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Introduction

Companies undertaking capital raisings can approach the world’s capital markets in various ways. Through an initial public offering, listing either in its home jurisdiction or cross-border, a company can access major global finance hubs and capital from a deep pool of investors around the world.

In addition, an IPO can help a company raise its profile with customers, suppliers and the media as well as providing it with an opportunity to improve internal systems and controls, and increase the general operating efficiency for the business to conform with the regulatory scheme for public companies.

Key business attributes of an IPO-ready company:

- Leading market position, supported by clear and achievable strategic goals for revenue growth and profitability.
- Attractive financial model, with an established quarterly forecast process and reliable financial reporting controls.
- Appropriately skilled, experienced and proven management team.
- Robust corporate governance framework.
This guide will provide you with:

- An overview of the key stages of the process, and an indicative timeline.
- A who’s who as regards the IPO deal team.
- Practical tips to help you achieve a successful IPO.
- Key considerations to bear in mind when choosing your listing venue.
- Key issues and listing requirements that should be considered when preparing for an IPO.

If, during or after, your review of this guide, you have any questions, whether to clarify points or to initiate or progress a discussion on a future IPO for your company, please do not hesitate to get in touch with your Baker McKenzie contacts.
Recent IPO Trends

*2018 data as of 18 April 2017
While no two IPOs are ever identical, you can see above a general overview of the tasks that must be undertaken and to the right, their place in the IPO timetable. Due to the bespoke elements of every business, we would advise consulting your Baker McKenzie contacts to discuss how these tasks and the timing indicated might need to be tailored for your company.
GUIDE TO IPOs

Issuer appoints advisers
Kick-off

DUE DILIGENCE & DRAFTING
APPROVAL OF PROSPECTUS
FINALIZE OFFER STRUCTURE AND INTERNAL PREPARATIONS

Marking/Book-building

Pricing and signing

Post-closing

* Mountain represents estimated level of assistance by advisors
The IPO Team

The IPO process involves many working parties. Establishing the right team of professionals that can navigate the complex interplay of all parties involved is critical for a successful IPO.

Core Deal Team

- **Issuer**
  - Significant commitment of management’s time and resources required.
  - Establish internal core team: min. one director with the authority to make commercial decisions; an in-house lawyer to coordinate legal work, and an in-house financial officer to coordinate the financial work.
  - Schedule board briefings and meetings to approve the IPO and related matters. Attended by all directors.

- **Investment Banks/underwriters**
  - Provide strategic and financial advice.
  - May purchase unsold shares in exchange for a commission and subject to certain conditions.
  - Heavily involved in prospectus drafting, due diligence and verification.
  - Broker and market the deal; keep issuer informed of market conditions; assess investor demand; help establish pricing.
  - Provide after-market support and advice.

- **Legal Advisers**
  - Significant commitment of management’s time and resources required.
  - Establish internal core team: min. one director with the authority to make commercial decisions; an in-house lawyer to coordinate legal work, and an in-house financial officer to coordinate the financial work.
  - Schedule board briefings and meetings to approve the IPO and related matters. Attended by all directors.

* Unless restricted from selling by virtue of also being part of the management of the company or a key employee, an IPO also gives the company’s existing shareholders an opportunity to sell and thereby realize some or all of their investment in the company.

Marrying the two sides of the core deal team are the legal advisers.

We, at Baker McKenzie, are well versed in assuming the crucial coordinating role that lawyers take in any IPO transaction. We have a great strength and depth of experience in conducting legal due diligence, preparing prospectuses, issuing carefully considered legal opinions and negotiating key documentations, such as underwriting agreements. Due to our presence in 47 countries worldwide, we are also able to boast a hugely beneficial, established profile and working relationship with more regulators and stock exchanges than any other global law firm.

Since the issuer will still have to run its business during the IPO process, this level of support can be crucial to significantly reducing the burden on management.
Other Parties

Two other key parties in any IPO are the accountants and the regulator.

Accounting firm

- Audit and report on the issuer’s historical financials and pro forma financial results.
- Conduct financial and tax due diligence.
- Advise on internal controls, provide comfort letters related to the audits performed on historical statements and on the adequacy of working capital.

Regulators

The regulators act as the main legal authorities that regulate the IPO process and requirements, and will, depending on jurisdiction, typically comprise at least one financial regulator, stock exchange or both.

Further additional parties that may be involved in the IPO deal team include:

- Other technical experts, such as intellectual property valuators.
- Communications consultant to assist the company in public relations surrounding the IPO.
- Depositary/registry responsible for managing the shareholder register.
- Independent financial advisors, who can provide advice on business plan, financial modelling, investment case and business valuation.
Eight practical tips for a successful listing

Regardless of the jurisdictions and listing venues considered for a capital raising, a company should always aim to start to prepare for an IPO at least 12 to 24 months in advance. It can then increase its chances of success by following these practical tips:

1. Prioritize your goals for the listing. These can include, for example, access to a broader investor base, greater visibility among industry peers or another goal.

2. Consider the likelihood that a particular exchange can meet those goals.

3. Seek an exchange where investors and other market participants are familiar with other companies in your industry and understand its value.

4. Analyze the trading price and volume of comparable companies’ stocks on the exchanges being considered.

5. Understand the liability risks of listing on a particular exchange.

6. Choose financial, legal and accounting advisers that have relevant industry knowledge and on-the-ground experience with local and international aspects of listing on a particular exchange.

7. Critique any timetable provided by an adviser, exchange or other third party to confirm that it is realistic.

8. Quantify all initial and ongoing costs associated with a particular exchange. These can include, for example, initial listing fees, annual fees, ongoing disclosure costs and other compliance-related costs.
Almost 90% of listings were on the listing company’s home market between 2014 and 2018.* In many cases, this could be attributed to the close-ties that those issuers had established with their home countries, culturally, economically and in terms of their fundamental infrastructure.

However, the appeal of cross-border listings is growing as companies increasingly consider factors that might motivate them to go public outside their home market, many of which we cover in detail below.

In any event, when considering an IPO, it is crucial to establish what the main goals of the IPO are. This will guide the company is assessing which stock exchange and listing option will best help it to meet these goals. Detailed summaries of the principal attributes and listing requirements of 47 listing venues around the world can be found in Baker McKenzie’s Cross-Border Listings Handbook.

*Data sourced from Thomson Reuters, as of 18 April 2018.
We would recommend that any decision concerning the potential location of your IPO be based upon these core considerations.

**Strategic Goals**

**Increased Brand Visibility** - A company may find it helpful to list or raise capital in the same jurisdiction as its major markets or customers are located, to establish visibility and brand recognition. A cross-border capital raising company can also increase worldwide prominence.

**Participation in Indices** - Provides investors with clear and independent benchmarking of stocks, sectors and the market as a whole. Creates the basis for portfolio trading by active and passive investors.

**Liquidity availability** - Some exchanges are better placed to deal with large capital raisings, some offer a more efficient means to raise smaller amounts of capital, while some offer more flexible requirements for already-listed companies to raise additional capital.
**FACTORS AFFECTING VALUATION**

**Analyst and investor expertise** - Well-informed research analysts and investors can help drive a successful capital raising and a strong aftermarket. Some exchanges also have market participants with an acute understanding of companies in specific industries.

**Investor appetite** - Investors’ appetite for the quality, stage of development and risks associated with a particular novel drug, therapy, or other chemical or biological technology may differ in each market.

**Number and value of peer listings** - Companies within certain industries may be more prevalent on certain exchanges or in certain jurisdictions, which may assist investors and analysts to provide more accurate valuations.

**COSTS**

- Initial flotation and ongoing compliance costs
- Currency: FX considerations
- Legal/market risks

**REGULATORY ENVIRONMENT**

**Initial listing requirements** - Selecting the most suitable jurisdiction requires careful assessment of a company’s ability to meet the relevant listing requirements, whether relating to financial track record or assets, minimum number of shareholders, public float, minimum share price or capitalization. In addition, prospectus disclosures covering any complex industry-nuanced matters such as the regulatory approval process for a product could require significant time and costs to satisfy.

**Regulatory environment** - Investors active on certain exchanges may be more comfortable with, and place higher valuations on, companies that operate in certain countries, depending on the level of industry regulation applicable to companies in that country.

**Corporate Governance** - It is important for a company to determine early on whether it will be able to meet all the ongoing regulatory obligations for its chosen exchange, remembering that such requirements may be more stringent on certain exchanges or in certain jurisdictions than others.
Key issues for companies considering an IPO

Companies should be aware of the following key issues often encountered when undertaking the process of capital raising and listing on a stock exchange.

Restructuring prior to listing

The business and corporate structure of a company’s operating group is an important issue to consider at the onset. In some industries, investors may favor companies that are narrowly focused on a core profit-generating service or product over those that offer a wide range of services or products. Investor preferences such as these—which may shift over time—can factor into a company’s structuring decisions early on in the listing process.
For corporate governance, tax or marketing reasons, a company may decide to re-incorporate out of its home jurisdiction to another location. Companies that wish to take advantage of more flexible governance requirements or a different tax structure will often explore a re-incorporation in conjunction with an initial listing.

IP protection

The pathway for a company to obtain intellectual property protection for its products and/or services can differ from industry to industry. In some cases, there is a well trodden path, whereas in others, obtaining intellectual property protection may historically have been a challenging business issue for companies. Accordingly, it will be important for any company considering an IPO to assess its IP requirements as early in the process as possible, with a view to ensuring that all relevant patents, copyrights, licenses etc. are obtained or at least an application for such has been made before publicly disclosing key information as part of any IPO.
Privacy and data protection

Data is extremely important to all companies, with there being an exponentially increasing number of ways in which organizations can collect, store, use and potentially disclose personal or sensitive information. Companies must therefore ensure regulatory compliance with privacy and data protection laws. With each country having its own implementation and enforcement systems, it is important that companies have appropriate policies, systems and process in place for ensuring regulatory compliance as part of any listing.
Describing the business

Any company considering an IPO should be mindful of the prospectus disclosure issues that commonly arise.

One of the most challenging aspects for a company to undertake in the prospectus is how best to deconstruct and explain its business in such a way as to be accurate and fulsome, while satisfying investors’ and regulators’ desires for cogent, easily understood information.

It can be equally challenging for a company to provide the requisite analysis on changes in its accounts year-on-year, where not easily explained by a major event, such as a merger or major acquisition. However, both investors and regulators will expect line-item-level detail to be provided.
Enhanced prospectus disclosures

In certain jurisdictions, companies operating in certain industries, such as healthcare, real estate or mining, should be mindful that they may be required, either by the regulatory authority or simply to meet market expectation, to provide enhanced prospectus disclosure. Additional disclosure may therefore be required in respect of some or all of the following:

- Information on strategic objectives.
- Operating licenses.
- Manufacturing and inventory control policies.
- Collective expertise, experience of key technical staff and the extent to which the business is dependent on key individuals.
- Employees engaged in quality control.
- Collaborative development and research agreements.
- New technology substitution and systems failures.
- Product and technology commercialization delays.
- Current and expected market competitors.
- Any dependence on a limited number of customers or suppliers.
- Any assets necessary for production that it does not own.
- Compliance with all applicable laws (particularly privacy and data protection laws). Claims, litigation or material adverse findings in investigations in respect of product liability, personal injury and/or wrongful death.
In addition, some regulatory authorities may ask for an asset valuation or other expert’s report to be included in the prospectus.

Due diligence

The due diligence investigation for companies undergoing an IPO may become more specialized than for most other companies, if the company in question operates in a certain industry, such as healthcare, real estate or mining. For example, for biopharma and healthtech companies, due diligence will have a heavy focus on technology and intellectual property rights, and the freedom to operate within them.

In all IPOs, it is essential to have those individuals who help to run the business - whether they are employees, consultants or others - to be available to assist the deal parties in their due diligence efforts.

In all cases, the due diligence investigations will focus both on areas generic to all industries and on areas particularly relevant to the industry of the IPOing company. These latter areas may include:

- Governmental permits.
- Certificates, licenses and product registrations.
- Privacy and data protection compliance.
- Advertising restrictions.
- Directions, labelling and packaging requirements.
- Safety and credibility ratings.

Understanding the exposure to potential changes in laws, regulations and governmental policies can be critical. In addition to analyzing those changes in the context of both general compliance and revenues, a governmental entity itself may be a company's major customer, either directly or indirectly.
Disclosure obligations after listing

A company can face challenges in meeting ongoing disclosure obligations to keep the market appropriately informed after listing. In some jurisdictions, a reporting code or similar guidance may exist to help listed companies. These can include disclosures covering matters such as research and development, regulatory approvals, intellectual property rights, and licensing.

Assets and income mix

In some jurisdictions, by virtue of their asset and income mix, companies may be subject to additional levels of securities regulation. In other jurisdictions, these companies may be subject to additional reporting requirements after listing. These additional reporting requirements may include providing more regular reports on cash flow and expenditures, as well as reporting on commitments to implement business objectives.
Baker McKenzie contacts

The most appropriate contacts within Baker McKenzie for inquiries about prospective listings are as follows:

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Baker McKenzie helps clients overcome the challenges of competing in the global economy.

We solve complex legal problems across borders and practice areas. Our unique culture, developed over 65 years, enables our 13,000 people to understand local markets and navigate multiple jurisdictions, working together as trusted colleagues and friends to instil confidence in our clients.