Considering an IPO?

Start thinking like a publicly listed company

The preparation for life as a publicly listed company is an important step for any company considering an Initial Public Offering (IPO) or any other capital raising process. It means acknowledging that what worked for a privately-owned firm may not necessarily work in public life.

This also includes careful consideration of **governance and compensation-related topics**, especially relevant to the Executive Management (EM) and Board of Directors (BoD) for fostering investor trust in the company's sustainable success and growth. For this reason, each stage toward the listing, and beyond, requires careful planning, including alignment of other workstreams with governance and compensation-related topics.

Are your Governance and Compensation ready for the public eye?

Companies preparing for an upcoming IPO are advised to carefully manage this long-term transformational process – and start early! The process consists of a series of planned, profound changes, ideally undertaken as early as two to three years prior to going public. In this regard, HCM International proposes splitting the process from conception to realization into four stages – each with distinct considerations (see illustration below) – to maximize the readiness of both your governance and compensation:

Four IPO stages from a corporate governance and compensation lens

Growth stage

- Refining BoD composition to align with public company requirements (e.g., independence thresholds, etc.)
- Matching the required skillsets across key corporate bodies (e.g., BoD and EM)
- Consider the adaption of equity-based compensation elements (e.g., options)

Pre-IPO stage

- Elaborating and finalizing post-IPO governance structure (corporate documentation)
- Refining BoD composition and oversight structures
- Defining compensation strategy and principles (design, instruments, and level)
- Handling outstanding compensation awards (i.e., triggered by a change of control event)
- Developing Say-on-Pay for extraordinary, pre-listing Annual General Meeting (AGM)
- Preparing and finalizing prospectus for roadshow

Listing

First-year listing stage

- Early engaging of stakeholders
- Internally communicating new compensation structures
- Drafting first compensation report
- Preparing first AGM (incl. drafting stakeholder communication materials e.g., AGM invitation, Say-on-Pay brochure, etc.)

Listed company stage

- Assessing governance structures (incl. control mechanisms)
- Assessing the BoD (incl. composition, relevant skill sets, self-assessment)
- Advising BoD / Compensation Committee (on-going, to warrant market knowledge for decision-making processes)

1. Growth stage

Research shows that shareholder-oriented, transparent governance translates into a higher initial company valuation and sustainable performance. The BoD should fulfill independence requirements as well as other public stakeholder expectations; including the appropriate skillset representation. Overall, the purpose a company should pursue in this stage is that of gradually bridging gaps in the system to market requirements expectations of listed companies.

The pre-emptive establishment of a sound governance and compensation framework gives you the possibility to adapt to public listed life more rapidly, as well as to evolving market practices. Additionally, the pursuit of such adjustments is ordinarily easier as a private company; also considering the signaling advantage of maintaining stable structures once public. The flexibility for change will typically be larger as the stakeholder accountability landscape is more concise as a privately held company (i.e., exposed to fewer stakeholders). This allows for more agile responses to address adjustments in view of the IPO.

2. Pre-IPO stage

Once the IPO intent has been formed, you should feel encouraged to review and align your compensation framework as well. This should also be aligned with the overarching business strategy (as should the governance structure) and regulatory requirements relevant once public.

This stage is also largely consumed by specific pre-IPO preparations. These include handling outstanding compensation awards which could be triggered by a change of control event, finalizing the IPO prospectus for the impending investor roadshows, and developing Say-on-Pay budgets for the BoD and EM.

3. First-year listing stage

Communication gradually gains in importance, starting as early as the prospectus draft (red herring) elaboration or roadshow during the pre-IPO stage. The peak of its importance is usually reached during the first year after listing. The extent to which your company communicates both with their internal and external stakeholders increases as you become accountable to a larger audience.

Over the last years, public companies have become even more accountable to their stakeholders on governance and compensation topics through proper disclosure and communication. Internally, this means that the BoD and EM should take the opportunity to communicate and explain the company's strategic objectives, which should also be reflected in the variable compensation. Externally, stakeholders demand tailored information on a diverse set of subjects on a regular basis.

The governance and compensation reports are two main instruments for communicating information on said subjects to shareholders, whereas Say-on-Pay shareholder rights – exercised during Annual General Meetings (AGM) – represent the shareholders' direct communication with the company. Preparing the first AGM requires special attention, as items such as the maximum aggregate compensation amounts for the BoD and EM are bindingly voted on.

4. Listed company stage

After surpassing the first year of listing, it is important that your company warrant its shareholders a degree of sustainability in the governance and compensation practices (i.e., maintain stable structures). The post-IPO strategy should extend also to these practices, and in so doing maintain the value and benefits of the IPO both for the company itself, as well as its shareholders and investors.

In a public company life setting, BoDs will be required to remain up-to-date on recent market developments. To this end, BoDs will often bring on an independent, external advisor to facilitate this process as well as offer additional market insights. This allows the BoD in its totality to properly pursue all their duties and responsibilities.

Is your company ready for an IPO? Check our pre-IPO readiness checklist:

Corporate Governance	
Ensure that the governance and oversight structure of the company and particularly the BoD is in line with regulatory requirements and guidelines	✓
Review and amend corporate documentation (e.g., Articles of Association, Organizational & Committee Charters, etc.)	✓
Review and warrant alignment of BoD composition with regulatory requirements and stakeholder expectations (i.e., independence, diversity, skill representation, etc.)	✓
Define Say-on-Pay budget (for BoD and EM, respectively) up for vote at the extraordinary, pre-listing General Meeting	✓
Preparation and finalization of IPO prospectus for investor roadshows	✓
Compensation Framework	
Review compensation strategy and principles for the BoD and EM	✓
Evaluate / benchmark appropriate compensation frameworks • Design: compensation instruments and structure • Instruments: types of fees for BoD and compensation elements for EM • Level: market positioning of company	✓
Review ownership structure and treatment of outstanding compensation awards (e.g., options, phantom shares or other elements triggered by change of control event)	✓
Examine possible inclusion of an IPO-related incentive	✓
Check compliance of EM employment contracts (i.e., no severance payments, length of notice periods, etc.)	✓

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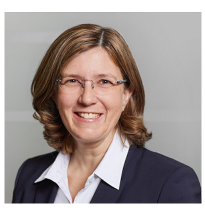

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