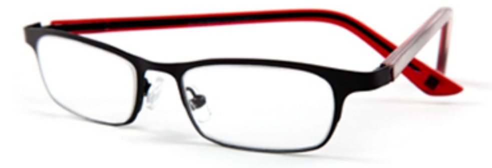
BRANDTAXI | Insights



What's Changed About How Brands Contribute to Successful IPO's?

Insights from Michelle Stearns and John Grace

The IPO pipeline is the largest it has been since pre-financial crisis levels. It is projected that there will be 191 new IPO filings in 2011 which is a 24% increase over 2010 and significantly higher than the 9-year average of 133. There are currently 250 companies in the IPO pipeline, which means that it will be much harder for companies to get the attention and ultimately the public financing they need.

Number of IPOs Filed in the US by month

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Jan	3	0	3	9	15	10	6	0	7	8
1Q	Feb	6	3	17	21	19	18	3	1	7	16
	Mar	7	1	13	7	9	17	3	0	13	8
	Apr	6	0	11	7	13	11	5	3	13	17
2Q	May	13	1	14	13	15	30	6	3	12	20
	Jun	10	2	27	23	18	18	2	7	12	9
	Jul	5	8	25	16	8	19	3	2	10	14
3Q	Aug	0	4	16	30	7	16	2	5	13	16*
	Sep	0	6	15	17	15	4	0	10	10	12*
	Oct	7	10	31	13	22	28	0	13	17	21*
4Q	Nov	9	15	15	19	27	26	1	11	20	25*
	Dec	4	18	29	17	28	17	0	8	20	25*
	Total	**70**	**68**	**216**	**192**	**196**	**214**	**31**	**63**	**154**	**191***

* Projections based on year-to-date actuals vs 2010

Source: Renaissance Capital, Greenwich, CT

To break through this clutter, management teams have to look for every advantage to gain attention. A strong corporate brand is one critical tool that can provide analysts and investors with rich insight into a company's culture, vision and strategy and separate one investment idea from another.

10 Critical Branding Principles for IPOs

Here are the critical points for a company to think about as it considers going public.

1. Because the IPO market is saturated, the brand needs to be an even more powerful beacon, telegraphing something unique and interesting to investors. A company's brand needs to stand out and create a level of excitement and enthusiasm.

The economy is on a rocky road to recovery, and with that has come a rush of companies looking to raise capital by going public. This means that there is enormous clutter in the IPO arena and more deals confronting a group of sophisticated investors with pent up demand that may be somewhat skeptical or wary after the lackluster IPO market of recent years. To this end, companies wishing to go public are going to have to work hard to differentiate themselves and stand out from the rest. While financial fundamentals and the core management team will always be key factors for investors, brand can play a significant role in strengthening a story, by defining the vision and values and creating an emotional connection with key audiences that could tip the balance in the investor decision-making process. And we're not just talking about the hot tech IPOs. Brand strength is just as important, if not more so, for a company operating in a less-than-sexy category or industry.

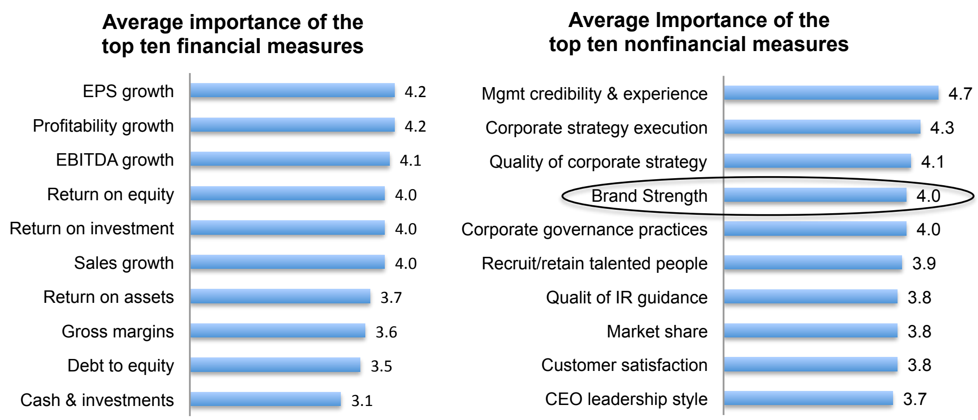
2. Develop a robust brand, not just a logo.
Smart leadership understands that brand is more than just a logo or a name. It must capture the essence and unique proposition of the company. A brand is a fully dimensional persona, a value system, offering a unique promise of differentiated benefits that are relevant to the customer. A brand promise is what drives a customer to choose one product or service over another. Customers do not choose a product or service because they like the graphic element of the logo, but rather because the brand persona and promise speaks to them in a way that creates a relationship. Like consumers, investors will not choose a company to invest in based on the logo design but rather on what the brand communicates about the company strategy, management vision and corporate culture. So companies should invest the time, effort and dollars to develop a fully-dimensional brand persona with an emotional benefit.

3. Investment banks are looking for strong brands with a story to sell through to prospective investors. Help them.
According to Jay Bennett, Managing Director at Greenwich Associates, which provides research-based strategy management services for financial professionals, the equities business is a "stories based business". Investors ask the question: "Tell me why I should invest?" They look at the business plan, the integrity of the mission and try to determine if all it holistically and organically holds together. If carefully crafted, the brand should be the adhesive that unites these elements. But the brand story must be based on a sound business model, not smoke and mirrors. The market is highly skeptical and looking for transparency. The days of investors blindly accepting promises or claims based on nothing more than hype rather than real performance have, for the most part, ended. Give the banks a strong brand to work with.

4. Strong brands often attract strong bank partners. Brands like Goldman Sachs, Citi and Morgan Stanley also bring credibility and prestige, and they want to align with brands that can succeed over time.
Beyond building your own company brand, it is the goal of most management teams to attract well-known underwriters for an IPO. Prestigious bank brands bring a level of credibility that in some instances can generate greater attention to an offering. Because it is generally believed that the more experienced banks do better homework and select better IPO candidates, investors are more likely to focus on companies these banks promote. Thus, leveraging the equity of big bank brands can be one tool to help an IPO succeed. Strong brand partners can be helpful.

5. Brand strength continues to be viewed as a leading indicator of future financial performance.
There is no doubt that investors look at the numbers, but non-financial measures are important too. According to an Ernst & Young global study, institutional investors attribute an average of 40% of their IPO investment decisions to non-financial measures, one of which is brand strength, ranked 4th in importance. In fact, 59% of investors consider brand strength and market position in their top 5 choices.

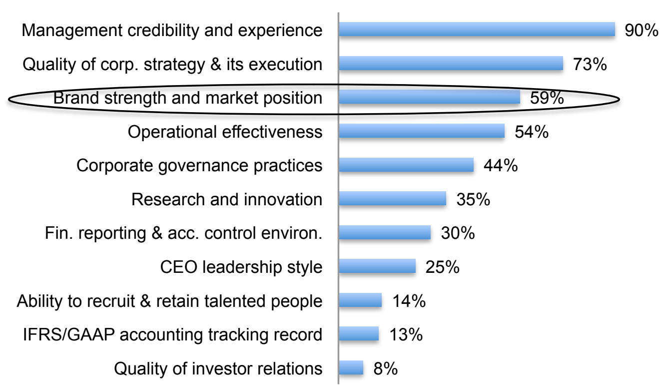
Performance Measures for Institutional Investor Decision-making



Note: Respondents were asked to rate importance on a scale of one (least important), to five (most important).

(Source: Ernst & Young – Top 10 IPO Readiness Challenges 2010)

Most important non-financial IPO success factors to investors



Note: % represents the percentage of institutional investors that had the particular factor as one of their top five choices

(Source: Ernst & Young Global Institutional Investor Survey 2009)

It is generally acknowledged that Brand Equity is a measure of the value of the brand attributable to successful branding – the premium the owner can demand vs. non-branded or lesser-branded products. Thus, building Brand Equity can drive up the value of the IPO. Intangible assets still account for as much as 80% of Fortune 500 companies overall market valuation. (*The Value of Brand Equity, The Economist April 8, 2011*). Brand continues to be widely accepted as the key driver behind this intangible value.
"To go public, you have to have a successful business model that's going to survive over the long pull. Strong brands generally have that. Normally, a strong consumer brand or a strong business brand has value under any circumstance." (An IPO for Everyone by Udayan Gupta, Inc. Magazine)

6. More than ever, a strong brand can partly overcome investor fears about lack of data.
By the very nature of a private company, there is typically not a wealth of historical data, particularly in the earlier phase of the IPO when only the Red Herring Prospectus is available. Consequently, brand is a good place to look for some signal about performance. The brand history and brand share data are often available to the public and can provide a good deal of insight into the performance of the brand over time and it's ability to withstand and react to competition and market cycles.

If a company does not have a particularly strong brand, defining and developing the brand during the IPO process can still provide investors with colorful insight into the business strategy and management's view of the business future. A clearly defined brand that is communicated consistently internally and externally can indicate a clear vision and strategy for the business. Conversely, an ill-defined brand without a core message can signal a lack of discipline and the absence of a defined business strategy.

7. Experienced investors can see through the underwriter's hype but a genuine brand can justify the fanfare and garner a higher price. Build one.
Investors want to see more than just smoke and mirrors and can be turned off by an IPO road show that is flashy but seems ingenuous. By spending time focused on crafting a strong and appropriate brand before or in the early stages of an IPO, the road show will come across as much more genuine and honest with realistic signals to the investors. In the recent Pandora public offering, investors were excited by the road show and bought in big on the day Pandora went public. But one day later, the stock price plummeted by almost 50% and investors bailed out en masse. Why? Were they caught up in the hype of the road show and then realized that they had bought into a company that could not deliver? They knew about the financials before the offering yet still bought high. What does this say about the Pandora brand? Better that they had presented the brand realistically. There is potential for investors to become wary of tech brands that can't deliver and so, more than ever before, brands that encapsulate and clearly communicate the company DNA will prevail.

8. Unlike years past, brands today first have to resonate with and be embraced by employees.
Strong brands start with understanding and reflecting the culture of a company. If brand truly captures the company DNA, there should be consistency between how the brand is communicated to the outside world and to the employees. More than ever before, employees are the cornerstone of communicating the brand through their actions and in the communities they touch. They are the first line of advocates for the brand, which is a powerful asset in a world of public skepticism about media and advertising. If employees understand the brand, they are less likely to leave and more likely to support and grow the business as it transitions to being owned by the public.

9. A strong brand can continue to build momentum for the company during the quiet period.
During the quiet period, which lasts from the time a company announces they are going public to about one month after an IPO is completed, management and employees are barred from talking about the company or its finances in any public forum or medium. However, the SEC rules state that the company can continue its normal communications activities. This is where brand can have enormous value, too. Ongoing brand communication activities, whether they be in the form of social media, newsletters to customers and vendors, internal employee events, product brochures or TV advertising, can tell a story and indirectly communicate company strategy.

The recent Groupon response to media criticism is an example of this. Groupon, who recently filed for its IPO, is losing hundreds of millions of dollars, and that has meant a torrent of criticism, exposing the company and its business model to questions. To circumvent this, they used their Groupon Cat mascot to express their dislike for the criticism in a tongue-in-cheek blog explaining the "traditional hazing rituals" the media uses "to torture companies in a quiet period", thereby skirting around the SEC quiet period rules.

The launch of a new service or product within the brand franchise can speak volumes. During its quiet period, LinkedIn announced the launch of 'LinkedIn Today', their news aggregator service. It reinforced LinkedIn's positioning as a leading professional network and provided a solution to the issue raised in their prospectus, i.e. that a substantial majority of its customers do not visit the website on a monthly basis which had created investor concern about the robustness of the LinkedIn business model. This contributed to their successful IPO. LinkedIn was listed at $45 a share for it's initial public offering, and skyrocketed by more than 80% to trade at about $86 a share, with a high of $92.99 on the first day, and no one blinked. LinkedIn is currently trading at over $100 a share.

10. A strong brand adds a rich dimension to the IPO story, beyond the financial fundamentals.
When trying to attract an investor, it's usually not enough to only talk about the financials and functional aspects of the product or service, particularly in an industry that does not have many barriers to entry. A strong brand provides the opportunity to deliver a clear message that goes beyond the functional attributes to elicit an emotional connection.

"To do a successful IPO, you need a very strong story that can be communicated quickly to potential investors. When you are on the road shows, you must differentiate yourself and have a strong plan you can execute. The pitch also has to have a certain pizzazz. A company making auto supply products or HVAC equipment probably isn't sexy enough unless there is some unique angle. You need a strong story of growth and a lot of differentiation in the marketplace. Management also gets extra points for having strong communication skills. A CEO with some punch can drive the story home." (Buyout: The Insider's Guide to Buying Your Own Company by Rick Rickersten with Robert E. Gunther)

Summary

While strong brands are a requirement in building and sustaining business today, entering the IPO world places an even greater burden on having the strongest, clearest and most powerful brand you can have to be able to stand out and attract investor attention.

The new requirement is to step back sooner rather than later and think about how to strengthen a company brand long before beginning the run for public financing. Not just a flashy road show, but building a true and enduring brand idea that will credibly set a company apart. This will allow companies to maximize their chances to secure interest and ultimately public financing.

An Ernst & Young study (*2009 Global IPO Institutional Investor Survey*) revealed that successful IPOs start acting and operating like a public company at least a year before the IPO. A big part of that is committing substantial financial and human resources to building the management team, clearly defining the business strategy and creating an investor-relations strategy to attract the right investors. Defining and building the brand must be part of this. Brand should not be an after-thought or last minute effort to enable a flashy road show. It must represent an enduring idea that galvanizes investors.

The message is clear, invest in brand early and do it well.

John K. Grace
Managing Partner

Michelle Stearns
Senior Consultant