EY's guide to going public
Lessons from the leaders
Achieving your company's potential in the public markets

If you are leading a company preparing to go public within the next few years, you have much to consider: the strength and buoyancy of the US capital markets, current economic indicators and your company's performance.

Notwithstanding mega-economic trends and conditions, you need to ask a very practical question if you are contemplating an initial public offering (IPO): how do I prepare properly for the IPO transaction, cultivate worthy investment in a dynamic market and steer my business to success as a public entity?

EY is the undisputed US leader in the number of companies we take public. Not only have we guided more companies through the SEC filing process than any other firm, but we've also helped these and other companies optimize tax structures, compensation plans, business processes and controls, corporate governance structures, and much, much more. That work gives us tremendous perspective in guiding you through the IPO transaction and beyond. Moreover, through the IPO and Strategic Transactions track that is now part of the annual EY Strategic Growth Forum, we convene the leading outside experts on how to decide if an IPO is right for your business and how to anticipate the changes your company will undergo.

This compendium, EY's guide to going public, is the product of all of this experience. In a single, definitive guide, it will help you evaluate the pros and cons of an IPO; understand the rules, processes and risks; appreciate the planning requirements; consider the alternatives; and prepare for life in the public eye.

- How do I construct an IPO plan with the right team, processes and infrastructure?
- How do I build a strategic investor-relations function?
- What are my responsibilities for the road show?
- How do I plan for success post-transaction?

All of these questions – and more – are answered here by experienced executives who have undertaken an IPO and many advisors who are critical to the process.

No one will tell you going public is easy. But the rewards can be monumental. The keys are proper preparation, experienced guidance and effective execution.

EY is delighted to guide you on your IPO journey. We wish you every possible success.
“An IPO is transformative for a company’s people, processes and culture. But the focus should be more on being public than going public, which is only a beginning. To meet your full potential and deliver on your pre-IPO promises, you must be acutely aware of both the opportunities and risks in your new environment. Proactively identifying and tackling these risks can result in a better managed business, helping to stabilize your operations and accelerate your growth.”

Tom McGrath
Americas Senior Vice Chair, Markets
EY
Considering an initial public offering?

Make sure you know how to prepare for this transformational transaction and manage a newly public company.

Companies that have completed a successful IPO know the process is truly a metamorphosis — a series of planned, pervasive changes undertaken to achieve long-term objectives. IPOs present great benefits and opportunities. Evaluate your progress in readying your organization for one of the most significant transactions it will ever undertake — and for an exciting new phase of corporate life in the public realm.

1. Preparing for the IPO Value Journey®

Preparation is critical. Successful IPO candidates often spend two years or more building business processes and infrastructure, recruiting executive and advisory talent, getting in front of financial and reporting issues, andmustering 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 written plan and timeline?
- Has your organization begun acting like a public company?
- Are you actively addressing the four functional phases of the IPO preparation process: due diligence, drafting, SEC review and marketing?

2. Keeping your options open

Many private companies find the private capital markets to be a highly effective and less expensive route to raising capital. Before settling on the IPO route to growth capital, explore alternative strategies. The mergers and acquisitions market, private equity-backed deals and dual-track approaches (such as a concurrent pursuit of both an IPO and an M&A transaction) are viable alternatives to raise capital and offer their own unique strategic advantages.

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

- Have you evaluated other possible transactions that could be attractive alternatives to an IPO?
- Have you determined your company’s potential M&A valuation versus its public company valuation?
- Is your team able to scale to meet the company’s growth projections?

3. Timing the market

Rather than trying to time the market, take the time you need to enter the IPO arena when you are truly ready. The well-prepared company that has addressed all the potential issues will be able to move swiftly when the market is right.

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

- Have you communicated realistic timeline expectations to key stakeholders?
- Do you know how to respond to pressure to move quickly into registration while a window of opportunity is available?
- Do you have a plan B? Have you prepared a financing strategy to execute without an IPO?

4. Building the right team to take you public

Your top managers must have the experience and skills to undertake the IPO transaction and operate a public company leading up to the road show and long after it is over. Likewise, your external advisors should be highly skilled professionals with extensive IPO credentials, contacts 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 experience and a going-public track record?
- Have you selected the right advisors with IPO and public company experience?
- Are your advisors working in close collaboration, frequently communicating and coordinating their activities?

5. Building your business processes and infrastructure

IPO readiness is established, in part, by managerial diligence and endurance and organizational discipline. You must define and implement adequate business policies and procedures, systems, security and controls well in advance to ensure they will withstand the rigors and scrutiny of public company status.

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

- Have you established the needed/desired transparency within your organization?
- Have you assessed the ability of your financial, accounting, tax, operational and IT processes, systems and controls to support your transformation into a public company?
- Have you established balance within your organization to help ensure focus on the transaction does not supersede business execution?
6. Establishing corporate governance

Take time to build a public company board with a substantively disparate mix of compensation, compliance and governance specialists, corporate strategists; and experienced business and financial executives. Similarly, adopt best practice corporate governance principles and reporting policies that 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?
- Is your board in compliance with SOX Section 301, which requires a “financial expert,” and does it include at least two independent members?
- Have you established the appropriate corporate governance oversight, policies and procedures; internal controls; bylaws; and infrastructure?

7. Managing investor relations and communications

A strong investor relations function will help you sustain the market’s interest in your company, communicate with your shareholders and the public, attract a pipeline of new investors and sell-side research coverage, and manage regulatory and liability risk. Building this competency is a fundamental element in your IPO preparation process.

- Do you have a skilled investor-relations expert to help build your strategy and guide your communications?
- Have you prepared an internal and external corporate communication strategy and plan?
- Do you know the dos and don’ts of providing financial guidance and are your projections supported by a robust financial planning and analysis function?

8. Conducting a successful IPO road show

The road show is a critical event in the IPO process. You must be fully 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 company’s goals realistic and clearly communicated?
- Are your business plan and messaging consistent, sustainable and supportable over the long term?
- Do you have a “20-second” pitch?

9. Attracting the right investors and analysts

Public companies must take individual responsibility for targeting sell-side analyst coverage from a broad universe of firms. You should also be prepared to cultivate an open channel of outreach to potential buy-side investors through ongoing dialogue, conference attendance and non-deal marketing visits.

- Have you established a strategic plan for managing your ownership mix in the aftermarket?
- Do you know how to convey your value proposition to the appropriate investing audiences, gauge market perception and evolve your message?
- Do you have a plan to cultivate relationships with research and sell-side analysts who relate well to your team and understand your business?

10. Delivering on your promises

Once your company goes public, the real work begins. You must meet or beat the expectations you set. Dictate the metrics by which external stakeholders will measure your company’s performance by defining the parameters management uses to track the business and giving investors and analysts a blueprint to follow. Delivering on your promises is a fundamental preparedness factor, an absolute.

- Are you executing your plan and effectively using the proceeds of the public offering?
- Have you prepared a long-term plan for growth, considering people, process and infrastructure?
- Have you prepared a long-term plan for ongoing monitoring and reporting compliance with rules, regulations and risks?
Preparing for the IPO Value Journey

How does your company begin the daunting task of preparing for an IPO journey? When starting out, it’s important to recognize the IPO event is not the end game. Rather, this will be a momentous process for your organization that will continue long after the actual transaction. Your journey begins with earnest decision-making and diligent planning. The paramount importance of internal preparedness becomes apparent early in the process. And readiness is defined, in part, by managerial diligence, endurance and organizational discipline.

While 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. Consider whether an IPO is the right option given your business goals and objectives, the current stage of your company’s life cycle, and whether the organization can withstand the changes necessary to execute as a public entity.

Start early and be ready for change
IPO readiness involves the acceptance and implementation of change—not just by executive management, but throughout every aspect of your business, organization and corporate culture.

You should begin operating your business like a public company as early as possible. This means allocating time and resources for educating your internal organization on factors pertinent to operating as a public company and achieving success in the public domain. You must also allow adequate time to build your legal, financial, technological and risk management infrastructure. Provide time to address key financial and reporting issues, including stock option issuance, revenue recognition practices and segment reporting processes, and to provide achievable guidance and forecasts.

Act like a public company: hold meetings with your current investors to review drafts of quarterly/annual filings and press releases and to answer those challenging questions prior to the IPO.

Successful IPO candidates will begin the transformation process well in advance of the public launch. An EY study found that one of the most prevalent traits of IPO market outperformers is lead time allocated to preparedness. Companies that exceeded overall market returns following an IPO have typically implemented critical organizational changes to begin acting like a public company a full 12 to 24 months prior to going public.

Assemble experienced and hard-working teams
Investors will place their bets on the substance of management and the probability of team execution. Your C-level executives should have collective experience and understanding of the IPO process. 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 operational discipline. Your public company board should be of sufficient size, structure, quality and depth, with individual expertise in strategic planning, your industry, business development through organic growth or M&A activity, and past involvement in a successful liquidity event.

Selecting the right team of external IPO advisors—attorneys, underwriters, auditors, transaction specialists, business-process specialists, investor-relations professionals and others—is also imperative. A consummate level of communication, collaboration and coordination among all parties—management and finance staff with advisors and advisors with each other—must be a high priority for everyone involved.
Build your processes and infrastructure

IPO readiness requires a sturdy infrastructure to facilitate regulatory compliance, to protect against risk exposure and to provide guidance to meet or beat expectations. Due diligence will require a comprehensive examination of your business and operational framework as well as the financial and legal constructs of the organization. And it is never too early to adopt best practice corporate governance principles and internal control and financial reporting policies that protect shareholder interests.

The infrastructure-building process should include the development of a strategic investor-relations program for marketing your company to Wall Street. This infrastructure should be established prior to the IPO so key investor-relations specialists are on hand to guide your planning for and performance during the IPO road show. The aftermarket plan should include proactive measures to establish pricing stabilization and active trading support, to target an optimal investor mix and long-term pipeline, to attract equity-research analyst coverage and to establish an ongoing dialogue with the investment community and financial media.

Strike the right balance

Preparing for an IPO is an intense and arduous process, and 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 operation of the company. Remember that preparedness can help lead to a successful IPO outcome, but all of the best financial engineering will not create business prosperity — only robust planning, accurate expectations setting 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 to date, but it’s often just one more step along the path to market leadership.

“An IPO is a great event. I think you need to be ready. And going public too early in a company’s life can be very, very hard to recover from. You need to have your business model, your repeatability and all your processes in place, so that you don’t stumble. There’s nothing worse than going public and stumbling in your first year.”

Carla Newell
General Partner
Technology Crossover Ventures

“For me, and for any entrepreneur, taking your company public is a fantastic experience. You get to tell your story to a much larger audience and it is a validation of everything you have built over many years. Preparation for that moment is essential and companies should ensure they are taking the right steps. Our IPO was the end of the beginning of Rosetta Stone’s mission to change the way the world learns languages. Despite the economic downturn of the market, going public has made our brand stronger and more recognizable to large institutional customers. We are now able to remain focused on the expansion of our current marketing channels and customer base, product innovation and international growth.”

Tom Adams
President & CEO
Rosetta Stone Inc.

“Once you’ve gone public, there’s no slowing down. Take the time now to prepare. Develop a formal, integrated plan and timeline for executing the transaction, transforming the organization and driving growth as a public company. Plan to make a significant investment in your people, processes and infrastructure early. Top-performing companies embark on this process at least 12 to 24 months prior to the IPO.”

Jackie Kelley
Americas IPO Leader
EY
The IPO process in the US is driven by two primary federal securities laws: the Securities Act of 1933 (the 1933 Act) and the Securities Exchange Act of 1934 (the Exchange Act), which impose certain public reporting obligations on public companies as well as their officers, directors and large shareholders.

Designed to prohibit fraudulent sales of securities and to provide investors with information material to an investment decision, the 1933 Act requires that each issuer that publicly offers securities in the US disclose material information — about its business and financial condition and about the security being offered — by publicly filing a registration statement with the SEC. Under the 1933 Act, issuers must also disseminate a prospectus — part of the registration statement — to investors and prospective investors.

You also must be prepared to meet the provisions of certain US laws concerning public companies, such as the Foreign Corrupt Practices Act of 1977 and the Sarbanes-Oxley Act (SOX) of 2002. Public companies governed by the SEC are required to implement sound financial information and records management practices and effective internal controls. In addition, the independence requirements under SOX are more extensive than AICPA rules and as such, require the implementation of new internal processes related to independence. You must also work with your management team and external advisors to build a sound infrastructure to support the organization as a public company.

During the IPO process, you will deal directly with the regulatory authority — the SEC — supported by your legal counsel, auditors, underwriters and other advisors. The milestones and time frames on the opposite page will guide you in working with your external advisors to map out your IPO journey.

---

**Rules and regulations — a glossary of key terms**

- **409(A) regulations** — Internal Revenue Code Section 409(A) relates to the tax treatment of non-qualified deferred compensation plans, stock options and stock appreciation rights.

- **Cheap stock** — Cheap stock refers to common stock issued to selected persons (e.g., company insiders and promoters) within one year of a public offering at a price 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 by public companies to investment professionals and certain shareholders.

- **Reg G** — SEC Regulation G (Reg G) requires companies to reconcile the difference between non-GAAP financial information and GAAP numbers in earnings releases and similar public disclosures. Prominence should be given to GAAP financial information.

- **Rule 144** — The SEC’s Rule 144 governs the sale of shares by controlling shareholders and holders of restricted stock.

- **Rule 144A** — SEC Rule 144A applies to securities of domestic and foreign issuers that are not listed on a US securities exchange. 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 to encourage foreign companies to sell securities in the US capital markets.
<table>
<thead>
<tr>
<th>Timeline</th>
<th>IPO milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>12–24 months before IPO</td>
<td>• Engage outside counsel, audit firm and other key advisors</td>
</tr>
<tr>
<td></td>
<td>• Confirm that your external auditor is independent under SOX for all years in the registration statement</td>
</tr>
<tr>
<td></td>
<td>• Validate 2–3 years of audited financial statements prepared in compliance with US GAAP (or IFRS, if applicable) and SEC rules</td>
</tr>
<tr>
<td></td>
<td>• Review significant accounting policies and company agreements</td>
</tr>
<tr>
<td></td>
<td>• Review tax structure and compensation and benefits arrangements</td>
</tr>
<tr>
<td></td>
<td>• Develop and initiate a plan for SOX compliance and institute an internal audit function</td>
</tr>
<tr>
<td></td>
<td>• Recruit qualified internal legal, finance and accounting personnel and validate public company board of directors’ qualifications</td>
</tr>
<tr>
<td></td>
<td>• Adopt best-practice corporate governance and reporting processes</td>
</tr>
<tr>
<td>6–12 months before IPO</td>
<td>• Select lead underwriter</td>
</tr>
<tr>
<td></td>
<td>• Establish investor relations and financial planning/analysis functions</td>
</tr>
<tr>
<td></td>
<td>• Review all insurance policies, including those of directors and officers (D&amp;O)</td>
</tr>
<tr>
<td></td>
<td>• Review reporting requirements for material acquisitions and business segments</td>
</tr>
<tr>
<td>4–6 months before IPO</td>
<td>• Determine underwriter syndicate and engage investment banks</td>
</tr>
<tr>
<td></td>
<td>• Hold organizational meeting</td>
</tr>
<tr>
<td></td>
<td>• Complete transaction plan and timeline, including process for board approval of milestones, documents and agreements</td>
</tr>
<tr>
<td></td>
<td>• Prepare draft S-1 registration statement (F-1 for foreign private issuers) with appropriate audited and interim financial statements</td>
</tr>
<tr>
<td></td>
<td>• Meet with stock exchange(s) and save a ticker symbol</td>
</tr>
<tr>
<td></td>
<td>• Explore unasserted claims</td>
</tr>
<tr>
<td>2–4 months before IPO</td>
<td>• Complete underwriter due diligence</td>
</tr>
<tr>
<td></td>
<td>• Review draft registration statement with advisors</td>
</tr>
<tr>
<td></td>
<td>• Submit listing application to selected exchange</td>
</tr>
<tr>
<td></td>
<td>• File registration statement with the SEC as soon as practical</td>
</tr>
<tr>
<td></td>
<td>• Receive and respond to initial SEC comments</td>
</tr>
<tr>
<td>1–2 months before IPO</td>
<td>• Update financial statements</td>
</tr>
<tr>
<td></td>
<td>• Receive and respond to ongoing SEC comments</td>
</tr>
<tr>
<td>2–4 weeks before IPO</td>
<td>• Auditors’ comfort letter drafted</td>
</tr>
<tr>
<td></td>
<td>• Prospectus (“red herring”) distributed</td>
</tr>
<tr>
<td></td>
<td>• Road show presentations to prospective investors</td>
</tr>
<tr>
<td></td>
<td>• Underwriter marketing of securities (“bookbuilding”)</td>
</tr>
<tr>
<td>Week of offering</td>
<td>• Offering declared effective by the SEC</td>
</tr>
<tr>
<td></td>
<td>• Underwriting agreement signed</td>
</tr>
<tr>
<td></td>
<td>• Stock price approved by board of directors</td>
</tr>
<tr>
<td></td>
<td>• Listing and stock exchange admission – trading commences</td>
</tr>
<tr>
<td></td>
<td>• Closing</td>
</tr>
<tr>
<td></td>
<td>• Auditors issue comfort letter at closing</td>
</tr>
<tr>
<td>Up to 30–60 days post-offering</td>
<td>• Underwriters exercise “Greenshoe” over-allotment option (if any)</td>
</tr>
</tbody>
</table>
Keeping your options open: alternatives to an IPO

While many private companies value the prestige and liquid currency of a public listing, the private capital markets may be an effective and less costly vehicle for raising capital and achieving the optimal value for your company. It is wise to consider alternative strategies before settling on the traditional IPO as your chosen route to monetization.

Considerations
As you analyze the various approaches to capital infusion, consider current and future strategic relationships and follow-on capital requirements for your company. Your transaction decision will depend on your company’s:

- Business model: Does your business follow a predictable growth trajectory or experience volatile peaks and troughs?
- Growth potential: Is your team able to scale with the company’s projected growth?
- Maturity: What are your company’s specific life cycle, infrastructure, talent, board, partners and customer-base considerations?

Multitrack your way to a capital infusion
A dual or multitrack approach is the simultaneous pursuit of an IPO and private equity offering, strategic sale and/or other type of transaction to improve your chance of success and increase your company’s valuation. Alongside your IPO preparation, your transaction options may include the pursuit of any combination of various strategies: sale to a private equity firm; sale to a strategic buyer; partnerships, joint ventures and strategic alliances; and alternative liquidity options. These can include Rule 144A placements or private exchange and cross-border listings.

In recent years, the accelerating growth of private equity investment globally, coupled with heightened international competition for IPO listings, has complicated the IPO decision process for many private companies. By diversifying its approach, a company can significantly expand its strategic options and negotiate leverage while reducing execution risk.

Transaction drivers
The dual-track process between an IPO and sale may either be a precursor or the outcome of filling the S-1 registration document. Companies may prudently decide to keep both options open. Your decision will depend on a careful evaluation of your company’s potential M&A valuation versus public company valuation, specifically what your company would be worth if you were to sell it to a strategic or financial buyer and what your stock price would be worth in an IPO. In a sale situation, you must understand your company’s value in a vertical, horizontal or consolidation transaction.

In today’s market, companies sometimes explore alternatives to domestic exchanges, such as alternative exchanges where foreign capital markets have strengthened. However, for a company going public today, a US listing often still provides access to the deepest pool of capital, a valuation premium and strategic advantages in the global markets.¹

Before settling on the IPO route to growth capital, explore alternative exit strategies, many of which may be more realistic, feasible and/or lucrative in your company’s current situation and future objectives. Above all, company goals should dictate your optimal strategy for raising capital.

“The best reason to go public isn’t to exit. It isn’t to get the going public experience. It’s because it’s the right step in the path on which you’re guiding your company.”

Kenneth M. Cohen
Co-Founder
Somaxon Pharmaceuticals

¹ EY, Global capital market trends: US IPO market strength and leadership, 2006 year in review and 2007 outlook.
IPO Strategic sale Partnership/JV or alliance Alternative liquidity

- Retains future upside potential in business
- Maximizes intrinsic value as independently managed business
- Helps retain and motivate talent and management
- Increases credibility with potential customers, suppliers, employees
- Provides a liquid currency
- Provides up-front liquidity, shareholder value and support for growth
- Threat of IPO provides strong negotiation leverage
- Private equity provides an alternative for growth companies that may not be operationally ready to access the public capital markets
- Raises capital
- Keeps some control
- Provides a bridge to a sale or IPO
- Integrates products and customers, combines complementary technologies
- Rule 144A provides access to institutional debt financing, often with the expectation of a registered exchange offer

- Window of access
- Broad range of new public company costs and expectations
- Pros and cons of near-term IPO versus allowing the business to continue to mature and grow
- Consideration of sale type and structural implications on liquidity
- Risk of transaction completion/potential taint
- Distraction to management and business
- Special considerations for licensing, distribution/supply, manufacturing, employee and other relationship agreements
- Debt service capacity and credit worthiness
- Obligation to file a form S-4 exchange offer and become an SEC reporting company

“Evaluate your transaction options prior to going public and make sure you are ready. Exit readiness is essential to a timely and successful IPO. The end goal of any transaction is to maximize shareholder value; however, it’s also important to keep in mind the impact of selling your business on your management, employees, customers, vendors and other stakeholders. Investments by private equity, large corporations and others often make great stepping stones on a company’s way to an IPO or, in some cases, may actually be the optimal exit strategy, based upon your company’s life cycle and investor goals.”

Richard M. Jeanneret
Americas Vice Chair, Transaction Advisory Services
EY
Timing the market

You may hear that timing the market is a key success factor for an IPO. If timed perfectly, you’ll price your IPO at a time that not only provides your company with an optimal valuation, but also provides your IPO investors with the greatest upside in their investment in the months and years after the IPO.

Why is it then that some companies can never seem to get to market, while other companies are able to execute a successful IPO in the most challenging of times?

The bottom line is: Your IPO valuation is driven by market confidence in the ability of your company’s management team to execute on your business plan and consistently deliver strong investor returns. Yes, there is no denying that investor confidence can be impacted by market or industry volatility and economic uncertainty. But, more importantly, are you entering when the public markets are prepared to deliver? Rather than asking if the markets are ready for you, challenge whether you are ready for the public markets.

Managing the pressure

Today, CEOs and CFOs of emerging venture capital and private equity-backed companies as well as billion dollar carve-outs are being approached to take their companies to the public markets under the premise that the window of opportunity is now open. While this opportunity may be available for some companies and clearly sounds enticing, it may not be the best business or financial decision for your company. 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 investment bankers, attorneys, auditors and others, in assessing your options and timelines to execute.
Navigating 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 others. You must also be nimble enough to respond to pressure to move swiftly into registration while the aforementioned window of opportunity is available. This includes having implemented organizational change early on to allow ample time for the changes to take root and for employees to understand and accept the demands accruing to a publicly held corporation.

In addition, keep in mind that investor receptivity to new security issuances in your industry will be another determinant of your IPO’s launch. Should there be an appetite within the investment community for stories like yours, do you demonstrate the characteristics that will translate into success? New security issuances that consistently exceeded overall market returns during the three years following the IPO share a number of common traits. Aside from demonstrating superior relative performance on a broad range of financial metrics, the market leaders recognize that the IPO is but one step in a company’s long-term progress.

Have a plan B

If the capital markets are undesirable, you may elect to hold off until they improve, but then the question may become, “Can you afford to wait?” Plan for a delayed transaction or strategic shift; an IPO is not the sole approach for raising capital.

It is imperative you have the flexibility to execute an alternative financing strategy if the IPO does not happen. Many companies have a plan B and explore multiple options simultaneously to increase the likelihood of a capital infusion.

When delaying an IPO is not an option

When access to private capital becomes scarce and cash is needed to sustain growth and execute the business plan, delaying an IPO may not be an option. Stakeholder pressure, financial constraints and other factors will likely make it necessary to raise capital in the public markets.

You’ve known this day would come. So in planning ahead, build the people, processes and infrastructure early to support public market requirements and expectations. Also, be prepared to work closely with your advisors in the months after the IPO to execute one or more follow-on offerings.

“There is never good or bad timing for an IPO if you believe in your business and you believe in the future of what you do.”

Patrick Lo
Chairman and CEO
NETGEAR

“A strong management team and consistent results are the foundations of a great company — and great companies can have successful IPOs, regardless of what is happening on Wall Street.”

Charles Ruck
Partner
Latham & Watkins
Harnessing and retaining talent is yet another crucial building block in your quest for public company status and aftermarket success. Your company’s IPO transformation will likely involve strengthening your management team and corresponding compensation structures to retain and motivate key talent within your organization. Likewise, your selection of financial and tax advisors, attorneys, underwriters and other key advisors will carry significant weight in the IPO transformation process.

Executive team
Once your company goes public, a significant amount of executive time will be devoted to investor relations and communications. This means that, with reduced CEO and CFO oversight, your executive team and managers must be well equipped to oversee the day-to-day operations of the company.

The investment community will look to the CEO to articulate the company’s vision and strategy and for execution of the business while he or she also focuses on relationships with all external stakeholders. The CFO must own the financial model and translate strategy into financial results for the investor audience. Both the CEO and CFO will need to co-navigate the pre-IPO process, but the CFO often becomes the primary liaison with Wall Street in the aftermarket.

Wall Street grades companies in part on the ability of CEOs to surround themselves with talented people and to galvanize team commitment toward a common vision. Strong IPO performers will typically begin the process of harnessing key talent a full one to two years in advance so the team is in place and working well together long before the public launch.

With increased transparency, your compensation plans will also be under public scrutiny. Does your company offer the right balance of base salary and incentives versus equity-related compensation to retain and motivate? Be sure to review and restructure your compensation plans prior to the IPO and consider the financial, regulatory and tax implications of alternative plan structures.

Advisory team
Begin to assemble your advisory team well in advance of your public launch – at least 12-24 months prior to the filing of your SEC registration statement.

Independent auditors
It is in your best interest to choose an experienced professional services firm with broad resources and a comprehensive understanding of the IPO process, and both your business and industry, to serve as your business advisor – while you prepare for the IPO process and long after you join the public markets. A full-service accounting firm will offer a range of auditing, tax, transaction and business advisory services. While SOX prohibits an external auditor from providing certain non-audit services to its public company audit client, many tax, transaction and business advisory services are permissible and can be provided by your external auditor.

It is important to establish, early in the IPO process, that your external auditor is independent under SOX. PCAOB rules require that your auditor communicate their independence with you prior to being engaged under PCAOB standards. Establishing independence under SOX may be an extensive undertaking for your auditor depending upon the extent of your operations, global reach, ownership structure, etc. As such, the assessment of independence should be initiated early in the IPO process to avoid issues that could impact the timing of your IPO.

Your independent auditors will provide information to help you evaluate the advantages and disadvantages of going public and, if appropriate, explore alternative routes to monetization. Your auditors will also provide guidance as you prepare your final disclosure package for your prospectus, facilitating the registration process to help avoid costly delays from SEC comment letters on the S-1. You should select a firm with a strong global reputation and demonstrable expertise in securities offerings and SEC reporting.
<table>
<thead>
<tr>
<th>Advisor</th>
<th>Credentials</th>
<th>Lead time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business process (SOX) advisors</td>
<td>• Strong business process improvement skills</td>
<td>At least one year prior to filing the S-1</td>
</tr>
<tr>
<td></td>
<td>• IPO/public company and industry knowledge</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• SOX 404 and internal audit compliance knowledge</td>
<td></td>
</tr>
<tr>
<td>Independent auditors</td>
<td>• Full-service auditing, tax, transaction and business advisory services</td>
<td>12–24 months prior to filing the S-1</td>
</tr>
<tr>
<td></td>
<td>• Strong global and industry credentials</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Expertise in securities offerings and SEC reporting</td>
<td></td>
</tr>
<tr>
<td>Insurance broker</td>
<td>• Specific expertise in D&amp;O markets</td>
<td>At least several months prior to filing the S-1</td>
</tr>
<tr>
<td></td>
<td>• Loss control and risk management consulting services</td>
<td></td>
</tr>
<tr>
<td>Investor relations</td>
<td>• Strong institutional market knowledge and relationships</td>
<td>At least several months prior to filing the S-1</td>
</tr>
<tr>
<td></td>
<td>• References and chemistry</td>
<td></td>
</tr>
<tr>
<td>Legal counsel</td>
<td>• Extensive public offering experience</td>
<td>12–24 months prior to filing the S-1</td>
</tr>
<tr>
<td></td>
<td>• Expertise in corporate federal and state securities law</td>
<td></td>
</tr>
<tr>
<td>Tax advisory</td>
<td>• Strong, integrated tax advisory and compliance services</td>
<td>12–24 months prior to filing the S-1</td>
</tr>
<tr>
<td></td>
<td>• Global and industry expertise</td>
<td></td>
</tr>
<tr>
<td>Underwriters</td>
<td>• Reputation, experience, syndication and distribution capability</td>
<td>Six months to one year prior to filing the S-1</td>
</tr>
<tr>
<td></td>
<td>• Suitability for your industry, market and offering size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Aftermarket performance and ongoing support</td>
<td></td>
</tr>
</tbody>
</table>

**Underwriters and analysts**

It is critical to identify the managing underwriter best suited for your company’s culture and goals and to consider carefully the underwriting syndicate that will distribute your shares and provide diversified support. Likewise, you should consider underwriter and analyst independence requirements and their impact on your choices.

Get to know the buy-side and the sell-side analysts and understand the implications of both. Closely size up the analysts who could be covering your company for an appropriate fit, including their knowledge of your company and its performance drivers, their expertise in your industry and the breadth of their coverage universe. The human dynamic is also important. Look for firms that have reputations for working well together. The choice is about not only the reputation and track record of the 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.

**Legal counsel**

Your attorneys will be instrumental throughout your IPO journey. Like your auditors, your chosen law firm should offer considerable SEC experience. Outside counsel also must be well versed in federal and state securities law, corporate law and initial public offerings. You will rely heavily on your attorneys to prepare, file and complete your SEC registration. They will guide you with regard to the risks and regulation of the IPO transaction, including publicity and disclosure. And they will help you understand the roles of the key players – the SEC, self-regulatory organizations (SROs) and the Financial Industry Regulatory Authority – and the rules – federal federal securities laws, FINRA rules, exchange listing rules, state securities regulations and global issues.

**Other advisors**

Building a quality advisory team is essential for pre-IPO preparedness and a successful IPO outcome. In addition to the advisors mentioned, identify business advisors to help with internal audit and SOX compliance, tax and compensation structuring and transaction management and strategy.

Supplement your team with a strong investor-relations expert to help you sustain the market’s interest in your company, communicate with your shareholders and the public, attract a pipeline of new investors and sell-side research coverage, and manage regulatory and liability risk. An insurance broker will assist you in identifying, calibrating and managing risk through prudent corporate governance, indemnification and adequate D&O insurance coverage.

Also consider other strategic advisors who can complement your team’s experience in areas such as information systems, business-process improvement, printing and personal financial planning.

> “I think one of the keys is to be staffed adequately and appropriately in the legal and finance and accounting areas before the IPO takes place. It’s not an area where you can really cut corners. Maybe you can cut costs, but you certainly can’t cut corners. Under Sarbanes-Oxley, there’s only one way to do business really, and that’s the right way.”

William L. Kimsey
Board Member
Accenture, Ltd., Parsons Corporation, Royal Caribbean Cruises, Ltd.
Building your business processes and infrastructure

IPO candidates must carefully weigh the risks, rules and regulations associated with IPO preparedness and life as a public company. Your ultimate decision to go public or pursue an alternative method of capital infusion must reflect a comprehensive understanding of business and financial processes and technology and related potential areas of exposure.

Financial reporting processes
Once your company is public, financial reporting takes on a heightened level of importance and increased transparency. The process begins once you’ve prepared and filed your initial S-1 registration statement. Expect to respond to more than one round of SEC comments on business, legal and accounting issues. Be prepared to update the Form S-1 as a result of the SEC inquiries and to reflect updated quarterly and annual financial information, as appropriate, throughout the review process. The SEC’s review process is primarily concerned with the adequate and complete disclosure of an issuer’s business to the market.

Once the company files its initial registration statement it will be considered an issuer and as such, will be subject to the rules of the PCAOB. Such rules include audit committee pre-approval 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, the company will be required to file quarterly and annual reports with the SEC. Companies often find that the financial statement close process timeline must be significantly condensed to allow for internal analysis and increased levels of communication among management, board members and external advisors prior to the filings.

Best practice: Draft quarterly financial statements and hold mock earnings calls with management and shareholders at least two quarters prior to going public.

The SOX 404 balancing act
Extensive testing of internal control systems has become a way of life for public company management since the inception of the 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 efficiencies of internal controls over financial reporting.

According to EY’s 2008 Global Internal Audit Survey, 80% of internal audit functions use third-party service providers to assist with SOX 404 compliance.

Best practice: Develop written financial accounting and SEC reporting policies and procedures manuals and execute a plan for SOX compliance, including Section 302 and 906 certification processes, at least 12 months prior to the IPO.

Companies should guard against SEC hot buttons, such as the use of non-GAAP financial measures, income statement classification issues, revenue recognition, segment disclosures and valuation of stock options that can pose delays during the review process if not addressed early. Alternatively, the interests of the FINRA lie in maintaining the integrity of the capital-raising markets via detailed analysis of the underwriting arrangements of the deal. The interplay between the SEC, FINRA, and other rules of the game – federal securities laws, exchange listing rules and state securities regulations – creates multiple categories of potential liability for IPO candidates. The most damaging of these involve the risk of material misstatements or omissions in the S-1 and the potential for illegal purchase offers or marketplace conditioning through missteps in prefiling publicity and media activity.
Tax structures and reporting

Increased regulatory pressure, demands for transparency and globalization are increasing the strain on already tight resource pools. In response to these converging factors, corporate leaders are redefining the role of the tax function; they expect bottom-line contributions, timely decision-making support and accurate tax reporting, with greater operational efficiency and more effective tax risk management. 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 business operating units and company as a whole.

Best practice: Improve the quality of tax reporting and risk management through alignment of resources towards the greatest tax liability and tax risk.

Information systems

In preparation for the IPO, management should assess whether the current IT environment and infrastructure are aligned with the company’s business objectives. IT will be critical 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 enables management to make informed business decisions and to monitor and analyze progress against corporate goals.

Best practice: Because high-growth companies, private or public, can look different every six months, their information systems must support flexibility, adaptability and innovation while also enabling swift financial analysis and reporting. Consider implementing enterprise business process platforms that can foster both your ambitious growth goals and change readiness at the speed of business. If your information systems can’t help you adapt, they run the risk of constraining your growth.

Did you know?

Two of the top three reported control deficiencies (approximately one of five) contributing to a material weakness were (1) competency and training of accounting resources and (2) inadequate accounting documentation, policies and/or procedures.

According to an EY study, income tax accounting represents approximately 30% of all material weaknesses.

“Companies should ensure that in preparing for an IPO they have the financial systems and capabilities so that they’re fully compliant with generally accepted accounting principles and Sarbanes-Oxley. That will make the IPO process much smoother, and you will have fewer delays in the filing of the S-1 and in the IPO process itself.”

Jim Mackey
Senior Vice President Corporate Development
SAP AG
Establishing corporate governance

With heightened corporate governance standards for public companies and increasing liability exposure, the process of assembling a strategic board of directors is more complicated and critical for today’s IPO candidates than it was in the past.

**Optimal composition**
Listing standards for the NYSE Euronext (NYSE) and the NASDAQ Stock Market require a board composition with a majority of independent members. Audit committees should have at least three members, each of whom must be independent and one of whom must qualify as a “financial expert” as defined by the SEC. Generally, small-cap company boards should target a composition of five to six outside directors with a minimum of three independent committees (audit, compensation and governance/nominating). And under the umbrella of SOX oversight, you must draw a definitive line between the scope of directors’ duties and the responsibilities of executive management.

**Complementary skills**
Public company boards often require a different skill set than private company boards. While your private board may seat founders, venture capitalists, customers and/or management — all with deep knowledge of your particular business service or product — your public board will require a substantively disparate mix of audit, governance, compensation and compliance specialists, corporate strategists, and experienced executives.

To bring best practices to the public arena, collective and complementary board member expertise must span business development via organic and M&A growth, successful strategic planning and acquisition integration, capital markets involvement, industry experience, and basic financial literacy. In addition to the right credentials, your board members must have the individual capacity to meet a substantial annual time commitment — approximately 200 hours or more per year.

**The recruiting process**
The typical board candidate search process is quite similar to recruiting a CEO or other C-level executive. Directors’ compensation should be both appropriate and attractive; their indemnification must be strong and practical. With intense individual scrutiny and liability for public company directors in today’s post-Enron and WorldCom environment, substantial time and effort are required to identify, appoint and groom a qualified board of independent directors.

For successful IPO performers, establishing the board of directors is often a top priority in preparing for the IPO journey.

> “The CEO and board of directors have to work together constructively, sometimes in spirited debate on key issues, to present a high-quality business opportunity and cause public market investors to enthusiastically support the company.”

Douglas Leone
General Partner
Sequoia Capital

> “There’s plenty to be done to mitigate the risk of unlimited personal liability. And that includes good corporate governance processes and procedures that you’ll put into place as you’re going public.”

Priya Cherwin Huskins
Partner and Senior Vice President
Woodruff Sawyer & Company
The board of directors and risk

It is well accepted that companies need a comprehensive process and structure to identify and manage risks. Creating this process — the risk management framework — is not an exercise in bureaucracy but a way to manage a company’s risk prudently and effectively, and at the same time allow management the confidence to achieve growth. In its oversight capacity, the board bears ultimate responsibility for developing this process.

Questions the board and audit committee should consider include:

- Does the board clearly delineate the risks that fall within the oversight of the audit committee?
- What are the company’s risk priorities?
- What are the most important areas of risk for the company?
- How are risk resources currently being allocated relative to the management of these important areas of risk?
- What are the major business initiatives being considered, and what are the significant risks associated with those 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?
- Are the risk updates prioritized, clear and concise (e.g., management uses a risk dashboard)?
- How does the company assure that its risk management programs do not cause the company to become risk averse?
- Has the company considered the implications of the Dodd-Frank Act of 2010?
Managing investor relations and communications

The prospect of maintaining aftermarket support and courting a new pipeline of public investors is a challenging and time-consuming process, often underestimated by private companies. Your company’s debut in the public markets requires a strategic investor-relations function that knows how to sustain the market’s interest in your company, communicate with your shareholders and the public, attract a pipeline of new investors and sell-side research coverage, and manage regulatory and liability risk.

Hiring an expert
Whether you recruit an experienced investor-relations officer, engage the services of a seasoned consultant, or both, the presence of an investor-relations specialist will ease management’s burden in executing proactive, credible and value-driven Wall Street relations.

Strategic investor-relations planning will cushion your company’s transition to the public markets through effective corporate communications, compliance and disclosure. Financial media relations and institutional-investor targeting require constant and well-coordinated planning and execution. Most importantly, professional IROs and consultants will help you manage those elements of public ownership that are within your control, namely, establishing and building corporate credibility through open and consistent communication with all of your stakeholders.

Building your pipeline
A well-chosen underwriting team will provide market-making and aftermarket trading support. But in today’s environment, investment firms’ banking and analysis departments are separated and insulated from one another. Public companies must take individual responsibility in targeting sell-side analyst coverage from a broad universe of firms that are independent from their investment banking relationships.

Companies also must be prepared to cultivate an open channel of outreach to potential buy-side investors through ongoing dialogue, conference attendance and non-deal marketing visits.

Only through regular exposure to Wall Street can management effectively gauge investor perception and identify the messages that resonate with investors.
Fine-tuning your investment story

Once the IPO is over, the process of retelling your investment story and fine-tuning your investment value proposition begins. This will be a continual practice of communicating the intangible business drivers that provide growth and profitability for your company, developing a robust financial planning and analysis function, and providing appropriate and supportable guidance on financial performance and business milestones.

The investor-relations function involves educating the public about the company’s position in the industry, providing a regular update of forecasts and identifying any key business issues that could impact the company positively or negatively.

Even with expert assistance internally and/or externally, CFOs should be prepared to spend at least 30% to 40% of their time in ongoing investor relations to drive success in the IPO aftermarket.

“Having a professional investor-relations team is really, really important to success ... You want a team that is familiar with your category, with your industry sector, with the potential investors with whom you’ll be speaking, and also a group that has worked well with your bankers. It’s really critical that team works in lockstep, arm-in-arm together.”

Michael Foust
CEO and Director
Digital Realty Trust

“Hire a firm with your end game in mind – one that knows your industry and has experience working with public and private companies. Your investor-relations advisor should also know how to communicate in all situations, including crises, because one will inevitably occur.”

Robert H. McCooey, Jr.
Senior Vice President
New Listings and Capital Markets
The NASDAQ Stock Market
Conducting a successful IPO road show

The road show is a critical event in the IPO process and possibly the most exhausting for management. During this whirlwind national (or international) tour, your company will be introduced to key investment audiences, including the underwriting sales forces and prospective institutional investors.

A typical road show commitment is 8 to 10 days in the US plus one to two days in Europe and/or Asia. For 8 to 12 hours a day – including one-on-one and group presentations; breakfast, lunch and dinner meetings; and travel between cities – management must sell the investment merits of the story and be prepared to address skeptics who will pose challenges to the investment thesis.

Developing the message

The two primary road show communication vehicles are an organized, well-designed PowerPoint presentation and comprehensive speaking points. Speakers should strive to present a balanced view of the business and its growth prospects, competition, strategy, achievements, objectives and financials. Management competency and expertise will be a prime area of investor interest; your individual performance on the road is your best opportunity to inspire confidence and influence the investors’ decision to buy into your offering.

In addition to a full 20–25 minute slide presentation, management should be well prepared to deliver a shorter, verbal version to accommodate the inevitable scheduling changes that arise throughout the trip. An “elevator pitch” should be prepared and ready for circumstances when you only have a few minutes to articulate the three to five key messages of the investment story.

The dress rehearsal

Management presentation coaching and practice are crucial to road show preparedness. 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 plan to rehearse formally a number of times before the first day of meetings.

In practicing for the presentation delivery, management also should be well rehearsed for questions from a sophisticated and often skeptical investment audience. By anticipating the most challenging questions, you will seize the opportunity to turn potential issues into positive investment messages.

Understanding your audience

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

A key challenge of the road show is to communicate a high level of excitement and passion for your company even though you may repeat the same presentation more than 50 times in one week. Engage and interact with the investors with whom 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 | - Make sure you 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  
- Make sure 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) |

“We seek to allocate shares to fund managers who will become stable, long-term investors for your company. Educating them about you, and you about them, are the reasons for a road show.”

Will Bowmer  
Managing Director  
Head of Technology Equity Capital Markets  
Barclays Capital Inc.
Attracting the right investors and analysts

Being prepared for your IPO includes having an aftermarket strategy. Once the transaction is consummated, the stakes rise dramatically as management accountability shifts from relatively few investors to perhaps thousands of new ones. To provide your company with the best chance for a strong aftermarket performance, you hold the ultimate responsibility for targeting the appropriate sell-side analysts to follow your company and for achieving the optimal investor mix.

**Underwriters**

Your choice of the managing underwriter, who should be committed to forging a long-term relationship with you, is the first step in this process. While you should certainly evaluate a large number of firms, you must select the managing underwriter best suited to your company’s culture and business objectives. Moreover, the underwriting syndicate that will distribute your shares and provide pricing stabilization, active trading support and sponsorship resources (such as investor conferences and institutional, non-deal road shows) deserves careful consideration. Finally, the human dynamic should not be overlooked: identify firms that have a reputation for working well together. Keep in mind that the 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.

**Sell-side analysts**

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 an appropriate fit, including a thorough understanding of your company and its performance drivers, as well as their industry expertise, and validate the breadth and depth of their coverage universe. Although the appropriate knowledge base is an obvious prerequisite you must consider, you should not dismiss the importance of the analyst’s interaction with your management team and how well you all relate to each other. It is important to note, however, that the decoupling of investment banking from sell-side research following the Global Research Analyst Settlement in 2003 (in which 10 of the top US investment firms settled enforcement actions involving conflicts of interest between research and investment banking) made it even more of a challenge for small-cap companies seeking analyst coverage and requires these businesses to cast their net beyond the firms listed on the cover of the prospectus.

**Management is key**

Courting public investors can be more daunting than you realize. So what do institutional investors, portfolio managers and hedge fund managers who consider participating in an IPO seek, aside from a thorough risk review represented by what is in the prospectus? 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. Incentive plans that outline performance goals tied to metrics such as return on invested capital, return on equity and cash flow generation are viewed more favorably than plans that merely reward milestone achievement. Investors are also more inclined to place their bets on executives with meaningful direct ownership in their company’s stock.

“Establishing credibility with research analysts is essential. That credibility is established based on meeting expectations, and knowing the key business drivers and the impact on your financials. Build that relationship early, well before your IPO.”

Scott Cutler
EVP & Co-Head US Listings & Cash Execution
NYSE Euronext
Investor outreach requires continuous cultivation

Investor outreach does not end with the IPO. Companies preparing to go public should develop a strategic plan for actively managing their ownership mix in the aftermarket. You should be prepared to cultivate relationships with potential buy-side investors through ongoing dialogue, conference attendance and non-deal marketing visits. In addition to generating interest in the stock, meetings with the buy side offer the opportunity to constantly hone the investment thesis by gathering feedback about your value proposition, gauging market perception and determining what messages or themes resonate most effectively with investors.
Delivering on your promises

Once your company goes public, the real work begins — keeping the promises made during the IPO and road show, managing the expectations of shareholders and analysts, and delivering growth and value.

Establishing 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 entails communicating openly and consistently on your business prospects, executing well against your objectives, and delivering on your promises. The process begins far in advance of the IPO, and it continues for the life of your company.

Your company will always be surrounded with issues outside of your control, including the stock market, the economy and fluctuations within your industry. When communicating with Wall Street, the focus should be on the factors within your control: managing the business, producing the numbers and creating value. Credible communicators speak with transparency about both opportunities and challenges in the business.

Managing expectations
As a public company CEO, you should take the opportunity to dictate the metrics by which external stakeholders measure your company’s performance. Clearly define the parameters that management uses to track the business to give investors and analysts a blueprint to follow. Companies that don’t offer such clarity into the business are obligated to meet the expectations of external parties.

In addition to requisite financial disclosure, you should regularly assess and communicate the intangible business drivers that serve as measures of the growth and profitability of your business. Any guidance that you give — financial and non-financial — should be both appropriate and supportable.

Do not underestimate the importance of strong financial reporting, planning and analysis functions to support your financial disclosures and communications.

Best practice communications
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 such storms as a public company and establish the foundation to deliver on the promises you make.
Managing post-IPO risk

Taking your company into the public markets means you have a new range of stakeholders that demand much greater transparency in your business. Post-IPO, focus on these four areas of risk:

**Financial risks**

Surprising the market and the need for transparency

As a newly listed business, you must make sure your goals are realistic and clearly communicated, as meeting these expectations is critical to accelerating your growth. Remember that the market does not react well to surprises. And your new stakeholders will want your business to be financially transparent.

**Strategic risks**

Executing new initiatives and the need for governance

A series of acquisitions or a program of rapid expansion into new geographical markets using the proceeds of your IPO may be new to your business and, as such, carry a much higher risk profile. Establishing a risk framework that starts at the very top of your organization will enable you to approach the future – and the new initiatives – with confidence that your business is well controlled.

**Operational risks**

Focusing people and investing in infrastructure

To drive growth and keep your stakeholders happy, you must ensure your people remain focused on the business and are fully aware of their new responsibilities. Likewise, systems, controls and policies that were adequate for a private company may not give you what you need to scale your now-public company and monitor its performance.

**Compliance risks**

Following new rules and regulations and the need for effective controls

Investors are paying much closer attention to how companies approach compliance. It is essential that you have the right controls in place. Lead from the top and set and communicate clear policies and procedures. This will assist your business in remaining compliant with the regulations and staying on track to achieve its objectives.

“Delivering on your promise is an absolute – a fundamental preparedness factor. You must have a solid grasp of your internal financial planning and analysis processes and how well they function within your organization. Remember, if your company misses expectations, the market will punish you. A single negative news item can have an impact.”

Maria T. Pinelli
Partner, Global Vice Chair
Strategic Growth Markets
EY

“It is absolutely critical to deliver on the promise. In my opinion, the first year of being a public company is all about credibility. Very hard to build it; very easy to lose it.”

Patrick J. Scannell, Jr.
Senior Vice President, CFO and Treasurer
Netezza
What investors want when mulling an IPO share purchase

The profound changes companies confront when transforming from a private entity to a publicly listed company can be overwhelming. With so many pre-IPO factors influencing a company’s people and processes, executives need to know what matters most to the market for the most successful pre-IPO planning.

To see what investors want when sizing up a company heading to the public markets, EY worked with *Institutional Investor* magazine to poll hundreds of investors in our ‘Funding for Growth’ global study (see box). Their responses, which shifted significantly in just one year, show that investors are now most concerned about debt levels, though growth prospects continue to rank high. These findings build on more than a decade of similar IPO success research. Below are some key findings.

- Reflecting market skittishness over highly leveraged companies, investors now rank debt-to-equity ratio as their top preoccupation. By contrast, this factor was investors’ ninth most important concern in 2008. Earnings per share growth ranked first last year.
- Private equity-backed companies, in particular, need to take this wariness into account in their pre-IPO plans because they are usually highly levered. Debt financing and leverage levels must now be resolved in tandem with equity funding proposals.
- As in prior years, earnings per share growth ranks as a top financial share purchase factor. But given the turmoil wrought by the financial crisis, leverage levels now trump all.

Global IPO Institutional Investor survey 2009

To assess what matters most to investors, EY collaborated with market researchers at *Institutional Investor* magazine in 2009 to survey more than 300 institutional investors around the world on factors they take into account when considering a pre-IPO stake purchase. In this online survey, investors ranked their most important financial and non-financial concerns accordingly. Roughly 60% of respondents represented hedge or mutual funds. (Around 40% of them also work at banks, pension funds, brokerage houses and other entities and are based in Asia or Latin America.) Collectively, on average, they manage more than $20 billion in assets.

### Most important financial IPO success factors to investors

<table>
<thead>
<tr>
<th>Factor</th>
<th>% of investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt-to-equity ratio</td>
<td>63%</td>
</tr>
<tr>
<td>EPS growth</td>
<td>59%</td>
</tr>
<tr>
<td>Sales growth</td>
<td>55%</td>
</tr>
<tr>
<td>ROE</td>
<td>55%</td>
</tr>
<tr>
<td>Profitability growth</td>
<td>55%</td>
</tr>
<tr>
<td>EBITDA growth</td>
<td>50%</td>
</tr>
<tr>
<td>Cash and investments on hand</td>
<td>38%</td>
</tr>
<tr>
<td>Gross margins</td>
<td>35%</td>
</tr>
<tr>
<td>ROI</td>
<td>26%</td>
</tr>
<tr>
<td>ROA</td>
<td>12%</td>
</tr>
</tbody>
</table>

*Note: % represents the percentage of institutional investors that had the particular factor as one of their top five choices.*
Sales growth, which ranked fourth in 2008, is now investors’ third-most important focus as they seek assurance that growth from both existing businesses (organic growth) and newly acquired assets (takeovers, mergers and acquisitions) add up to better bottom-line numbers.

Return on equity remains the fourth-most important factor for investors in their pre-IPO purchase plans, providing a sense of what they might receive as a return. This metric measures a company’s anticipated profit versus its book value (how much owners have invested or total stock value.) If an investor’s perceived risk is high, he or she will expect both a higher return and a lower equity valuation.

Profitability growth, which ranked second in 2008, fell to fifth in this survey. According to survey respondents, a visible path to profitability via strong growth and positive cash flow is more important than a track record of profitability.

Likewise, EBIDTA growth is now the sixth most important factor investors take into account when considering purchasing a share in a newly listed company, versus ranking third last year. EBIDTA measures earnings before financing and tax costs and non-cash charges. Thus, any discrepancy between reported EBIDTA and cash generated will spark questions among investors. The cash-burn ratio is also a focal point for companies requiring significant investment, which is often the case in the technology sector, for instance.

Financial versus non-financial buying factors
Up to 80% of newly issued stock is purchased by institutional investors. So understanding what drives the IPO stake-buying decision at mutual funds, hedge funds, banks, insurance companies, pension funds, larger corporate issuers, money management funds and other issuers is paramount.

Financial factors drive 60% of the investing decision. When determining the price they are prepared to pay for an IPO stake or estimating valuations for selling or purchasing decisions, financial performance measures make up roughly 60% of this weighting (see prior page). At IPO time, investors expect to pay about 10%-15% less per share than they would pay for already listed peers.

The remaining 40% weighting falls into non-financial areas, even among large, mature companies. According to our study, factors investors rank high include management credibility, corporate strategy and brand strength.

Management credibility and experience 90%
Quality of corporate strategy and its execution 73%
Brand strength and market position 59%
Operational effectiveness 54%
Corporate governance practices 44%
Research and innovation 35%
Financial reporting and accounting control environment 30%
CEO leadership style 25%
Ability to recruit and retain talented people 14%
IFRS/US GAAP accounting tracking record 13%
Quality of investor relations 8%

Note: % represents the percentage of institutional investors that had the particular factor as one of their top five choices.

Source: Global IPO Institutional Investor survey 2009
Count on EY as you prepare to transform

Your business is gaining momentum. You need access to capital to accelerate your growth, conquer new markets and build your brand.

Is an IPO the right next step?

EY is the undisputed US leader in the number of companies taken public. We know how to help you evaluate the pros and cons of an IPO, demystify the process, examine the alternatives and prepare for life in the public spotlight.

An IPO marks a turning point in the life of your company. At EY, we know what it takes to be ready for an IPO, what guidance you need to address the priorities and mitigate the risks, and how to:

- Evaluate your transaction alternatives to reach your goals
- Develop the infrastructure, processes and controls to protect against risk exposure and facilitate regulatory compliance
- Attract, retain and motivate your management team
- Help you ensure your top people have the skills, commitment and operational experience to undertake the transaction and run your business

Once you select your key IPO advisors, you want utmost confidence in their advice throughout the going-public process. You also want to know they will be on hand to guide you through the next transaction and the next.

EY is thoroughly committed to the transaction marketplace

As the IPO leader, we guide the most high-growth companies through the evolution from private to public status and, ultimately, to market leadership.

We study the IPO pipeline, evaluate successful IPO trends and invest in IPO-related webcasts, insight-based reports and assessment tools to help you prepare and succeed. We regularly conduct surveys to capture what propels companies into market leadership. We educate both clients and policymakers on capital market trends. And our annual Strategic Growth Forum convenes the leading outside experts on how to decide if an IPO is right for your business and how to anticipate the changes your company will have to undergo.

EY knows what it takes to succeed as a public company

Count on us to draw upon our global network, market leadership, industry expertise and insight to guide you during and beyond the IPO process and to help your business achieve its potential.

EY Strategic Growth Markets leadership in the Americas

<table>
<thead>
<tr>
<th>IPO leader</th>
<th>SGM leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill Demers</td>
<td>Colleen McMorrow</td>
</tr>
<tr>
<td>+1 519 571 7680</td>
<td>+1 416 943 2718</td>
</tr>
<tr>
<td>Amy Dorfmeister</td>
<td>AJ Jordan</td>
</tr>
<tr>
<td>+1 215 448 5550</td>
<td>+1 215 448 5301</td>
</tr>
<tr>
<td>Joe Link</td>
<td>Ray Mikovits</td>
</tr>
<tr>
<td>+1 212 773 6831</td>
<td>+1 212 773 8366</td>
</tr>
</tbody>
</table>
| Oren Bar-On |+
| +972 35 687 102 |
| Jose Javier Jaime | Guadalupe Castañeda |
| +52 55 5283 1443 | +52 55 5283 8691 |
| Kevin Klimara | Todd Novak |
| +1 414 223 7170 | +1 312 879 2889 |
| Matt Askins | Mike Portegello |
| +1 212 773 0681 | +1 212 773 9710 |
| Jose Javier Jaime | Andre Jose Ferreira |
| +52 55 5283 1443 | +55 11 2573 5250 |
| Rachel Gerring | John Marra |
| +1 615 252 2023 | +1 404 817 5009 |
| David Zaozirny | Debra von Storch |
| +1 713 750 8148 | +1 214 969 8201 |
| Doug Regnier | Joe Muscat |
| +1 858 535 7210 | +1 650 802 4513 |
EY invests in IPO and strategic transaction guidance to help you succeed

**Funding for growth: exploring options – IPO readiness**
This study includes results from a survey of more than 300 institutional investors around the world to determine how uncertain markets might have affected their IPO decision-making.

**Global IPO trends 2011**
Global IPO markets continued to make a robust recovery in 2011. Learn about the latest IPO market trends and issues relevant to companies planning an IPO in EY’s eighth annual report on the global IPO market.

**Thought Center webcasts and podcasts**
Watch, listen and learn at http://webcast.ey.com/thoughtcenter (topic: strategic growth markets)

**Capital matters: strategic transactions and IPO readiness**
Forward-thinking companies already have a plan that positions them to be leaders during economic recovery. A key part of the plan is to consider both strategic transactions and IPOs. A strong capital agenda needs to be at the heart of that strategic planning. With continued scarcity of capital, it is essential that companies diversify their funding sources, which may involve divestitures, exits or IPOs as options for optimizing and raising capital. This panel of EY professionals and leading executives discusses recent experiences in building competitive advantage by preparing for strategic transactions and IPOs. (http://webcast.ey.com/thoughtcenter (topic: transactions))

**Tackling the top 10 IPO readiness challenges**
IPO readiness involves the acceptance and implementation of change throughout every aspect of a business. What advance preparations are most critical in sustaining post-IPO momentum? CEOs and other parties with successful going-public track records share how they undertook the all-consuming task of preparing for the IPO transformation, including 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. (http://webcast.ey.com/thoughtcenter (topic: strategic growth markets))

**The new IPO ecosystem: knowing the players, rules and regulations**
The IPO market for companies backed by venture capital and private equity capital has been experiencing some challenges. But entrepreneurs can circumvent many of the obstacles to going public. Seasoned executives discuss how. (http://webcast.ey.com/thoughtcenter (topic: strategic growth markets))

**Conduct an EY IPO Readiness Session**
An IPO Readiness Session is designed to guide your company through a successful IPO transaction to a strong debut in the capital markets. Foster strategic thinking and discussion around the business objectives, capital-raising strategies and organizational change required to execute and sustain a successful IPO and/or alternative transaction.

**Hot topics:**
- Understand the “measures that matter” – what it takes to win in the capital markets
- Identify your company’s strengths and weaknesses and learn how to close gaps
- Learn how to manage the process, players and your organization during this time of transformation

IPO Readiness Sessions last two to four hours and are best held in an environment without distractions at your company or an EY office. Contact your local IPO leader (listed on the previous page) to set up a session.
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. For more information about our organization, please visit ey.com.

EY’s worldwide Strategic Growth Markets Network is dedicated to serving the changing needs of high-growth companies. For more than 30 years, we’ve helped many of the world’s most dynamic and ambitious companies grow into market leaders. Whether working with international mid-cap companies or early-stage venture-backed businesses, our professionals draw upon their extensive experience, insight and global resources to help your business succeed. www.ey.com/sgm

© 2013 EYGM Limited. All Rights Reserved.
EYG/OC/FEA no.
1310-1155513_West
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.