

# *Thinking of floating?*

## Considerations for private and family owned businesses



# Going public – the next step for your company

Your company is going from strength to strength, and has reached a stage where an Initial Public Offering (IPO) may be an option for the next step in its development.

Taking your company public is a transformational event, and a decision not to be taken lightly. If successful, an IPO not only supports your company's continued growth and strategy – it will reward the many stakeholders involved (owners, employees and investors) both in the short and long-term.

## An IPO provides:

### Access to capital

- Access permanent capital for growth and development
- Broaden your investor base and access a deep pool of international capital
- An opportunity for further capital raising options at a later date
- Provides an exit route for earlier stage investors
- Option to use shares as currency to fund acquisitions

### Liquidity

- Create a market for your company's shares
- Diversify your shareholder base
- Potentially eligible for inclusion in an index
- A real time share price providing a basis of your company's valuation

### Profile and status

- Enhance your profile with investors and other stakeholders
- Improve your status and credibility with customers and suppliers

### Employee incentives

- Attract and retain top talent
- Reward key management and employees with share and incentive plans

### Regulation

Companies on the Main Market have to comply with the ongoing requirements of the:

- Prospectus Rules: prospectus required for further issues
- Listing Rules: Significant transactions, related party transactions, pre-emption rights, share buybacks, market notifications
- Disclosure Rules and Transparency Rules: periodic financial reporting, major shareholding disclosures, and the provision of information to investors
- UK Corporate Governance Code: Comply with or explain against the main provisions of leadership, effectiveness, accountability, relationship with shareholders and remuneration

Companies on AIM need to comply with:

- AIM Rules for Companies: provides a more balanced approach to regulation for growth companies. All activities will be overseen by your nominated adviser (Nomad)
- QCA Code (QCA Corporate Governance Code for Small and Mid-Sized Companies): adopts key elements of the UK Corporate Governance Code and other relevant guidance and then applies these to the needs of small and mid-sized quoted companies on a public market

Other regulation UK issuers have to comply with includes the Market Abuse Regulation (MAR), the City Code on Takeovers and Mergers, Company Law and Financial Services and Markets Act (FSMA).

### Disclosure and transparency

- Strict compliance with corporate governance and disclosure standards required, including tighter reporting deadlines for your annual and interim reports and controlling shareholder requirements
- Disclosure and reporting of your executive remuneration and share incentives
- Requirement for robust internal processes and controls and the ability to monitor and report KPIs on a timely basis
- Manage your reputation by communicating with investors, analysts, customers, suppliers, the financial media and other stakeholders
- Understand how to manage market expectations and analyse market trends

### Control

- An attractive exit option compared to trade sale or sale to private equity where loss of ownership stake and loss of management control is more likely
- Achieve your personal and business ambitions
- Consider the effects of diluting equity ownership, including the potential reduction of management control
- Flexibility potentially reduced as shareholder approval is required for major transactions
- Timing of your IPO subject to market conditions and 'IPO windows'
- Wider market volatility, political and economic factors can impact share price performance



# Considerations

*Going public can be immensely rewarding, but it is a period of intense pressure and change for your company. And don't forget, your IPO is not the end – only the beginning of your journey as a PLC.*

*The IPO process is very time consuming for key executives, leaving less time for 'business as usual'.*

## Equity story



A strong equity story is key to a successful IPO and will determine the level of investor interest in your company. You will need to build a robust and credible story and be able to clearly articulate it.

A strong equity story could be defined by the following factors:

- Well supported and sustainable top-line growth
- Attractive, defensible and/or growing margins
- Leading, attractive and sustainable financial returns

## Choice of market



Options include your own domestic exchange, an international stock exchange or even a dual listing. Critical factors to consider include:

- Valuation
- Depth and breadth of investor base
- Regulatory requirements – eligibility and ongoing compliance obligations
- Listing exchange of your peers
- Liquidity and index inclusion
- Practicality e.g. language, time zone

## Are you ready?



- It is common for companies to undertake a review of what would need to be put in place to list and the roadmap to execute it
- It can be very beneficial to start to operate as a public company well ahead of the IPO to gain valuable, practical experience and familiarity with the increased reporting, transparency and disclosure requirements

## Selection of advisers



- You will need to select good quality corporate advisers to guide you through the IPO process: bank(s), broker, reporting accountant, lawyers, public relations, registrar
- Selecting the optimal banking syndicate or broker is a fundamental decision

## Board composition



- A public company will be required to have independent directors to represent the interest of the public shareholders.
- There will also be the question of who will be Chairman, which can be a new experience at the heart of the company

## Costs



### Preparation and on admission

- Adviser costs include: bankers (Sponsor on Main Market, Nomad on AIM), broker commission, auditors, reporting accountant, lawyers, PR, registrar and stock exchange admission fee
- Certain costs are still payable if the IPO is aborted
- Time
- Resources

### Ongoing compliance costs

- External costs include auditors, PR, annual exchange fees and registrar
- Internal costs include corporate governance costs covering Non-Executive Directors, company secretarial, investor relations
- Strengthen financial, risk and compliance functions – any weaknesses in systems or failure to comply with regulations may cause a loss of investor confidence and reputational damage. There is the potential for company and personal monetary damage

## Tax planning



### Corporate

You will need to understand the impact of the IPO on the tax structure of the group and on current and future investors. An IPO provides the opportunity to:

- Optimise the group's tax position
- Review the Effective Tax Rate (ETR) strategy
- Review your distributable reserves

### Personal

- Opportunity to review your personal tax and wealth position
- Certain tax reliefs available to investors in AIM quoted companies

Areas that you will need to give particular attention to include:

- What controls and systems are currently in place to keep up to date with changing tax laws in each relevant jurisdiction
- Whether you have planned for a documented strategy for FATCA/CRS/PSC compliance
- To what extent will the IPO permit the family to maintain its preferred tax planning strategy that meets the family's attitude to risk

## Culture



Private to public – the culture of your business is important and a core part of what has made you successful. Careful consideration is required to ensure this is not diluted when becoming public.

## Key points for family businesses:

### Is IPO the right choice? ✓

- The decision to IPO involves many personal and business considerations; it is only one option for the next step in your company's development
- It is important to involve all family members affected in the decision-making process. Allow the family to discuss the advantages and disadvantages of being public in order to better understand what the process involves. This way, all family members will feel that they at least have a say in the direction the business is taking
- If you are considering distributing cash on the back of an IPO, think carefully about how that may be invested and protected, as otherwise you risk the family not buying into the IPO process
- A major concern for many families is the loss of privacy that comes with being public. Careful planning and consideration must be taken in regards what information the quoted company will be required to disclose, and how the family manages its affairs prior to IPO, to ensure privacy is maintained
- External investors will want to see that there is good governance in place both at the company and family level. You will need to consider how you can improve your governance and

ownership frameworks to provide external investors with confidence that family dynamics will remain outside the boardroom

### Control



- An attractive exit option compared to trade sale or sale to private equity where loss of ownership stake and loss of management control is more likely
- However, the effects of diluting equity ownership include reduced control and autonomy. You must consider how this fits with where you want to take the business in the short and long-term and how that fits alongside family dynamics and plans
- Furthermore, if there are enough shares in circulation, being public exposes the family business to risks of takeover
- The key is to understand the extent of the loss of control, and to be prepared for it

### Succession planning



- An IPO creates an opportunity for family owned businesses to retain control and influence (no minimum free float requirement on AIM)
- Professional management can be brought in to take the business to the next level; family may be retained as Non-Executive Directors

- An IPO can help the family business survive for the long-term and assist with succession plans but it is key that the family are all aligned and clear on how this could help achieve succession planning goals

### Board composition and independent Non-Executive Directors



- The search for the right individuals to join the board as INEDs is a key decision for family businesses and can take time
- Remember that having strong governance in place both at the level of the family and company is key to attracting and retaining the right talent. External recruits want to feel they are coming into a well-managed business where they will have influence and be respected

### Profile and status



- Establish long-term identity for a family owned business, and retain the family name and influence
- The increased status that comes with being quoted may strengthen the family business' credibility in the eyes of suppliers and potential suppliers

## How we can help

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We have experience of working on a wide range of international and domestic IPOs and can help you evaluate the critical issues related to planning for an IPO. With our expertise, we will support you through every stage of the IPO preparation process and help prepare you for life as a public company.

### Approach

We understand the challenges your business faces. Our IPO expertise and specialist industry knowledge puts us in a unique position to advise you on this transformational event, focusing on achieving success and avoiding unnecessary complications and delays along the way.

### Global network

Our reach extends across the globe. Through our extensive network we combine local market insights with specialist knowledge and expertise – helping your business achieve its potential.

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