PE Hub

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OPINION

Failure to plan for an IPO is planning to fail

With a new year just around the corner and the economy bracing for the Presidential election, those looking to IPO by Q4 2024 must prepare now.

By Jim Clayton, BDO

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The IPO Market is undoubtedly uncertain, but there are some signs that the window has reopened. While this opening is perhaps more of a crack than a fissure, some private equity firms and their portfolio companies, anxious for an exit, are again beginning to think about these transactions.

With a new year just around the corner and the economy bracing for the impending election, those looking to IPO by Q4 2024 must prepare now.

Failing to plan for an IPO is planning to fail. Assessing IPO readiness and conducting due diligence early can help organizations establish a baseline, identify gaps, fix problems, avoid surprises and even create exit optionality.

Value of planning early

When properly planned and correctly executed, an IPO can prove to be the most lucrative form of exit. However, insufficient or improper planning can impact valuation and investor confidence and lead to mistakes.

During the previous IPO boom of 2020 and 2021, those who didn't take the necessary time to prepare – as long as 18 to 24 months, on average – missed the optimal window and didn't realize the returns they expected. By learning from past patterns and preparing now, PE firms can make sure their portfolio companies are ready when the IPO window reopens.

Preparing for an IPO means preparing for the ultimate transaction – it requires the highest-level, most intensive transaction work. By planning early, firms open doors for optionality. For instance, when getting ready for an IPO, a firm and its portfolio company may learn, based on the timeline, that it's not the right transaction for them and that a different path, such as a strategic sale, better aligns with their exit horizon.

Preparation considerations

When preparing for a transaction, especially an IPO, PE firms must guard against mistakes in three core areas – finance, talent, and technology. Here are key considerations in each of these areas that can help PE avoid common pitfalls.

Finance:

Run risk assessments

Conduct assessments on the company's internal controls over financial reporting to reveal potential material weaknesses and deficiencies. Build and implement a remediation plan based on the findings.

Conduct due diligence

Those who don't conduct due diligence early risk future restatements of financial information, which can prove costly. Restatements, after filing with the SEC in conjunction with Form S-1 or as part of reporting periods, can have a significant impact on a company's stock price and investor confidence and typically result in substantial additional audit, legal and advisory costs.

Act like a public company

Those preparing for an IPO need to start thinking and acting like a public company even before the transaction. For example, all financial statements should be audited to the standards set by the Public Company Accounting Oversight Board (PCAOB). At IPO, companies must be prepared to produce at least two to three years of financial statements audited by these standards.

Forecast accurately

Ensure the right forecasting model and the appropriate financial planning and analysis (FP&A) tools are in place before the IPO. The market penalizes missed forecasts as projections are an important measure of performance and future profitability and are necessary to maintain credibility and investor confidence.

Talent:

Assemble the team

Avoid missteps by building a leadership team that includes executives and key talent with prior IPO experience. It can take up to six months to hire talent in the current market, so companies need to plan accordingly.

Blend external and internal resources

IPOs are costly. To help manage costs, consider bringing in specialized resources and outside expertise to augment the internal team. Think about advance hiring for priority roles, as well.

Outsource appropriately

Understand which functions can be outsourced, like internal auditing or tax, to optimize staffing for both the IPO and operating as a public company.

Technology:

Run operational due diligence

Due diligence can help firms and their portfolio company understand the state of the organization's technology stack, make optimizations and uncover potentially costly technical debt.

Address technology concerns

Investors will want to know if a company requires significant new technology investments to ensure stability in the future. Identifying outdated, inefficient, or ineffective systems now can save headaches later.

Understand compliance needs

All technology platforms need to be compliant for both internal controls and data privacy. There are specific requirements for privacy compliance, data protection and internal controls. Ensuring adherence requires time, resources and diligent planning.

The time is now

PE firms and their portfolio companies looking to IPO before Q4 2024 may already be behind. Seeking IPO readiness and adopting a methodical approach to planning and execution can help pave the way to greater value realization and optionality in the future.

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