



Guide to going public

Strategic considerations
before, during and post-IPO



Contents

The companies that are fully prepared will be able to create value and fully leverage the IPO windows of opportunity.

For private companies seeking to raise capital and provide exits for their shareholders, an initial public offering (IPO) can be a superior route and strategic option to funding growth and to access deep pools of liquidity. While challenging markets will come and go, it's the companies that are fully prepared that will best be able to create value and fully leverage the IPO windows of opportunity whenever they are open.

Companies that have completed a successful IPO know the process involves the complete transformation of the people, processes and culture of the organization from a private enterprise to a public one. 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 and mastering the essential board of

directors' commitment to go public. During the journey to become a public company, an organization must prepare not only for the defining moment of the IPO ceremony, the ringing of the bell, but also for a whole new phase of corporate life after the IPO takes place. That's why market outperformers treat the IPO as a long-term transformational process.

EY is a key member of your external IPO team. We have worked with business owners and management teams of family businesses, scaled up and high-growth companies as well as private equity- or venture

capital-held companies considering their strategic options for funding for growth, including a public listing. We have professionals with extensive, proven experience with domestic and international capital markets. Our professionals have deep knowledge of your industry, which allows us to create interdisciplinary teams that will steer you onward, through and beyond your IPO and support your plans for growth.

We are confident this *Guide to going public* will give you an initial overview and checklists of the key phases in going public from a global perspective. It is based on EY insights from many IPO transactions, to help you begin your IPO value journey, so that you are well prepared to transform your private company into a successful public company that continually delivers value to its shareholders. With more than 30 years' experience helping companies prepare, grow and adapt to life as a public entity, we are well-suited to take you on your IPO journey providing tailored support and integrated services before, during and after your IPO.

Our IPO leaders in your region and our global network will serve you from evaluating strategic options pre-IPO to setting you on the right path to support growth post-IPO, while anticipating the expectations of various parties – including regulatory boards, the financial community, the press and investors – along the way.

Irrespective of your market or region, we look forward to exploring with you the various strategic options and each facet of your IPO value journey.

EY IPO Leaders

Going public

What to do when you see an IPO on the horizon.



Situations, cases and motivations

Why would you conduct an IPO?

An IPO is the first sale of a company's shares to the public and the listing of shares on a stock exchange. It allows a company to raise capital in order to build its business by creating newly issued shares and selling existing shares.

There are many situations when companies start to evaluate an IPO as one of their strategic options. Funding or exit motivations, growth, internationalization and changes in the respective industry are triggers for strategic considerations around an IPO. Depending on the stakeholder, a mix of situations and motivations can lead to initial IPO considerations.

Going public

Typical IPO case studies are:

- ▶ High-growth companies: IPO to fund innovation, growth, acquisitions and internationalization
- ▶ Private equity (PE) and venture capital (VC) owners: IPO as a way to exit and to further fund growth of portfolio companies
- ▶ Family business – the company: IPO as integral part of the succession plan and to separate management and ownership
- ▶ Family business – the owner: IPO to diversify wealth and to better manage succession
- ▶ Scale-up companies: IPO as a way to better attract talent and to incentivize management
- ▶ Conglomerates: IPO as a transaction to carve out and partial or full exit of business units
- ▶ State-owned entities: IPO to privatize

Figure 1: Typical contexts for companies that go public



Going public

For many companies that have just started to consider going public, the key question is: could an IPO be the right next step?

The preparation starts with the careful evaluation of pros and cons of an IPO, the potential use of proceeds and examination of alternatives. This is in line with the first questions from investors at an IPO road show: why are you going public and what is the use of IPO proceeds? Answering these fundamental questions is key to the success of an IPO.

A successful listing can help your company unlock access to financing to complete a strategic acquisition, create opportunities to expand your business into new markets or provide an exit opportunity for your private equity or other investors. In addition, it can also improve perceptions of your business and brand with customers, suppliers and employees.

While not all businesses are suited for life in the public eye, for many fast-growing private companies, an IPO can raise the capital needed to accelerate growth and achieve market leadership.

“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.”

Co-founder of a pharmaceutical company

Figure 2: Typical motivations for going public



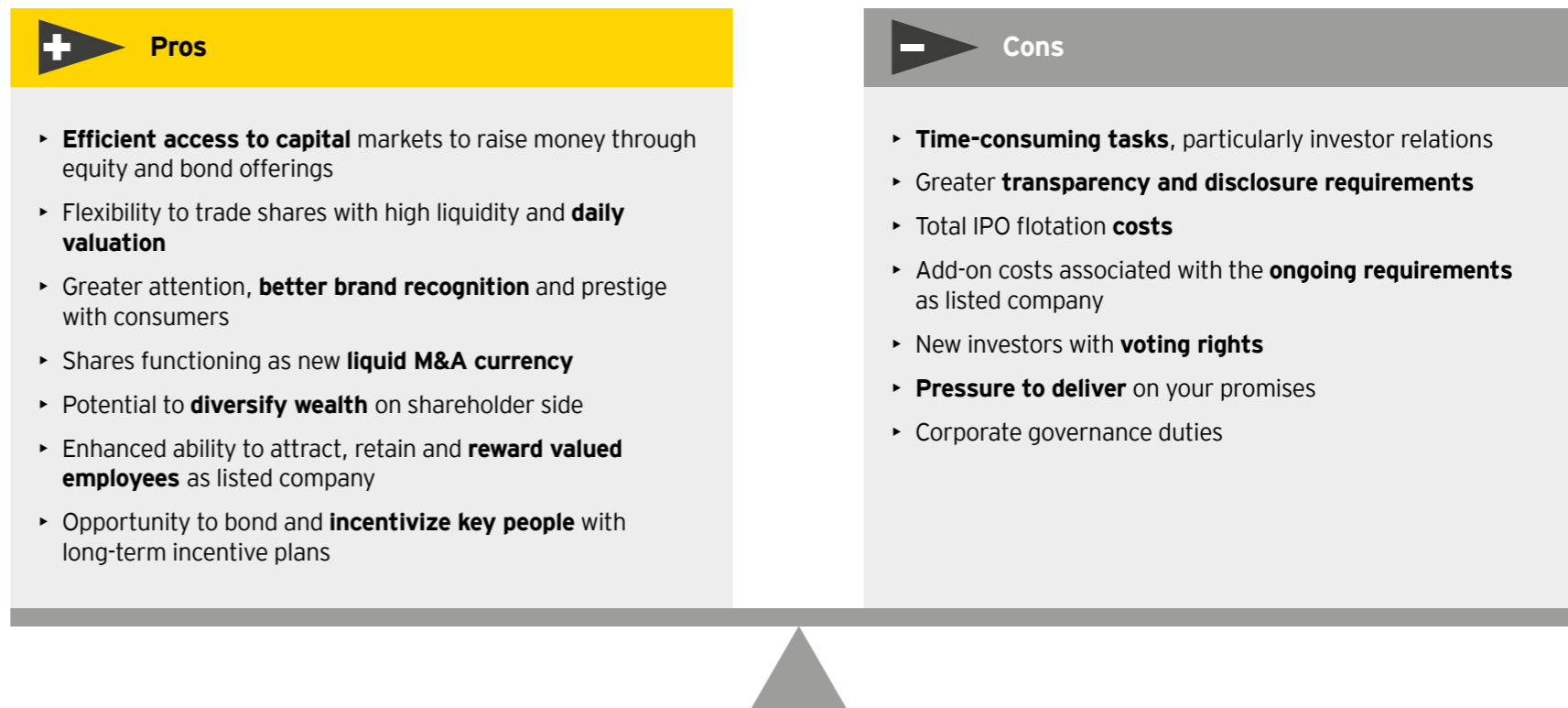
Pros and cons of going public

Outperforming companies weigh the benefits of going public against the drawbacks, as well as against the company and shareholders' objectives.

The possible advantages of going public as shown in Figure 3 are numerous, including improved financial condition; gaining liquid M&A currency; increased capital to sustain growth and innovation; better incentives for management and employees through stock options; enhanced corporate image; better future financing opportunities; and the ability to benchmark operations against other public companies from the same industry.

The potential drawbacks of going public can include holding a lower stake in the company and loss of privacy; limits on management's freedom to act; the demands of periodic reporting; initial and ongoing expenses; the burden of dealing with shareholders' expectations; and increased disclosure requirements.

Figure 3: Pros and cons of going public



IPO success factors and challenges

What are the critical IPO success factors for institutional investors?

Investors will decide whether they buy shares of your IPO or not. This is why we recommend that you view your IPO from an institutional investor's perspective. Institutional investors drive stock prices and include mutual funds, hedge funds, banks, insurance companies, pension funds, larger corporate issuers and other corporate finance intermediaries.

Based on our experience the most important IPO success factors to investors are:

1. Strong management team
2. Compelling equity story
3. Fair pricing
4. Right timing
5. Be "IPO ready" to meet capital market requirements and investor expectations



What are the success factors in getting IPO ready?

We have found that companies with successful IPOs:

Evaluate capital-raising options

- ▶ Start early with a holistic discussion about the strategic options offered by IPO and M&A markets and consider an array of exit and funding alternatives in an IPO readiness assessment.
- ▶ Consider a multitrack approach and the expanding number of capital-raising strategies – including IPO, a strategic sale to a strategic buyer or financial investor (PE/VC).
- ▶ Preserve optionality with early IPO readiness preparations to get IPO ready, to achieve flexibility in timing and pricing and to prepare for more narrow IPO windows.

Prepare early

- ▶ Approach the IPO as a transformational process rather than just a financing event; begin with a holistic IPO readiness assessment as a first step ideally in a 12-24 months period.
- ▶ Begin the IPO readiness process early enough so that your pre-listed company acts and operates like a public company at least a year before the IPO.
- ▶ Assemble the right team of external advisors and commit substantial internal resources to the IPO team and process. Build a quality management team, robust financial and business infrastructure, corporate governance and investor relations (IR) strategy that will attract the right investors.

Outperform competitors on key benchmarks

- ▶ Investors base their IPO investment decisions on financial factors, especially debt to equity ratios, EPS growth, sales growth, ROE, profitability and EBITDA growth.
- ▶ Investors base an average of 40% of their IPO investment decisions on non-financial factors, especially quality of management, corporate strategy and execution, brand strength and operational effectiveness, and corporate governance.
- ▶ Be able to articulate a compelling equity story backed up by a strong track record of growth that sets your company apart from your peers while maximizing value for owners.

Address investors' current concerns

- ▶ Recognize the need for enhanced corporate governance, especially recruiting qualified non-executive board members, improving internal controls and forming a qualified audit committee.
- ▶ Fine-tune your internal business operations, especially working capital management, regulatory risk and rationalizing the business structure.
- ▶ Deal with current accounting challenges, especially segment reporting and accounting changes.

IPO process and EY's IPO value journey

The IPO process should be a structured and managed transformation of the people, processes and culture of an organization.

At EY, we refer to this as the IPO value journey, which embraces the philosophy that the IPO event is not the end game but a momentous occasion that will impact your organization long after the actual transaction. The value journey typically begins at least 12 to 24 months before the IPO and continues well beyond it. Thus, while an IPO should be a key turning point in the life of your company, market leaders don't treat an IPO as simply a one-time financial transaction. Rather, they recognize the IPO event itself as just one defining milestone in a complex transformation from a private to a public company.

Even when the financial climate is not ideal for raising funding, it could be a good time to be planning and preparing for an IPO or any other strategic transaction. While waiting for markets to settle, executives can embark upon the IPO value journey. Those companies that undergo an effective IPO readiness transformation during uncertain times will be best positioned to take advantage of improved equity market conditions.

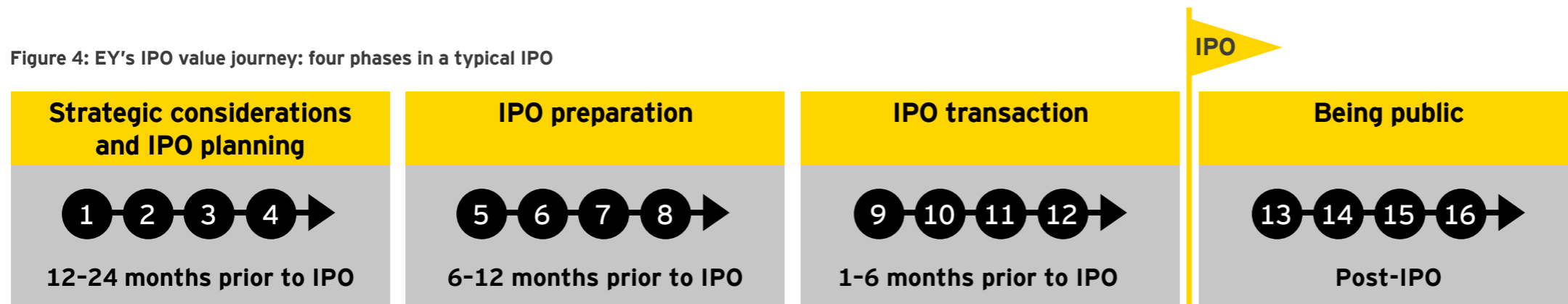
In the life-changing journey from the private realm to the public markets, you will face numerous leadership challenges. It is up to the CEO and senior executives to strike the right balance between executing the IPO transaction and managing the day-to-day operations of the company. Rather than just asking if the markets are ready for you, the key question that you will need to ask when entering the public markets is:

"Are we prepared to deliver?"

This IPO value journey describes the top 16 steps – from the going public stages to the being public stage. Starting with the early strategic considerations and IPO planning phase, to the IPO preparation phase and on to the IPO transaction and post-IPO phases.



Figure 4: EY's IPO value journey: four phases in a typical IPO

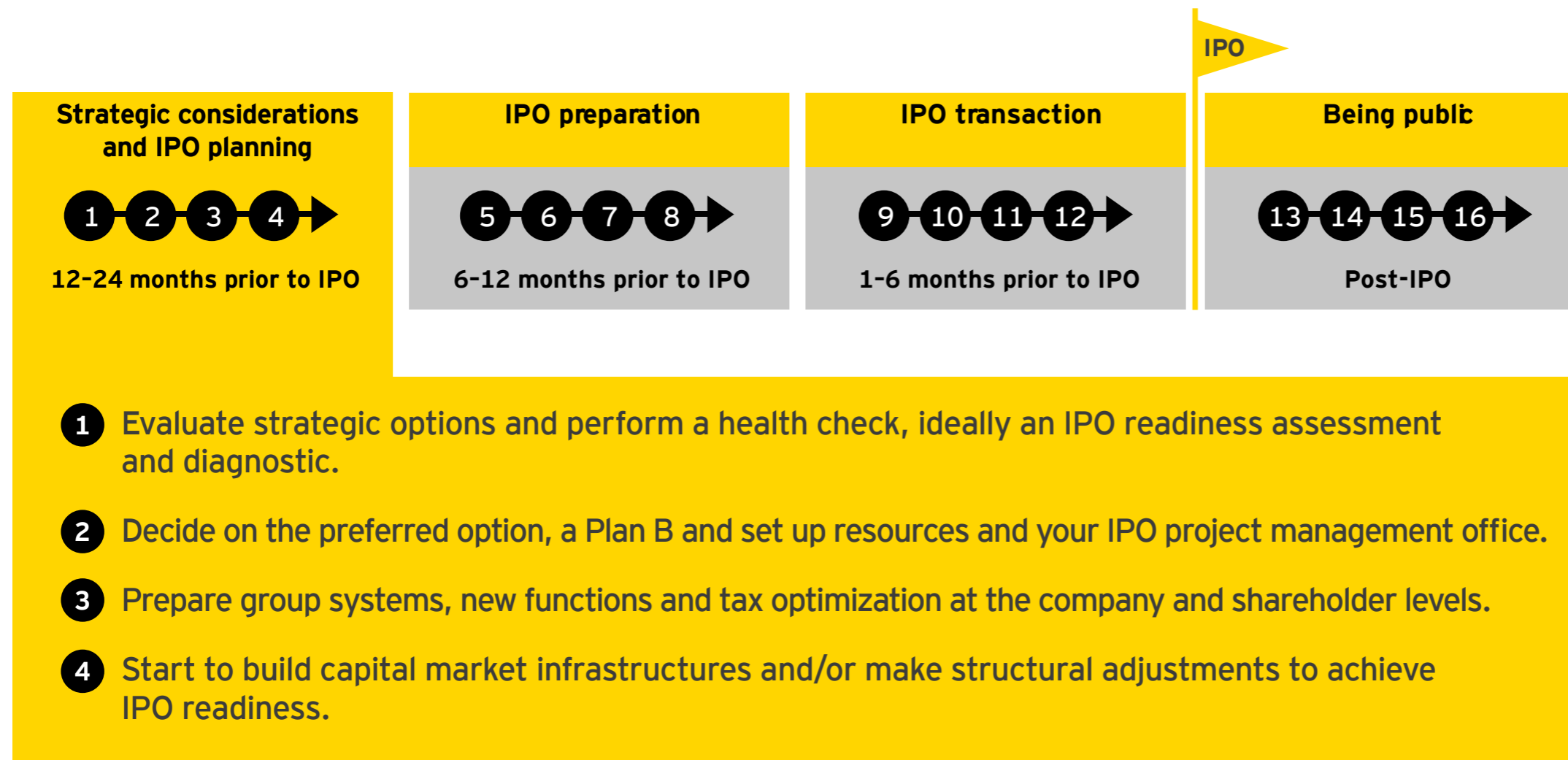


1. Evaluate strategic options and perform a health check, ideally an **IPO readiness assessment and diagnostic**.
2. Decide on the preferred option, a Plan B and **set up resources** and your IPO project management office.
3. Prepare group systems, **new functions** and tax optimization at the company and shareholder levels.
4. Start to build capital market infrastructures and/or make structural adjustments to **achieve IPO readiness**.
5. Fine-tune the business plan and **IPO fact book**, and prepare presentation materials for banks, analysts and investors.
6. Build the **right external IPO team** (bankers, lawyers, auditors, investor relations and other advisors).
7. Set the target IPO timetable, start **due diligence**, and prepare the offering concept.
8. Fine-tune the **equity story** and valuation framework based on initial feedback from investors.
9. Prepare financial information and other important content for the first draft of the **offering prospectus**.
10. **Manage the filing process**, finalize prospectus and seek approvals from the regulator and the stock exchange.
11. Launch the **investor road show**, to attract the right investors in main pools of capital with the right market timing.
12. **Build the IPO order book**, determine the issue price and allocate orders to investors.
13. Enjoy the IPO ceremony and **deliver on your promises** as a public company that attracts more media attention.
14. **Mobilize investor relations**, road shows and investor marketing based on the IR calendar.
15. **Manage investor expectations** with efficient forecasting and the use IPO proceeds.
16. **Deliver high-quality external reporting and disclosures**, and good corporate governance.

Phase 1: Strategic considerations and IPO planning

12-24 months before IPO

The questions that should be on your radar when it comes to strategy and IPO planning.



IPO readiness step 1

Evaluate strategic options and perform a health check, ideally an IPO readiness assessment and diagnostic

Strategic options

Have you evaluated other attractive alternatives and are you sure an IPO is the right strategy?

Going public is not for everyone. The potential pitfalls are numerous and the stakes are high.



While an IPO may be your favored approach to raising capital, it's important to evaluate all possible transactions that could serve as stepping stones or attractive alternatives to a public listing in the context of shareholder and corporate objectives.

Your alternatives may include any combination of the following:

- ▶ Sale to a strategic buyer through the M&A market
- ▶ Sale to a private equity (PE) or venture capital (VC) firm
- ▶ Sale to a family office
- ▶ Private placement, often as a pre-IPO step

Given the range of potential alternative transactions, you need to have a clear idea of what's involved, how long the process will take, what it's likely to cost and whether two or more routes need to be run in parallel.

Figure 5: Pros and cons for issuers of different funding or exit routes

Market	Funding and/or exit route	 Pros	 Cons
Private	Sale to PE or VC	<ul style="list-style-type: none"> ▶ Speed of transaction and one-off transaction ▶ Greater privacy both pre- and post-deal ▶ Greater confidentiality regarding deal value and liabilities 	<ul style="list-style-type: none"> ▶ Future exit by PE (five to seven years) ▶ Codetermination and/or voice in decisions ▶ Reporting requirements of PE/VC investors
	Sale to a corporate	<ul style="list-style-type: none"> ▶ Speed of transaction and one-go transaction ▶ Greater privacy both pre- and post-deal ▶ New growth opportunities from being part of a bigger group ▶ Full liquidity at event 	<ul style="list-style-type: none"> ▶ Loss of exclusivity and entrepreneurial freedom ▶ Change of management power ▶ Uncertainty about medium-term strategy
	Sale to a family office	<ul style="list-style-type: none"> ▶ Shared values and long-term perspective ▶ Continuity in decision-making from owner to owner ▶ Smoother transition 	<ul style="list-style-type: none"> ▶ Loss of influence and power ▶ Not continuing the family legacy
Public	IPO	<ul style="list-style-type: none"> ▶ More entrepreneurial independence is retained compared with a private market exit ▶ Access to and leverage of new sources of capital ▶ Daily price determination (valuation on a daily basis) ▶ Liquid currency for acquisitions and compensation 	<ul style="list-style-type: none"> ▶ Regulatory burdens and strict transparency requirements ▶ Unpredictability of markets and IPO windows ▶ Limited near-term liquidity (for remaining shareholders with further exit intentions)

Have you considered a sale to a strategic or financial buyer?

The relative attractions of a sale will vary, especially depending on whether it is a strategic or financial buyer. A sale to a trade acquirer or financial buyer (e.g., PE) is often considered as an alternative to an IPO – depending on the objectives of existing stakeholders and management and the attributes of the business. For instance, a PE buyer can provide an alternative for growth companies that may not be operationally ready to access the public capital markets. Not all companies will be attractive to financial buyers and the population of potential strategic acquirers may be restricted for some companies. A detailed evaluation of the suitability and viability of M&A, as an alternative to IPO, should always form part of the process of determining whether to pursue an IPO.

Who is likely to buy the business and what do buyers/investors focus on in a prospect?

Understanding the needs of the buyer is crucial for a successful divestment process. Usually, buyers focus on sales and revenue trending; underlying cost base; working capital management; and business plan strength. While all buyers are concerned about key value drivers such as market share, competition, growth potential, the stability of cash flows, the cost base and the quality of underlying assets – different purchasers have different strategic concerns.

The appropriate exit strategy will differ significantly based on the likely buyer, yet it should contain contingency plans should a different type of buyer emerge during the divestment process.

Have you evaluated which pre-IPO transactions could enhance an offering's value?

Your company's overall transaction strategy should be made up of much more than the IPO itself. Most companies undertake pre-IPO strategic transactions, which are powerful tools for accelerating the development of your business. In challenging market conditions, it may be more difficult to obtain pre-IPO transactions and to close the deal. Nonetheless, most successful companies typically do undertake transactions in advance of the IPO.

A successful business alliance or M&A can help you achieve critical mass and also support your growth story. If a company can demonstrate that a successful joint venture partnership or acquisition has already been completed and integrated, it adds credibility to a company's growth plans. Investors may be more skeptical of IPO candidates that have not demonstrated successful pre-IPO transactions where an acquisition strategy forms part of the post-IPO growth story.

The possible benefits of pre-IPO transactions:

- ▶ Facilitate growth, such as expanding into new markets
- ▶ Strengthen the business
- ▶ Increase company revenues
- ▶ Offer scale to the listing
- ▶ Provide a platform for operations, management and financial reporting
- ▶ Increase credibility with market analysts and investors

EY's IPO readiness assessment – getting IPO ready**Are you prepared?**

Once you decided to go public, you will need to map out all the necessary steps. Advance preparation and planning are critical. Unpredictable IPO markets make dual-tracking, IPO readiness and internal preparation more important than ever. Be ready to kick-start execution when the IPO window of opportunity opens. Getting IPO ready in the correct way means implementing change throughout the business, organization and the corporate culture. As a public company, you will be subject to increased filing requirements, transparency, compliance, scrutiny by investors and analysts, and overall accountability for delivering on promises.

To start the IPO planning and preparation process “on the right foot,” EY's IPO readiness assessment is a structured approach designed to guide the company through a successful IPO transaction to a strong debut in the IPO market. Successful businesses start to prepare 12 to 24 months before the IPO – in many cases with an IPO readiness assessment.

What are the objectives and values of EY's IPO readiness assessment?

It is designed to guide your company through a successful transformation from private to public status. Executives also want to understand more of the “measures that matter” – what it takes to win in the capital markets. Typical objectives are:

1. Define an IPO base case that would become important information for the assessment
2. Identify the IPO readiness gaps and assess the efforts required to get ready
3. Train the key people on IPO leading practices and regulatory requirements
4. Prioritize the gaps in an IPO road map

Figure 6: EY’s integrated assessment and program management of IPO readiness

<p>1 Strategy</p> <ul style="list-style-type: none"> ▶ IPO venue and exchange ▶ Equity story ▶ Issue concept 	<p>2 Structures</p> <ul style="list-style-type: none"> ▶ Issuing company ▶ Group structure ▶ Governance and legal 	<p>3 Taxes</p> <ul style="list-style-type: none"> ▶ Company level ▶ Shareholder level ▶ Transaction level
<p>8 Timeline</p> <ul style="list-style-type: none"> ▶ IPO timeline and regulatory approval ▶ Plan B options ▶ Project management and resources 	<p>IPO readiness assessment and program management</p>	<p>4 Financial</p> <ul style="list-style-type: none"> ▶ External reporting ▶ Business plan and forecasting ▶ Prospectus
<p>7 Leadership</p> <ul style="list-style-type: none"> ▶ C-suite ▶ Board of directors ▶ Remuneration and human resources 		<p>6 Functions</p> <ul style="list-style-type: none"> ▶ Investor relations ▶ Compliance officer ▶ Committees

Perceived values of conducting an IPO readiness assessment include:

- ▶ **Saves costs by having transparency on how to get IPO ready**
In an integrated approach, the assessment helps owners and managers map out what organizational changes are needed prior to an offering.
- ▶ **Saves time getting valuable insights in IPO leading practices**
An IPO readiness assessment helps decide which options best fit your business strategies and objectives, delivers an IPO base case and builds the road map for getting IPO ready.
- ▶ **Raises transaction certainty in unpredictable IPO markets**
The right team, right story, right timing and right pricing are pivotal to success. EY views every IPO as transformational – it should occur over time in a structured way that maximises transaction value; this is an important step in the life cycle of the entrepreneurial businesses we serve. Achieving readiness will provide flexibility in timing, and help ensure a strong debut in the capital markets.

What is the scope and process of EY’s IPO readiness assessment?

Our IPO readiness assessment is a three-step process and typically starts with an IPO readiness assessment workshop. Our assessment covers all areas specific to the IPO case: strategy, structures, taxes, financials, internal systems, functions, leadership and the planned timeline. We work hand in hand with you to identify and discuss any gaps that need closing on your IPO value journey. We also discuss strategic funding considerations and develop an initial target structure and IPO base case in line with your objectives. EY’s IPO readiness assessment can include up to eight modules tailored to your specific needs (see Figure 6).

We compare the target structure with the current structure to reveal any gaps. We analyze these in greater detail in individual follow-up workshops and clarify the time, content and resources required to close them. These results are then used to develop the plan for the work leading up to the multitrack option/IPO.

EY’s IPO readiness result report defines the strategy that lays the foundation for further discussions and multitrack readiness checkpoints, it presents the gaps between your current status and IPO target-ready status, and recommends work streams and a road map. It also estimates timelines and resources required to fill the gaps and achieve IPO readiness.

EY's IPO destination assessment – finding the right spot

Have you chosen the right stock exchange and listing option?

Selecting the right capital market, stock exchange and listing segment enables you to determine the regulatory requirements that your company will have to meet. In the run-up to going public, your company's internal structures have to be checked and prepared for the relevant requirements. These measures are essential to maintain the profile of a listed company and meet the requirements of investors and regulators. The first key steps in this phase involve determining the appropriate capital market strategy and achieving internal capital market capability.

EY's *Global IPO trends* report shows that on a long-term average more than 90% of issuers list on their domestic stock exchanges, although they may sell shares abroad simultaneously.

Where to list? Capital market venue, stock exchange and listing segment – what's the best option?

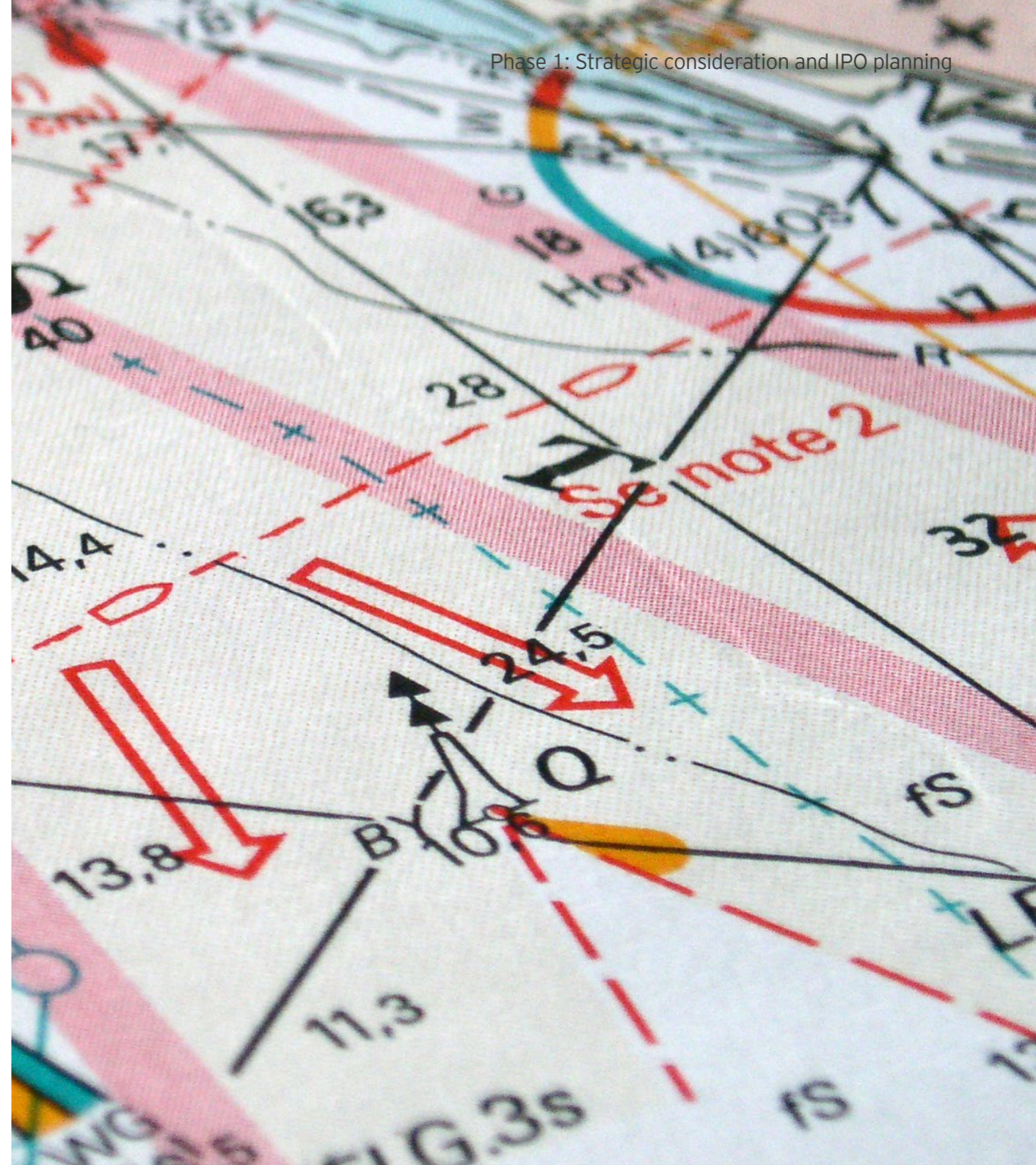
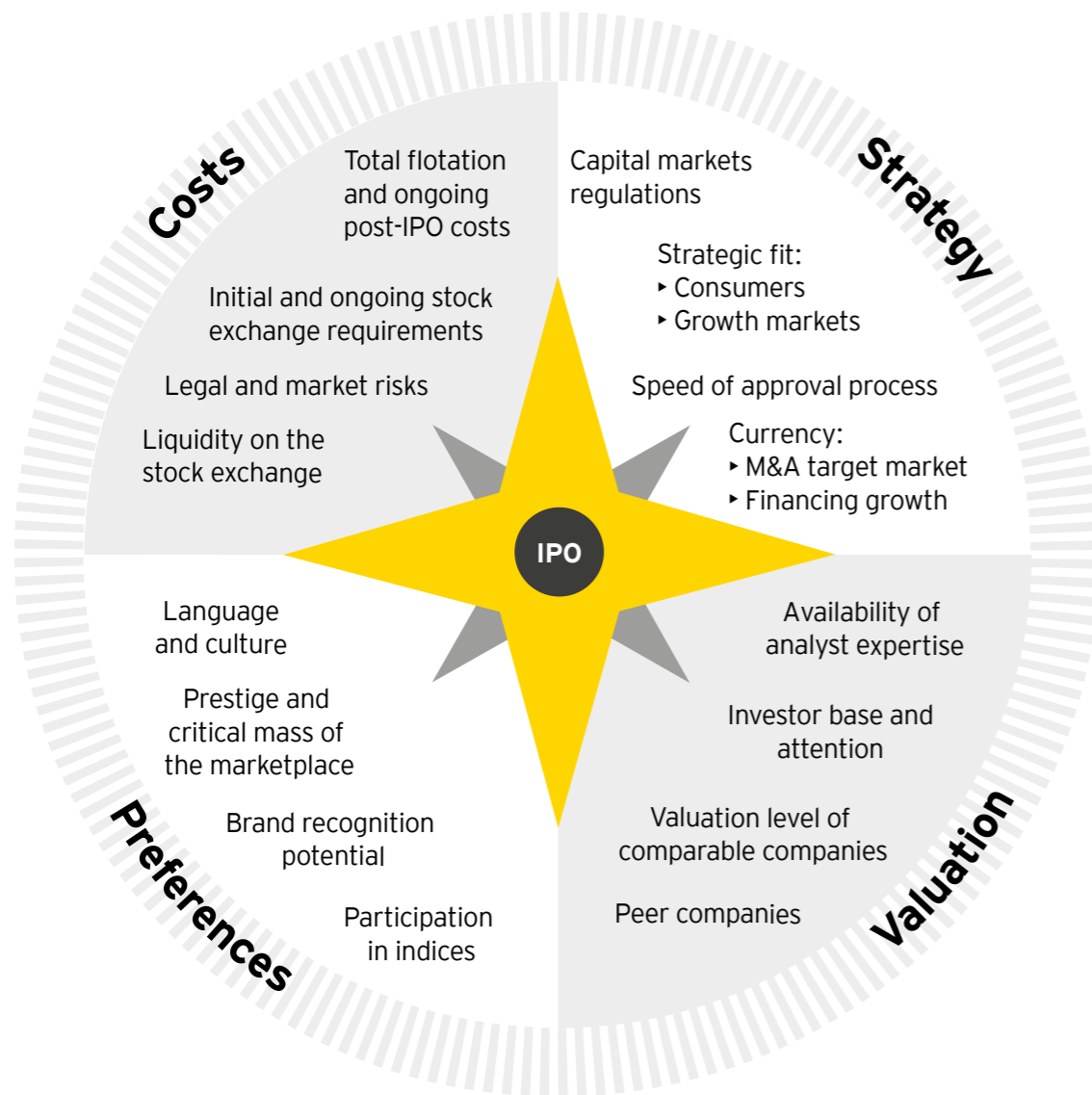
Companies can choose from more than a hundred stock exchanges and listing options worldwide. Besides listing in your home market, there are three self-contained regional venues for companies wishing to go public outside of your home market, namely, in Americas, Asia-Pacific and EMEIA. Each venue is distinguished by its time zones, culture, currencies and economies.

Questions to consider are: Does it make sense to go public and have your primary listing in your company's country of incorporation? Or should you look further afield? Finding the answers to these questions can pose complex challenges – particularly if there are strategic benefits to listing your company far from its familiar national market. For example, you can expect a listing abroad to attract consumers' attention to your company's products and media presence. This can facilitate access to new markets and benefit your business operations.

EY's IPO destination compass provides guidance in the factors that require careful examination. Our IPO destination assessment supports a structured way to assess these factors, presented from different IPO stakeholder perspectives. Arguments why to list abroad can be categorized in four areas:

- ▶ Motivations and goals of your strategy
- ▶ Factors that are relevant to valuation
- ▶ Shareholder preferences
- ▶ Initial and ongoing costs

Figure 7: EY's IPO destination compass: considerations when deciding where to list



IPO readiness step 2

Decide on the preferred option, a Plan B and set up resources and your IPO project management office

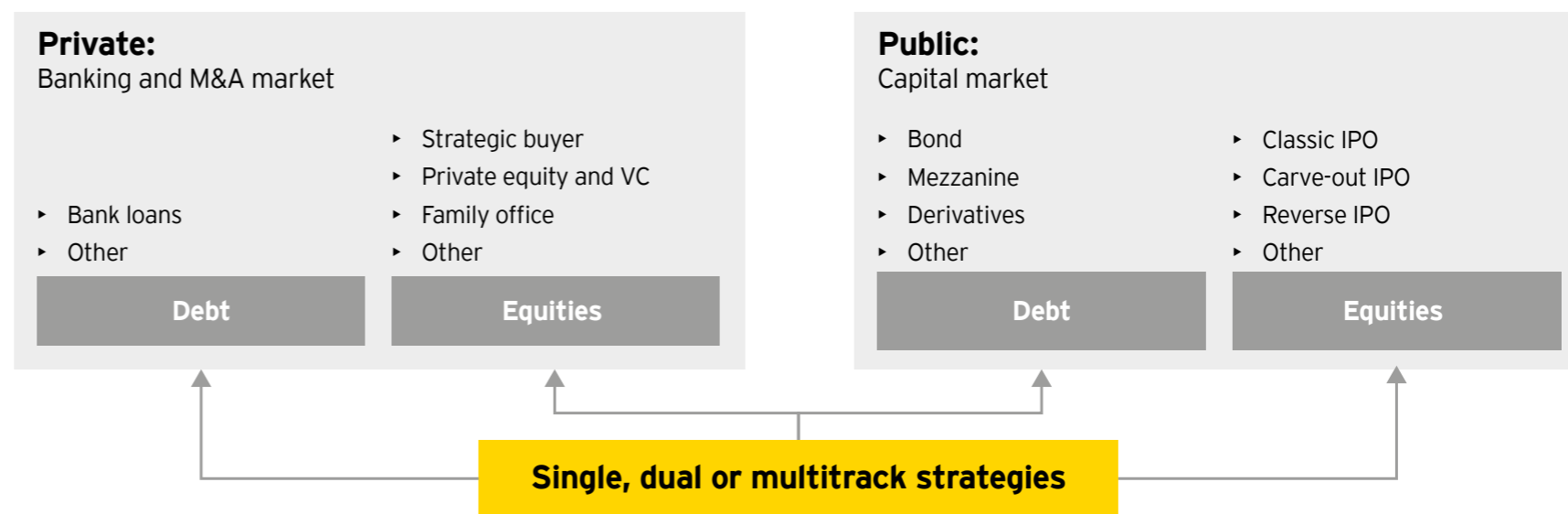
Strategy

Do you have an alternative financing strategy to execute instead of an IPO?

It is difficult to guarantee that equity market conditions will be right once the preparation is complete. To help ensure that the right option is available at the crucial moment, more companies are taking a dual- or multitrack approach where they pursue a trade sale or other funding source and prepare for a possible IPO at the same time. The multitrack approach allows you to keep your options open during the preparation process. This can be especially beneficial in case the IPO window closes during this often lengthy process. Thus, successful companies have a Plan B and often a Plan C (for example, simultaneously pursuing an IPO, a trade sale and debt refinancing).

If the capital markets are volatile with falling valuations and you can afford to wait, you may elect to hold off until the markets improve. It is imperative that you have the flexibility to execute alternate financing strategies, in case the IPO does not happen or needs to be delayed. In the meantime, if funds raised from other sources can be used to increase the company's growth potential, the value of the company may rise.

Figure 8: Choice of options, financial instruments and multitrack strategies



Keep your options open with a multitrack process

How can you prepare and run a multitrack process?

Preparing for an IPO can also help the strategic sale process. Gearing up for an IPO and preparing for a successful exit to a trade or financial buyer involve many of the same preparation activities. There is a very high correlation in relation to the value drivers for both. You will need to evaluate 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. You will also need to research comparable transactions and public company valuations in the sector in which your company operates.

A company that is properly prepared for an IPO should be better placed in relation to other transaction alternatives. Your business will have been taken through a similar process with all the rigors of a public offering such as the right management structures and strong corporate governance. Since there is considerable overlap in the preparation required for the various routes, a dual- or multitrack approach can be executed without necessarily doubling or tripling your costs. By diversifying your approach, your company can significantly increase its strategic options and negotiating leverage while reducing execution risk.

What are the requirements of a multitrack process?

The IPO and sales process to a financial or strategic investor have unique features. But they also have common requirements, which can make a multitrack process more efficient. The first common factor is the equity story. Any investor – whether strategic, financial or retail – will want to understand why they should invest in the business. For example, is the company offering growth or yield? Is future growth going to be organic or via acquisitions? A second shared requirement is the financial information presented. In any type of exit, there must be one core set of data prepared on an adjusted basis, in order to present the business in a consistent and comparable way.

Preparing for a sale to strategic investors

For this sale, it is critical for sellers to look at the business from the strategic investors' perspective – how will it affect their market and competitive position? What revenue or cost synergies will they achieve? How can it be effectively integrated? The key to a successful sale is to provide sufficient information to enable strategic bidders to understand what the combined business will look like (and be valued at) so that their bid will reflect the incremental value being created.

Preparing for a sale to a financial investor

For a sale to a financial investor, such as a private equity fund, it is important to provide more information on the commercial and operational aspects of the business because such investors will not be as familiar with the business compared with strategic investors. Financial investors will expect a high degree of detail on trends in revenues, gross margin, EBITDA margin, capital expenditure and working capital requirements. They will also want to fully understand the business plan and be sure that the management team has the skills and motivation to execute this plan.



IPO internal project resourcing

Is your management team experienced, and do they have an IPO track record?

Building a powerful team starts at the top. You need to have the right executive team with experience in IPOs and appropriate incentives functioning well before the IPO. A recent EY survey found that for the vast majority of institutional investors, quality of management was the single most important non-financial factor when evaluating a new offering.

The investment community will look to the CEO to articulate and execute the company's vision and business strategy, and translate strategy into financial results for the investor audience. While the CFO will likely be focused on investor relations in a public company. Although the CEO and CFO will need to co-navigate the pre-IPO process, the CEO often becomes the primary liaison with the aftermarket. Therefore, your executive team and managers must be well equipped to oversee the day-to-day operations of the company.

People are what make or break great companies. Investors often say they back the people not the plan. Your management team must be in place before the IPO.

Another leading practice of IPO companies is to instill project management into the IPO readiness process. They often formalize a project management office (PMO) that is responsible for organizing, planning and monitoring the IPO process and timeline, thereby mitigating risks and increasing the likelihood of a quality outcome. The PMO will align with key activities ongoing in the business and may assist with managing organizational change. Cognizant of interdependencies within the organization, the PMO will assist to resolve issues, with a focus on helping the company to ultimately achieve its IPO goals.

Your internal IPO project management team must be able to work well together and have the experience, skills and incentives to undertake the IPO transaction and effectively operate a public company.

Establishing corporate structure

Have you created the corporate governance policies that inspire shareholder confidence?

With greater scrutiny and liability for public company directors, substantial time and effort is required to identify, appoint and groom a qualified board of independent directors. You will need to adopt leading practice corporate governance principles and reporting policies that protect your shareholders' interests.

Corporate governance is at the top of agendas for investors, regulators and boards. Boards are reflecting on how to be more involved with governance and create greater audit committee oversight of the risk management processes. Now more than ever, a strong corporate governance function, including attractive qualified independent board members and the transparency of related-party transactions, is critical.

Top companies adopt the appropriate corporate governance practices that will protect shareholder interests. This will involve working with your legal counsel on all corporate governance matters, including efficient pre- and post-IPO legal structures and compliance with exchange listing and other regulatory requirements.

“Make sure you have the right executive team with experience in IPOs and diverse backgrounds. Choose first-class advisors and get everything very thoroughly planned.”

CEO, US listed company

IPO readiness step 3**Prepare group systems, new functions and tax optimization at the company and shareholder levels****Tax considerations****Why does tax planning need to be a priority throughout the IPO process?**

When it comes to designing its new legal and tax structure, each company undergoing an IPO will have different needs and priorities. There is no one-size-fits-all solution, but there are a number of key areas that all companies must consider. An IPO has tax implications with a need to undertake extensive tax due diligence to identify any exposure (both past and future), which means that the road to an IPO can be a challenge.

The existing shareholders of an organization looking to go public view the process as a natural expansion and growth in activities. They are therefore amazed by a myriad of taxation implications, risks and, in some cases, opportunities that can arise throughout the process.

Unfortunately, the tax implications can alter the structure of the IPO and often change the way in which commercial transactions are approached. This is important as the company's tax situation will be covered in the IPO prospectus.

Effective tax structures and reporting are key, especially with the rise in demand for transparency worldwide. You will need to establish or improve your tax function and infrastructure so they are both appropriate for public company status. Your corporate structure should:

- ▶ Minimize your company's effective tax rate
- ▶ Establish a tax-efficient structure and assess local incentives
- ▶ Develop and improve your procedures to review tax issues
- ▶ Manage tax risk and controversies

What are the tax considerations on the IPO structure?

The company's IPO structure must be put in place carefully. In this process it is important to help ensure that tax assets, such as tax losses carry forward, are not lost, and that the steps taken during reorganization do not trigger transfer taxes (such as real estate transfer tax), capital duty or stamp duty.

Restructures to simplify or optimize the current corporate structure, spin-off of activities or other initiatives to prepare the company for the IPO will often be required (for example changes to or increases in share capital). Such restructures or changes must be carefully considered as they can have significant tax impact on the company or its shareholders. Furthermore, such restructures or changes can be time consuming and therefore need to be identified early in the process to help ensure that they can be implemented prior to the IPO.

What are tax preparations for shareholders and the management?

Prior to the IPO, key shareholders should consider and assess their tax situation and the potential tax consequences of the IPO. Various tax implications, risks and in some cases, opportunities could arise throughout this process. The key shareholders would often have to remain shareholders for a given period after the IPO (lock-up).

The tax implications and/or opportunities may often require a thorough assessment and sometimes lead to reorganization or implementation of initiatives for the shareholders. In some cases, it can change the way in which commercial transactions are approached by the shareholders and thereby have an impact on the IPO process.

Depending on where a company chooses to locate its head office, it can face withholding tax. The choice can also have a substantial impact on the tax efficiency of profit repatriation and income pooling. When selecting the head office location, companies must be aware that they will need to carry out genuine business activities there.

Changes to management or the board of directors will often be part of the IPO. Amendments to existing or establishment of new annual incentive plans may therefore be relevant. Such incentive plans must be based on key drivers and measures for increasing shareholder value on a short-term and/or long-term basis. Furthermore, incentive plans can also be an important part to help ensure retention of existing key personnel.

Finance function

Have you started to look at your finance organization through the lens of the public markets?

Becoming a public company requires a significant shift in focus for the finance function. There is a need for more external reporting and expanded disclosures, and possibly a need to change the accounting reporting standards used. This means there is a need for strong competencies in accounting, financial disclosures and financial controls, as well as corporate governance, budgeting and forecasting, investor relations (IR), treasury, internal controls and compliance to address the financial demands associated with a new regulatory, marketing and strategic environment.

The organization of the finance function is a key priority as they need to prepare and deliver financial information to multiple stakeholders. Areas of change could include the accounting standards used to report the financial statements, the frequency of reporting, i.e., quarterly and half-year reporting, the speed of financial close, new and expanded financial disclosures and financial guidance to investors and analysts. Requirements for key members of the finance function are highlighted in Figure 9.

As you develop your plan for the finance organization to embark on its IPO journey and address the challenges, you should consider the following:

- ▶ Does your finance team have the mix of skills required?
- ▶ Are accounting policies and procedures documented and appropriately distributed? Have formal written memos and white papers been developed to support the technical accounting policies taken in those policies?
- ▶ Is the segment reporting for public disclosure aligned with the equity story and the way management runs the company?
- ▶ Have auditor independence issues been resolved? Have audit schedules and processes been established to align with the IPO timeline and support the relevant regulator’s requirements?

Figure 9: Requirements for key members of the finance team

<p>The CFO</p>	<ul style="list-style-type: none"> ▶ The CFO frequently spearheads the IPO effort, coordinating internal and external resources, including the transformation of the finance function. ▶ The CFO makes sure that the finance function is prepared to meet the enhanced demands of the regulators and public markets, and is aligned to other critical functions. 	<ul style="list-style-type: none"> ▶ The CFO will identify the team of trusted advisors including lawyers, accountants, underwriters and frequently, independent IPO advisors. ▶ The CFO needs to translate the company’s performance into a compelling equity story. ▶ The CFO may also implement the new IR function that is essential to deliver a consistent message to stakeholders and meet regulatory compliance and financial disclosures.
<p>The financial controller</p>	<ul style="list-style-type: none"> ▶ The controller will need to organize their team to deliver reporting more quickly. ▶ The controller will need to be able to deliver a fast close process to meet regulator and investor expectations. ▶ Financial statements will be required to be prepared in a short time period. ▶ Expanded disclosures will be required for each reporting period. 	<ul style="list-style-type: none"> ▶ Technical white papers will be required to support accounting positions. ▶ Formal, written accounting policies and procedures should be established and distributed. ▶ A robust internal control structure will form a strong foundation for the finance organization.
<p>The treasurer</p>	<ul style="list-style-type: none"> ▶ The treasurers’ remit has expanded across a range of activities in order to develop strategies to manage financial risks pre-and post-IPO. ▶ In the run-up to an IPO, treasurers will work with accounting teams to provide the capitalization tables for each prospectus. ▶ Post-IPO, the treasury function manages funds according to the use of proceeds mentioned in the prospectus and the investment and growth plan of the company. Treasury should be aligned to support the expanded needs of other functions, such as 	<ul style="list-style-type: none"> collaboration with finance planning and analysis (FP&A) to support a cash flow forecasting process. ▶ Formal, written treasury policies, procedures and controls should be established. If listing in the US, a plan to become SOX 302 and 404 compliant, for controls such as fraud prevention and debt covenant compliance should be in place and documented. ▶ A formal strategy should be in place to help management to communicate to investors how the company plans to manage cash, financing obligations and related exposure.

Corporate governance

What are the most challenging corporate governance issues that you need to address in the IPO process?

Enhancing internal controls can help you meet changing accounting, tax, legal and procedural requirements. Historically, the top two reported internal control deficiencies contributing to a material weakness were related to the competency and training of accounting resources and inadequate accounting documentation, policy or procedures. Dealing with such significant accounting issues early is a critical success factor to an IPO.

Under public scrutiny, companies must create a sensible **management compensation structure**. The compensation structure should maximize the company's profitability while rewarding high-quality managers for reaching goals. To be fair to shareholders, this may mean a compensation and bonus structure that is far less than the remuneration received when the company was private. At the same time, you want a remuneration structure that provides adequate incentive for management to drive the business forward. Once the IPO is completed and the company has publicly traded stock, an employee stock option plan can be a highly attractive part of the company's executive compensation package.

Implementing board meeting and reporting processes is a necessary formality. Your company needs to set board meeting guidelines and establish a protocol. For instance, certain issues and decisions should be reserved as the domain only of the board and not of any other part of the business. This needs to be circulated and agreed upon by both management and board members.

Have you recruited and assembled your entire board of directors?

Investors expect that your board will have a balance of executive and non-executive directors (NEDs) with sufficient knowledge of the business. Take time to build a public company board with a good mix of skills, including industry contacts, technical knowledge, business development, marketing, strategic planning, acquisition integration and financial expertise.

Recruiting qualified independent board members is a huge challenge. Start recruiting your board early, especially NEDs. The leading companies will usually have the right boards in place before the IPO. The typical board candidate search process is quite similar to recruiting a CEO or other C-level executive. However, for many companies, there are often last-minute, frantic searches for independent board members. A NED with experience of an IPO, who understands the process and is able to challenge board debate, can be a great asset in the lead-up to an IPO.

Forming a qualified audit committee is challenging. In many countries, the directors need to have financial literacy, with at least one of the NEDs qualifying as a financial expert. As the audit committee provides the financial oversight of the business, typically audit committees examine the annual and quarterly financial reports and review the financial reporting and budgeting process. They will therefore be expected to understand complex accounting issues.

“You must be well prepared, as the requirements for a public company for corporate governance and internal controls are much higher than for a private company.”

CFO of a Hong Kong listed company

IPO readiness step 4

Start to build capital market infrastructures and/or make structural adjustments to achieve IPO readiness

Infrastructure

Have you constructed a strong infrastructure to meet new regulatory requirements?

The infrastructure and systems of a publicly traded company are very different from those of a typical private company as you must be able to withstand the rigors and scrutiny of public status. You must define and implement the infrastructure of people, systems, policies and procedures that will enable the production of quarterly and annual reports in compliance with listing requirements. A robust infrastructure can facilitate regulatory compliance, protect against risk exposure and provide guidance to meet or beat market expectations. Compliance of the infrastructure with regulations is a significant task.

Ways to improve your infrastructure include:

- ▶ Improve budgeting and forecasting capabilities
- ▶ Put financial statements in order
- ▶ Prepare to comply with local securities laws
- ▶ Address potential IPO accounting and financial reporting issues
- ▶ Develop appropriate corporate, capital and management structures
- ▶ Properly document transactions with owners and management

Have you assessed financial, accounting, tax, operational and IT processes, systems and controls?

Extensive testing of internal control systems has become a way of life for public companies. This can be attributed to heightened regulatory compliance requirements in many countries. An effective risk-taking culture can only thrive within a solid framework of cost-effective internal controls. Market leaders are developing methodologies for preventing and detecting fraud. They are also anticipating the increased risks created by increased regulation (e.g., tax or climate change) and broadening the scope of their risk management practices to include new areas, such as third-party and counterparty risk.

Adaptable IT systems facilitate financial analysis and reporting. IT will be critical to helping your public company capture, organize and assess relevant business information quickly and easily, thus enabling swift financial analysis and reporting. Your management should assess whether the current IT environment and infrastructure are aligned with the company's business objectives. As high-growth companies are in constant flux, your information systems must support a work environment of adaptability, innovation and collaboration.

How can a company best prepare for post-IPO regulatory requirements?

As soon as a company lists on a stock exchange, it will become subject to specific regulations. These will vary according to the IPO listing venue(s), with regulatory requirements often determined by the stock exchange or select governmental agencies.

Corporate law and a variety of legal structures determine the corporate governance and compliance requirements. These rules include detailed requirements regarding the equal treatment of shareholders and the provision of complete and correct information. The main purpose of these rules is to help ensure an effective capital market by sustaining investor confidence.

An important part of preparing for an IPO is the task of familiarizing the company with the relevant rules and requirements and working to help ensure that all the necessary routines and processes are in place. There are some areas that all businesses must address:

- ▶ The articles of association needs to be reviewed in all areas, specifically share capital and number of shares, classes of shares, general meetings and the composition of the board.
- ▶ Financial disclosures need to be considered.
- ▶ Insider trading risks must be addressed to limit the risk of insider trading and information leakage.

Risk management

Are you and your board focusing on risk management?

A listed company will need a full suite of board-approved risk management and control policies. Investors are increasing their scrutiny of risk and will pay a premium for strong risk management, while companies are focusing more on risk assessment and their response. This is a result of increased regulatory scrutiny and increased business activity in the emerging markets. Shareholders expect transparency, open communication and effective global risk management.

Companies need a comprehensive process and structure to identify and manage risks. In its oversight capacity, the board bears ultimate responsibility for developing the risk management framework, which allows a company to manage risk prudently, yet allows for growth.

Key success factors in managing risk include:

- ▶ Assignment of risk ownership
- ▶ Internal risk communications
- ▶ Understanding of enterprise-wide risk

How should companies reassess their risk management?

Prior to going public, a company must fully understand the impact its new stakeholders will have on risk and compliance. These stakeholders usually include independent directors, auditors, regulators, analysts and investors. In particular, regulators and investors react negatively to surprises. Even positive surprises can suggest that a company's control over its business is not what it should be. Effective risk and compliance management processes can significantly reduce the risks arising from such surprises.

Risk assessment should be an ongoing, systematic process to identify and evaluate any possible future events – whether within the organization or in its external environment – that have the potential to affect the organization's ability to meet its objectives.

Effective risk management is the product of organizational strengths in a number of important areas, for example the company's ability to:

- ▶ Manage expectations – positive and negative surprises – to investors, analysts and regulators
- ▶ Set and fulfill realistic and sustainable financial goals
- ▶ Anticipate and address regulatory changes and business risks, in an efficient and timely manner

Additionally, the ability of the management to communicate the company's risk management policies and processes is just as important as the quality of the company's corporate governance, including its approach to compliance issues.

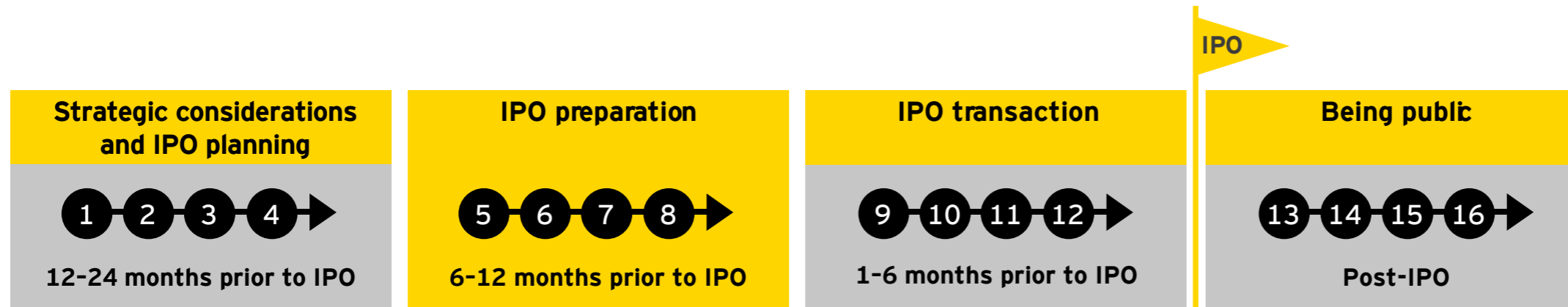
Companies considering going public often carry out a thorough benchmarking of their risk identification and mitigation processes against their listed peers as well as the reports of industry experts. The company's risk mitigation plan should be carefully deliberated and tested to make sure that it can withstand the scrutiny of investors, analyst and regulators.



Phase 2: IPO preparation

6-12 months before IPO

Preparation that will help
you plot a course through
the IPO process.



- 5** Fine-tune the business plan and IPO fact book, and prepare presentation materials for banks, analysts and investors.
- 6** Build the right external IPO team (bankers, lawyers, auditors, investor relations and other advisors).
- 7** Set the target IPO timetable, start due diligence and prepare the offering concept.
- 8** Fine-tune the equity story and valuation framework based on initial feedback from investors.

IPO readiness step 5

Fine-tune the business plan and IPO fact book, and prepare presentation materials for banks, analysts and investors

Business plan pre- and post-money**Have you developed a long-term business plan?**

With inputs from key stakeholders, your executives need to create a formal, comprehensive business plan and detailed timeline regarding the operational, financial and strategic initiatives necessary for the company to go public. The business strategy needs to be long-term, covering 24 to 36 months before the IPO and 24 to 36 months after the IPO.

Such a business plan should provide a clear road map for the company that may then be communicated to stakeholders. It covers two cases and assumptions: A “going-concern plan” that shows the company moving forward without the money from the IPO (pre-money plan) and another plan that moves forward with the IPO proceeds (post-money plan). This will also be used to find a fair valuation range and should be implemented early enough for the changes to take full effect in the organization.

Based on the holistic business plan, the forecasting system delivers the key performance indicators that will be communicated in the investor and analyst guidance. A reliable business plan and forecasting system are critical in managing expectations and fulfilling on your promises.

IPO fact book**How can an IPO fact book help companies carry out a dual-track process?**

A company carrying out an IPO must collect and deploy a great deal of data. This data is needed for important documents, including prospectuses and marketing materials, and for responses to information requests from lawyers, investment bankers and the auditors carrying out due diligence.

To help ensure consistency and efficiency in this process, it can help to compile an IPO fact book. This is a single collection of consistent financial and non-financial data. An IPO fact book is often a joint effort from management and advisors, but it can be beneficial to have a single person responsible for coordinating the input and following up questions and further requests from the various work streams.

The financial part of an IPO fact book should be prepared in an integrated approach. The content should be prepared based on the list of financial information requests from the different work streams involved in the dual-tracking process. When populating the fact book, all information entered should be reconciled to other information in the fact book. Sources of information should be listed so that auditors, lawyers and others who need to verify the information can do so more easily, with minimal assistance from the management, who in such processes will have substantial time constraints.

IPO readiness step 6**Build the right external IPO team (bankers, lawyers, auditors, investor relations and other advisors)****Responsibilities of key advisors****Have you chosen the right external advisory team with IPO and public company experience?**

Your external advisors should be highly skilled professionals with extensive IPO credentials, contacts and industry experience.

On your journey to become a public company, your success depends a great deal on the coordinated team effort by the internal management and the external advisory team. It is very important to select and build a quality IPO advisory team. Begin to assemble your advisory team well in advance of your anticipated public launch.

Professional and experienced advisors will be able to help you get IPO ready, to carefully transform your business, introduce you to the right investors, help you sell your story and most significantly, put a value on your business that reflects its position and potential. Get this right and the IPO will still be hard work but a cohesive team can help yield optimal results.

Main responsibilities of your key advisors:

Underwriter as lead bank of the banking syndicate:

- ▶ Develop the key “equity story” and selling messages for the IPO
- ▶ Structure the offer, manage the IPO marketing campaign including the IPO road show and pricing process and assist with broader investor marketing
- ▶ Conduct IPO due diligence process and help to ensure a strong and stable market for shares post-IPO

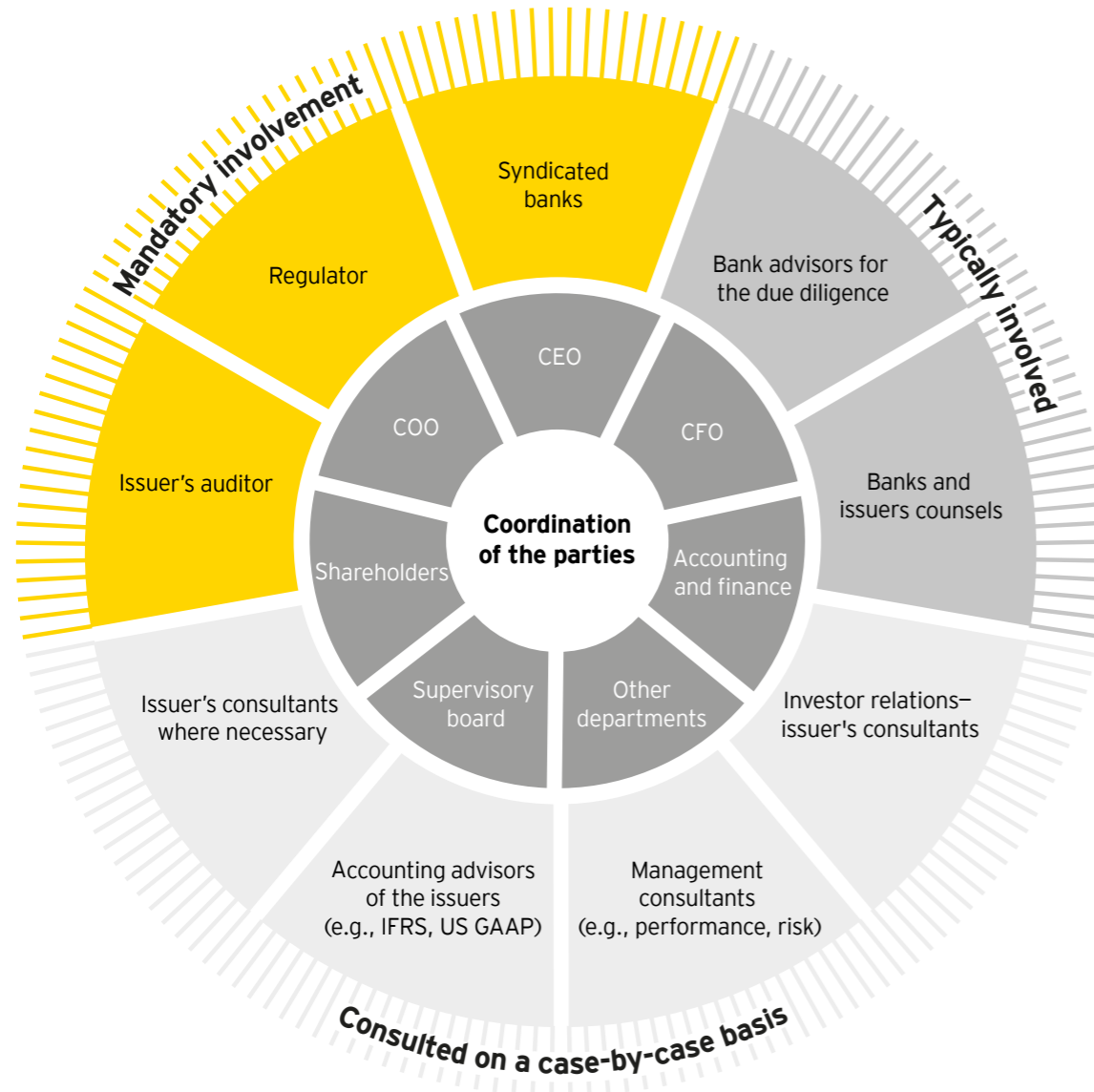
Issuer and banking counsels:

- ▶ Prepare, file and complete listing application and prospectus
- ▶ Provide guidance on the risks and regulation of the IPO transaction, including publicity and disclosure
- ▶ Help ensure that everything is checked and verified and there are no issues that will expose the business to claims after the IPO

Auditor:

- ▶ Fulfill regulators’ requirements for independent audit of historical financial statements
- ▶ Provide all financial information in the prospectus required
- ▶ Issue the required comfort letter

Figure 10: Key internal and external teams



IPO readiness step 7

Set the target IPO timetable, start due diligence and prepare the offering concept

Navigating the window of opportunity

Have you thought about the right IPO timing?

Timing the market is one of the key success factors for an IPO. If scheduled correctly, the price of the IPO not only offers the company an optimal valuation, but also provides IPO investors with the greatest upside in their investment in the months and years after the IPO.

Companies preparing to go public have much to consider: the strength and buoyancy of the capital markets, current economic indicators and the company's performance. Even in a challenging economy, companies that outperform the overall market prepare early for their transformational IPO journey, so that they are ready to launch quickly when IPO windows are open.

Companies must communicate realistic timeline expectations to the entire IPO team – management, board members, external advisors and others. Outperforming companies explore alternative exit strategies to an IPO, especially in uncertain markets, although IPOs are generally seen as providing better access to capital, visibility and credibility.

When is the best time to list?

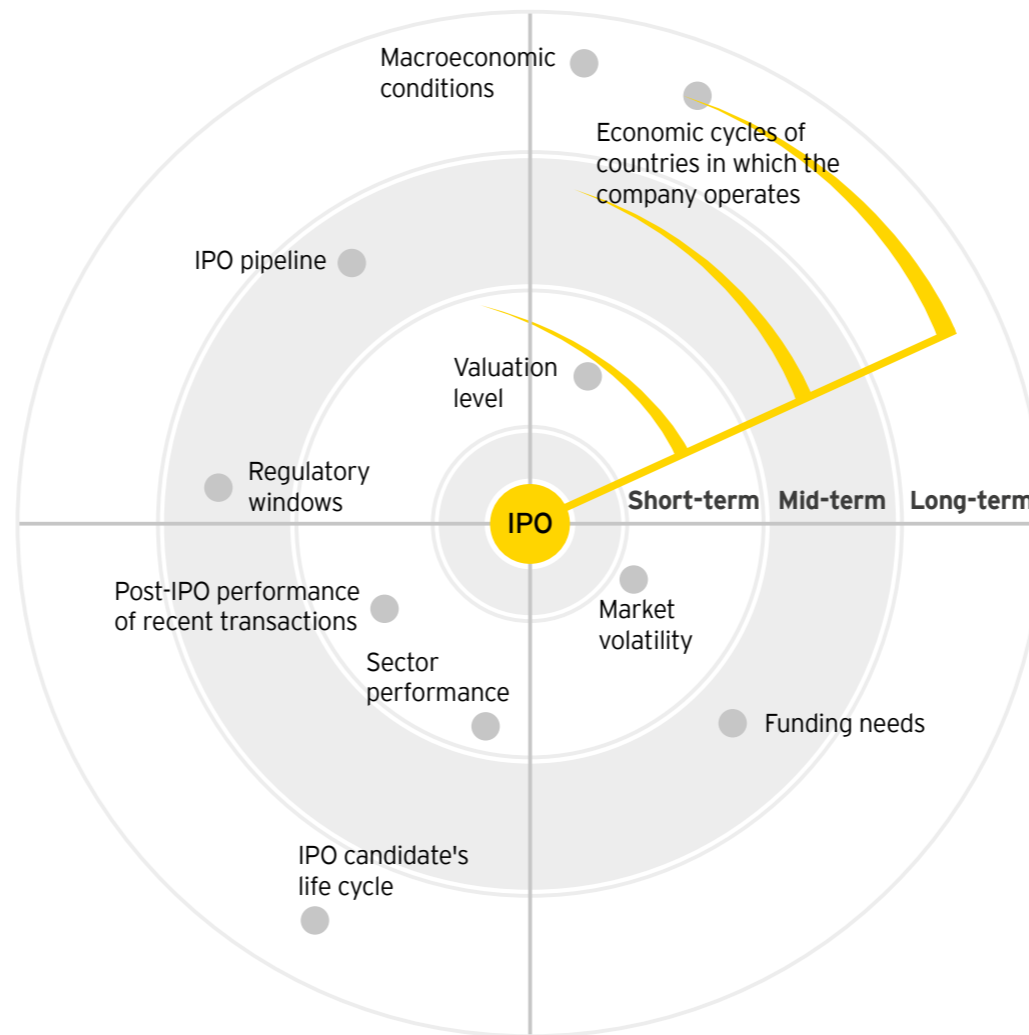
The window of IPO opportunity can be difficult to predict, as external shocks come suddenly without any announcement or prewarning. Globalized and interlinked capital markets react to many unforeseen international events. For this reason, there may never be a perfect time to go public. Determining the best transaction time is comparable to looking into a crystal ball, but entrepreneurs can evaluate this on the basis of hard and soft factors.

Many factors influence the market – political developments, interest rates, inflation, economic forecasts, etc.

Hard key indicators for positive IPO sentiment include the level of valuation of the peer group and the volatility on capital markets measuring the risk, while soft factors to consider are investors' sentiment as determined by the level of trading volume or velocity and the after-IPO performance of recent IPOs.

You will need to examine also the specific markets you operate in, how comparable companies are doing and whether investors are receptive to new issuances in your sector.

Figure 11: Factors that affect IPO timing



Due diligence

Why is vendor due diligence crucial to a dual-track process?

In today's volatile capital markets environment many IPO-bound companies plan and execute a dual-track strategy – to be fully prepared for a trade sale as a Plan B to the IPO. A key success factor for a dual-track strategy is value-driven vendor due diligence (VDD).

Depending on the type of business being sold, PE investors and strategic investors that are interested in combining the business with their own may be potential buyers. This means that in order to prepare for all the potential perspectives investors might take when performing buy-side due diligence, the VDD process must consider the different information requirements of these two investor groups.

Through VDD, all the questions that are likely to arise from different buyer due diligence processes will be answered at a time when the process is still under the full control of the vendor/seller. This will result in a sales process where surprises remain limited and the vendor is able to run the process efficiently and create the highest possible value on exit.

In the IPO case, forward-looking financial information is usually within the scope of due diligence, especially for the purpose of the preparation of the prospectus; legal and tax due diligence are the focus of investment banks.

Data room

Could a virtual data room smooth your IPO process?

With an increasing number of transactions taking place across borders, IPO candidates are considering different ways of improving the efficiency of the dealmaking process. Working across different countries with different technologies, along with the lack of hard copy documents, can add up to a frustrating deal experience, protracted timetables and value erosion. These problems could all be avoided if the process is carried out online using a virtual data room (VDR).

In simple terms, a VDR is an online repository that is used for storing, disseminating and monitoring the use of documents and other sensitive information. VDRs are primarily used to facilitate the due diligence process during an IPO, M&A and a private equity transaction. Information can be securely uploaded and stored in many different file formats and can be accessed from anywhere in the world where an internet connection is available.

Irrespective of whether a VDR or physical data room is used, the quality of the data it contains is absolutely critical. The timely population of the data room and the prompt responding to inquiries are also important. Poor-quality, poorly organized data (virtual or physical) can erode underlying confidence and the company's value.

IPO readiness step 8

Fine-tune the equity story and valuation framework based on initial feedback from investors

Equity story

Do you have a strong equity story?

An important part of the IPO readiness process is the establishment of the company's equity story. The equity story must be supported by historical financial information, demonstrating the trends underpinning the equity story and building a bridge to management's business plan. When the equity story is established, the company should decide which KPIs to measure and monitor. These decisions should be reflected in the company's financial reporting in annual and interim accounts, as well as in its presentations and other communications to the market.

IPO candidates must tell a compelling story. Investors will scrutinize your company and its bottom-line performance much more closely than before. Investors seek companies with business models that performed well, hold a solid track record and have an actionable plan to sustain growth. You must also consider whether there is an appetite within the investment community for your equity story in your particular sector. The bottom line is that your IPO valuation will be driven by market conditions, your equity story and investor confidence in your management team.

Is your equity story attractive and up to date, reflecting the KPIs, segment reporting and business strategy?

Your IPO proceeds should fund growth. Market leaders usually go public to enable their growth potential and use proceeds to fund acquisitions or organic growth. In uncertain times, investors will demand even greater detail and explanation about your use of funds in your prospectus and road show. Investors typically prefer to invest in companies that use their IPO proceeds to grow the newly public company, and that will put the money back into the business to expand, funding R&D, marketing and capital expenditures.

Market leaders are usually further ahead of their competitors and comparable companies in practically every aspect of their performance before their IPO. Your business fundamentals need to be strong and sustainable. Thus, you will need to benchmark your performance to demonstrate your competitiveness with your industry peer group.

Companies that outperform their competitors after they listed usually outperformed their competitors before the IPO on one or more of the following measures:

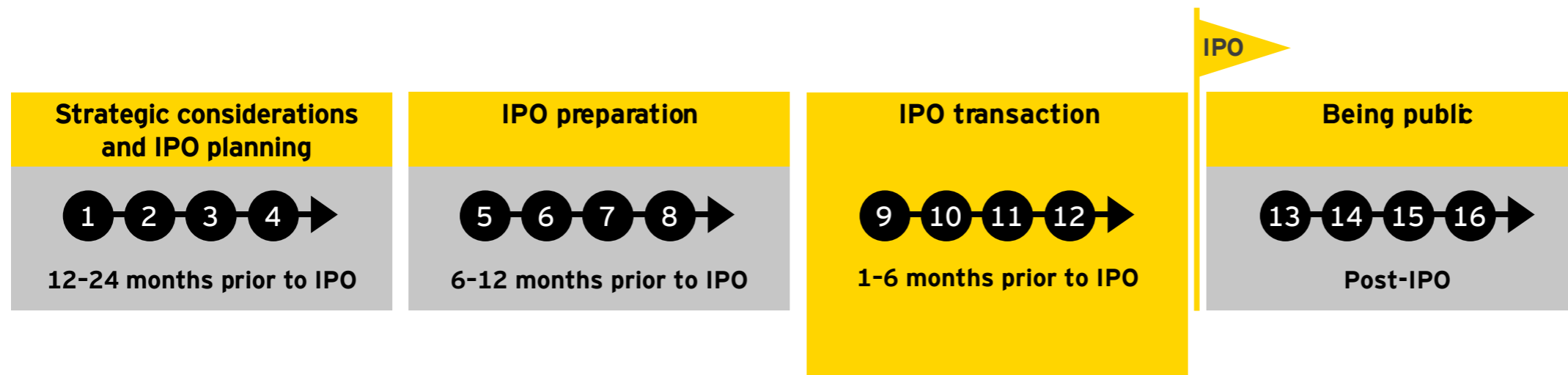
- ▶ Growth rate
- ▶ Sales performance
- ▶ Profitability
- ▶ Market share

Phase 3: IPO transaction

1-6 months before IPO



The skilled crew you need
to navigate through an IPO.



- 9** Prepare financial information and other important content for the first draft of offering prospectus.
- 10** Manage the filing process, finalize prospectus and seek approvals from the regulator and the stock exchange.
- 11** Launch the investor road show to attract the right investors in main pools of capital with the right market timing.
- 12** Build the IPO order book, determine the issue price and allocate orders to investors.

IPO readiness step 9

Prepare financial information and other important content for the first draft of offering prospectus

Financial statements

Have the draft registration statement and prospectus been prepared? Have the initial drafts of regulatory filings and disclosures to meet new regulatory requirements been prepared?

Companies looking to carry out an IPO in most main boards of stock exchanges must present consolidated financial statements in accordance with accounting standards such as International Financial Reporting Standards (IFRS) or US GAAP. Many junior markets allow national GAAP as the reporting standard. Depending on the respective country-specific regulation, an IPO prospectus should contain two or three years of annual financial statements.

When getting ready for an IPO, in order to meet the requirements on prospectus filing-process and ongoing financial disclosure periods, companies must adapt their financial reporting processes and related IT systems. Timely financial reporting and effective internal controls are vital in a public company. These systems, processes and controls must be able to support your new life as a public company and help establish the needed transparency within your organization.

Conversion

How can you convert from national GAAP and implement IFRS or US GAAP in a short timeframe to make the most of an IPO window?

An effective approach to IFRS conversion can be critical for the entire timing of an IPO. More importantly, the smart application of conversion options can also tangibly help make a business attractive to potential investors. Depending on the complexity of the necessary changes, a conversion from your current GAAP to an international standard may turn out to be a very time-consuming exercise with tight deadlines.

The first step is to perform a diagnostic to identify all the differences between your current GAAP and the international accounting standard requirements. Each difference will then be analyzed not only from an accounting perspective but also regarding its tax, IT systems and process impacts. At the end of the diagnostic phase, the company should have a diagnostic report as well as gap analysis and a clear conversion road map, including prioritization of activities and detailed time plan. Based on this, the accounting policies are selected and the skeleton accounts, the accounting manual and the reporting package are developed – these must fulfill all disclosure requirements and buy-in by the independent auditor. In addition, internal trainings should be rolled out.

IPO readiness step 10

Manage the filing process, finalize prospectus and seek approvals from the regulator and the stock exchange

Providing comfort to underwriters

How can your company address the challenges of providing comfort to your underwriters?

When companies seek to raise funds via public offerings of securities, before closing on the offering, underwriters and other parties will require comfort. Depending on regional specifics, this is referred to as a comfort letter, a long- or short-form report or another form of financial due diligence.

These are issued for underwriters and other requesting parties to provide them with a certain level of comfort regarding the company's financial information included in the prospectus. For example, for international offerings, the form and content of the most commonly used comfort letter are governed by the American Institute of Certified Public Accountants' AU-C Section 920, "Letters for Underwriters and Certain Other Requesting Parties," historically referred to as SAS 72.

The underwriters are liable if any part of an offering document contains a material omission or misstatement. The comfort letter or equivalent assists the underwriters in completing their due diligence procedures in connection with the public offerings of securities.

The company's auditor is typically requested to perform agreed-upon procedures relating to the financial and accounting data included in the offering document.

Underwriters also request comfort on any subsequent financial changes from the most recently audited/reviewed financial statements to the offering date. In order for the auditor to provide such comfort, a fast-close process that produces accurate financial information in a timely manner will help to ensure that this challenge can be properly managed.

Close coordination and timely communication between you, the underwriters and their attorneys, and your auditor, regarding figures to be comforted will help to ensure this process is smooth and there are no last-minute surprises that could impact the filing timeline or the offering costs.

Fast-closing

How can the financial statement close process be improved prior to the IPO?

The timeline for the financial statement close within the filing process with the regulator is significantly condensed. Your schedule must allow for internal analysis and increased levels of communication with internal stakeholders, auditors and external advisors prior to the filings. Also, new regulations and IFRS or US GAAP developments, including ongoing financial disclosure requirements as a listed company, will impact the financial statement close process.

Fast-closing is all about obtaining quality data; integrating and standardizing systems, processes and procedures; automation of reporting; anticipating issues; and securing the right level of managerial involvement to achieve an efficient closing and comply with reporting deadlines.

The following actions will help to create a more cost-efficient process, meeting external and internal stakeholders' expectations on relevant financial data pre- and post-IPO:

- ▶ Create a well-defined reporting and review timetable featuring deadlines and responsibilities
- ▶ Establish common reporting standards by using a group accounting manual and chart of accounts
- ▶ Integrate financial IT systems across all locations and create standard disclosure schedules
- ▶ Anticipate new IFRS standards and regulations, and evaluate the impacts of early adoption
- ▶ Revisit the routine estimation process to help ensure the timeliness and quality of the estimates
- ▶ Establish links between the tax and accounting departments

IPO readiness step 11

Launch the investor road show to attract the right investors in main pools of capital with the right market timing

Organizing the interface with investors

How can an effective IR function help organizations succeed with your IPO and beyond?

To make the most of a company's corporate communications, the management board will need an effective financial communications organization and strategy. Financial communications – often managed by the investor relations (IR) function – are an important link between a company and its investors. Key goals for the IR function will include keeping existing shareholders satisfied by providing the right information on a timely basis, and attracting new investors in order to help ensure that the company's shares are fairly valued. These goals must be achieved while maintaining regulatory compliance in the capital markets and also to mitigate the risks involved in financial communications.

Are there clear internal processes, communication and reporting lines and responsibilities in place to help ensure regulatory compliance?

For a company getting ready for an IPO, it will be critical to set up an effective IR organization. This is as vital for companies preparing for an IPO as it is for companies that are already publicly listed. To succeed in globalized capital markets, a business must meet the needs of international investors by ensuring regulatory compliance in its financial disclosures, fulfilling its promises and attaining operational excellence. Effective internal organization of the IR function is crucial to achieve this. Effective communication relies on clear processes and structures that govern which information will be provided and how individual units should act together through to final disclosure. This can be documented in the IR manual.

What is the nature of IR's relationship with the board and with other departments within the organization?

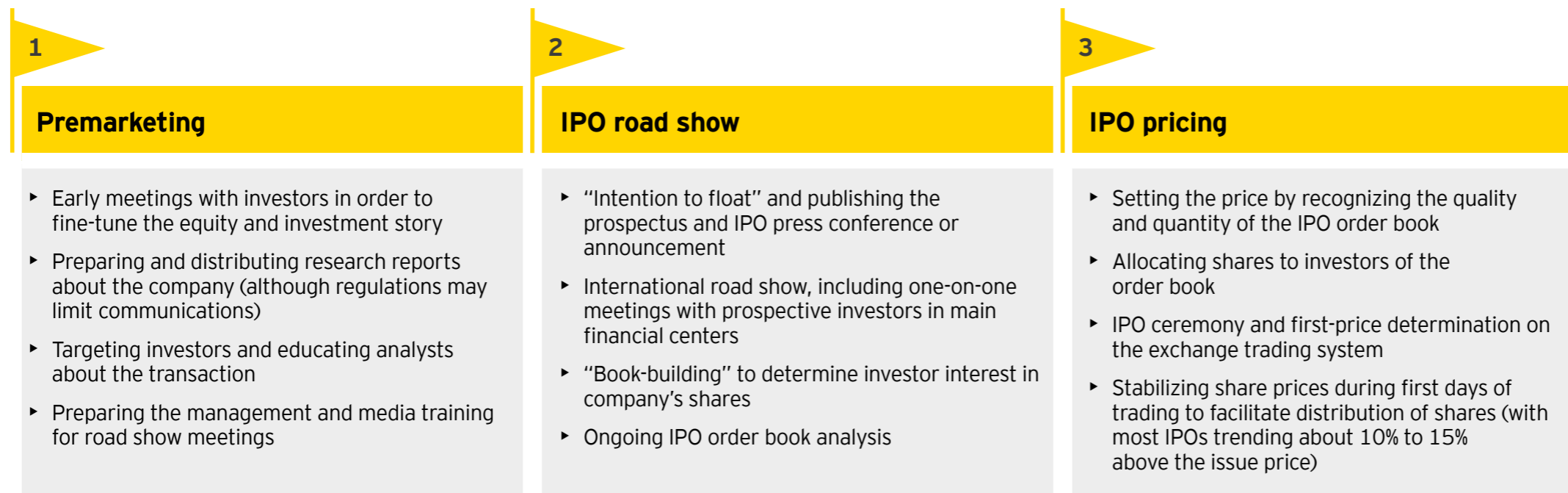
The CEO and the CFO are ultimately responsible for the effectiveness of their company's IR function. When implementing or improving the IR function, they will need to consider the following: many IR professionals have a seat at the top table; according to a recent EY survey, 77% of responding companies have an IR representative attend board meetings. This gives IR a crucial role to play in providing investor feedback to the board and in giving insights into the way the company is perceived in the market. But interdepartmental connectivity is also vital to the good internal organization of the IR function to help ensure that internal departments are aware of disclosure obligations and periods, as well as regulatory changes and that they support the IR calendar.

Timing the market

What are the critical steps in the IPO marketing process?

Completion of high-quality IPO marketing is a critical phase in the IPO process, and possibly the most exhausting phase for the management team. You will need to deliver persuasive messages about your business' compelling equity growth story and your management team's credibility. The road show is your opportunity to convince potential investors to invest in your offering. You must be fully prepared to sell the investment merits of your company's story.

Figure 12: Critical steps in the IPO marketing process



Delivering an effective road show

Did you convey a compelling equity story in your road show?

Every firm approaching an IPO is competing in a crowded marketplace for institutional investors' attention and money. In order to maximize your company's selling price, you need to stimulate interest in your company. Institutional investors will rarely visit the companies they invest in, preferring instead to rely on information presented at the road show meetings and other sources. The road show will likely be the only time a company's senior management actually communicates directly with potential investors.

Underwriters take senior management on a whirlwind tour for the road show. The road show consists of numerous intensive meetings in many cities over a one- to two-week period. Your management must introduce the company to key investment audiences and prospective institutional investors. Your underwriters should provide you with background information of your audience and their investment criteria.

Your "elevator pitch" needs to convince investors to buy your IPO shares. You will need an organized, 25-minute presentation and comprehensive selling points. When drafting the presentation, you must keep two audiences in mind: the sales desk of your broker and the institutional investors. You will also need three to five key messages for an elevator pitch when you have only a few minutes to convey your investment story.

Attracting the right investors and analysts

Do you have a strategic plan for managing your aftermarket ownership mix?

At first, many newly public companies enjoy high share prices fueled in part by investors' interest in IPOs and by the press coverage. However, unless the market's interest in the company is properly and carefully maintained after the IPO, the initial euphoria will quickly fade. The trading volume and value of the company's shares may also decline.

You must have an aftermarket strategy. Once the IPO is over, the process of retelling and fine-tuning your company's equity story begins. Through ongoing dialogue, conference attendance and non-deal road shows, you should be prepared to cultivate an open channel of outreach to potential investors and for targeting sell-side analyst from a broad universe of firms. You must develop a proactive IR strategy that will attract the optimal ownership mix and long-term pipeline in the aftermarket. Successful executives target the type of investors that will maximize liquidity and valuation.

Do you have a plan to cultivate relationships with research and sell-side analysts?

Market leaders try to attract equity research analysts and establish an ongoing dialogue using carefully crafted messages to the targeted investors and analysts. Get to know your analysts and assess their knowledge of your company, your industry and the breadth of their coverage and help them understand your business.

The sell-side analysts of your underwriting syndicate will be instrumental in helping you present your story to the investment community.

The public markets are an unforgiving place. Management must strive for accuracy in projections and forecasts so that targets are being met quarter after quarter. For a public company, a single negative news item that is not well managed by the IR function can have a significant impact on stock price. You need to manage expectations of shareholders and analysts.

IPO readiness step 12

Build the IPO order book, determine the issue price and allocate orders to investors

Setting the right price

How can companies get the right result from the valuation and pricing process?

The success or failure of an IPO is greatly determined by correct pricing. Valuation and pricing are complex and are hugely important parts of the IPO process. Given the divergent interests of the issuer and the underwriter, and that valuation and pricing do not necessarily go hand in hand, companies considering an IPO need to fully understand how the process works and how to best defend their interests each step of the way.

The fair IPO value range is the starting point in the IPO pricing process. The lead underwriter in an investment bank syndicate prepares an in-depth valuation of the issuer using different valuation methods from two approaches:

- ▶ Income approach: the company is valued based on whatever it is able to generate for its shareholders.
- ▶ Market approach: the company is valued based on whatever the market is willing to pay for it.

A good valuation will always consider both approaches – for example, discounted cash flows and discounted dividends under the income approach, and peer group multiples or comparable transaction multiples under the market approach.

To generate initial interest in the IPO, the preliminary offer price generally includes a discount on the fair value. This discount needs to be agreed upon by the underwriter and the issuer. The preliminary price or book-building price range is then “tested” with investors during the IPO road show.

The higher the perceived risk of an investment, the higher the return required and, therefore, the lower the share price an investor is usually willing to pay. This is why a good road show is crucial to the success of an IPO. A convincing equity story, told by a management team that communicates effectively, will generate investor confidence and will lower the perceived risk of the investment, thus increasing the valuation.

The underwriters will receive feedback and ideally, orders from investors during the road show, which it will use to build the order book and find the final offer price. In a perfect economy and after a favorable road show, this final offer price should be very similar to the original fair value estimate. However, external factors will influence the IPO price significantly, including:

- ▶ The type of price setting mechanism used, e.g., book-building
- ▶ The type of targeted investor – retail or institutional
- ▶ The general stock market sentiment
- ▶ The chosen peer group
- ▶ The number of other IPOs issuing at a similar time

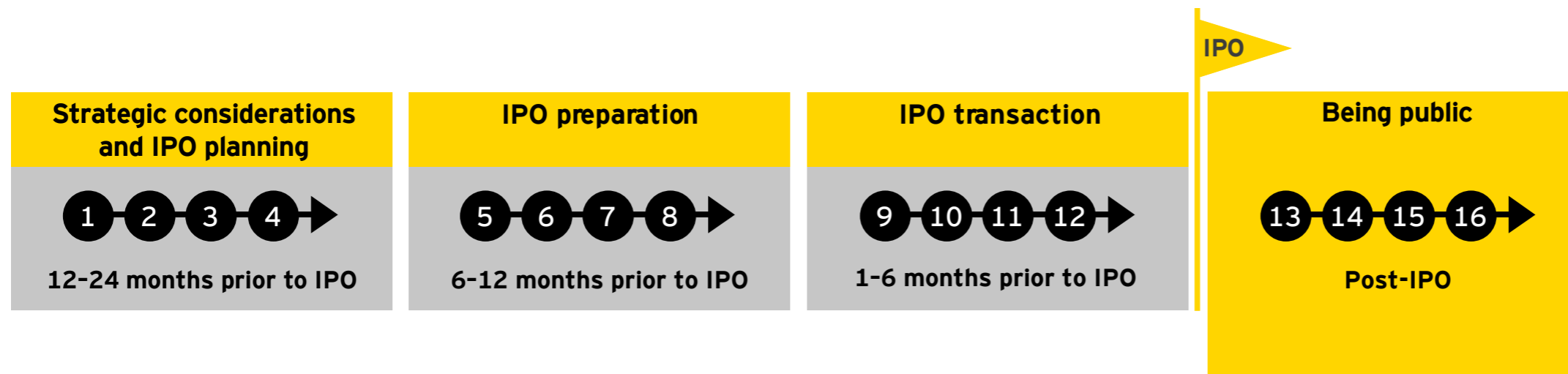


Phase 4: Being public

Post-IPO



How to help ensure your
post-IPO plans stay afloat.



- 13** Enjoy the IPO ceremony and deliver on your promises as a public company that attracts more media attention.
- 14** Mobilize investor relations, road shows and investor marketing based on the IR calendar.
- 15** Manage investor expectations with efficient forecasting and the use of IPO proceeds.
- 16** Deliver high-quality external reporting and disclosures, and good corporate governance.

IPO readiness step 13

Enjoy the IPO ceremony and deliver on your promises as a public company that attracts more media attention

Life as a public company**Are you ready for the public spotlight in a real-time environment?**

Companies must not be blinded by the euphoria of the IPO and ringing the bell ceremony for the first trade and price at the stock exchange. Issuers are often well supported until the IPO, and then once they are public, things may get more complicated as there are higher expectations from investors and less support from external advisors. Management needs to be well prepared for what follows post-IPO.

Once your company goes public, the real work of running a newly public company begins. You must comply with the new capital market regulations and the expectations that you have set for fulfilling on your promises. Market outperformers continue to accelerate the business, while building the infrastructure and management practices that a mature public company require. You may need to return periodically to the beginning of the cycle and recreate strategies and processes.

Communication is critical for the management team in the public spotlight. Corporate performance and behavior have been in the public spotlight and are regularly highlighted in the media, featured on round-the-clock news channels as well as in real-time online portals and social networks.

In particular with interlinked capital markets, listed companies have to meet global best practices where active investors have an increasing influence and demand for additional information.

Today's share trading is dominated by many high-speed global networks and remains a fast-moving environment with higher demand for faster IR response to investors' requests. With constant changes in capital market and corporate governance regulations, high-quality financial communication must provide a greater volume of intelligence and it must adapt to these changes.

Maintain the pace of growth; renew and recreate**What are the initiatives to keep investors' attention and shares traded with high liquidity?**

The IPO may be the most important transaction in a company's life to date, but it's often just one of many defining milestones along the road to market leadership. Then aftermarket trading and the "real work" of being a public company begins. With the transaction out of the way, it might be tempting to relax. But from our experience, if the company wants to excel in the market, it should keep moving forward with consistent if not amplified pace.

An aftermarket plan should include proactive measures to establish share price stabilization and active trading support, to target an optimal investor mix and long-term pipeline. It should also attract equity research coverage and to establish an ongoing dialogue with the investment community and the financial media. Market communication needs to address changes in the presentation of financial information.

The efforts that companies put into getting the business ready for public life is invaluable, but the journey to long-term success requires rigorous planning matched by a commitment to operational excellence. The listed company needs to continually re-evaluate and refresh the business and management team. During the IPO process, a compelling equity story was crafted about where the company is going and its fast track to market leadership. After the IPO, reviewing and refreshing the equity story based on changes in corporate strategy is important to keep investors updated and interested.

"Do not be blinded by the euphoria of the IPO. Companies are well supported until the IPO, but once they are public, things get complicated. You need to be well prepared for the events that follow."

CEO, France listed company

IPO readiness step 14

Mobilize investor relations, road shows and investor marketing based on the IR calendar

Managing IR and communications

Is a skilled IR team on board to manage communications?

High-performing companies delegate key communication responsibilities to their IR team. They focus on creating a high-quality road show and keep investors informed through regular communications before, during and after the IPO. You will need an IR professional who has the ability to work well with your bankers and is familiar with your industry and potential investors. The IR officer will help to build your strategy and guide communications to stakeholders and the media throughout the entire process and after the IPO.

The IR function needs to cultivate relationships with key analysts, helping them to understand the business. It takes strategic planning and proactive effort to build effective relationships. Market outperformers deliver shareholder value by demonstrating effective investor relations and finance function and, most importantly, operational excellence.

Having a strong IR function will:

- ▶ Help sustain the market's interest in the company
- ▶ Communicate with shareholders and the public
- ▶ Attract a pipeline of new investors and sell-side research coverage
- ▶ Manage regulatory and liability risk

Having this competency is a fundamental element of being a publicly listed company.

Have you prepared a corporate communication strategy and plan?

Communicating the right messages about your business is always important, but it is particularly crucial once you have moved into the public arena. A corporate communication strategy and plan needs to be in place prior to the IPO. You need to maintain close relationships with your financial backers. Shareholders, analysts and the financial press will critically evaluate your management's performance and focus attention on the company's share price.

Private companies are often unaware of the level of accountability and scrutiny faced when going public. They often underestimate the time and skill needed to court a new pipeline of public investors and to maintain aftermarket support. Being newly public, you acquire a new range of stakeholders that will demand and require much greater transparency in your business.

The IPO process will have created excitement about the company in the media and among investors, but over time that will fade unless your IR team maintains the market's interest. If the company fails to do this, the trading volume in their shares and value of the business are likely to decline. IR's efforts are key to maintaining and building investors' confidence and establishing credibility in the market. Sustainable and regular communication and news flow will provide trading liquidity supporting investment activity in the market.

IPO readiness step 15**Manage investor expectations with efficient forecasting and the use of IPO proceeds****Delivering on your promises****Have you prepared a long-term plan for growth and shareholder value?**

The public market is unforgiving. They insist on transparency and will not tolerate negative surprises. As a listed company, the IR team will not always enjoy plain sailing with respect to financial results or material news. CEOs and CFOs must deliver on promises as a fundamental IPO readiness factor. Furthermore, companies should meet or beat the expectations they have set, especially with regard to the use of proceeds. To thrive, the company needs to demonstrate to investors that they are successfully executing the business plan, meeting financial targets consistently and attracting the right investors while ensuring regulatory compliance.

Companies should define the key metrics that will drive business forward. They should monitor these indicators closely and use them to create a framework for company analysis, working to ensure that discussion of its performance takes place on companies' terms.

Are you using the proceeds of your IPO to fund growth?

Growth is the key driver for market leaders. Investors prefer companies that plan to use the IPO proceeds to accelerate growth, whether through expanding their operations, moving into new geographic markets, acquiring other companies, developing new products and services, enhancing marketing and branding or upgrading technology and infrastructure.

IPO readiness step 16

Deliver high-quality external reporting and disclosures, and good corporate governance

Keeping regulatory compliance

Do you have a long-term plan for managing post-IPO risk and regulatory compliance?

A newly listed company has to deal with an entirely new set of risks, any of which could derail the business plan. It's all about managing expectations and appropriate communication.

You need to keep shareholders, regulators and the capital market informed of corporate developments in a variety of regional-specific disclosures, i.e., annual and quarterly reports, ad-hoc disclosures, manager's transactions, proxy statements and shareholders' meetings.

Timely financial reporting procedures allow public companies to achieve accurate forecasts each quarter and consistently meet targets. While a private company may endure negative publicity without major repercussions, a public company's stock price will suffer unless it can file its periodic financial statements accurately and on time, quarterly and annually, without fail.

Figure 13: Post-IPO risks and how to manage these risks

Risk	1 Financial	2 Strategic	3 Compliance	4 Operational
Examples	Accounting and reporting, market, liquidity and credit, tax, capital structure	Planning and resource allocation, communications, investor relations, major initiatives, competitive market dynamics, M&A, divestitures, macro-market dynamics	Governance, regulatory, legal, code of conduct	IT, physical assets, sales and marketing, people, R&D, supply chain, hazards
Strategy	Set realistic financial targets. Your new stakeholders will want your business to meet expectations and to be financially transparent. Do not surprise the market. Market confidence can slip in the face of surprises, whether good or bad – along with your credibility and share price!	Don't lose sight of your strategy. As you approach new initiatives to accelerate your growth, consider acquisitions or rapid expansion into new geographical markets. A robust approach to corporate development is essential.	Investors are becoming increasingly focused on corporate governance. As a newly public company, you have to comply with a host of new regulations, legislation and filing deadlines. Thus, you need to get the right controls in place and communicate clear policies and procedures.	You need to reconsider your current infrastructure, systems and controls, as you now need to provide timely and appropriate information to your stakeholders. Keep your team focused and fully aware of their new or expanded responsibilities.

EY – with you all the way

How EY will help at each stage of your IPO journey

From initial concepts through to IPO and beyond, EY has the proven approach and professionals to address the main areas and specifics of your IPO readiness and IPO value journey. We will assemble a broad and individually tailored IPO services package based on your needs with our established and interdisciplinary IPO approach. By fully understanding your company and the details and intricacies of the IPO process, we will be with you each step along the way.

Strategy

- Did you assess the IPO readiness gaps and know how to efficiently close these gaps?
- Have you fully evaluated your strategic funding and exit options?
- Have you chosen the right team of external advisors via an “IPO beauty contest”?
- Did you analyze your peer group – especially as a benchmark specific to IPO readiness aspects?
- Is a holistic and integrated IPO fact book in place?
- Have you fully evaluated an initial IPO valuation based on multiple methods?
- Does your business plan provide pre-money and post-IPO views?
- Have you planned for your equity and corporate sustainability story?

Structures and tax

- Did you analyze the potential for tax optimization on shareholder and exit structure?
- Do you have a transparent company or group structure?
- Has the potential issuer, country of registration and the legal form been defined?
- Did you design the articles and bylaws of corporate governance?
- Have the specific IPO issues of tax accounting been addressed?
- Are the corporate governance structure and specific rules of procedure for the management board in place?
- Is the design of future shareholders’ influence aligned with those of current shareholders?

Financial

- Did you provide your financial statements using the relevant international GAAP?
- Are your closing processes for financial statements fast enough to meet disclosure periods?
- Do you have enough resources to prepare financial statements required for the prospectus?
- Are your forecasting systems reliable enough to produce relevant guidance to the market?
- Have you assessed potential IPO accounting issues such as segment reporting and revenue recognition?
- Do you have a “well-known” auditor to serve international investors during and post-IPO?
- Is your auditor providing their opinion on annual financial statements, internal controls and management letter?
- Did you evaluate the appropriateness and suitability of current debt facilities?

Systems

- Did you assess your IT effectiveness and process improvement?
- Did you consider separation issues such as between the investor holding and the issuer?
- Have you produced transfer pricing analysis and documentation for ongoing related party transactions?
- Is your risk management system IPO-ready to mitigate and/or prevent surprises?
- Are your compliance systems state-of-the-art to prevent fraud and bribery?
- Are your entity-level controls, IT general controls and business process controls properly documented?
- Have you performed an evaluation on existing controls, weaknesses and ongoing testing of control effectiveness?
- Is an internal or external audit in place and performing as intended?

EY – with you all the way

How EY will help at each stage of your IPO journey

Functions

- Have you organized the new investor relations (IR) function?
- Have you prepared the whistleblower program and hotline?
- Is the compliance function in place to meet regulation such as ad-hoc disclosure or insider trading?
- Is an IR strategy in place covering the initiatives, tasks, budget, KPIs, media plan, communication lines and policies?
- Have you reviewed current investor reporting with regard to meeting institutional investor demands?
- Are relevant departments trained on external reporting processes and IFRS for capital market communication?
- Has an internal and external IPO communications plan been set up?
- Are resources for corporate secretaries and legal personnel around corporate tasks in place?

Leadership

- Did you review or consider how to prepare for incentive schemes of key people before the IPO?
- Have you recruited new hires with regards to board composition and the IR officer?
- Did you create or think about implementing a long-term employee incentive plan pre-IPO?
- Are stock option plans supporting your company's goals and capital market eligibility?
- Did you train employees on capital market requirements?
- Is the HR department prepared for the new capital market status in employment contracts and compliance levels?
- Are relevant internal policies and manuals (such as code of conduct and ethics) in place?
- Have you implemented a board support function to manage corporate governance committees?

Timing

- Has an IPO time line been developed to track milestones?
- Have you prepared an IPO data room for due diligence purposes?
- Did you perform IPO or vendor due diligence (e.g., financial and taxes)?
- Is an IPO project manager in place to provide strategic IPO advice?
- Is a Plan B in place, and has dual-tracking been organized?
- Did you prepare the relevant content for the registration statement of specific exchange and regulator?
- Is a corporate communication and financial calendar in place and internally committed for day one?

Contacts

Detailed knowledge with global reach

EY is the auditor of choice for helping high-growth companies to assess IPO readiness and to evaluate the right IPO destination to get IPO ready and to list publicly.

With more than 30 years' experience in helping companies grow, prepare and adapt to life as a public company, we are well-suited to take you on your IPO value journey, from evaluating strategic options pre-IPO to setting you on the right path to support growth post-IPO. We will help you anticipate the expectations of various parties – including regulatory boards, the financial community, the press and investors – along the way.

With our deep pool of knowledge and experience, EY's Global IPO leaders' network can help companies to anticipate the risks and overcome the challenges of life as a public company. We use our international experience to guide companies as they address priorities and mitigate risks.

Our network is made up of interdisciplinary teams with market- and sector-specific knowledge that work together to facilitate cross-border IPOs. With strong links to capital market intermediaries, regulators and exchanges, EY's Global IPO leaders' network has a presence in every capital market in the world.

Your regional IPO leader at your finger tips

Companies around the world continue to ready themselves to go public. Whether the company is owned by the founders, is a family business, a conglomerate, or owned by government, private equity or venture capital – it is important to build confidence and to gain the trust of investors. This can best be achieved by being IPO-ready in all areas.

We are where you are – providing local, personal and timely guidance while maintaining access to global IPO resources, knowledge and perspective in each capital market.

EY's IPO leaders in your region are eager and ready to discuss your strategic considerations and options. Our Global IPO leaders' network provides you with worldwide access to a deep pool of knowledge at your finger tips.

For a list of EY's regional IPO contacts and make sure you are ready for your IPO value journey, visit: ey.com/ipo.

Providing value beyond the IPO

EY continually invests in providing value beyond the IPO by focusing closely on what is happening in the capital market pre- and post-IPO. We provide timely thought leadership and make these available in a range of formats including industry- and finance-specific publications on ey.com/ipo. Examples of relevant thought leadership and insight publications are the quarterly *Global IPO Trends report* and recent surveys relevant for the pre- and post-IPO phase.

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For more information on global IPO performance by quarter and year, and how the IPO market looks set to develop for the next 12 months, visit the EY Global IPO website: ey.com/ipo

About EY

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About EY's Initial Public Offering Services

EY is a leader in helping companies go public worldwide. With decades of experience, our global network is dedicated to serving market leaders and helping businesses evaluate the pros and cons of an initial public offering (IPO). We demystify the process by offering IPO readiness assessments, IPO preparation, project management and execution services, all of which help prepare you for life in the public spotlight. Our Global IPO Center of Excellence is a virtual hub, which provides access to our IPO knowledge, tools, thought leadership and contacts from around the world in one easy-to-use source. www.ey.com/ipo

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