Going Public: The Tales of an IRO

At a NIRI Los Angeles Chapter event, a lawyer and an IRO recounted their experiences in launching IPOs and key lessons learned.

BY KIMBERLY ESTERKIN

Ever since the Dutch East India Company introduced the first initial public offering (IPO) in 1602 to raise funds for future international voyages, companies have been launching IPOs.

From 1602 to 1696, the Dutch East India Company paid a regular dividend to shareholders ranging from 12-63 percent. When you look at the average dividend yield of stocks trading on the S&P 500 today of approximately 1.9 percent, an investment in the Dutch East India Company seems like a no brainer.

If only it were that easy to make money for nearly an entire century!

An IPO Conversation

The NIRI Los Angeles Chapter recently hosted an event featuring a conversation entitled, “Going Public: The Tales of an IRO.” Ellen Bancroft, one of the leading corporate attorneys in Southern California and managing partner at Morgan, Lewis
Bancroft interviewed Chris Toth, vice president, investor relations at The Trade Desk, a cloud-based technology platform that empowers buyers of advertising.

Toth hails from the world of the buy-side, having begun his career as an institutional investor covering the technology industry before leading several successful IR programs for International Rectifier, Newport Corporation, and now The Trade Desk.

A mix of investor relations professionals, lawyers, bankers, and industry experts attended to learn what makes an IPO a good investment and how companies can attract investors to their stock for the first time.

Toth joined The Trade Desk about four and a half months before the company’s IPO. By that time, the company had a confidential filing on record with the SEC. He emphasized that the sooner an IRO is brought into the IPO process, the better, for the IRO and the company.

**Testing the Water**

Toth explained the process of holding test the water (TTW) meetings before the kick-off of the formal IPO. TTW meetings provide companies a chance to try out their story in front of a live investor audience, or as Bancroft phrased it, to “see what gels before hitting the road.”

The Trade Desk management team hosted more than 75 TTW meetings and calls. As the process began, Toth recalls the investment bankers forewarning management that “advertising technology [i.e. The Trade Desk] was the most hated sector next to mining” at the time.

Consequently, Toth took the TTW experience as a unique opportunity to manage who The Trade Desk wanted to include in their shareholder base. “Alliance Bernstein was a small-cap growth company that I knew was not just in for the IPO, but the long term,” he explained. “Needham Asset Management, I knew would hold at least 200,000 shares.” Toth wanted to ensure management was meeting with investors who would not immediately flip their allocations.

**IPO Filing Process**

Following these initial meetings, if a company believes there is interest in an IPO, the next step is to file publicly. Filings must be on public record at least 15 days before a company begins its roadshow. At this point, the official IPO quiet period begins and lasts for 25 days past the initial listing.

The IPO quiet period, unlike the quarterly quiet period, is regulated by the SEC. Bancroft emphasized that while the quiet period doesn't begin until you are on record, the SEC almost always asks to see the presentation materials used during a company’s TTW meetings. It is therefore essential to have in-house and outside legal counsel review these materials before distributing anything to the public.

Bancroft characterized the subsequent roadshow as the time in the IPO process, “where you crystallize your story; where it gets official.” For Toth, the roadshow was an arduous but productive process. Mornings started with early calls to Europe. Then his team would transition to group lunches and one-on-one meetings. At the end of the day, working dinners preceded a rush to the airport to catch a flight to the next destination.

Toth played a key role in determining which investors his management team met with during the roadshow. “I was allowed to be as aggressive as possible behind the scenes,” he said.

The process succeeded. Throughout the roadshow, Toth saw real-time orders come in on iPads supplied by the company’s investment bankers. He noted that at some point during the roadshow, management tends to go on autopilot and it is difficult to remember which investors asked which questions.

Nevertheless, Toth specifically recalled his meeting with Friess Associates. He and his team had not eaten in hours, but when they arrived at Friess, there was a mouthwatering display of Chick-fil-A. They are “the Chick-fil-A folks to this day,” Chris laughed.
Managing Stock Allocation
For the more than 50 IPOs Bancroft supported during her legal career, she rarely sees a company intimately involved in the allocation process. Rather, the bankers tell management that this investor gets X shares, this investor gets Y shares and so forth.

For Toth, the allocation process was a struggle between those investors the bankers promised shares to and those investors the company wanted in their book. After it was sorted out, The Trade Desk listed on the Nasdaq on September 21, 2016 and since then the stock price was valued at nearly seven times the launch price in late 2019.

Key IPO Lessons
Having survived the IPO process, what advice did Toth have for those looking to go public in the future? He emphasized the following:
- Don’t put all of your eggs into the IPO process to get a high valuation. Show investors your stock can build value over time.
- Develop trust with your management team, as only through their support can you survive the path to going public.
- Know your company and have an opinion. “It’s why I got into IR in the first place – to be a good resource for investors.”

Bancroft closed by reminding attendees that although the champagne toast and bell ringing on listing day are quite exciting, “the IPO process just gets you to the starting line. The hard part is life as a public company.”

Investor relations officers play an integral role in shaping a public company’s story. We are as crucial to the IPO, as we are to the long-term viability of the stock.

Kimberly Esterkin is a managing director at ADDO Investor Relations. She is a member of the NIRI Los Angeles Board of Directors, sits on the planning committee for the annual NIRI National Conference and is part of the NIRI inaugural class of 40 Under 40 IR professionals.

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NIRI Los Angeles Chapter Founder Albert Melrose Passes Away
Albert J. Melrose, who was a founder of the NIRI Los Angeles chapter in 1970, passed away on August 28, 2019, in Sparks, Nevada, at the age of 93. He was the head of IR at Lockheed and other military-industrial companies in the Los Angeles area for many years.

He was instrumental in recruiting technology sector IROs to join the Los Angeles chapter in the early 1970s. Melrose subsequently moved south to Orange County in the 1990s and served as IPO for AST Research, one of the successful personal computer makers in the technology rush of that decade.

Don Allen, a partner with The Allen Group who joined NIRI and the Los Angeles chapter in 1974, said, “Al was one of my mentors, always willing to provide guidance and answer difficult questions. He also was one of the people in the chapter who urged us to work with UC Irvine to create the first university extension program in investor relations (including six excellent courses) in the country. We later took that program online and it generated great interest overseas. He was a wonderful friend and always had a smile for everyone. He will be missed.”

“We were very sorry to hear about AI’s passing,” said Anne McGuinness, co-president of NIRI Los Angeles. ”The Los Angeles chapter of NIRI became the thriving group it is today thanks to our predecessors like Al who helped shape the career path for IROs in Southern California. We thank Al for all he has done for NIRI Los Angeles and know that his memory will continue through the wonderful work our membership continues to conduct today.”