



Is 2010 the year of the IPO?



In February, Marsh gathered together a high-powered panel of experts at the Lansdowne Club, in Mayfair – the heart of London’s private equity business – to discuss the future for initial public offerings (IPOs). The speakers were Christopher Crozier, Chief Risk Officer of Permira, the London Stock Exchange Group’s Nick Langford, legal expert Eavan Saunders Cole, academic and former investment banker Professor Scott Moeller and Marsh’s Roy White. The panel was moderated by James Mawson, Editor of Private Equity News.

The global financial markets have endured a tumultuous past 18 months, but 2010 may be the year of the IPO, the panel told Marsh’s IPO seminar. But the road to a public listing is a bumpy one, and while those firms well positioned for an IPO can take full advantage of the extra capital and public profile it offers, going public will not suit every company, the panellists warned.

IPO activity came to a virtual standstill between mid-2008 and the end of 2009 when investors headed for cover during the financial markets meltdown. But as confidence begins to return to the share markets more companies are thinking about going public.

A host of UK firms, as well as companies from Russia, India and Asia-Pacific, are considering listing themselves in London, either on the junior Alternative Investment Market or the main London Stock Exchange (LSE), said Nick Langford, Head of UK and International Business Development for Equity Primary Markets at the LSE. “The pipeline [of potential IPOs] at the moment is probably the best it’s been for quite some time, I think,” Langford said.

Roy White, head of Marsh’s EMEA Financial and Professional practice, which structures bespoke liability insurance covers for the management teams and boards of firms looking to list, said: “There’s no doubt we’re seeing more deals coming through... There’s no let up in the pace of IPOs around the world, particularly those arising from the Far East.”

The introduction in April of new lighter-touch rules for UK firms listing on the LSE, will enable companies to choose either a “standard” or “premium” listing and could encourage more firms to go public. The new “standard” listing, which was previously only available to overseas companies, will mean UK firms can get a listing without the need to comply with onerous rules on corporate governance, capital raising and disclosure often associated with a “premium” listing.

No longer the first option

In the boom years of the early 2000s, a stock market listing was often the first choice for private equity firms and venture capitalists looking for a swift and lucrative exit from owning a company.

But the financial markets meltdown has turned that thinking on its head. Although confidence is slowly returning to the stock markets it remains very fragile, and the continued volatility has prompted New Look, Travelport and Merlin Entertainments to postpone their plans to list in London.

The uncertainty will make executives and directors think even harder about whether a stock market listing is the best option for their company, said the panellists.

The fundamental question that needs to be asked by companies mulling an IPO is what is the purpose of a listing?

If the firm needs to be sold in order to inject fresh capital to bolster a weakened balance sheet or because its cash-strapped owners need to offload the asset, then an IPO would not be the best option, said Scott Moeller, Director of the Mergers and Acquisitions (M&A) Research Centre at Cass Business School. "It would be better for them to seek a buyer for that firm," said Moeller.

"The question is whether an IPO ever really represents an exit given the level of equity that would typically need to remain in the investment. Very few full exits can be expected through the IPO route, but it still does present a useful tool when private equity firms are considering how they refinance a particular asset," said Daniel Max, Senior Vice President in Marsh's Private Equity and M&A Practice.

An IPO should not be seen as a last-resort method for owners to sell a firm because the secondary route is compromised through the perception that another private equity firm not being able to raise the money to buy it. "An IPO has to make sense," said Eavan Saunders Cole, a Private Equity Partner at law firm Ashursts LLP. "An IPO will only ever get away if it is the right solution. It is never going to be the right exit strategy because there isn't enough debt available to get the right price in a private deal."

Have a good story to tell

For those companies with bright prospects and a big appetite to expand, a public listing may be exactly what they need. "If you have a company that has a great growth story but has been constrained for lack of capital, that starts to look like an asset that could really suit an IPO," said Saunders Cole.

But an IPO is a detailed, time-consuming and expensive process. Companies that seek a listing should expect every aspect of their business to be scrutinised by investment bankers, lawyers and other advisers. If the wording of key contracts is considered to be hazy, or aspects of their corporate governance or financial accounting viewed as weak, then a company may be told bluntly to fix those problems before considering going public.

For some companies, who either are not used to or not prepared to report their earnings or explain their business in such detail, being listed is unlikely to suit them. They are likely to find the additional scrutiny that comes with being a public company deeply uncomfortable, said the panellists. There are big benefits from the greater transparency that comes with being a listed company, however, said Langford. "It gives you a public profile and the ability to show you are conforming to best practice, particularly in corporate governance. It also offers you a very liquid currency to go out and do more M&A."

The panellists agreed that more companies are likely to investigate the potential of an IPO. For the right asset, a public listing will always be an option that ought to be considered, even if in the end they decide instead to sell to a trade buyer or an investment firm.

For managers and directors who have decided that going public is the best option for their companies, there is protection available which can offer them peace of mind during the listing process. "There is a great deal of interest in putting in place a transaction management liability insurance policy specifically for the IPO," said White.

"You can tailor the policy to the individual IPO. You can choose a period of indemnity particular to the risks associated with that issue and you can even get cover for indemnities you have given to the IPO's underwriters. It's attractive because the policy doesn't encroach on the directors' and officers' liability programme the company has had in the past or may have in the future. It is all ring-fenced in a multi-year deal, priced by underwriters who do understand specific risks in the IPO transaction."

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Marsh's Private Equity and M&A Practice has been assisting clients in their M&A activity for more than 20 years, with the collective experience of working on thousands of deals over that period. We are a global practice with over 130 dedicated professionals across the US, EMEA and Asia Pacific. The practice is responsible for managing in excess of 50 private equity portfolio purchasing programmes and our typical mandates would range from pre-acquisition due diligence through to the structuring of specific transactional risk solutions and advising on a range of management liability matters.

If you would like to discuss any of the issues raised in this synopsis, please contact your usual Marsh representative or:

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