The Ultimate Guide to IPOs

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Featured Presenter

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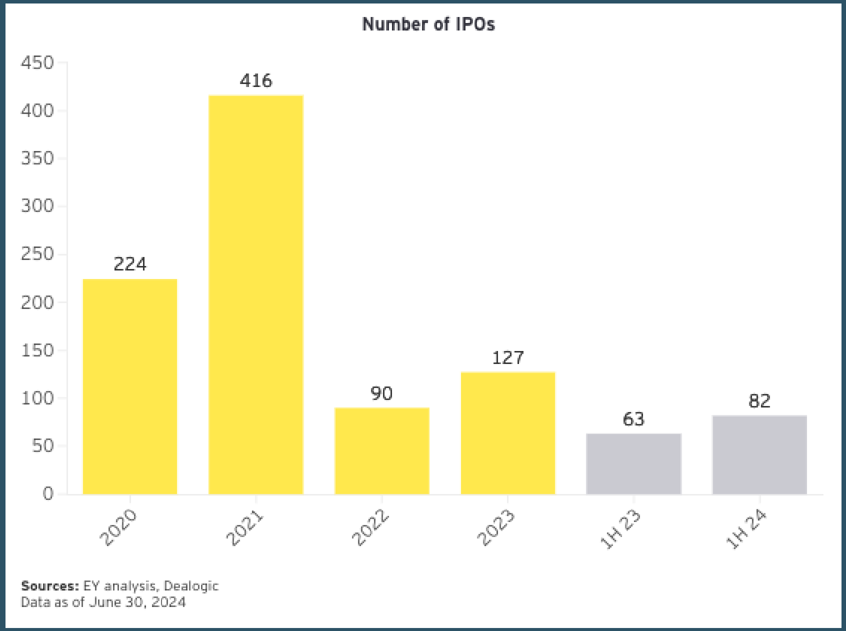
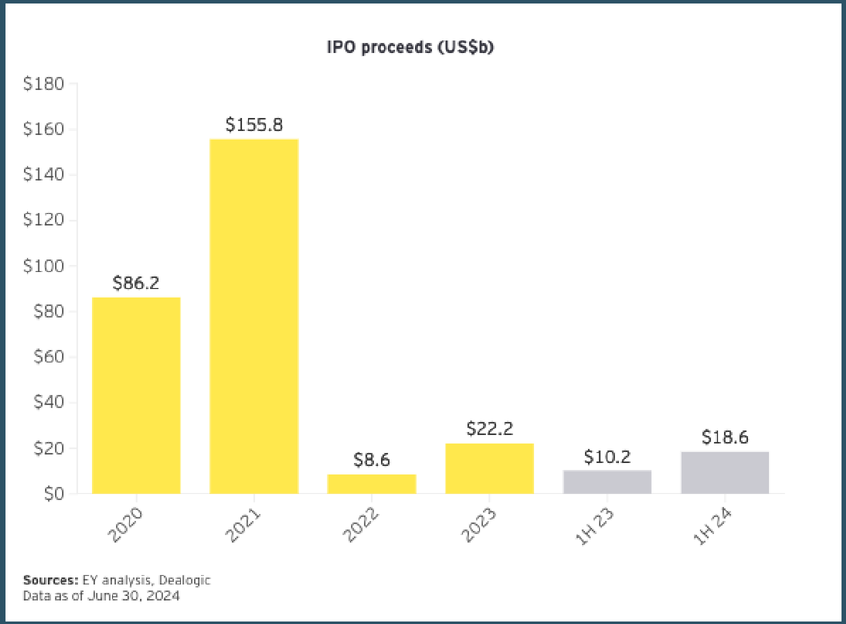
Background

2024 IPO Landscape

Moderate revival in the US IPO market

- Lower volatility and rising valuations
- Number of US IPOs increased 30% compared to 1H23
- Proceeds increased by 83% compared to 1H23
- Median net profit margin of IPO companies in the US was 3% in the first half of 2024, compared to -5% in 2023.
- 14 deals in 1H24 raised over $500M, compared to just 7 in all of 2023
- Strong performances from healthcare and technology
- Regardless of sector, investors are favoring companies with an established track record, considerable scale, and profitability.





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Poll Question #1

What are your expectations for the IPO landscape over the next 12 months?

a) Very positive
b) Somewhat positive
c) Neutral
d) Somewhat negative
e) Very negative

Seven Steps to Prepare

1. Carefully Evaluate the Decision to Go Public

What's the motivation?

CFOs must asses cost, time, and requirements of an IPO.

- IPOs are incredible expensive.
  - Costs include underwriting fee, legal counsel, accounting, printing, SEC registration, FINRA, exchange listing fees, miscellaneous fees, indirect costs, etc.
- What is the why behind the IPO?
  - What will going public provide the business that staying private can't?
  - What are the goals of the IPO and how will the company invest the proceeds?

Pros and Cons of Going Public

Pros	Cons
Access to capital	Costs
Exit opportunity for equity holders	Regulatory compliance and reporting obligations
Increased public awareness	Pressure to maintain earnings growth
Ability to attract and retain talent	Less autonomy and potential loss of control
Stock as a form of payment	Increased public scrutiny
Higher share valuation	Market volatility and share price fluctuations

10 Tough IPO Questions to Ask

Before pursuing a public offering, ask yourself—and your core team—these questions:

1. Why are we going public, and what will we do with IPO proceeds?
2. Can our company handle the cost of an IPO?
3. Is our company big enough to gain traction on the public markets?
4. How will we manage multiple stakeholders?
5. Do we have the means to implement the infrastructure a successful public company needs?
6. Is our financial future looking secure? Are we on track for strong revenue, growth rates, and profitability? Do the numbers back that up?
7. Are we comfortable with the disclosure requirements of a public company?
8. Are there any potential roadblocks to us becoming public?
9. What is our position in the market? Can we differentiate ourselves?
10. What are our other options to an IPO, and could they be a better fit?

2. Start Early

Viewing IPO preparation through a long-term lens allows sufficient time to:

- Compile 2-3 years of audited financial statements.
- Assemble the right team.
- Build a robust corporate governance, financial, and business infrastructure.
- Undergo due diligence.
- Build out the registration statement.
- Ensure compliance with SEC reporting and regulation requirements.
- Develop a strategy that will attract the right investors.

The most successful IPOs are launched by businesses that operate as if they were public companies well in advance of their actual IPO.

24 months

Average time to prepare for an IPO, according to Deloitte.

Poll Question #2

Which of the following obstacles was the most difficult for your company to overcome/do you believe would be the most difficult for your company in the IPO process?

a) Managing IPO cost
b) Building out the needed corporate governance, financial, and business infrastructure
c) Complying with SEC reporting and regulations requirements
d) Assembling the right team
e) Other

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3. Get the Right Team in Place

Having enough people with the right skills is critical.

- Common pitfall is under-resourced finance and accounting teams.
  - Need team members to prepare for IPO but also to handle the significantly increased workload after going public.
  - Having a strong controller is essential.
- Need to examine executive team and board.
  - Investors and analysts cited corporate governance (45%) and management competence (45%) as the most important things to them outside of financial performance (PwC).
  - SEC and listing exchanges require public companies to have a certain number of independent board members.
    - Audit committee with at least one member designated as the audit committee financial expert.
    - Compensation committee made up of independent board members.

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Important People Onboard?

Before going public, you must have strong internal and external expertise in these areas:

Internal Hiring Priorities

- SEC reporting
- Accounting
- Financial planning and analysis
- Legal
- Internal audit
- Investor relations and public relations
- Technology support
- Human resources
- Treasury and financial risk management
- Taxation

External Help Needed

- Investment bankers/underwriters
- Capital markets advisor
- Independent auditor
- Advisory accountant
- External legal counsel
- Underwriters' counsel
- Financial printer

4. Anticipate Regulations and Requirements

Going public requires a company to comply with strict governance standards.

- Sarbanes-Oxley Act (SOX).
  - Makes CFO and CEO directly responsible to the SEC for financial reporting and internal control structure.
  - “How do we make sure the information is real and controlled by our processes?”
  - Near real-time disclosure of material changes in financial conditions or operations.
  - SRC, EGC, FPI designations.
- Forms required by stakeholders and SEC.
  - Annual reports (10-K for domestic companies, Form 20-F for FPIs).
  - Quarterly reports (Form 10-Q).
  - Current reports to disclose any major events (Form 8-K).
  - Proxy statements.
- SEC cybersecurity disclosure requirements.
  - Enacted in December 2023.
  - Public companies are now required to disclose a cybersecurity incident in Form 8-K within four business days of determining the event to be material.

SOX is Less Onerous for These Companies

Smaller reporting company (SRC)	• Public float of less than $250M.
	• A company can also be considered an SRC if it has less than $100M in annual revenues and:
	    • No public float *or*
	    • public float of less than $700M

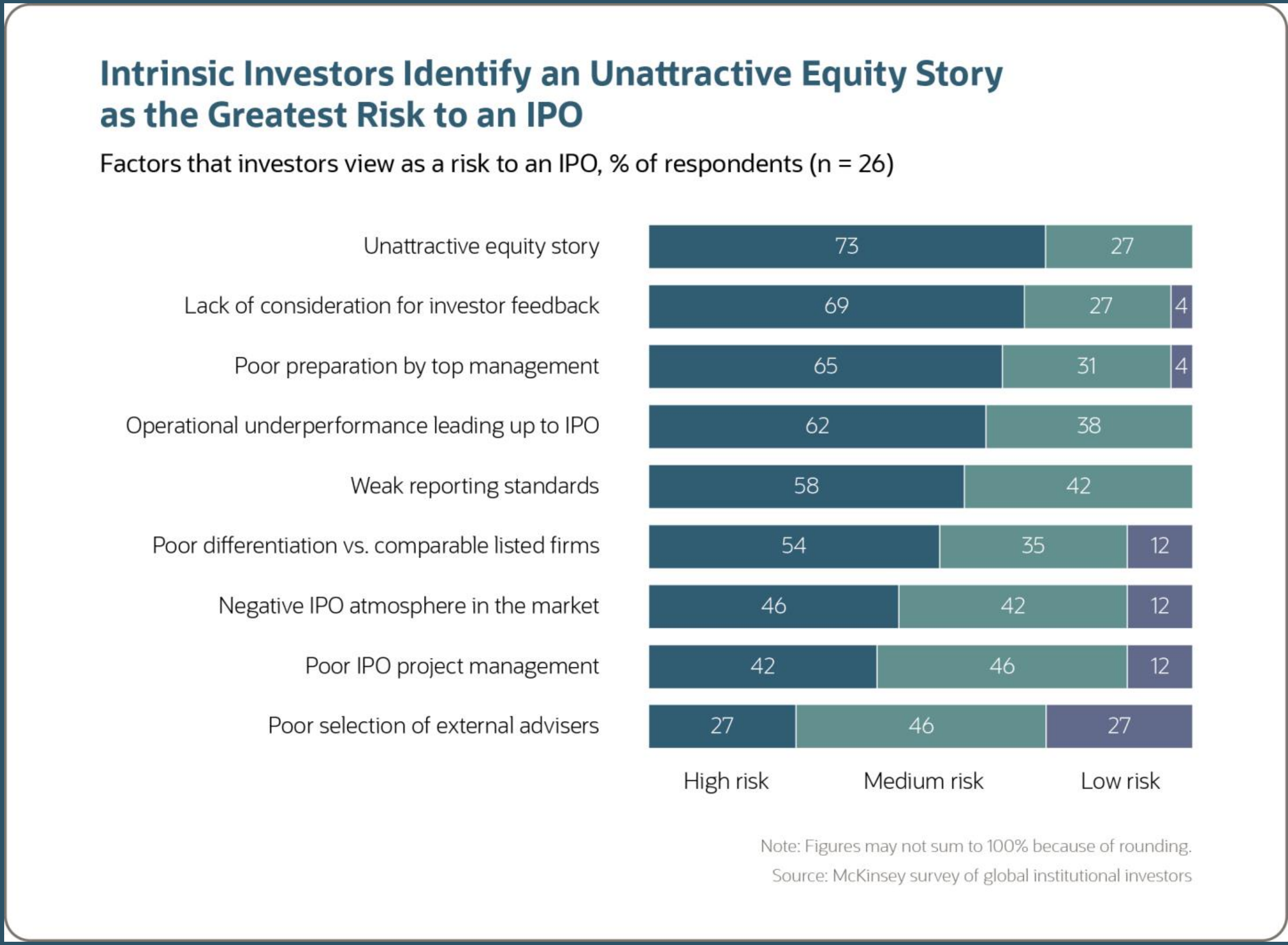
Emerging growth company (EGC)	Total annual gross revenues of less than $1.235 billion during its most recently completed fiscal year and has not sold common equity securities under a registration statement.

Foreign private issuer (FPI)	• Incorporated outside the US and more than half of its voting securities are owned by non-US residents.
	• It can also be designated as an FPI if none of the following apply:
	    • The majority of the company's executive officers or directors are US citizens or residents.
	    • More than 50% of its assets are located in the US.
	    • The company's business is administered principally in the US.

5. Build a Persuasive Equity Story

The foundation of a successful IPO.

- Survey respondents cited an unattractive equity story as the greatest risk to an IPO (McKinsey).
  - 73% ranked it as a high risk, 27% as a medium risk.
- An equity story should include:
  - A short description of the company.
  - Business model.
  - Market information.
  - Competitive advantage.
  - Growth strategy.
  - Risk factors.
  - Management team.
  - Use of proceeds.



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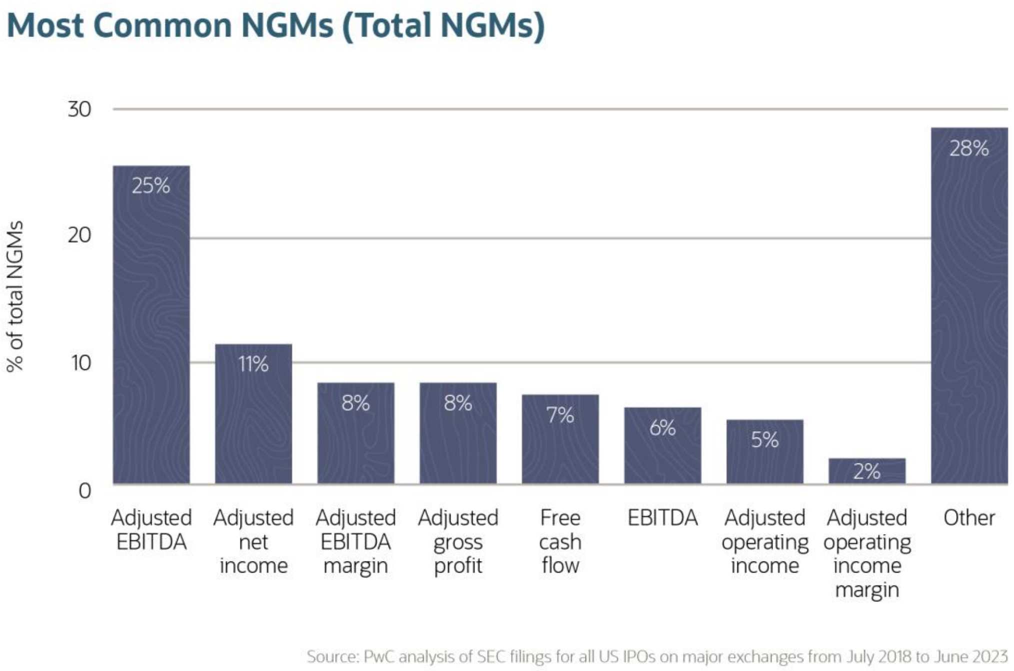
Poll Question #3

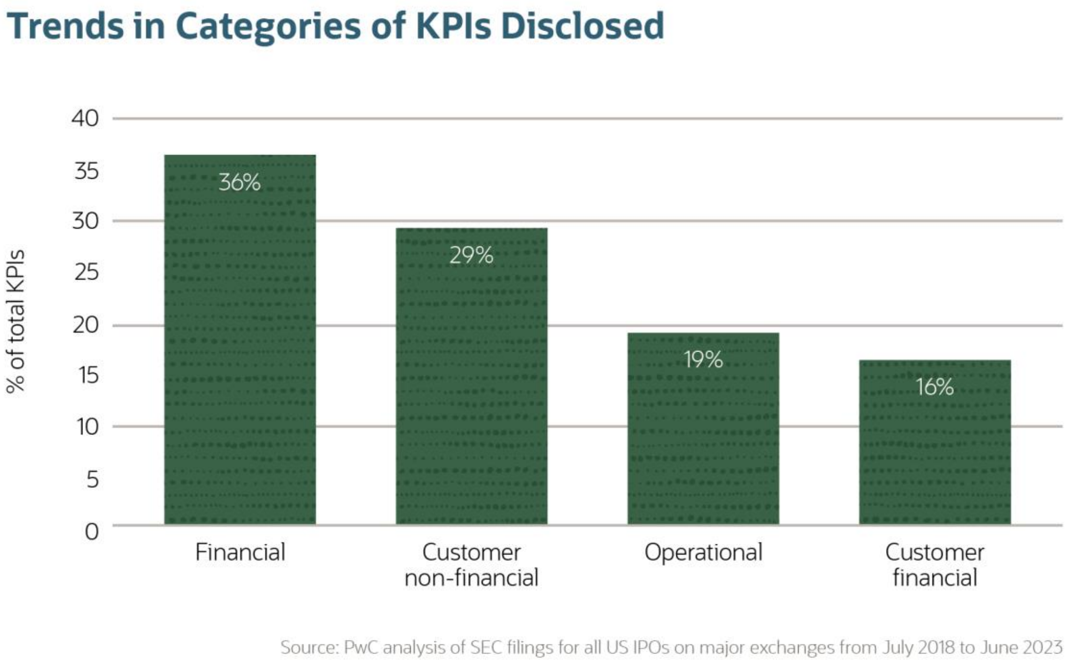
Which of the following factors would you put the most emphasis on if you were considering investing in a company?

a) Past financial performance
b) Company management
c) Business model
d) Growth strategy
e) Market potential

NGMs and KPIs

Their role in an equity story





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6. Invest in Investor Relations

During the IPO process, CFOs and CEOs become the public face of their firms.

- Tips for CFOs:
  - Target the right investors.
  - Practice your presentation.
  - Be as prepared for the Q&A as you are for the preplanned presentation.
  - Be an engaging storyteller.
  - Think like an investor.
- Companies leaders should do this. NOT an external party.

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7. Get the Right Technology Stack in Place

The successful transition of a company from private to public relies on a strong foundation of systems, processes, and technology.

- Facilitates the rapid production of accurate financial statements and disclosures, strong data governance and cybersecurity, robust internal and enterprise-level controls.
  - Finance automation to help meet expanded financial responsibilities.
  - Global consolidation capabilities.
  - Revenue recognition management for revenue scheduling, allocation, and reporting.
  - Data infrastructure.
  - Governance, risk, and compliance capabilities.
    - Should enforce document controls.
- Nearly two-thirds of all technology IPOs in the US since 2011 run on NetSuite.

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Poll Question #4

Which of the following would be the greatest concern around your company's tech infrastructure if you were to go public today?

a) Finance automation capabilities
b) Global consolidation capabilities
c) Governance, risk, and compliance capabilities
d) Revenue recognition management capabilities
e) Data infrastructure/security

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Questions and Answers

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