IPO Workshop: Demystifying the process for going public

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Date and time:
September 13, 2017

On September 13, Dentons' Venture Technology practice co-hosted its 2017 IPO Readiness Workshop in partnership with the NYSE, along with Grant Thornton, Edelman, Pearl Meyer and Arthur J. Gallagher & Co. Designed to help demystify the process of going public by connecting emerging companies with experienced market players, the IPO Workshop featured a series of panels including public company directors and senior executives; senior investment bankers from Credit Suisse, Stifel, Piper Jaffray and BTIG; and an equity research analyst from SunTrust, among other participants.

Key themes and takeaways included:

Market conditions

While IPO activity has decreased from the highs of several years ago, 2017 has seen an important uptick in the number of IPOs relative to 2016. Panelists noted that, compared to about this time last year, the total number of IPOs is up roughly 50 percent and the aggregate amount of funds raised is up more than 100 percent. With the summer break now at a close, this upward trend is expected to continue for the remainder of the year. Most notably, Roku, Inc. recently filed to upsize its IPO from US$100 million to approximately US$225 million, with pricing expected later in September. However, given the underwhelming performance of Snap and Blue Apron's high-profile IPOs earlier this year, a huge increase in activity seems improbable.

The right profile

There is no single list of ingredients that, when combined, guarantee a successful IPO. Investors look at a variety of financial metrics and other indicators before making an investment decision, with the importance of specific metrics varying by industry sector (*e.g.*, biotech being quite different from tech). While IPO candidates in the pharmaceutical sector often go to market with little to no earnings, with the IPO viewed as a way to raise the necessary R&D funding to get their drug candidate to market years from now. But in the case of SaaS companies, the Rule of 40 still applies: Revenue growth rate plus operating margin should be at least 40 percent.

Regardless of sector, a successful IPO candidate generally will be a market leader with a superior product or service, solid revenue, a consistent record of revenue growth and, in many cases, a track record of (or at least visibility into) earnings. The quality of a company's management team helps build trust with investors, and is universally considered to be one of the key features of a successful IPO candidate.

Analyst messaging

Getting to know the community of Wall Street equity research analysts can be crucial to the success of your IPO. By preparing early, you can articulate a balanced and coherent investment story well in advance of the IPO roadshow, and lay the foundation for an IPO order book that, in effect, is largely presold. In adopting this strategy, you will also start building the types of analyst relationships that will be extremely important after you become a public company.

IPO alternatives

Companies considering an IPO should remain open to potential alternatives. Depending on market and other considerations, a sale to a strategic or financial buyer may be a more appropriate exit strategy and yield a higher valuation. Simultaneously pursuing a sale and an IPO via a "dual track" process is demanding on management, but preserves flexibility and may be the surest route to liquidity for certain companies.

Another potential option for more established companies may be to skip the traditional IPO process and seek a direct listing on a securities exchange. Smaller companies, not yet mature enough for a traditional IPO, may explore the possibility of a "mini-IPO" under Regulation A+.

Act like a public company

In order to be ready for investor scrutiny, regulatory complexity and shareholder lawsuits—all of which are an ongoing part of life as a public company—private companies should start adopting corporate governance policies and building the financial infrastructure that will inspire trust in shareholders well before an IPO. Developing a system for effectively managing public communications is another key component of acting like a public company that will serve a company well following its IPO. Companies should develop discipline and rehearse delivering a consistent message that balances the pressure for quarterly results with their long-term strategy.

Setting and hitting your targets

Once you become a public company, it is critical to execute your business plan and continually meet or exceed the expectations that you set, especially in the period immediately following your IPO. Even companies with strong IPO offerings can perform poorly in the aftermarket if operational results are weaker than expected or key milestones are missed. The systems and infrastructure implemented in preparation for going public is central to providing accurate financial forecasts and realistic guidance.

Developing the skillset to provide guidance to the Street is an art, not a science, that requires key judgments on a broad array of inputs. There is little to no room for error, as missed guidance can punish your stock price (irrespective of actual operational performance) and be difficult to recover from. Understand this reality and be prepared.

Investor relationships

Public companies are typically accountable to numerous investors and must maintain an ongoing dialogue in order to fuel interest after the initial attention has started to fade, and to build ongoing trust. It can only take one piece of negative news to hurt a stock price, but a company that has a proactive investor relations effort and established credibility with investors and analysts will be much better positioned to weather any storm it faces. Get to know and build goodwill with your core investor base by investing significant time with them before a crisis unfolds.

Team

Going public is an intensive process that demands a team effort from company management and external advisors. While the IPO process itself will typically last several months, preparations should begin one to two years in advance. Companies should work strategically to assemble, and appropriately incentivize, a cohesive team of experienced managers and independent directors, and to engage banking, accounting, legal and investor relations advisors with extensive IPO credentials. Engage with investment banking and other potential advisors on at least an informal basis for strategic advice even before launching the formal IPO process.

Dentons' Venture Technology team is available to answer your questions or offer advice on all aspects of your IPO process.

Your Key Contacts

Victor H. Boyajian
Global Chair, Venture Technology and Emerging Growth Companies,
New York
D +1 212 768 5349
victor.boyajian@dentons.com

Jeffrey A. Baumel
Partner, New York
D +1 212 768 5374
jeffrey.baumel@dentons.com

Ira L. Kotel
Partner, New York
D +1 212 398 5787
ira.kotel@dentons.com