The Importance of IPO Readiness

AN ESSENTIAL FRAMEWORK FOR SUCCESS

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The US IPO market is positioned to stabilize in 2025 after regaining its footing the prior year with marquee deals including: Viking, Lineage, and StandardAero. Bolstered by advantageous fiscal policies, financial institutions are forecasting a stronger IPO market. Whether your company is planning a 2025 listing or one in the coming years, preparing now is vital to future success.

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2024 experienced a revitalization of the IPO market with returns consistently outperforming or finding parity with benchmark indexes across most major markets. Throughout 2024, the IPO class increased over 20% from issuance to year-end, with larger IPOs experiencing an aftermarket performance nearing 30%.

But it’s a new year — 2025 started off with a steady stream of deals — 14 offerings in the $50M+ range that raised $6.4 billion, including SailPoint and Karman Space & Defense. Several companies also have publicly filed their S-1, including VC-backed Aurion Biotech and Odyssey Therapeutics.

While conditions seem favorable, market uncertainty lingers, stemming primarily from a new federal administration and its prospective fiscal policies, as well as emerging and continued geopolitical strife around the globe.

Source: IPO market in 2025 | EY - US.

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Companies preparing to IPO need to adopt more flexible financial strategies in conjunction with rigorous risk management tools to navigate the ever dynamic, yet optimistic, 2025 market.

IPOs are complex, time-consuming endeavors with extensive due diligence, as well as document and regulatory reviews — but a successful launch can help to market your company and raise much-needed capital for both organic and inorganic growth.

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“The next wave of IPOs will be led by the companies that do the hard work of preparation today. These companies are readying themselves for amplified scrutiny and accountability and are working to make corrections big and small while building financial muscle. Markets are cyclical, and we’re starting to see the signs of an upward trajectory.”

Craig Clay | President of Global Capital Markets
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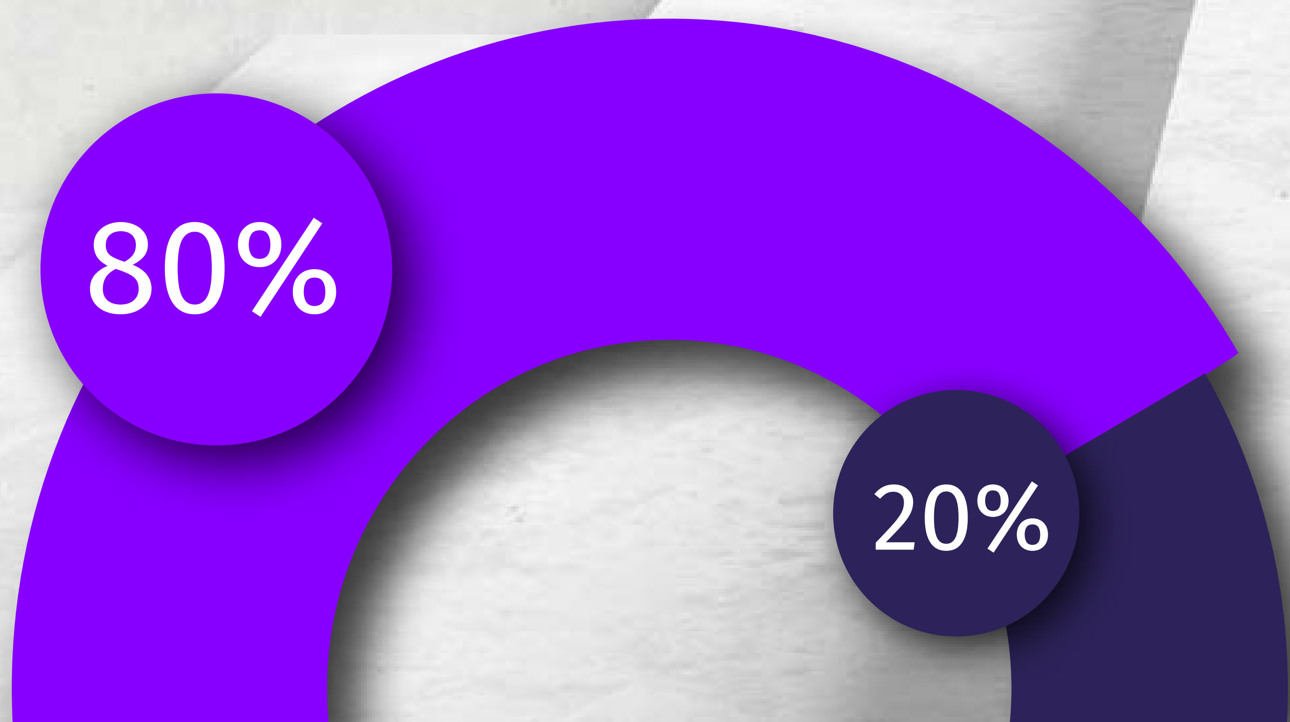
So, how does a company planning for an IPO get ready? Jim Neesen, Managing Partner of Connor Group, a frequent DFIN partner, says that there are so many tasks that must be performed in advance of a public offering that managers need an organizing principle to avoid being overwhelmed.

"The most important thing is to identify the 20% of the tasks that have 80% of the desired impact."

Jim Neesen | Managing Partner
Connor Group



Start with the following steps

DETERMINE YOUR **ROUTE** TO THE PUBLIC MARKETS

There's more than one.

Many companies choose a **traditional IPO**, retaining an investment bank to underwrite shares, which are then offered to the public.

There's also **Direct Listing (DL)**, in which a company sells shares one-on-one to the public without an intermediary. DLs have less overhead cost and regulations than IPOs.

The third route to a public offering is a **SPAC/De-SPAC**, which uses a shell company. Here, a private company or sometimes a public company or carve-out will merge with a publicly listed special purpose acquisition company (SPAC) and, through the De-SPAC process, the target company will become the listed entity and the SPAC dissolves.

Finally, there's the **Reverse Merger Transaction (RMT)**, where a private company acquires a publicly listed company.

The owners of the private company become the controlling shareholders of the public company, and after the acquisition is complete, they reorganize the public company's assets and operations to absorb the formerly private company. There is no new capital raised during a reverse merger.

INVEST IN A **SECURE** PLATFORM FOR EXTERNAL DATA SHARING.

Whichever route you choose, there will likely be hundreds of individuals involved in your IPO/public debut. A virtual data room (VDR) that allows you to securely store and share documents across your team, advisors, and other third parties will help you fundraise, prepare to go public, or sell your company. Consolidating all supporting documentation in a VDR enables a company to stay current and organized throughout the process. It also demonstrates:

Credibility

With sophisticated investors.

Deal readiness

Companies often run a dual-track sale process (e.g., an IPO and sale simultaneously). A VDR such as DFIN's Venue Data Room allows parties to access centrally stored sensitive company information for both processes in an efficient and timely manner, all while maintaining the highest level of security.

Security consciousness

VDRs help a company avoid the reputational and financial damage of a data breach.

Data rooms are much more secure than the free file sharing sites that are prohibited in the offices of many established banks and other sophisticated investors.

Venue Data Room provides even more utility. For example, it automates the bulk redaction of market, confidential, sensitive, and personal information in uploaded documents without overwriting original files. Venue features SOC2 Type II auditing and reporting, HITRUST auditing and reporting, ISO/IEC 27001:2013 certification, and other data and user security safeguards.

CREATE A **ROADMAP**

Identify the challenges that must be addressed before the company goes public. Establish your policies, procedures, internal controls, and Financial Planning & Analysis capabilities that are essential to good executive decision-making.

That includes coordinating all subprocesses and interoperability between systems while keeping cross-functional teams in the loop.

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Also, it's not too early to establish your corporate structural defenses. Many of the most popular defenses, such as a dual-class common stock structure or a staggered Board, require shareholder approval, so the best time to institute these measures is prior to going public.

KNOW THY **INVESTOR**

Investors have shifted focus from growth to sustained profitability and competitive differentiation. They are exercising increased levels of due diligence, so engaging with them is key.

A great way to do this is by going out to meet them as well as by inviting them in to get to know the management team.

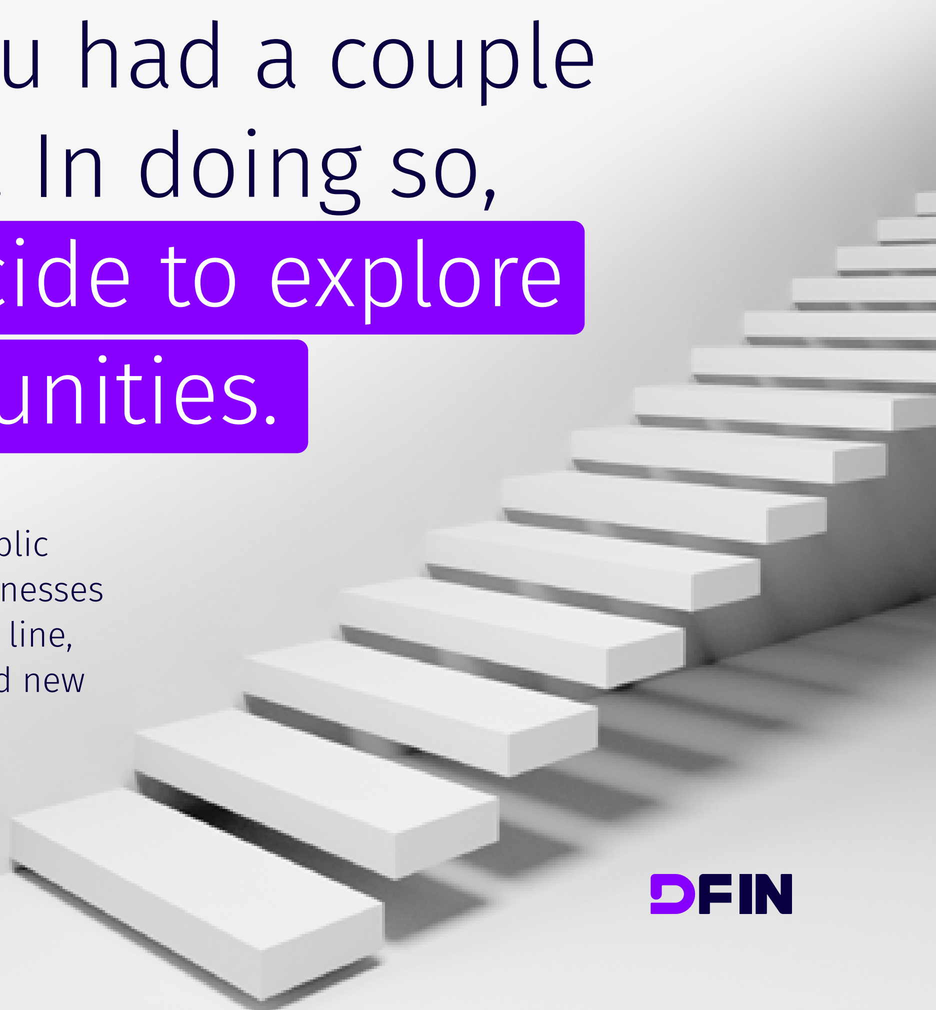
Make sure your presentations are crisp, compelling — and credible. Investors notice sloppy presentations and inflated claims.

ADD **BUSINESS VALUE**

The cost structure is increasingly important, so make all necessary improvements, from achieving appropriate headcount levels to reductions in real estate footprint. Establish flexible pricing models and optimized contract terms.

Be realistic — understand that if your EBITDA multiples have come down, you're going to have to increase your revenue to match the valuation you had a couple of years ago. In doing so, **you may decide to explore M&A opportunities.**

Often, companies planning a public offering will look to acquire businesses to either build their revenue top line, improve their profitability, or add new products and services.



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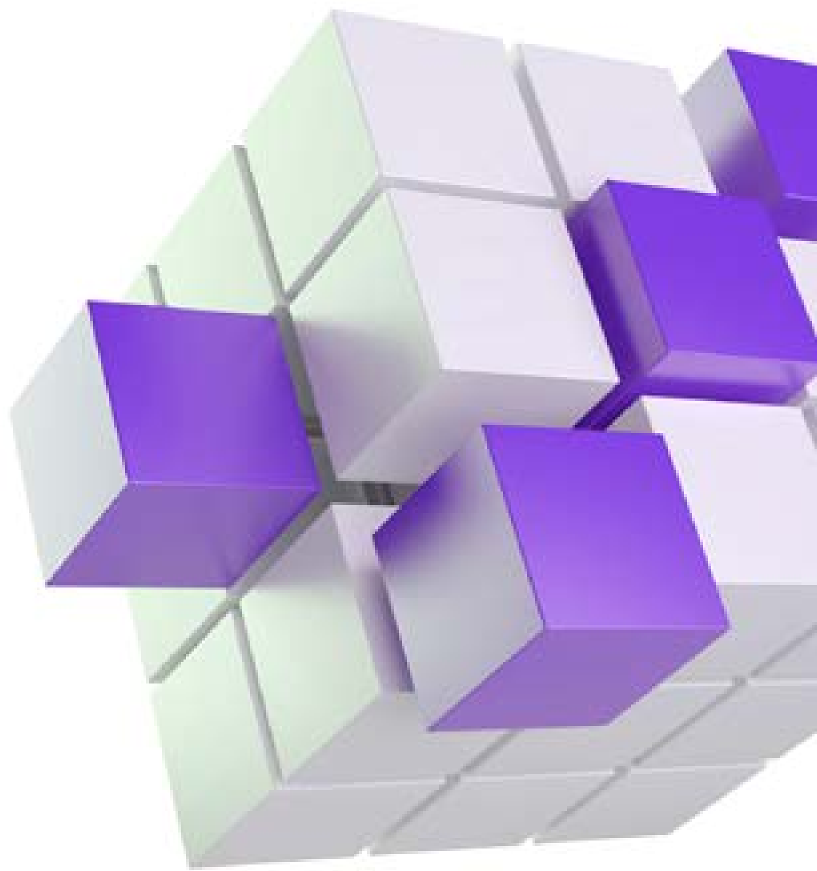
GET YOUR TEAM **IN ORDER**

With time on your side, you should carefully assemble an experienced team that will help guide you through this exciting but arduous process.

How do you build a team?
Network with your peers. Ask around. Bankers will be eager for your business, so you can afford to choose those who will add maximum value. They should be setting up investor meetings and inviting you to conferences. And don't forget, you might want to assemble a team of bankers with complementary strengths — one can be tops in banking, another in research, and so on.

An IPO is not a solo activity, it's a team sport. The more savvy players you have on your side, the better off you'll be.



GET **AUDIT READY & LEVEL UP** YOUR FINANCIAL REPORTING GAME

With the level of auditor scrutiny so high, getting the company's historical accounting in order is essential. Make sure you have the right people and technology in place and give them enough lead time to do their work. In preparing for the rigors of an IPO, an auditor may have to re-audit parts of prior years and update procedures to meet the higher standards expected of a public company. They will likely have to update SOX controls and document all key controls. It's an arduous process — don't rush it.

It's all about learning how to act and operate like a public company; and a big part of that is preparing for an exponential increase in public scrutiny and the financial disclosure required by the Securities and Exchange Commission (SEC).

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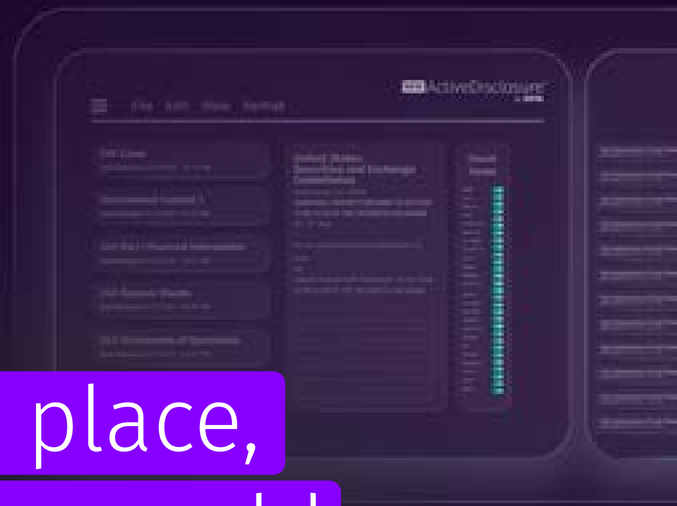

FOR COMPANIES ON THE PATH TO PUBLIC

If we hadn't had ActiveDisclosure in place, I'm not sure how we would have survived at all.

We had a 3Q 10-Q requirement very soon after IPO, and without ActiveDisclosure, we would have had to work either through our attorneys, or with a paper proofing process that would have been extremely inefficient.

J.D. Kern | Former VP & Controller
PMV Pharmaceuticals

Preparing for the operational rigor of public life includes transitioning from annual to quarterly reporting well before going public.

Companies need 8 to 12 months of comparative quarterly financial statements, so it's best to start the quarterization process as soon as possible.

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There are other important reasons for developing financial reporting proficiency. For example, pre-IPO, accurate, timely financial statements are critical for raising capital.

A financial reporting solution, such as DFIN's ActiveDisclosure, automates the creation of privately held financial statements for shareholders and external stakeholders and connects to Excel source data. This streamlines the process, saving time and resources.

In addition, once your company is public, ActiveDisclosure can help you create and automate your '34 Exchange Act reports, including filings and financial statements in native Excel that require XBRL tagging.

LUCK FAVORS
THE PREPARED

“Due to financial reporting efficiencies and advanced prep work, we were able to pass the PCAOB audit with flying colors!”

J.D. Kern | Former VP & Controller
PMV Pharmaceuticals

LAY OUT AN **ERP ROADMAP**

An enterprise-grade cloud-based ERP system creates discipline in a company — and companies planning to go public need discipline. For a startup, it might never seem the right time to implement ERP. But don't worry, you can phase it in over time, adding historical information as you go.

Internal controls are important — especially for companies with hundreds of millions or billions of dollars in revenue. You need to be sure that there aren't any issues with possible fraud or misstatements.

Jim Neesen | Managing Partner
Connor Group

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Which system to choose? Think like an accountant — select one that works for accounting as well as Financial Planning & Analysis (FP&A).

Advances in technology enable FP&A systems to provide insights about everything from P&L to profit margins to budgeting. FP&A financial modeling capabilities empower business leaders to plan for different best- and worst-case scenarios.

In the ERP space, NetSuite is the software of choice for many companies pursuing IPOs. A pre-IPO company can typically do an implementation in 100 days. It will be invaluable in helping the company to start acting like a public enterprise.

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DFIN has a long-standing partnership with NetSuite, even being named the Oracle NetSuite **SuiteCloud Breakthrough Partner of the Year** at SuiteWorld 2022.

The ActiveDisclosure SuiteApp by DFIN helps NetSuite customers simplify regulatory reporting.

BUILD THE **NARRATIVE**

Answer the following questions:

Why will anyone want to invest in the company?

What is your competitive differentiation, your moat?

What does the company's previous growth look like?

What does the future hold?

These are some of the questions that will be top of mind for investors.
You need to have compelling, well-reasoned answers at the ready.

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PREPARE TO CLOSE

The best way to learn to be a public company is to practice SEC reporting.
Connor Group defines a public company close as the following:

1. All sub-ledger or sub-system entries are posted, closed, and reconciled.

2. All journals and month-end entries are posted.

3. All key balance sheets and key P&L accounts are analyzed and reconciled.

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4 Financial analysis is completed.

5 Management reviews are performed.

6 Financial reporting package is completed.

7 All of the above is completed within 10 days or less, with zero audit or post close adjustments.

Each of these steps is time-consuming and prone to errors caused by weaknesses in upstream processes, poor or limited information received from supporting systems, insufficient people or capabilities to perform close tasks, and reliance on manual processes and Excel spreadsheets.

As you might infer from all the above steps, taking a company public is a demanding journey. For that reason, **the current pause in IPO activity represents a gift — the gift of time.**

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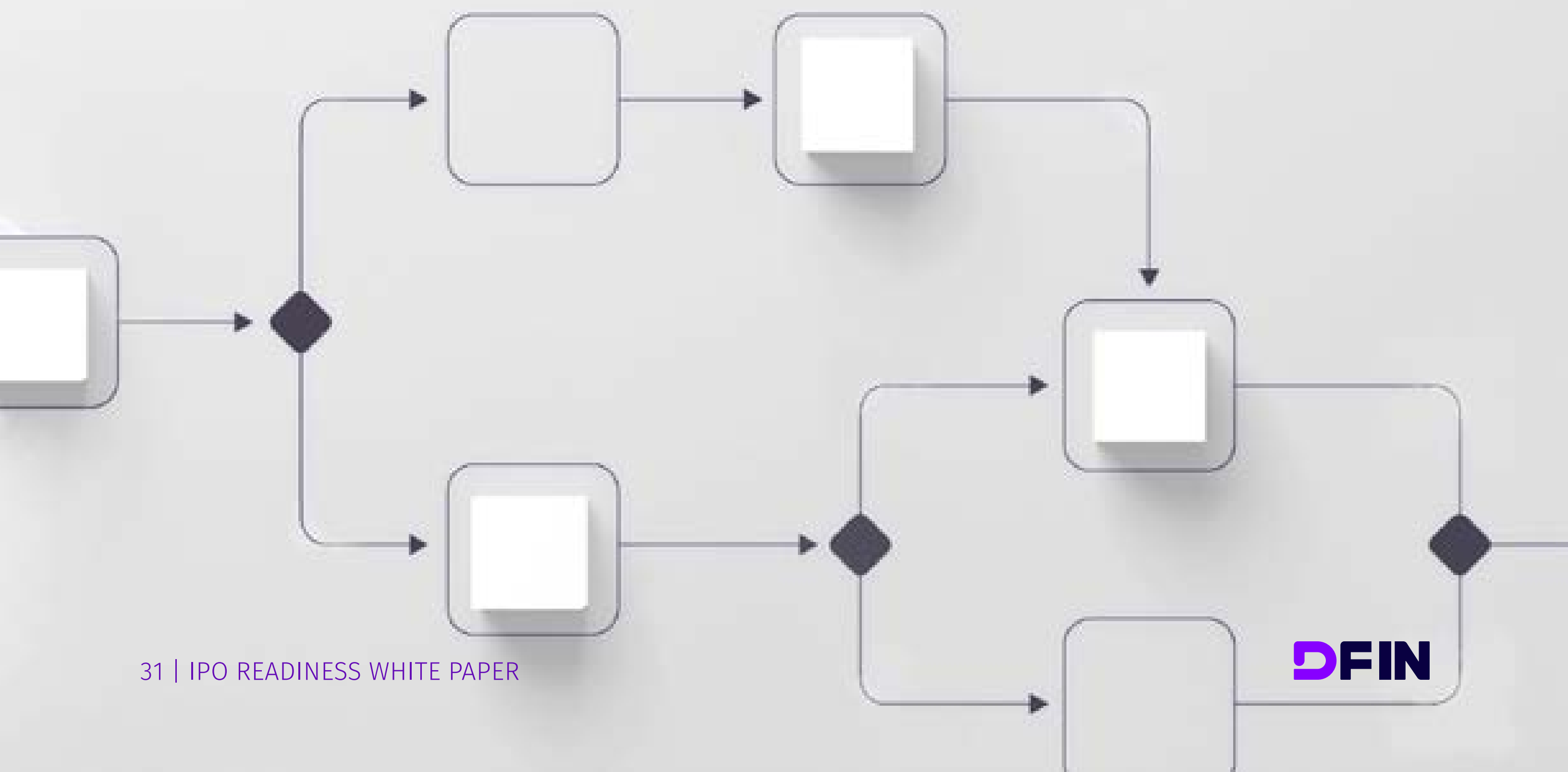
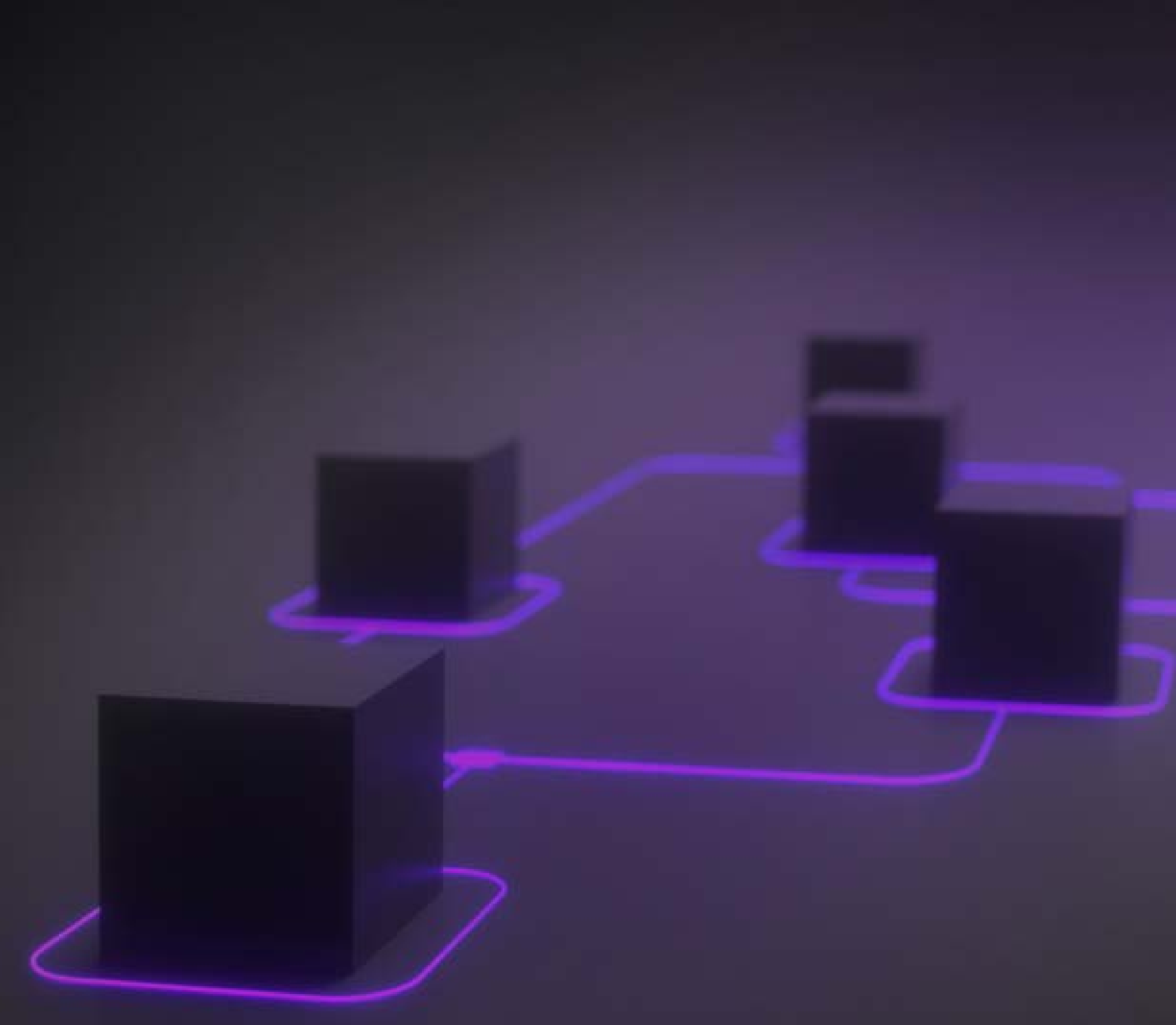
Leaders should make the most of this time while waiting for the market to open. **You should view the current market environment as an opportunity:**

To take stock, to get your businesses in fighting shape, and to build the infrastructure that a public company needs.

Then, when the market returns, you will be ready to make a winning debut.





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