If you’ve already moved mountains, is your climb over?

EY’s guide to going public prepares companies for the demanding passage from private entity to US public enterprise.

The better the question. The better the answer. The better the world works.
It’s time for your company to ascend the next peak.

IPOs are more complicated than they’ve ever been. Today’s transactions are frequently about more than raising capital. They can also be about increasing liquidity, enhancing reputation, attracting talent and driving growth. Having guided more US companies through the IPO process than any other accounting and advisory services organization, we can help your company manage all aspects of the IPO journey as you prepare to climb to the peak of becoming a public entity.
Your company is on the rise, but you’ve taken it as far as you can go as a private entity. To reach your full potential, you know that an IPO is your next step. But is your business prepared to operate effectively as a public entity?

There is a lot to consider: your company’s business performance and growth trajectory, investor receptivity, your industry and public company comparables, and the broader IPO market trends and conditions.

EY’s guide to going public is a product of our experience helping thousands of companies prepare for a public offering. It will help you evaluate the pros and cons of an IPO; understand the basic rules, processes and risks; appreciate the planning requirements; consider the alternatives; and prepare for life in the public eye. Throughout, we seek to answer some of the questions many of our IPO clients have asked along their treks, including:

- How do I construct an IPO plan with the right team, processes and infrastructure?
- How do I run an IPO process in parallel with the demands of our regular business operations?
- How and when do I approach the broader investment community?
- How do I plan for success post-transaction?

Our experienced executives and advisors, all of whom have played critical roles in the IPO process, are delighted to guide you on your IPO journey. We wish you every possible success.
An IPO is a transformational undertaking

Companies that have completed a successful IPO know that the preparation process is truly a metamorphosis – a series of planned, pervasive changes undertaken to achieve long-term objectives. In readiness your organization for one of the most significant transactions it will ever undertake, we recommend benchmarking your progress with respect to the following criteria:

1. Prepare for the IPO journey

Preparation is critical. Successful IPO candidates often spend more than two years building business processes and infrastructure, recruiting executive and advisory talent, getting in front of financial and reporting issues, and mustering the essential board of directors' commitment to go public.

<table>
<thead>
<tr>
<th>How prepared are you?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not ready</td>
</tr>
</tbody>
</table>

- Have you developed a formal, comprehensive readiness plan and timeline?  
  
- Have you considered the transformation required and the implications of public company transparency?  
  
- Have you prepared for all phases of the journey: planning, readiness, execution and realization?  
  
- Is your organization able to dual track its business responsibilities with the IPO project?  
  
- Are your key stakeholders on the same page with respect to the IPO preparation process?  

2. Assemble an enterprising team

Your top managers must have the experience and skills to undertake the IPO transaction, operate as a public company and potentially manage a much larger business as you grow. Likewise, your external advisors should be highly skilled professionals with extensive IPO credentials and industry experience. They are your voices of experience.

<table>
<thead>
<tr>
<th>How prepared are you?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not ready</td>
</tr>
</tbody>
</table>

- Does your management team have public company experience?  
  
- Is your compensation structure competitive across your target talent demographic?  
  
- Is your team able to scale to meet the company's growth projections?  
  
- Have you selected a comprehensive and complementing set of experienced IPO advisors?  
  
- Is your broader IPO team working in close collaboration, frequently communicating and coordinating its activities?
3. Strengthen your processes and infrastructure

IPO readiness requires robust enterprise-wide infrastructure, often comprising new people, processes, policies and technology. Investments in these areas will enable the business to scale and grow quickly, while also facilitating regulatory compliance, protecting against risk exposure, and providing the ability to meet or beat expectations.

- Have you established the needed/desired transparency within your organization?  

- Have you assessed the ability of your finance, accounting, tax, operational and IT processes, systems and controls to support your transformation into a public company?  

- Have you prepared a long-term plan for ongoing monitoring and reporting compliance with rules, regulations and risks?

4. Strategically assemble/augment board of directors

Take time to build a public company board with an appropriate mix of corporate strategists, experienced business and financial executives, and, when appropriate, compensation, compliance and governance specialists. The right board members can be selling points for the IPO; as such, timing of the board recruitment process is critical to consider. Adopt leading-practice corporate governance principles, policies and procedures that create a culture of accountability and protect shareholder interests.

- Have you evaluated the eligibility and qualifications of your current board members to serve on the board of a publicly traded company?  

- Have you evaluated exchange and regulatory independence and other requirements for board membership in your circumstances?  

- Have you established the appropriate board support and corporate governance policies and procedures?

5. Prioritize readiness over timing

Many say that timing the market is the key to success for an IPO. We believe that market access is driven by investor confidence in the ability of your company’s management team to execute on your business plan and consistently deliver strong investor returns. Rather than trying to time the market, focus instead on preparation and readiness and taking the time you need to enter the IPO arena when your company is truly ready.

- Is your timeline flexible enough to adapt to shifting circumstances and allow you to go public when you’re ready?  

- Do you have an interim funding strategy to execute in the event of a delayed IPO?  

- Have you evaluated potential alternative transactions if market access becomes challenging?
6. Get the right message out into the market

Courting a new pipeline of public investors and maintaining aftermarket support are challenging and time-consuming processes that private companies often underestimate. Whether you recruit an experienced investor relations officer (IRO), engage the services of a seasoned consultant, or both, communicating with your shareholders and the public, and managing regulatory and legal risk are critical issues to consider and address pre-IPO.

- Are you familiar with the publicity and communications rules of the road that apply before, during and after the IPO registration process?

- Do you have a skilled investor relations officer (internal or external) to help build your strategy and guide your communications?

- Have you prepared an internal and external corporate communications strategy and plan?

- Do you know the do’s and don’ts of providing financial guidance, and are your projections supported by a robust financial planning and analysis function?

7. Target analysts and investors that can be long-term partners

Partnering with Wall Street is a complex process that should be carefully addressed over time. Companies should consider a variety of disclosure and financial factors before entering these conversations and thoroughly prepare for both investor and analyst discussions as if they are speaking directly to the market.

- Do you have a plan to cultivate relationships with investors and sell-side analysts who relate well to your team and understand your business?

- Are the research analysts clear (and consistent) on your story and value proposition?

- Have you considered a process for interviewing and/or selecting underwriting partners?

- Have you considered working with an IPO advisor to help navigate Wall Street and the broader investment community?
8. Put your best foot forward through the IPO road show

The road show is a critical event in the IPO process. During this whirlwind tour, your company will be addressing key investment audiences, including the underwriters’ sales forces and prospective institutional investors. You must be prepared to sell the investment merits of your company’s story. Recognize that your performance on the road is your best opportunity to inspire confidence and influence potential investors’ decisions to invest in your offering.

- Are your business plan and messaging consistent with your prospectus and sustainable over the long term? [ ] [ ] [ ]
- Has your team practiced sufficiently for presentations and prepared for “hot button” Q&A dialogue? [ ] [ ] [ ]

9. Deliver on your promises

Once your company goes public, the real work begins. You must consistently meet or beat consensus analyst and investor expectations. Delivering on your promises is absolutely fundamental to a successful IPO.

- Are you executing your plan and effectively using the proceeds of the public offering? [ ] [ ] [ ]
- Are you communicating changes in your marketplace or model clearly to the Wall Street community? [ ] [ ] [ ]
- Are you continually assessing your next-step funding needs and/or insider liquidity objectives? [ ] [ ] [ ]
- Are you meeting or beating forecasts? [ ] [ ] [ ]
- Are your employees, advisors, processes and systems able to help you grow and meet the requirements of being a publicly traded company? [ ] [ ] [ ]
Prepare for the IPO journey

When preparing for the IPO journey, it’s important to note that the IPO event is not the end game. Rather, it is only one part of a process that will continue long after the actual transaction. Your journey begins with earnest decision-making and diligent planning. It continues with extensive internal preparedness. Readiness requires managerial diligence, endurance and clear organizational principles – the foundation of a well-run, predictable business that can scale and grow, while meeting or beating investor expectations.

Act like a public company long before you become one

IPO readiness requires change throughout every aspect of your business, organization and corporate culture. Part of this change means operating your business and acting like a public company as early in the process as possible. Educate your internal organization on factors that are relevant to operating as a public company and achieving success in the public domain. Allow enough time to build your legal, financial, communications and risk management infrastructures. Provide time to address key financial and reporting issues. Hold mock earnings calls with current investors to review drafts of quarterly and earnings releases and to answer challenging questions.

Assemble an enterprising team

Investors will make calculated bets on the probability of success based on the substance of management and the board, as well as the substance of management and the board, as well as your current investors and financial advisors. Your C-suite executives will be the backbone behind the equity story and the public company. The entire team — executive management, finance and accounting, sales and marketing, R&D, production and beyond – must be an enterprising group with deep-seated commitment and the ability to drive operational excellence. Your experienced board, investors and advisors will guide management through the readiness process, with a focus on managing risk and driving sustainable value.

Strengthen your processes and infrastructure

IPO readiness requires robust, enterprise-wide infrastructure, often comprised of new people, processes, policies and technology. This enables the business to scale and grow quickly, while also facilitating regulatory compliance, protecting against undue risk exposure and providing guidance to meet or beat expectations. As part of your due diligence, you will want to comprehensively examine your business and operational framework, as well as the financial and legal constructs of the organization.

Keep your eye on the business

Preparing for an IPO is an intense and arduous process. It’s easy for management and employees to become distracted by the enormity of the task. You and your team must strike the right balance between managerial focus on the IPO transaction and the day-to-day operations of the company. Remember that preparedness can help lead to a successful IPO outcome. However, only robust planning, careful setting of expectations and strong operational execution will forge the path to long-term success.

The IPO may be the most important transaction in your company’s history, but it’s often only one step along the path to market leadership.
Avoid the IPO pitfalls

In all the excitement of preparing for the IPO journey, companies sometimes neglect the little things that could have a big impact on the success – or failure – of an IPO.

### Leading practice tip

Assess independence early in the IPO process to avoid issues that could impact the timing of your IPO.

### Leading practices

- Prepare for the journey early
- Preserve and maximize optionality
- Don’t chase a hot market
- Build the right management team; engage experienced advisors
- Formalize your business and financial processes; fortify infrastructure
- Operate like a public company 6 to 12 months pre-IPO
- Consider communications, publicity plans and investor relations strategy early
- Align and understand shareholder expectations for the IPO and their intended liquidity path
- Consider pricing and share allocation implications beyond the IPO pricing event
- Deliver on your promises

### Frequent pitfalls

- Underestimating complexity and intensity of IPO process
- Insufficient resources to run business alongside IPO process
- Inadequate finance, legal and tax resources to meet increased compliance and report requirements
- Inadequate corporate housekeeping (records, approvals, support)
- Inadequate processes to support general accounting, the financial statement close process (financial and management reporting), and U.S. Securities and Exchange Commission (SEC) reporting and disclosures
- Underdeveloped investment thesis or misunderstanding of market expectations
- Lack of shareholder alignment on IPO goals, objectives and monetization strategies
- Limited timeline flexibility
- Inefficient syndicate structure
- Inattentive communications or publicity practices
- Outsize focus on valuation at IPO versus long-term considerations
- Mismanaging investor and analyst community expectations
Evaluate viability of IPO as a transaction alternative:
- Scale of business
- Growth profile
- Funding needs
- Valuation
- Existing shareholder support

Review corporate and tax structures and tax reporting processes

Establish funding and liquidity objectives and understand process/timeline scenarios

Conduct enterprise-wide IPO readiness assessment across functions

Align stakeholders around IPO goals, objectives and timing

Formalize IPO PMO structure

Establish enterprise-wide IPO readiness road map covering:
- People and organization
- Processes
- Policies
- Systems

Formalize corporate governance framework and prepare public company policies

Fine-tune business plan and develop investment thesis

Develop management presentation and begin preparing elements of Form S-1

Develop Wall Street projection model

Begin meeting with prospective underwriters and analysts

Operate like a public company

Identify targeted market windows

Hire lead underwriter(s) and securities counsel; all-hands organizational meeting

Form S-1 drafting and due diligence process

Prepare for/host analyst day

Prepare road show deck

Respond to and resolve SEC comments

Finalize deal documentation and print red herring prospectus

Road show/marketing/share allocations/pricing

Deliver timely disclosures

Manage analyst expectations

Maintain an active investor relations effort

Deliver on IPO projections and promises

Evaluate next-step financing opportunities

Manage major shareholder liquidity objectives and timelines
Post-IPO reporting is also governed by the Exchange Act of 1934. It mandates periodic and current public reporting obligations on public companies, as well as their officers, directors and large shareholders.

Public companies in the United States are also subject to the Foreign Corrupt Practices Act of 1977, the Sarbanes-Oxley Act of 2002 (SOX) and the Dodd-Frank Financial Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). Public companies regulated by the SEC have to implement sound financial reporting and records management practices and effective internal controls. Auditors of public companies are also subject to more stringent independence requirements by the SEC and Public Company Accounting Oversight Board (PCAOB) than those required by the American Institute of Certified Public Accountants’ rules for auditors of private companies.

When you decide to go public, you will need to implement new internal processes to monitor and maintain independence from your external auditor and comply with rules and regulations. You must also work with your management team and external advisors to build sound reporting, governance and compliance infrastructures to support the organization as a public company.

---

**Highlights of the IPO regulatory process**

The IPO process in the United States is governed by the Securities Act of 1933, as amended (the 1933 Act). Designed to prohibit fraudulent sales of securities and to give investors accurate and balanced information, the 1933 Act requires each issuer that publicly offers securities in the United States to register the offer with the SEC. The issuer must also deliver a prospectus to potential investors that discloses certain material information, including information about its business, results, financial condition and prospects. Inaccurately stating or failing to include required material information, or omitting key details that would make the information misleading, could expose the company and its directors, auditors and underwriters, among others, to significant liability.

---

**Selected public company rules and regulations with a glossary of key terms**

- **Rule 144** – SEC Rule 144 permits, and sets certain conditions for, the unregistered public sale of shares by affiliates and holders of restricted stock.

- **Rule 144A** – SEC Rule 144A permits unregistered resales of securities to and among “qualified institutional buyers.” Rule 144A was designed to improve the liquidity and efficiency of the private placement market by offering more freedom to institutional investors to trade restricted securities, and it has become a preferred method for foreign companies to place securities with US institutional investors. Rule 144A applies to securities that, when issued, were not listed on a US securities exchange.

- **409A regulations** – Internal Revenue Code Section 409(A) relates to the tax treatment of nonqualified deferred compensation, including certain stock options and stock appreciation rights.

- **Cheap stock** – Cheap stock refers to common stock issued to selected persons (e.g., employees and other company insiders), generally within one year of the initial registration statement filing, at a price significantly less than the public offering price. (The term also applies to stock options, warrants or other potentially dilutive instruments.)

- **Reg FD** – Regulation Fair Disclosure (Reg FD) is an SEC rule aimed at preventing selective disclosure of material and public information by public companies to investment professionals and shareholders.

- **Reg G** – SEC Regulation G (Reg G) and related SEC rules require public companies to reconcile non-GAAP (generally accepted accounting principles) financial information to GAAP numbers in all public disclosures and ensure such presentations are not misleading.
During the IPO process, you will deal directly with the SEC—supported by your legal counsel, auditors, underwriters and other advisors. The milestones and time frames on page 11 will guide you in working with your external advisors to map out your IPO journey.

**Advantages for emerging growth companies**

The Jumpstart Our Business Startups Act (JOBS Act) of 2012, as amended, was intended to facilitate capital formation and has made it easier for certain companies to go public. The JOBS Act created a new category of issuer called an emerging growth company (EGC). EGCs benefit from streamlined prospectus content requirements and a phase-in period of up to five years for certain regulatory requirements. The JOBS Act also allowed some companies to stay private longer by modifying the triggers for public registration and reporting under the 1934 Act.

EGCs are defined as issuers that have not previously issued public equity and have annual revenues of less than $1 billion for their most recently completed fiscal year. EGC status is initially determined at the start of the registration process, and a company that loses its EGC status after its initial IPO filing will continue to be treated as an EGC through the earlier of (a) the date on which it completes its IPO and (b) one year after it loses EGC status. An issuer ceases to qualify as an EGC at the end of the fiscal year (1) following the fifth anniversary of its IPO, (2) in which it becomes a large accelerated filer (i.e., public float exceeds $700 million) or (3) during which it has annual revenues exceeding $1 billion. An EGC also loses its status once it has issued more than $1 billion in nonconvertible debt in any rolling three-year period.

An EGC doesn’t have to provide more than two years of audited financial statements or selected annual financial data in its IPO registration statement and can satisfy its executive compensation disclosure obligations in the same manner as a smaller reporting company—without having to include a Compensation Discussion and Analysis (CD&A). Unlike most other issuers providing their initial SEC filing, EGCs can submit draft registration statements and amendments and respond to SEC comment letters on a confidential basis.

While in confidential review, an EGC can decide to forgo an IPO without any of its information becoming public. If it decides to move ahead, the EGC must publicly file its registration statement, with all previously submitted drafts attached as exhibits, at least 15 days before embarking on a road show. For EGCs and non-EGCs alike, the SEC staff will publicly release its comment letters and issuer responses on EDGAR no earlier than 20 business days after the effective date of the IPO registration statement. An EGC and its underwriters are also permitted to “test the waters” by communicating with qualified institutional buyers and institutional accredited investors before or during the registration process, allowing EGCs to evaluate market interest before proceeding with an IPO without risking a gun-jumping violation.

EGCs are also exempt from the CD&A requirements and the following potentially exacting public company requirements during the five-year post-IPO on-ramp period:

- The independent auditor assessment of an EGC’s internal controls over financial reporting (ICFR) under SOX Section 404(b). An EGC must still comply with the Section 404(a) requirement that management assess its ICFR, generally beginning with its second annual report. (EGCs are not relieved of CEO and CFO periodic report certification requirements pursuant to SOX Sections 302 and 906.)

- The inclusion in annual reports and registration statements of selected financial data for periods preceding those covered by the audited financials included in an EGC’s IPO registration statement.

- Say-on-pay shareholder vote requirements under Dodd-Frank.

Further, EGCs do not have to follow all of the reduced disclosure provisions, either in the IPO registration statement or in subsequent annual reports or proxy statements. EGCs may generally take an à la carte approach in deciding whether to follow the available relief, allowing them to be responsive to marketing considerations when needed.

**Planning is critical if you want to be an EGC**

As with all companies considering an IPO, if you want to be an EGC, planning is critical. Specifically, you should consider the disclosure requirements and filing procedures related to EGC status as part of the IPO planning process. You will also need to monitor your ongoing EGC eligibility. Changes in an EGC’s business (such as unexpected increases in revenue or increase in stock price) could lead to earlier-than-anticipated financial reporting and regulatory obligations.
Assemble an enterprising team

In your quest to become a public company and achieve sustained success, you will need to harness the talented executives across your organization. This may include strengthening your management team and augmenting compensation structures to retain and motivate your most vital assets. Similarly, you will need to select a balanced complement of IPO readiness advisors, attorneys, underwriters and other key counselors who can help you efficiently and effectively navigate the IPO transformation process.

Executive team

Once your company goes public, senior C-suite executives will need to devote a significant amount of time to investor relations and communications. With reduced CEO and CFO oversight, your broader executive team will need the right skills, knowledge and experience to oversee the day-to-day operations of the company.

Strong and motivated private companies will typically begin the process of harnessing key talent years in advance of an IPO so the team is in place and working together long before the public launch.

Investors are more inclined to place their bets on executives with meaningful direct ownership in their company’s stock and mechanisms in place to reward long-term success.

With increased transparency, your compensation plans will also be under public scrutiny. Ask yourself whether your company offers the right balance of base salary, incentives and equity-related compensation to retain and motivate your people. You will also want to review and restructure your compensation plans prior to the IPO, keeping in mind the financial, regulatory, disclosure and tax implications of alternative plan structures.

Advisor team

When choosing among professional services firms, focus on experience, broad resources and a comprehensive understanding of the IPO process as well as your business and industry. Full-service accounting firms offer a range of auditing, tax, transaction and business advisory services. Although a public company’s external auditor is prohibited from providing certain non-audit services, many tax, transaction and IPO advisory services are permissible and can be provided by your external auditor.

Leading practice tip

Begin putting your advisory team together 12 to 24 months in advance of your public launch.

Auditor

Early in the IPO process, it is important to confirm that your external auditor is independent under SOX. PCAOB rules require that your auditor communicate its independence with you prior to being engaged under PCAOB standards. Establishing independence may be an extensive undertaking for your auditor, depending on the extent of your operations, global reach and ownership structure. Additionally, underwriters typically require prospective IPO clients to be audited by firms with significant IPO and public company experience. Switching auditors, if necessary, can have timing and cost implications and is better off handled as early in the IPO journey as practical.

Strong and motivated private companies will typically begin the process of harnessing key talent years in advance of an IPO so the team is in place and working together long before the public launch.
<table>
<thead>
<tr>
<th>Advisor</th>
<th>Necessary credentials</th>
<th>Lead time</th>
</tr>
</thead>
</table>
| Business process (SOX) advisors | • Strong business process improvement skills  
                               • IPO, public company and industry knowledge  
                               • SOX Section 404 compliance and internal audit skills and knowledge | At least 12 months prior to filing the S-1      |
| Independent auditors          | • Full-service auditing and permitted advisory services  
                               • Strong global and industry credentials  
                               • Proficiency in securities offerings and SEC accounting and disclosure issues | 12-24 months prior to filing the S-1           |
| Insurance broker              | • Specific proficiency in directors and officers liability  
                               • Loss control and risk management consulting | Several months prior to filing the S-1         |
| Investor relations            | • Internal employee vs. external advisor  
                               • Strong institutional market knowledge and relationships | Several months prior to filing the S-1         |
| IPO advisors                  | • Full-service IPO readiness and capital markets advisory services  
                               • Strong global and industry credentials | 12-18 months prior to filing the S-1           |
| Legal counsel                 | • Extensive public offering experience  
                               • Proficiency in federal and state securities law | 6-12 months prior to filing the S-1            |
| Tax advisory                  | • Strong, integrated tax advisory and compliance services | 6-12 months prior to filing the S-1            |
| Underwriters                  | • Reputation, experience and distribution capabilities  
                               • Suitability for your industry and market  
                               • Appropriate analyst coverage  
                               • Potential capital/credit partners | 3-9 months prior to filing the S-1            |
Underwriters and analysts

Selecting an appropriate and motivated underwriting syndicate is a critical inflection point for every prospective IPO. Underwriters guide the documentation and diligence process, set valuation metrics and parameters, distribute shares to investors, and ultimately stabilize trading in the aftermarket. The choice of underwriters is about not only the reputation and track record of their firm but also the credibility and perspective of the individual specialists who will guide you in presenting your company to investors and selling your securities.

You will also need sell-side analysts to follow your company and help achieve the optimal investor mix. Sell-side analyst coverage is a component of the underwriter selection process. Experienced industry leaders with significant sector and deal experience can help credentialize the transaction, and ultimately your public company, in the marketplace with investors. Conducting an organized and informed process to help identify, meet, communicate with and, ultimately, select analysts is among the most important pre-IPO tasks to complete.

Additional advisor support

Building a quality advisory team is essential for pre-IPO preparedness and a successful IPO outcome. Many companies hire an independent IPO advisor to help prepare the company for the public markets and navigate the IPO process and issues before underwriters join the team. A full-service IPO advisory firm can support planning and executing an IPO readiness program, with a focus on both organization and transaction readiness. An IPO advisory firm can also help management identify experienced resources, both internal and external, to support the company’s IPO readiness efforts.

An equity capital markets (ECM) advisor can provide perspective on issues where underwriters may have natural conflicts of interest, such as introductions to investors and analysts, building a banking syndicate, and fee negotiations. Having this type of proficiency in-house, on hand and “behind the curtain” with your management team can increase efficiency, lower fees/costs and reduce risks associated with the transaction.

In addition, you will likely want to identify advisors to help with tax and corporate structuring, compensation and benefits planning, financial and registration statement preparations, policies and governance, IT systems, and internal audit and SOX compliance.

Supplementing your team with a strong investor relations professional (internal or external) can help with shareholder communication and relieve some of the analyst and investor communication responsibilities from the C-suite.

Also plan to hire a variety of service providers such as a stock exchange, market maker, stock transfer agent, directors and officers insurance provider, and a printer to assist with SEC filings.

Legal counsel

Your attorneys will be instrumental throughout your IPO journey. Similar to auditors, your chosen law firm should offer considerable SEC experience, particularly with initial public offerings. Outside counsel must be well versed in federal securities and corporate law. You will rely heavily on your attorneys to help prepare and file your SEC registration statement. They will guide you with regard to the risks and regulations of the IPO transaction, including publicity and disclosure. And they will help you understand the roles of the key regulators – the SEC, stock exchanges and the Financial Industry Regulatory Authority – and their rules and practices.
Strengthen your processes and infrastructure

When you consider an IPO, you need to carefully weigh the risks, rules and regulations associated with IPO readiness and life as a public company. Before making a final decision, you’ll want to be certain that you have a comprehensive understanding of business and financial processes and technology, as well as any related potential areas of exposure.

Financial reporting processes

Once your company is public, financial reporting takes on a heightened level of importance and requires increased transparency. The process begins once you’ve prepared and submitted or filed your initial S-1 registration statement. Expect to respond to multiple rounds of SEC comments on business, legal and accounting issues. The SEC staff’s review process is primarily focused on verifying that disclosures meet the SEC’s requirements and promote consistency of content, depth and quality across industries and public companies in general.

Once your company files its initial registration statement, it will be considered an “issuer” under SOX and, as such, will be subject to the rules of the PCAOB. The rules include audit committee preapproval of services provided by your external auditor and formal communications between your external auditor and your audit committee. It will be important to work with your external auditor to put processes in place that address these rules prior to the initial filing.

On a continuing basis after the IPO, your company will be required to file quarterly and annual reports with the SEC. Companies often find that they have to significantly condense the financial statement close process timeline. This allows for additional internal analyses and increased communication among management, board members and external advisors needed to produce timely, complete and accurate filings.

The SOX 404 balancing act

Extensive testing of internal control systems has become a way of life for public company management since the enactment of SOX. Public companies are required to file quarterly and annual CEO and CFO certifications that express management’s representations regarding compliance with SEC requirements. Beginning with its second annual report, a new public company must report on the effectiveness of its internal control over financial reporting.

Leading practice tip

At least 12 months before the IPO, develop written financial accounting and SEC reporting policies and procedures and create a plan for SOX compliance, including Section 302 and 906 certification processes.

Tax structures and reporting

Increased regulatory pressure, demands for transparency and globalization are straining already tight resource budgets. Recognizing that the people, process and technology issues are interrelated, more companies are working to integrate the tax function with the business units to increase efficiency and improve the quality and accuracy of tax reporting. By applying industry leading practices that are appropriate for your unique environment, you can improve how your tax function aligns with your business objectives and contributes to the company as a whole.

Information systems

IT is vital to helping the public company capture, organize and assess relevant business information quickly and easily. In addition, IT must support a collaborative work environment that allows management to make informed business decisions and to monitor and analyze progress against corporate goals. For high-growth companies, information systems must have flexibility and adaptability to support rapid innovation, while also providing scalability to support rapid growth, whether organic or through acquisitions.
Strategically assemble/augment board of directors

Heightened public company corporate governance standards and investor demands have made assembling a board of directors more complicated.

Optimal composition

Listing standards for the New York Stock Exchange (NYSE) and the NASDAQ Stock Market require a board composition with a majority of independent members, except for “controlled” companies. Audit committees need to have at least three members, and each member must be independent under strict SEC independence standards. Additionally, one committee member should qualify as a “financial expert” as defined by the SEC. Ideally, as a small-cap company, you should target a board of five to six outside directors with a minimum of three independent committees (audit, compensation and governance/nominating).

Complementary skills

Public company boards often require a different skill set. While your private board may seat founders, venture capitalists, other investors and/or management – all with deep knowledge of your particular business service or product – your public board will ultimately require a substantively broader mix of corporate executives with experience in audit, governance, compensation and compliance. Collective and complementary board member skills should span business development experience through organic and M&A growth, successful strategic planning and acquisition integration, capital markets involvement, industry experience, and basic financial literacy. In addition to the appropriate credentials, your board members must have the individual capacity to meet a substantial annual time commitment – approximately 200 hours or more per year.

Diversity

In addition to considering complementary skill sets, companies typically consider diversity as a factor when selecting board members. A diverse group of directors can help transform board thinking and have a positive impact on key board decisions and processes as well as corporate performance. For instance, from 2005 to 2014, boards with a higher-than-average percentage of women outperformed those with fewer than average by 36%. Companies with women board members also outperform those without in return on equity, net income growth and price-to-book value.1

The recruiting process

The typical board candidate search is quite similar to recruiting a C-suite executive. Directors’ compensation should be both appropriate and attractive, and their indemnification strong and practical. With intense individual scrutiny and liability for public company directors in today’s environment, you will want to invest substantial time and effort in developing a qualified board of independent directors.

Creating a risk management framework

Companies need a comprehensive process and structure to identify and manage risks. Creating this risk management framework is not an exercise in bureaucracy but a way to manage a company’s risk prudently and effectively, while providing management the confidence it needs to pursue growth. In its oversight capacity, the board bears ultimate responsibility for developing this process.

Questions for the board and audit committee:

- Does the board clearly delineate the risks that fall within the oversight of the audit committee?
- What are the company’s risk priorities?
- How are risk resources allocated relative to the company’s risk priorities?
- Has the company considered the significant risks associated with any new major business initiatives?
- How does the risk management program consider new business strategies, initiatives and transactions and those that relate to external factors (e.g., new regulatory interpretations, focus areas)?
- Does management provide updates frequently enough to the board and/or the committee responsible for oversight of risk management?
- How does the company balance keeping the company safe and being too risk averse?

---

1 The CS Gender 3000: Women in Senior Management, Credit Suisse Research Institute, September 2014; Catalyst censuses (Fortune 500 and FTSE 250), 2014.
Prioritize readiness over timing

Many say that timing the market is the key to success for an IPO. We believe that market access is more often driven by investor confidence in the ability of your company’s management team to execute on your business plan and consistently deliver strong investor returns. Yes, market volatility and economic uncertainty can impact the timing, but more often than not, internal factors matter most. Your scale, growth trajectory, maturity and the readiness of your business for public scrutiny will truly drive market acceptance.

Manage the pressure
CEOs and CFOs of emerging venture capital and private equity-backed companies are frequently approached to take their companies to the public markets. This opportunity may be available and attractive for certain companies; however, it may not be the best business or financial decision depending on where the company is in its life cycle. Take the time to understand the pros and cons of an IPO and the impact of such a transaction on your organization. Solicit input from a variety of external advisors, including IPO advisors, investment bankers, attorneys, auditors and others, in assessing your options and timelines to execute.

Navigate the window of opportunity
Assuming you choose to move forward with an IPO, you must communicate realistic timeline expectations to the entire team: management, board members, external advisors and employees, among others. You will also want to undertake any organizational change management initiatives to give your company and team the time they need to understand and accept the demands associated with transitioning to and operating as a publicly held corporation. Investor receptivity to your IPO will be influenced to some extent by market appetite for your industry and the new issue market in general. However, readiness should always trump timing.

Keep your options open
For many private companies, the prestige and liquid currency of a public listing are prized. For some, private capital markets may be an effective and less costly vehicle for raising capital. For others, a private sale may be the best path to maximizing the company’s value.

As you analyze various capital-raising and liquidity options, consider current and future strategic relationships and follow-on capital requirements for your company. Your transaction decision may depend on your company’s business model, management team and level of maturity.

Have a plan B
If capital markets are less than ideal, or the timing feels off, it’s important to have an alternate plan. To the extent possible, your IPO timeline should have enough flexibility to allow for postponement, as well as market disruptions and process delays.

If you can’t afford to wait, it’s important that you have the flexibility to execute an alternative financing strategy.

Leading practice tip
Although an IPO may be your favored approach to raising capital, it’s important to evaluate all of the possible transactions that could serve as stepping stones or attractive alternatives to a public listing.
Engage with an investor relations professional

Whether you recruit an experienced IRO, engage the services of a seasoned consultant, or both, the presence of an investor relations professional will reduce the burden on management and signal the seriousness of your intentions to Wall Street.

Financial media relations and institutional investor targeting require constant and well-coordinated planning and execution. Professional IROs and consultants can help you build corporate credibility through open and consistent communication with all of your stakeholders.

However, even with the help of IROs, a CFO should be prepared to spend at least 30% to 40% of his or her time in ongoing investor relations to drive success in the IPO aftermarket.

Build your investor pipeline

An IPO provides a great first step for building out IR contacts. Analysts on the deal and investors from the road show are vested in your success from day 1 as a public company. However, investor dialogue and communication are only starting and will become more complex over time. Industry/research conferences and non-deal marketing road shows will become critical components to maintaining relations with current investors while prospecting for the next generation.

Fine-tune your investment story

Once the IPO is over, the process of retelling your investment story and fine-tuning your value proposition begins. This will be a continual practice of communicating the drivers for growth and profitability for your company, developing a robust financial planning and analysis function, and, when appropriate, providing appropriate and supportable guidance on financial performance and business milestones. Delivering on your IPO promises is critical to building market credibility and maintaining ready access to the capital markets.

Leading practice tip

Cultivate an investor relations team that works well together and has your end game in mind. The team needs to be familiar with your category and industry, and know the potential investors with whom you’ll be speaking.
Target analysts and investors that can be long-term partners

Working with Wall Street is a complex process that should be carefully addressed over time. Companies should consider a variety of disclosure and financial factors before entering these conversations and thoroughly prepare for both investor and analyst discussions as if they are speaking directly to the market.

Choose an underwriter that suits your corporate culture

Selecting an appropriate and motivated underwriting syndicate is a critical inflection point for every prospective IPO. Underwriters guide the documentation and diligence process, set valuation metrics and parameters, distribute shares to investors, and ultimately stabilize trading in the aftermarket. Your choice should be based not only on the firm’s reputation and track record, but also on the credibility and perspective of the financial professionals who will be intimately involved in the transaction.

Scrutinize sell-side analysts for the right fit

The sell-side analysts employed by the firms in the underwriting syndicate will be instrumental in helping present your story to the investment community. Closely scrutinize the analyst roster for those with a thorough understanding of your company and its performance drivers. Also consider their industry and deal experience and validate the breadth and depth of their coverage universe.

Select a management team that can withstand investor scrutiny

When institutional investors consider participating in an IPO, their foremost priority is sizing up management during the road show. They also closely study management ownership structures and the mechanisms in place to reward long-term performance. Investors view incentive plans that outline performance goals tied to metrics such as return on invested capital, return on equity and cash flow generation more favorably than plans that merely reward milestone achievement. They are also more inclined to place their bets on executives with meaningful direct ownership in their company’s stock.

Leading practice tip

Don’t overlook the human dynamic. Identify firms that have a reputation for working well together.
Put your best foot forward through the IPO road show

The road show is a critical event in the IPO process. Ideally, it is not the first time you will be meeting many of these investors. During this whirlwind tour, your company will be addressing key investment audiences, including the underwriters’ sales forces and prospective institutional investors. For 8 to 10 hours per day over 7 or 8 days, management must sell the investment merits of the story and be prepared to address skeptics who will challenge the investment thesis and valuation.

Develop the message

To put the right foot forward, you’ll need two things: a well-designed road show presentation and comprehensive speaking points. Your story should present a balanced view of the business and its growth prospects, competition, strategy, achievements, objectives and financials. Your individual performance on the road is your best opportunity to inspire confidence and motivate investors to buy into your offering.

In addition to a full 25- to 30-minute slide presentation, your management team needs to be able to deliver a shorter, verbal version to accommodate the inevitable scheduling changes that arise throughout the trip. This “elevator pitch” will enable you to briefly and effectively articulate the three to five key messages of the investment story.

Invest in a dress rehearsal

Never underestimate the power of practice. Pre-IPO companies often consult professional presentation training specialists to prepare CEOs and CFOs for the unique requirements and rigors of IPO road shows. The presentation team should rehearse formally a number of times before the first day of meetings.

Know your audience

Your investment bankers and advisors should prepare you with background information about the participants on your road show schedule. By studying each firm’s investment criteria and other holdings, you can adjust the areas of emphasis in your presentation accordingly and build a better rapport.

Engage and interact with the investors you meet, establish relationships, and keep in contact. Your road show audience will be an important source of feedback that will help to improve your investment story as you proceed in the aftermarket.

Tips for successful road shows

Prepare and rehearse
- Know your material thoroughly before your first presentation
- Anticipate and practice answering tough questions

Choreograph your presentation
- Test your supporting technology
- Use visual aids to vary your remarks and hold attention

Understand your audience
- Know whether each participant is an industry specialist or a generalist
- Find out their investment criteria so you can message your story effectively

Develop rapport
- Approach your audience positively by assuming they will invest in your company
- Try to solicit questions on items you may have failed to address in your presentation
- Answer succinctly

Be consistent and enthusiastic
- Maintain the same order, approach and materials in all your presentations
- In spite of what will most likely be a grueling schedule, try to stay fresh and act as if each meeting is your first

Stay on top of the process and connected with the investors
- Take notes on each meeting so you can remember what was said to you
- Secure feedback so you can improve upon your presentation as you proceed through your tour

Under-promise and over-deliver
- Meet the expectations you set
- Deliver on your promises (or risk hurting your company’s stock price)
Establish credibility

Management credibility is one of the more important drivers of public company longevity and success in the investment arena. Establishing credibility with Wall Street means communicating openly on your business prospects, executing consistently well against your objectives, and delivering on your promises. The process begins far in advance of the IPO, and it continues throughout the life of your company.

Your company will always encounter issues beyond your control, including the stock market, the economy and cycles within your industry. When communicating with Wall Street, the focus should be on the factors within your control: managing the business, delivering on expectations and creating value. Credible communicators speak with transparency about both opportunities and challenges in the business.

Manage expectations

Managing expectations is also a critical component of success. Provide investors and analysts with a blueprint to follow by clearly articulating the parameters that management uses to track the business. Otherwise, someone else will set the expectations for you.

In addition to requisite financial disclosure, you should regularly assess and communicate the intangible business drivers that enhance the growth and profitability of your business. Any guidance that you give – financial and nonfinancial – should be both appropriate and supportable.

Maintain an open and honest dialogue

Your communications strategy should encompass a compelling business and growth strategy, a straightforward explanation of the range of competitive and market forces you face, and a realistic plan for what you expect to achieve and the areas where you need to improve.

Every time you communicate externally, you create an opportunity to highlight your company’s investment thesis. Investment messaging should define the core value proposition for investors and answer the question, “Why invest now?”

As a public company, you won’t always enjoy smooth sailing with respect to financial results or material news. You must deliver on your promises and meet or beat the expectations you set. The credibility you establish early on will help provide the protection you need to weather the inevitable storms as a public company and establish the foundation to deliver on the promises you make.

Leading practice tip

Avoid surprises by confirming that your financial goals are realistic and clearly communicated. Establish a strategic risk framework to manage new initiatives and rapid expansion. Manage operational risk by keeping your people focused on the business. And stay current on compliance requirements so that you can continue to balance risk with performance.

Deliver on your promises

Once your company goes public, the real work begins: keeping the promises made during the IPO, managing the expectations of shareholders and analysts, and delivering growth and value.
Are you ready to reach the IPO summit?

Going public isn’t easy, but the rewards can be great provided you are adequately prepared, solicit experienced guidance and execute effectively.
Get ready with a readiness assessment
To determine your level of preparedness for your IPO, you may want to consider a readiness assessment. This will highlight the things you are doing right, as well as the gaps that need to be closed.

EY will be there every step of the way
As a trusted advisor to more US companies through the IPO process than any other accounting and services organization, we know what it takes to go public. And we are here for you every step of the way, from planning to readiness to execution and realization.

<table>
<thead>
<tr>
<th>Capital markets strategy</th>
<th>Governance and legal</th>
<th>Finance and accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications and investor relations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management and human resources</td>
<td>Internal audit</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Taxes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Information technology</td>
</tr>
</tbody>
</table>
Your EY IPO and strategic transactions team

Lee Henderson
Americas Growth Markets Leader
lee.henderson@ey.com

Jackie Kelley
Americas IPO Leader
jacqueline.kelley@ey.com

US IPO Region leaders

Jackie Kelley
US-West IPO Leader
jacqueline.kelley@ey.com

Hal Berliner
Financial Services IPO Leader
hal.berliner@ey.com

Kevin Klimara
US-Central (North) IPO Leader
kevin.klimara@ey.com

Rachel Gerring
US-Central (South) IPO Leader
rachel.gerring@ey.com

Derek Steinhiser
US-East IPO Leader
derek.steinhiser@ey.com

Other key contacts

Kath Carter
Americas Growth Markets
Transactions Advisory Services Leader
kath.carter@ey.com

David Brown
Head of US Equity Capital Markets Advisory
Ernst & Young Capital Advisors, LLC
david.brown1@ey.com

Martha Cook
Americas People Advisory Services
IPO and Southeast Practice Leader
martha.cook@ey.com

James Markham
Americas Growth Markets
IPO Tax Leader
james.markham@ey.com

Jake Tyshow
US Capital Markets
Governance, Policy and Disclosure
jake.tyshow@ey.com

A special thank you to Chris Holmes, SEC National Practice Leader, and Steven Jacobs, SEC National Practice Partner, for their contributions to this publication.
Once your company goes public, the real work begins: keeping the promises made during the IPO, managing the expectations of shareholders and analysts, and delivering growth and value.
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2019 Ernst & Young LLP.
All Rights Reserved.
1909-3266793
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com