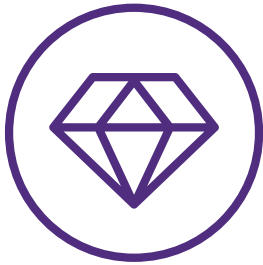
June 2023



Introduction

Launching an IPO is one of the most significant corporate transactions a company will enter into during its lifecycle. Many companies aspire to be public as it is often seen as the pinnacle of achievement for the growth of the company by its founders.

There are many benefits to being a public company such as:



Recognition

Becoming a public company takes time and a high degree of effort and so it brings with it a certain level of recognition of the standing of a company. This can often bring several positive intangible impacts to the business such as opening up new customer or supplier channels.



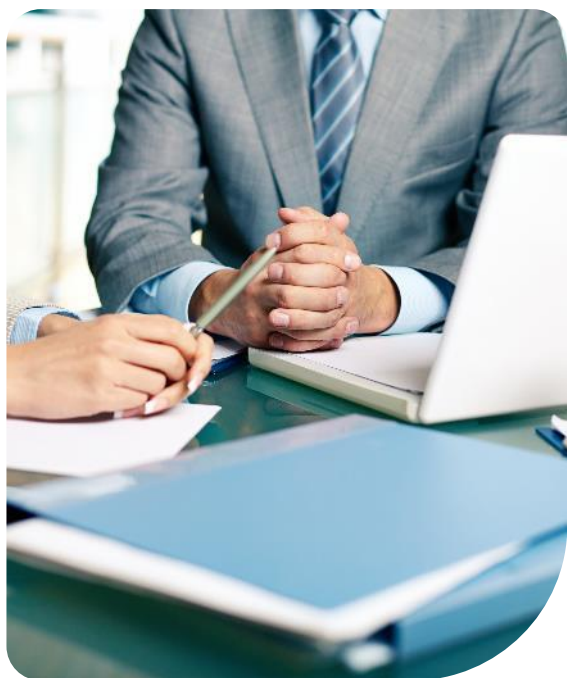
Acquisition currency

As a listed entity with a traded stock, public companies often use their public shares as “currency” for transactions. This currency enables a company to enter into a purchase transaction without the need to raise cash to fund it.



Employee share remuneration

Public companies will often reward their employees with share option schemes once public. This enables the company to provide longer term incentives to employees which more closely aligns employee incentivisation with the longer terms aspirations of the business.



However, the benefits of being a public company do not come without a significant effort to get there. An IPO is a partial sale of your business and like any sale process you want to reflect your business in the best light possible. Consequently, preparing yourself for the journey that lies ahead is an important consideration in the timeline to IPO and should not be underestimated.

There are many factors to consider when preparing your company to be IPO ready, some of which are strategic in nature and some of which are more tactical in nature. We look to discuss the most significant considerations of each in this document. The following are examples of what we would describe as strategic or “external” considerations.

Cultural considerations

Quite often in an owner managed business the shareholders, Board composition and management team comprise the same founding individuals. By contrast, in a public company environment, these three “levels” are separated as they all serve different functions and interests. This transition, or cultural change, is often difficult to manage and cannot be underestimated as the founders move from an environment where their stakeholder base and stakeholder interests change from a small group of individuals closely involved with the business to a much wider group with varying interests and demands placed on the business.

Is an IPO right for my company?

It is an important early consideration to determine whether an IPO is actually the right choice for the business. An IPO is a form of exit and there are many other forms such as sale to a strategic investor or to private equity, for example. Not all companies are suitable to be listed as they may not be at an appropriate stage of their lifecycle, may not be generating suitable cashflows to pay dividends reliably and regularly to shareholders as well as other considerations.

Which market is most suitable for my company?

Another important early consideration is determining which exchange is most suited to your company to maximise your value and your IPO. Relevant considerations include your geographical footprint, your industry sector(s), investor appetite, peer company listing destinations, comparable valuations, traded volumes and institutional coverage. Weighing up the pros and cons of each of these factors will support your decision as to which exchange is most suitable for your company.

Which businesses to include in the listing group?

It is not uncommon for the group of entities to be listed being different to your existing group legal structure. Forming the listing group can sometimes be a difficult decision to make where a group has a range of companies in different industries with different profitability levels, stage of lifecycle considerations, future growth potential and other considerations. Ultimately, the group of entities that are listed need to provide the best value to both current and future shareholders and so careful consideration needs to be given to your most appropriate listing group to maximise your value on IPO.

What structure to adopt?

Determining an appropriate group structure and listing vehicle is also a key consideration when thinking about launching an IPO. Your listing vehicle needs to be in an allowable jurisdiction as determined by your chosen exchange and also needs to be recognized by investors. Ultimately, dividends and cash payments to investors will flow from the listing vehicle and so they need to be comfortable that the jurisdiction provides the necessary investor protection they would expect.



What is the right timing?

As with most things in life, timing of your IPO is crucial for a number of reasons. Firstly, there is the concept of an IPO window, being times during the year when investors typically invest in new offerings. There are also a number of uncertainties that are beyond the control of the entity looking to list. These uncertainties include fluctuating market valuations, market sentiment towards a class of stock or sector, general economic uncertainty, and negative sentiment towards equity as an asset class, for example. Timing your IPO is never easy and so it is important that when the time is right, you are ready to execute the transaction through rigorous planning and addressing your IPO gaps in advance.

Is there appropriate stakeholder engagement?

As preparing for an IPO is a process, determining the timing of engaging with key stakeholders in the process is important. One key stakeholder group is your new shareholders which we discuss in the segment “Transaction Readiness”, however there are many more. Your employees are also an important stakeholder group and so engaging with them in advance and articulating your rationale for IPO, what benefits it will bring to the business, and importantly to them, is a key step in the process. Similarly, your key customers/clients and suppliers should be engaged with at the appropriate time.

Examples of tactical entity-focused readiness considerations



Governance and Leadership

A key investment decision by any investor relates to how well a business is governed and led. A well-structured board with a balance of executive and non-executive directors, who have been operating together as a board for some time ahead of an IPO is a must from an investor perspective. It is important that your choice of non-executive directors bring additional skills and experience to the executive leadership team. This may be, for example, geographical experience aligned to the company's growth plans, sector experience in a new product or market or a particular technical skill that will supplement the board composition. In addition, it is typical that your non-executive directors also serve as members of your to-be established sub-committees such as Audit & Risk and Remuneration committees.

Also of crucial importance is the quality and experience of the executive leadership team and their ability to take the company forward in the way that has been articulated within the company's equity story. A significant part of the investment decision is focused on investing in the leadership team. If there are gaps in experience or indeed bandwidth of the executive leadership team, addressing these gaps at an early stage ahead of the IPO is an important decision point so that the team are used to working together as a cohesive unit.



Process & Controls

A listed entity needs to be able to demonstrate that they can safeguard the company's assets on behalf of its shareholders. Consequently, having a strong control environment in place is a non-negotiable consequence of being listed. A number of listing jurisdictions include regulatory requirements that mandate minimum standard control environment requirements, e.g. Sarbanes-Oxley in the US, although regardless of exchange requirements, it is an investor expectation.

A strong control environment is one where risks relating to the business are identified, classified (eg high, medium, low), mitigated and monitored. Quite often a company will maintain a risk and compliance register (often under the supervision of a risk/compliance officer) and incorporate a series of controls to ensure monitoring is appropriately managed.

A strong controls environment will consider both financial and operating controls.



Technology & Systems

Aligned to a strong controls environment is the Company's investment in its technology architecture. Process improvement and automation are necessary to improve the efficiency of an organisation, but also an important consideration when determining if the architecture supports the control environment. Similarly, an effective cyber security framework is essential to a strong controls environment and to ensure the Company's assets are well protected from both internal and external threats.



Policies and procedures

An important consideration in strengthening your controls environment is ensuring that, as a listed entity, you are in compliance with a number of areas that previously may not have been front of mind. For example, it will be important to demonstrate that you have policies and processes in place to deal with concerns such as whistleblowing, anti-money laundering, bribery and corruption, discrimination and many more.

Of course, it is not good enough to have documented policies and procedures, but rather it is crucial to have these cascaded through the organisation with appropriate training and development programs in place to ensure your employees understand, comply with them and are accountable for enforcing/following them.



Functional enhancements

It is quite common that, as a business grows, its support functions such as finance, human resources and operations do not grow at the same pace. An element of investment will therefore be required across functions to support the business as a listed entity. Typically, the level of responsibility and requirements placed on functions increases as a listed entity.

This is perhaps no more commonly seen than in finance where the finance function has increased responsibility for external reporting, as an example. Quite often listed entities will need to report quarterly results to the market, timely on either a six-monthly or quarterly basis. Increasing the capability of the function and including the hiring of additional finance talent is an important consideration when thinking through how the finance function needs to change to support the company as a listed entity.

There will also be requirements for bringing additional functions on stream. An investor relations function will need to be developed to facilitate interactions with the company's new stakeholder base, although this can be outsourced at least in the short term. Additionally, a compliance function will need to be developed to deal with the company's broader compliance responsibilities.



Taxation considerations

In addition to tax considerations relevant to the company's operational jurisdictions there may be tax considerations relating to the jurisdiction of the listing vehicle. Investors will invest into the listing vehicle and so choosing a tax efficient jurisdiction will be a key consideration for your investor community. In addition, your IPO proceeds will be utilised within operations and so ensuring the flow of funds into the business are tax optimised is also important.



Training considerations

Understanding the implications of being a public company including matters such as directors duties and executive leadership responsibility will inevitably require your organisation to enhance its training and development programs. This starts at the board level where a clear understanding of the role of the board, KPIs and performance metric setting together with appropriate annual performance measurements will be an integral part of your transition to keeping on top of the requirements of a public company.



Transaction Readiness

The final piece of the puzzle, once the considerations in this document have been addressed, relates to the IPO transaction itself. The better prepared you are during the readiness phase the better your ability to execute the transaction smoothly and effectively.

Significant demands will be placed on the leadership team during the listing process with multiple requests for varying levels of data and information. Identifying these requirements in advance and ensuring the company is capable of producing data and information on a timely basis will necessarily make the transaction process itself much smoother, more efficient, and ultimately enable the leadership team to focus on business as usual. This can often be overlooked when the leadership team is consumed with completing a transaction and can also be a risk to the transaction if the business itself is not powering ahead as predicted.



Close

Being a public company is a significant event in a company's lifecycle and brings many benefits. Maximising the value of the IPO and ensuring it is executed as smoothly as possible is in your best interests. To ensure your IPO is executed smoothly, it is critical that both the strategic and tactical considerations addressed in this document are properly considered, planned and executed ahead of your IPO transaction.



Key Contacts



Hisham Farouk
CEO
Grant Thornton UAE

T +971 4 388 9925
E Hisham.farouk@ae.gt.com



Salmaan Khawaja
Partner
Head of M&A and
Transactions Advisory

T +971 52 537 3917
E salmaan.khawaja@ae.gt.com



Steve Drake
Senior Advisor
Capital Markets

T +971 50 413 4818
E steve.drake@ae.gt.com

Additional Contacts



Dr. Osama El-Bakry
Senior Partner
Head of Assurance

T +971 56 603 1052
E osama.elbakry@ae.gt.com



George Stoyanov
Senior Partner
Head of Advisory

T +971 56 437 6524
E george.stoyanov@ae.gt.com



Kabir Dhawan
Partner
Business Consulting

T +971 58 559 9985
E kabir.dhawan@ae.gt.com



Melissa Aoun
Partner
Business Risk Services

T +971 58 547 4696
E melissa.aoun@ae.gt.com



Anuj R. Kapoor
Partner
International Tax

T +971 56 369 8944
E anuj.kapoor@ae.gt.com

Abu Dhabi

Al Kamala Tower
Office 1101, 11th Floor
Zayed the 1st Street
Abu Dhabi, UAE

T +971 2 666 9750

F +971 2 666 9816

Dubai

The Offices 5
Level 3, Office 303
One Central, DWTC
PO Box 1620
Dubai, UAE

T +971 4 388 9925

F +971 4 388 9915

Abu Dhabi

DD-16-121-031
16th Fl. WeWork Hub 71
Al Khatem Tower
ADGM Square
Al Maryah Island
Abu Dhabi, UAE

F +971 2 666 9816

Sharjah

Al Bakr Tower
Office 305
7/9 Al Khan Street
Sharjah, UAE

T +971 6 525 9691

F +971 6 525 9690



Grant Thornton

© 2023 Grant Thornton UAE. All rights reserved.

Grant Thornton refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.