February 1, 2016

So, you have worked very hard for the last 5 years to build a business that generates a few million dollars in annual revenues. You have a corporate advisor and broker who will raise you capital and help you with an Initial Public Offering (IPO). Happy days, right?

Well, … maybe.

Speaking as a former CEO of a publicly listed company, yes, "going public" is exciting. Also, the capital influx is very welcome. However, the transition to the public arena is an extremely challenging one. Your role as CEO will change and the myriad of new demands on your time will surprise you (and that is before you do anything in relation to growing your core business). So, if you do decide to go the IPO route, be prepared and get ready for the ride!

Here are a few examples to illustrate some of the new experiences waiting for you:

- **You will constantly need to promote your company to the investment community.** Promotion is a key, new, aspect of your role in the public environment. Promoting yourself and your company is essential because to brokers and investors you are just one of thousands of companies they can invest in – there is no shortage of other investment opportunities for them. You will need to do broker presentations, road shows, present at conferences, write articles, do radio interviews and more. All of these activities become an integral part of your role. This will require effort, preparation and planning (and consumes precious time). Some people are naturally good at promoting themselves and their company. Others, well, not so much. If you are not good at it, you must train yourself to become good at it. Not only is it important to your current shareholders, it is also crucial in order to get the company on the watch lists of brokers, fund managers and potential future investors. All these people are potential new leads (=shareholders) and you want to minimise your shareholder churn because, if existing shareholders lose interest, they sell. Shareholders who sell put downward pressure on your stock. It is that simple. You also need to constantly promote to maximise your chances of raising future expansion capital. You need to create a buzz around your stock. Tell the story and then tell it again and again. And no, you cannot just do this when you need further capital. You need to tell people about the company and its strategy, let them get comfortable with you and allow them time to digest the information. Only then, once they understand what the company seeks to achieve and they are comfortable with you as the person steering the ship are they likely to help you with your future capital needs. These promotional activities can be mind numbing and very repetitive but you must do it if you want to succeed.

- **You will need to learn how to deal with a new and independent Board (which no longer automatically rubber stamps everything you propose)**. Gone are the days when it was just you and two of your friends that made up the Board of Directors - and strategic decisions could be made quickly over a cup of coffee on Monday morning. You will now have to deal with independent directors. This can get tricky. Even though directors do look after *all* shareholders' interests; what you believe is in the best interest of shareholders may not necessarily align with what the new directors think is in the best interest of those same shareholders. Moreover, more often than not, the new directors also have the ear of a select group of investors who appointed them in the first place. This too can give rise to further conflict. Learning how to effectively deal with your Board is crucial to your success. As part of that process, you need to decide early on how much information is shared with directors (a lot of detail or the big picture only?); when to give the information? (at formal board meetings or during one-on-one informal meetings with individual directors? Or a bit of both?). Your early actions set the expectations for your future interactions with your board. A good functioning board can be a tremendous asset to a company and CEO. Conversely, from personal experience, a non-functioning board has the ability to kill even the best of companies. Understanding what drives your directors, building a good report (even with those directors you do not necessarily warm to), managing potential conflicts, and promptly dealing with people issues are all a crucial part of your job now.
- **You will need to get very familiar with the insider trading rules.** You and your staff need to know what the insider trading rules mean in practical terms. As you probably already know, "Insider trading" refers generally to buying or selling a security (i.e. your stock) in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, non-public information about the security. Insider trading violations may also include "tipping" such information, securities trading by the person "tipped," and securities trading by those who misappropriate such information. Violation of the prohibition on insider trading can result in a prison sentence and substantial civil and criminal fines for the individuals who commit the violation. Make sure you and your company do not inadvertently get caught out. In other words, no longer can you talk to your mother, neighbour or best friend about the amazing financial result you are about to post or the great new widget you have just developed which is going to revolutionise the

Internet. Your behaviour will need to change; or you or others could run into some serious problems with the law. When you operated your private business, you were keen to share and celebrate your successes with anyone that would listen…it is human nature to do so. In the public environment, if you decide to share any market sensitive information (or are forced to do so as part of your "continuous disclosure obligations"), you better make sure you do it formally, to the entire market as whole. You need to get educated on this and so does your staff. Big fines and jail sentences await those that fall foul of these obligations.

- **You will need to be aware that your publicly traded stock is not necessarily all that liquid**. Even if your stock happens to be liquid enough to trade relatively easily on market, there are restrictions imposed on you and other key personnel regarding the purchase and sale of your company's stock. Aside from escrow periods, there are the "restricted periods" during which you cannot trade stock (i.e. before reporting times). However, there is more. Even if you are in a non-restricted "free trading" period, you will still need to deal with the resulting market perception. Stock sales by directors need to be formally notified to the exchange/market. No matter the stated reasons, director sales are received with a healthy dose of scepticism by the market and can create unwanted downward pressure on your share price.
- **You will need to learn how to deal with a completely new group of very different stakeholders (and prepare to develop a thick skin in the process)**. Some people will contact you for information or a simple update; others will call just to vent their anger. Because of the insider trading rules discussed above, you need to be very careful how you communicate with people. Moreover, you need to establish who communicates with which stakeholders and be very clear on what can and cannot be said. Before your IPO, any available employee would pick up the central office phone when it rang and deal with enquiries best they could; this must now change. You need a process that the entire organisation understands. Who can speak to the media? Who can speak to shareholders? Who addresses brokers? How are broader stakeholders dealt with? Be clear on what can and, equally importantly, what cannot be said and by/to whom. All of this will be new to you and your staff. Oh, and by the way, you need to develop a thick skin while you are at it. There are numerous investor websites, chat rooms and other forums where ridiculous things will be posted about you and all the things you supposedly do wrong (one of the many "pleasures" of being the top dog). These postings are usually devoid of any basis in fact. Learn to ignore or, better yet, do not even read what is posted about you personally. Most of these are posts from people who expect you to grow the business tenfold month on month (after all, their broker told them when they bought the stock that "this could be the next Google"). If these peoples' unrealistic expectations are not met they become upset and some will react. As

CEO, you will be the obvious target for that frustration. Just learn to ignore and focus on what you need to do to get the best out of your staff and to grow the company profitably.

- **You will be faced with a myriad of new regulatory, reporting and financial compliance requirements**. The compliance regime for listed companies can be an overwhelming experience – particularly when you do not yet have the corporate infrastructure in place to deal with these new requirements. A good company secretary will work with you to help you meet the various regulatory deadlines. Although a company secretary can do a considerable amount of preparatory work for you, most of what they do will still require your considerable input and/or approval (and possibly prior Board sign off). Being late with your regulatory filing obligations is not an option – the company runs the risk of being suspended (which looks unprofessional and makes investors very nervous). Any flexibility on timelines and compliance you may have had as a privately held company is gone forever.
- **You will need to delegate work.** A lot of entrepreneurs who set up a private business still find themselves practically managing the entire business on a near micro level by the time the IPO comes around. Now that your company is listed, you will not have the time to manage all aspects of the business in minutiae (and neither should you want to). Delegate tasks where possible and focus on the big picture. Your brainpower and vision are needed to find optimum ways to employ the new capital and grow the company. You are not there to stay on top of the office use of stationary, the colour scheme for the corporate logo or the latest connectivity issues with the office WiFi. Important as these latter items may be, let others sort them out. This also highlights the importance of hiring the right calibre of lieutenants.

As you may have noted, none of the above addresses the "real" business issues you still have to deal with. You will still need to figure out how to spend the money you just raised to identify and access new markets, expand your production, create new marketing and sales plans, review resource requirements, improve profitability, implement new business strategies, etc. This alone is a daunting task – even more so when you need to do so while your organisation transitions into the public environment.

I strongly believe that anyone confronted by all this change will benefit greatly from an experienced individual providing at least some initial guidance. Of course you can opt to do it on your own while learning a number of lessons the hard way (but why reinvent the wheel?). If you do decide to do it on you own anyway, you will face a herculean task. According to the Australian Bureau of Statistics, more than 60 percent of small businesses cease operating within the first three years of starting. And, if you need proof that a public listing does not exempt a company from possibly failure, just have a look at the small cap market on the ASX (or any other listed exchange) to see how many failed companies are around (now "shells"). The ASX landscape is littered with carcasses. Without some help early on, chances are that the systemic changes you will need to deal with will seriously interfere with your ability to run your business in a focussed and effective manner. Shareholders, media, compliance, directors, regulators, auditors, and many more all will want a piece of you now. You need to deal with all of these groups in a structured manner which leaves you time to run and grow the business. Solicit some help so you do not find yourself caught like a deer in the headlights.

SUGESTION: Approach a current or ex CEO of a publicly listed company to mentor you – be it for a day, a week, a month or longer. Ask them if they are prepared to talk to you about what it means to be publicly listed in practical terms and how that is likely to impact you and how you run your business. If they are open to it, let them help you get clarity, structure and focus. Rely on their experience until you have the right systems and processes in place and you feel comfortable in your new environment.

Happy investing!

Nanne van ‘t Riet
Executive Director – Perigord Energy Pty. Ltd.
(& Authorised Representative Maiden Capital Pty. Ltd.)

Also, if you would like to read my regular posts then please click 'Follow' at the top of this article