

Roadmap for an IPO

A guide to going public

So you're thinking about going public

As improved IPO conditions emerge with the recovering economy, the number of private companies looking to access the equity markets is growing. The desire to raise additional capital, however, is just one reason a company might contemplate an initial public offering—various other reasons may come into play as well. The important thing is that a company be clear about what those reasons are.

Why are you going public?

There's essentially no turning back after a company offers its securities for sale to the general public—i.e., makes an initial public offering. An IPO, therefore, is not something to enter into lightly. The company's key stakeholders should give considerable thought to and then agree on why the company is going public. Reasons may include

- To access capital markets to raise funds
- To acquire other publicly traded companies
- To attract and retain talented employees
- To diversify and reduce investor holdings
- To provide liquidity for shareholders

A company's owners may also have objectives other than these, including personal ones. Whether going public is the best way to achieve those objectives is something a company will want to consider carefully. For instance, a need for capital isn't always best met by going public. A company should explore all options—as well as thoroughly research what an IPO entails—before settling on a course of action.

Brave new world

Upon going public, a company's life changes in key ways. It has to deal with a broader stakeholder group than before, as well as comply with additional regulations and reporting requirements. Indeed, life at the company alters as soon as the decision to go public is made. The required preparation in the months leading up to an IPO is significant and can be quite challenging, time-consuming, and expensive—as well as distracting to the business. Insufficient preparation is not an option: A company must be ready to meet shareholder, regulatory, and market expectations from day one.

The hard work isn't over once the initial public offering is made. The tremendous effort put into going public must be matched by the effort of actually being public. Once it is listed on a stock exchange, a company will be under far greater public scrutiny than before and have a range of continuing obligations.

Thinking through these realities well before deciding to go public, and then devising a well-considered roadmap, is the key to successfully navigating a private company into, and then through, public life. Companies that follow such a roadmap will find they're much more likely to achieve the desired benefits of an IPO, which in some cases can materialize as early as the first year after going public.

A company must be ready to meet shareholder, regulatory, and market expectations from day one.

Look before you leap

While among the most rewarding transactions that an organization can undertake, IPOs can also be among the most daunting. Private companies that are considering an IPO should carefully assess their organizational and market readiness for going public, as well as determine whether leaving the private sphere is indeed the right move for them.

See yourself through the eyes of the market

Do an objective self-assessment: Chief among the things a company should do before venturing on the IPO road is to determine whether it has a sufficiently appealing track record. Generally, a company that outpaces the industry average in growth will have a better chance of attracting prospective investors. Ideally, it will demonstrate, through historical sales data and accurate forecasting, that it has a reasonably good prospect of maintaining its strong sales and earnings growth. Early-stage companies may, in lieu of pointing to an established track record, rely on emphasizing the uniqueness of their products or services.

Think carefully about timing: During the course of a self-assessment, a company should start to get a better sense of whether now is the right moment to go public. The demand for and timeliness of an initial public offering can vary dramatically, depending on a variety of market forces. Financial reporting considerations may also influence the timing. A company must therefore be attuned to these factors and prepared to alter its timetable if necessary. Missing an IPO window by as little as a few weeks can result in a postponed or withdrawn IPO or a lower market valuation.

Check whether your financial reporting and internal controls are up to speed

Assess readiness to meet stringent compliance demands: Once a company goes public, its finance department must have sufficient accounting and reporting expertise to file quarterly and annual financial statements with the Securities and Exchange Commission (SEC). The company's CEO and CFO will also have to personally evaluate and explicitly report to the public the effectiveness of the company's internal controls for financial reporting (per the Sarbanes-Oxley Act of 2002). The company's external auditor, too, will need to annually attest to the effectiveness of those internal controls.

Lax reporting isn't an option: Without adequate financial reporting, a company not only makes itself vulnerable to enforcement action by the SEC, but it also impairs its ability to accurately forecast results, as well as its ability to analyze current-period results for purposes of budgeting and subsequent financial reporting—a vicious cycle a company definitely wants to avoid. Another critical reason to have robust financial reporting is that this allows a company to communicate effectively to the investor community. The story a public company tells about itself through its financial reporting is critical to its ongoing success in the marketplace.

Gauge your company's psychological readiness for public life

Getting into character: A company must change its mindset in certain key ways upon assuming public-company status. For instance, with that status comes a loss of privacy—starting with the initial registration statement filed with the SEC and continuing with the various ongoing financial statement disclosures a public company must make about many facets of its business, operations, finances, and executive compensation. These details might never before have been known outside the company. Before going public, therefore, a company's owners will want to mentally prepare themselves for this scrutiny so that they are up for playing the part of a public actor once the IPO takes place.

Withstanding the heat: A public company must also face the constant pressure of meeting short-term performance goals. Shareholders expect steady growth in areas such as sales, profits, market share, and product innovation. The inability to meet analysts' short-term earnings expectations can dramatically hurt the long-term valuation of a company. Management must therefore perpetually try to balance short-term demands for growth with the goal of long-term health for the company.

Relinquishing control: Having publicly traded shares requires a company's owners to forfeit a portion of the returns associated with the company's growth. It also reduces the company's ability to control its ownership—e.g., exposes it to hostile takeovers. A company must decide whether it's ready to accept this new reality.

These and other considerations (including expenses—legal, accounting, actuarial) should be taken into account when a company weighs the pros and cons of going public. That said, it might not be until several years after an IPO that a company knows for sure whether the benefits outweigh the costs.

Once it goes public, a company will have to disclose details that might never before have been known outside its walls.

What going public means for your business

The evolution of your company

There are three phases of an IPO: Readiness, the IPO process itself, and life after the IPO. While each phase has its own set of activities and concerns, the second and third phases overlap a good deal. That's because the completion of an IPO isn't so much the end of a process as it is the beginning of the company's new life.

Readiness—thinking and acting like a public company

While the planning process for an IPO can start the day a company is incorporated or as late as three months before a public offering, we recommend that an orderly plan be executed over a period of one to two years. This window gives a private company time to practice thinking and acting like a public company. During this period, a company should take the following steps:

Build an effective management team: The investment community wants to be sure a company is not being run single-handedly. The management team needs to be cohesive and share a long-term vision for the company, to obtain maximum financial return and valuation.

Appoint independent members to the board of directors and create an audit committee: All of the major stock exchanges and markets require that a registrant have a majority of independent directors. A public company's board must also have an audit committee, which plays a key role in ensuring the integrity and transparency of a company's financial reporting. Investors now expect such reporting to undergo objective, board-level review.

Evaluate corporate governance principles and practices: Both the NYSE and NASDAQ require that corporate governance standards be met, and NYSE companies must also have an internal audit function. Institutional and other investors will want to see sound corporate governance in place.

Take stock of processes and infrastructure: Any weakness in systems or failure to comply with regulatory requirements could bring the company public embarrassment, reputational damage, and fines.

Have your financial statements audited and resolve potential issues: Life as a public company means getting comfortable with the rhythm of quarterly and annual reporting. Part of this entails being able to describe, in both the registration statement and all future financial statements, the effect that underlying factors have had on the company's performance. Failure to do this will shake investor confidence and might even result in delisting.

IPO process / Life after the IPO

Preparing for life as a public company should happen in parallel with the IPO process. Although there are activities that occur only in the run-up to an IPO, such as choosing a stock market and an underwriter, most of the IPO-preparation activities will carry over into the company's post-IPO life. Perhaps the biggest difference between these two phases is that during the IPO process, the unavoidable flurry of preparatory activity poses a considerable distraction to the business (when much attention is given to the initial filing of documents, due diligence, and marketing efforts). Once that subsides, however, certain other IPO activities will simply become par for the course in the company's life as a public entity:

Develop budgets, forecasts, and performance measures:

Proper budgeting, forecasting, and performance measurement, along with a public company's ability to meet its (and the Street's) earnings estimates, can significantly impact the company's stock performance. The market allows very little margin of error in this area.

Maintain investor enthusiasm: Public perception of a company has a direct effect on the value of the stock. Do not underestimate this. If investor enthusiasm wanes, trading will decline. If a company's shares are thinly traded, the benefits sought from the IPO will not be realized. Thus a public company should have a solid investor relations team that communicates regularly with investors, analysts, and the media to maintain a positive image and to ensure that the company's story is being told accurately.

Comply with Sarbanes-Oxley requirements: The moment a company files its financial statements with the SEC, it must comply with certain provisions of the Sarbanes-Oxley Act—including the requirement that a company's internal controls be audited. That requirement normally starts with the company's second annual report following the IPO, depending on the company's overall market capitalization. Compliance can be both time-consuming and resource-intensive.

This is just a snapshot of the evolution a company experiences as a result of going public. For an in-depth look at life before, during, and after an IPO, please read or download our publication *Roadmap for an IPO—A Guide for Going Public* at pwc.com/pcs.

The completion of an IPO isn't so much the end of a process as it is the beginning of the company's new life.

Private Company Services (PCS)

Rich Stovsky

US PCS Leader

p: (216) 875-3111

e: richard.p.stovsky@us.pwc.com

Tim Botts

PCS Assurance Quality Leader

p: (614) 225-8810

e: timothy.j.botts@us.pwc.com

Fentress Seagroves

Transaction Services Principal

p: (678) 419-4189

e: fentress.seagroves@us.pwc.com

PricewaterhouseCoopers' Private Company Services (PCS) practice advises more than 60 percent of leading private companies in the United States. We focus on understanding the strategy and business objectives of private companies and their owners, working with them to add value while reducing risk.

Our professionals are provided with cross-training to enable them to connect the dots across a number of private company issues, such as compliance, controls, access to cash flow, expansion, exit strategies, succession planning, and wealth management. With this knowledge, we advise companies on how such factors can build or diminish long-term success and value.

Preparing private companies for public life, and supporting them in various aspects of that life after an initial public offering, are among the services we offer. An initial public offering requires significant planning if it is to be executed successfully. The SEC is stringent in its regulatory and disclosure requirements. Meanwhile, there are investors striving to meet market demands during the IPO process, while a sea of investment bankers, attorneys, and other parties clamor for management's attention.

The resources that are needed to navigate these and other aspects of an IPO can be hard to come by in-house. With proven results in helping clients as they plan public offerings and SEC registrations, PwC offers much-needed expertise and an external perspective at a critical juncture. The PwC approach enables clients to benefit from a business-advisory role, while receiving the additional technical consulting knowledge required to conduct a successful stock offering.

pwc.com/pcs