IPO Readiness: 10 Guiding Principles

Principle #1: Start Process Early: If the stars are aligned (ie. a company hits all its IPO work stream deadlines, business is performing, minimal SEC comments, supportive market conditions, etc.), it takes a minimum of six months to execute an IPO from banker selection to successful offering. However, IPO readiness and the IPO process can take up to 24 months depending on a variety of company specific and/or market factors so start the process early to get a head start on all the blocking and tackling associated with the process. Notably, most successful offerings establish relationships with public market investors and sell-side analysts before banker selection and before the IPO quiet period begins. There are multiple other workstreams to complete prior to banker selection.

Principle #2: Remain Focused on the Business: The IPO process is a marathon that requires the company to execute on several work streams simultaneously over many months (or quarters) but it's essential that the leadership team continues to run the business effectively. The business needs to be performing for a successful IPO to occur. Deteriorating business fundamentals make a "successful" offering less likely.

Principle #3: Improve Financial Close Timeline: Invest in FP&A and Accounting resources and processes to improve the financial close timeline. It makes life as a public company much less stressful if the books are closed in a timely manner. Many deadlines as a public company are driven by the financial close timeline. A lengthy financial close translates to challenging deadlines for many public company work streams including quarterly earnings, board meeting and 10Q preparation.The financial close timeline has a cascading effect on the organization as a public company.

Principle #4: Improve Forecasting Fidelity to Actual Results: - Invest in process and people to improve the company's forecasting fidelity to actual results. Life as a public company will be much easier if the company can forecast its business relatively well. *Caveat emptor if forecasting fidelity is poor.* If a company does not have a good track record forecasting its results, finance leaders should understand whether people, process or externalities (ie. competition, consumer headwinds, regulation, etc.) are the primary driver of the inaccuracy. The people and process components can be fixed (relatively easily) while the market externalities component is more challenging to address. During the "Testing the Waters" and Roadshow, it's likely that investors will ask, "How many quarters in a row have you beat your internal plan?" Start building a track record of beating the internal plan as soon as feasible.

Principle #5: Manage Expectations: Underpromise and Over Deliver: There are many important factors that impact a newly minted IPO in its first several quarters as a public company. One of the most important factors is for a company and its leadership team to establish a track record with investors of exceeding expectations. Over time, exceeding expectations creates an aura of credibility and execution, which can have a material impact on a company's multiple and valuation. In addition, exceeding expectations implicitly is the opposite of missing expectations. The cardinal sin for a newly minted IPO is to miss expectations as it viscerally alienates investors and will likely take several quarters and perhaps years to regain investor confidence and trust. See "IPO Readiness: Beat and Raise Model and the IPO Process."

Principle #6: Optimize for LT Value Creation; Not IPO Valuation: It's important to develop a value creation mindset that focuses on the long term. While IPO valuation is important, it's not the end-game as the likely scenario is the company will likely sell approximately 10% of the company to the public at IPO. The vast majority of equity will likely be monetized at some point after the lock-up period (usually 6 months). It's also relatively unlikely that insiders will sell at the IPO. In addition, keep in mind that a healthy valuation has strings attached; a healthy valuation comes with high expectations that will require flawless execution as a public company.

Principle #7: Don't be Cute on Timing: Execute the offering when the IPO workstreams are complete, market conditions are supportive and the business is performing. Many things can derail an IPO process including disappointing business performance, macroeconomic headwinds, interest rate dynamics, geopolitics, etc. Don't be cute on timing by waiting for the perfect/optimal valuation backdrop. The perfect/optimal valuation backdrop may never arrive. The 2020-2021 valuation paradigm is not coming back given interest rates and other factors so it's important to open the aperture on historical valuation to 2010-2019.

Principle #8: Empower an IPO Quarterback: While the CFO will likely manage the IPO process, the IPO process needs a quarterback to manage the day-to-day of the different IPO workstreams. Someone needs to own the blocking and tackling of the IPO workstreams. Also, keep in mind that the CFO needs to continue to run and manage the business with the leadership team while simultaneously managing the IPO process.

Principle #9: Board, CEO and CFO Alignment on Definition of Success: As the IPO process unfolds with the culmination in the roadshow and pricing committee meeting, it's important that the Board, CEO and CFO are aligned on the definition of IPO success. Ultimately, the IPO pricing strategy should reflect the goal of the IPO. Is the goal to raise as much capital as possible? Is the goal to provide liquidity to some shareholders? Is the goal to generate a sizable IPO pop and help build brand awareness? Is the goal to cement a world class shareholder base? Re-read #6 above. Keep in mind that a healthy valuation has strings attached; a healthy valuation comes with high expectations that will require flawless execution as a public company.

Principle #10:Don't Focus on Whether the Window is Open Today: IPO readiness will likely take 6-24 months depending on the company. Assuming the business is performing, has scale and underlying profitable growth, and has a unique competitive moat, it's highly probable that the IPO window will be open in 6-24 months so start IPO Readiness and build your Investor Relations muscle now. An IPO process instills discipline in a company, and it's a best practice to start operating like a public company prior to IPO. At the very least, a company should start evolving towards operating like a public company while private with clear goals and work streams to improve operating discipline.

For VCs, Board Members, CFOs, and VPs of Finance engaged with IPO readiness, email paul.bieber@compound-ir.com to discuss IPO Readiness and Investor Relations execution.