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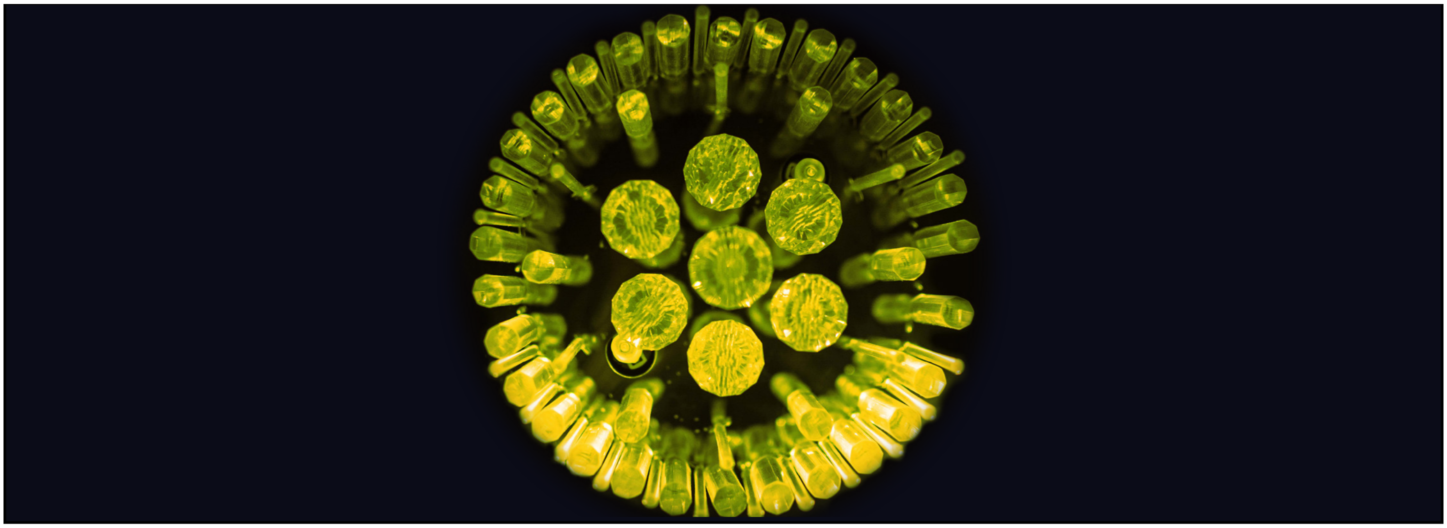


Planning on going public? Embrace the process

Taking advantage of broad equity market growth, low market volatility, and a strong economy, US initial public offerings (IPOs) were on the rise again in 2017. The total of 182 deals was up 49 percent over 2016's 122 deals. The average amount raised was $155 million, and investors showed enthusiasm by paying above the marketed price in almost 20 percent of deals.[1] More of the same is likely in 2018, despite an early-year correction in the markets and higher volatility.

A handful of related trends help explain the growing IPO interest. First, the stock market remains in record territory, which further whets investor appetite for new offerings and gives business leaders more confidence that their shares will be well received. Second, the economy continues to grow, and private companies are looking to the public markets for expansion capital so they can expand organically or by acquisition. Finally, many private companies have principals or private investors who want to cash out and see this as a good time to monetize their investments.

The Tax Cuts and Jobs Act of 2017 provides additional impetus, offering lower corporate and individual tax rates that can potentially benefit everyone involved in an IPO. That is on the heels of the Jumpstart Our Business Startups (JOBS) Act of 2012, which continues to provide a boost to the IPO market. The act intended to make the IPO process easier for emerging growth companies to complete, in terms of both time and cost. It also enabled such companies to make their IPO filings confidential, a key consideration for companies that were worried a prospectus would reveal too much about their future plans and other proprietary information.

But even after all of these changes, the process of going public is still challenging. One common obstacle, for example, can be a disparity between what private and public investors think your company is worth. Another is the level of detailed financial information you must present—as much as three years, in some cases. In addition, your internal controls, forecasting, and budgeting processes might not meet Wall Street's expectations.

For these reasons and more, it's important to start preparing for an IPO early. During a Deloitte Dbriefs webcast on this topic, we highlighted a number of steps mid-market business leaders can take to ensure they are ready for the transition to a public entity.

Step 1: Understand the requirements

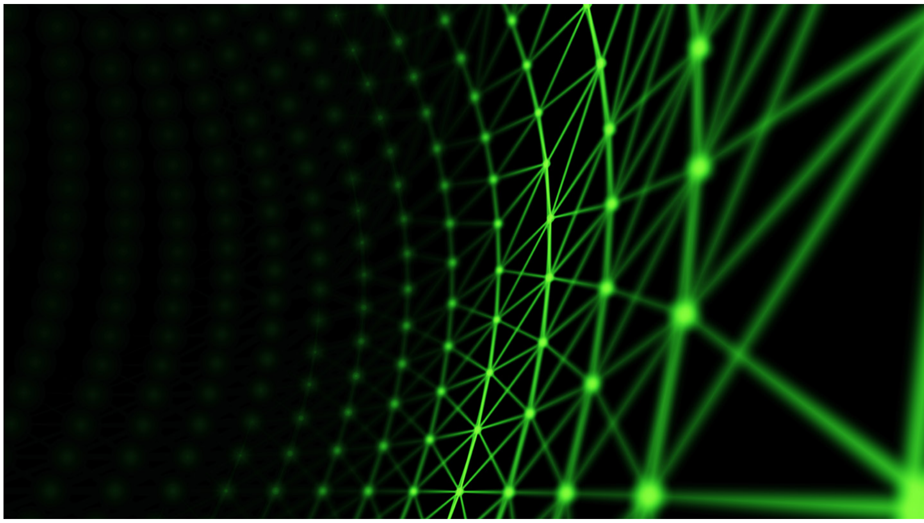
Public companies face a litany of financial reporting requirements during the filing process. For starters, you'll need to produce audited financial statements for the overall company and for significant business acquisitions under Securities and Exchange Commission (SEC) Regulation S-X. In addition, you may need to incorporate new accounting standards for items such as revenue or leases. In addition, you'll need to prepare quarterly financial statements as if you are already public. You also will have to evaluate the timing of IPO close activities and develop a structured close process.

From there, you will need to ensure you have the right capabilities on hand to manage the ongoing reporting requirements of a public company. Insufficient internal controls can derail the process, so it's important to lay out a road map for identifying and addressing any deficiencies. You may also need to formalize your corporate governance processes and upgrade your financial reporting technology to eliminate the use of spreadsheets and automate and scale key processes.

Step 2: Assemble a strong team

Smaller, fast-growing companies often struggle with these new requirements because they don't have the right internal resources to manage them, particularly when it comes to accounting and finance. This is problematic for a company considering going public because key IPO activities are centered on these functions.

From the start, you'll need to establish new internal audit and investor relations organizations. In some cases, it may make sense to outsource some of these capabilities. In others, you may want to hire new finance professionals with public-company experience and the skills required to meet your organization's needs in the future, not just the immediate term. In addition, your focus should be on teaming with the right advisors and legal counsel who will support the IPO process and provide insights on areas that need improvement or investment.



Step 3: Consider costs along with benefits

Many benefits await most companies that tap the public markets, such as increased visibility, improved perception of their business and financial position, an enhanced ability to attract talent, and liquidity opportunities for investors and employees. Returns for investors that complete an IPO still outperform those from M&A transactions, so an IPO exit is often the preferred strategy. But, in some instances, going public can serve as a distraction from running the core business. Some companies experience less flexibility as they work to meet analysts' and shareholders' expectations. Governance costs typically rise, disclosure requirements are higher, and the potential for legal liabilities increases.

It's important for your management team to weigh these costs against the benefits before going too far down the road to a public offering. Many entities find themselves better prepared to handle some of the associated costs after preparing this analysis.

Step 4: Benchmark against peers

Look at other companies in your industry that have successfully completed an IPO, and try to ascertain what drove investor interest. You are better equipped to set realistic expectations for your own valuation if you examine the underlying reasons for the multiple they received. How profitable are they? What kind of historical growth trends did they enjoy? What kind of future growth are investors banking on from them?

Armed with those answers, you can set expectations for your public offering. Have honest discussions with your underwriters about your company's valuation and the financial metrics supporting it. Then communicate those expectations to your key stakeholders to avoid surprises late in the process.

An IPO can be the most significant transition in a company's life cycle, and the pressure surrounding the process can be intense. But understanding what will be required and getting an early start typically helps alleviate that by spreading the burden over time and across dedicated internal and external resources. Now might be an opportune time for you to consider an IPO, but it's up to you and the partners you engage to clear the runway for a successful takeoff.

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Endnote

[1] Alex Barinka, "U.S. IPOs bounce back: Five key measures of 2017's listings," *Bloomberg News*, December 26, 2017, https://www.bloomberg.com/news/articles/2017-12-26/u-s-ipos-bounce-back-five-key-measures-of-2017-s-listings.