

When Should a Pre-IPO Company Start Worrying About Shareholder Engagement?

If you're a private company seeking to go public someday, you probably spend a lot of time worrying about raising the next round and keeping the ship afloat. Simply moving forward. Of course, you do keep an eye on the type of investors that you allow to buy in - but unless they're buying a big chunk, you're not too concerned about what environmental, social, and governance (ESG) issues they care about. You're dealing with portfolio managers at the institutional investors - not the people on the proxy committees who vote shares at annual shareholder meetings. But as you get closer to that fateful day of your IPO, your investor composition will start to matter in a way that didn't necessarily when you were private. The big institutions have policies about how they vote their shares – or they're influenced by the proxy advisors and their policies – and these ESG issues take on real meaning. Here are four things that you might bear in mind: 1. Long-term investors are nice to have – Of course, long-term investors are always better than the alternative. But starting out, it's important to try to attract investors where the portfolio managers have a measure of say in voting. It's not just left up the investor's proxy committee. Some well-known investors are great examples of long-term, reasonably minded investors. 2. Build relationships early – This can be hard to pull off if you don't have the right personnel on board in the private company. Someone with prior experience in shareholder engagement. There's an art to it. Real relationships matter. For example, you can use the IPO roadshow you conduct to sow the seeds for longer-term shareholder engagement. You can touch on topics that relate more towards being a public company than a private one. Obviously, engagement shouldn't be the dominant focus during the roadshow, but you can start laying the groundwork. 3. Do the right ESG things (and be prepared to talk about them) – Of course, it helps if your company has the appropriate governance, social, and climate ducks in a row as a private company. How well can you explain your key drivers around executive pay or how the board evaluates and manages risk? Can you explain how human capital is considered? And this is the biggie: can we get the accounting staff necessary in place to implement disclosure controls and procedures necessary for a public company that includes ESG matters? These are prime topics for public companies to discuss during their shareholder engagement interactions. 4. Have advisors who are "in the know" – As you get closer to being a public company, you'll need advisors steeped in the nuances of proxy advisor and institutional investor policies. These could be law firm lawyers. These might be proxy solicitors. There are other consultants who fit the bill here too.

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