PRIVATE EQUITY PERFORMANCE IMPROVEMENT

U.S. Market Initial Public Offering Outlook 2024

Companies Should Be Cautiously Optimistic and Pressure Test Their Readiness to Go Public

As companies evaluate the decision to go public in a listless initial public offering (IPO) landscape, they face many potential pitfalls and challenges, such as macroeconomic uncertainty, unfavorable perceptions about successful IPOs in certain industries, and murky regulatory expectations in an election year. Accordingly, companies must ensure they are truly ready for an IPO, now more than ever.

This market outlook anticipates the IPO environment in the U.S. in 2024 and beyond and provides a rundown of processes, tasks and considerations that companies must consider to ensure IPO readiness and improve the likelihood of a successful public entry.

What Should Companies Expect in 2024 and Beyond?

Over the last several years, capital markets have exhibited significant volatility, particularly in consideration of the significant spike in volume of companies going public between the latter part of calendar year 2020 and the early part of 2022.

This period of high activity created a fast-paced environment in which companies, private equity firms, individuals and Special Purpose Acquisition Companies (SPACs) attempted to leverage investor interest with high liquidity in the financial markets and specific trends towards certain industries. The aftermath of this environment and the rapid slowdown in late 2022 and into 2023 created more awareness of how important it is for interested parties to ensure proper readiness and evaluate the markets more thoroughly.

After the sluggish initial public offering (IPO) market activity experienced in 2023 within the U.S., there are reasons for cautious optimism for increased IPO activity for the remainder of 2024 and heading into 2025. As of the end of July 2024, there have been 112[1] IPOs on U.S. stock markets, which is a 19 percent increase in volume when compared to the same period in 2023. Further, the U.S. IPO market has raised a total of $23.2 billion in proceeds through July 2024, which surpassed the $19.4 billion in total capital raised for all of 2023.

The year-over-year improvements experienced thus far for IPOs in the U.S. are reflective of a recovering market, stronger investor appetite and confidence in new market entries, and growing interest from companies to go public.

Despite the notable increase in IPOs within the U.S., there are several factors driving the outlook as "cautious" optimism, which include, but are not limited to:

- **Economic Considerations —** Macroeconomic factors such as an elevated interest rate environment and lingering concerns of a potential recession may lead to a more cautious approach from both companies and investors. As a result, companies must ensure they are well-prepared to navigate economic uncertainties. Further, when compared with the IPO boom year of 2021, investors have become more selectively focused on companies with strong financial positions and clear pathways to profitability, along with innovative business models.

1. Historical IPO figures and data referenced above were sourced from Stock Analysis (stockanalysis.com).

- **Mixed Performance of Recent IPOs —** Some companies that have recently gone public have experienced significant price volatility, both positively and negatively, which reflect the importance of realistic IPO valuations and proper readiness procedures both pre and post entry into the markets.

- **Regulatory and Political Uncertainty —** The political environment in the U.S., characterized by regulatory and monetary policy uncertainty, may have a significant impact on the IPO market going forward. Further, changes in regulations, especially those related to financial markets, taxation, and corporate governance, can influence a company's decision to go public. Potential shifts in policies due to the upcoming election or impending actions from the Federal Reserve create an environment of uncertainty, which may result in companies applying a "wait and see" approach, leading to potential delays of their IPOs until there is more clarity on the regulatory landscape following the election. These considerations around the political and regulatory environment are particularly relevant for companies within certain industries, such as energy and finance, that are more exposed to changes in regulations or policies. Companies with strong fundamentals and those in less politically sensitive industries may still proceed with their IPOs, but with increased due diligence.

- **Sector Trends —** Companies within healthcare, technology, and artificial intelligence sectors have continued to attract investor interest and have driven IPOs to these areas since these companies are often perceived by investors as innovative and resilient. Therefore, companies should carefully consider the industry in which they operate and ensure there is sufficient investor appetite.

In consideration of these factors, companies must strategically consider the timing of market entry and the need to be well-prepared throughout the IPO readiness process.

What Is IPO Readiness and Why It Matters?

IPOs represent a significant milestone for a company, marking its transition from a private entity to a publicly traded one. While an IPO offers substantial opportunities for growth and capital infusion, it also presents a myriad of challenges and considerations that require precise preparation and strategic planning.

Accordingly, companies seeking an IPO must engage in the process of evaluating the current state of its preparedness to transition to and subsequently operate as a public company. IPO readiness involves ensuring that the company meets all regulatory requirements, has robust financial reporting and governance structures in place, and is operationally and strategically prepared to enter the public markets. Further, IPO readiness is a comprehensive process that considers all critical functions across an organization, including functions that may not currently exist, but must be established as a public company. These include investor relations, financial planning and analysis, internal audit and risk management, among others.

Given all the requirements and processes necessary to prepare for an IPO, it is critical for companies considering an IPO or an exit to ensure operational and financial readiness for the following key reasons:

- **Market Timing Flexibility —** While IPO market windows can be volatile and dependent on many factors, being IPO-ready allows a company to quickly take advantage of favorable market conditions as they arise. Conversely, companies that are not prepared may miss optimal market windows, leading to delays and potentially less favorable conditions upon becoming ready.

- **Regulatory Compliance —** Regulatory requirements for going public are stringent and can vary by market. Being IPO-ready ensures that the company meets all necessary legal and regulatory standards, avoiding potential legal issues and delays. This process also reduces the likelihood of last-minute issues that may derail the registration process and offering.

- **Financial Preparedness —** Ensuring that financial statements are accurate, transparent and compliant with accounting standards is a critical aspect of IPO readiness. Accurate and transparent financial reporting helps in achieving a fair valuation, which is crucial for the success of the IPO.

- **Operational Effectiveness and Efficiency —** Preparing for an IPO typically involves improving operational efficiencies and strengthening the internal controls environment, which not only benefits the IPO process but also enhances the overall performance and sustainability of the company. An IPO-ready company is typically better positioned to scale its operations post-IPO, leveraging the capital raised to drive growth and expansion.

- **Investor Confidence and Strategic Clarity —** Investors are more likely to invest in companies that demonstrate strong corporate governance, transparent financial reporting and a clear strategic vision. Part of the IPO readiness process involves articulating a clear strategic vision and growth plan, which is often referred to as the "equity story." This clarity is crucial for attracting investors and ensuring long-term success in the public markets. A well-prepared company can better position itself in the market, highlighting its competitive advantages and growth potential for prospective investors.

- **Dual-Exit Approach —** While most companies engage in an IPO readiness process with the intent of following through with an IPO, the process of becoming a more prepared and operationally effective organization provides the opportunity for other exits, such as a buyout from private equity. The dual-track process involves pursuing both an IPO and a private-sale process simultaneously. As both transactions progress, one will emerge as the best to meet the needs of the company and its shareholders. Such a process can offer many benefits, including possibly higher valuations and increased flexibility. Companies with more robust processes, internal functions and financial reporting transparency are more likely to be an attractive target for a buyer.

Pressure Test Your Readiness Before You Launch

Market timing, financial strength, sector trends and investor appetite are among the many realities companies must consider when evaluating their unique circumstances and their readiness to launch an IPO. The more rigorous the assessment, the more opportunities companies will find to improve operations, financial structures and internal governance that can increase the likelihood of success.

As 2024 rolls into 2025, the market for IPOs may become clearer, and those who prepare now will be in the best position to take advantage of the opportunity when the time is right.

Successful IPO Themes

- **Start Early:** Starting an IPO readiness process early is a key factor in ensuring a successful IPO. Even if a potential IPO is years away, companies can take steps towards assessing its current state of readiness and key gaps in going and being public. We recommend an IPO readiness assessment, which would cover areas such as accounting and financial reporting, internal controls, tax, governance, information technology, cybersecurity, and ESG. Performing this assessment early allows management time to develop a thoughtful approach to remediating gaps and avoid surprises.

- **Talent Assessment:** Companies will need to ensure its personnel in various functional roles have the competency necessary to lead the organization as a public company. Deep technical accounting, SEC reporting, and internal control experience may need to be hired to supplement the current team. Additionally, leaders that are prepared to drive change and enhance processes are needed to make the transformation to operating as a public company. During the IPO readiness process, some roles are commonly outsourced or co-sourced for a period leading up to or even after an IPO. While there is no one size fits all approach, the right leaders and advisors are critical for a successful outcome.

- **Corporate Governance:** Companies should ensure there is full buy-in from key executives and appoint an IPO readiness committee to oversee governance. A project charter will drive outcomes across the functional teams and regular reporting to the committee should occur.

- **Operate Like a Public Company:** For several quarters and up to a year before going public, companies should act like a public company in preparation for the increased requirements once they are public. This may include performing monthly closes on a strict timeline, generating 10-Qs, and dry-runs of investor calls.

- **Be Ready When the Market Opens:** Companies thinking about an IPO should get prepared while current capital market conditions may not be right, since markets will re-open. Companies should take this opportunity to invest in growth and focus on profitability. Management teams should actively build their story and be prepared when the timing is right to actively pursue an IPO. It's becoming more and more critical for companies to be able to demonstrate a track record of success, combining a growth story with profitability.

How Can A&M Help?

Assembling the right team of advisors is a critical upfront step in the IPO process, which is inclusive of accounting advisors, underwriters, legal counsel, and external auditors, among other potential advisors. Ensuring that the right team is engaged and in place from the start is critical in ensuring the company is provided with the appropriate level of expertise and avoids unnecessary delays in timing.

Given the level of complexity in an IPO process, A&M's approach to supporting our clients through an IPO is based on the following:

- Wide breadth of available services that provide the benefits and efficiencies of one core service provider throughout the process, from pre-IPO to post-IPO.
- Readiness assessment with a focus on attention to detail in identifying and addressing high priority, high value gaps.
- A bias towards action and being of service in developing appropriate technical and operational solutions, rather than only providing guidance to our clients.
- An understanding of the importance of candid feedback to ensure our clients are provided with the appropriate recommendations and solutions.
- Established history with a highly skilled expert team and a proven track record of assisting large companies through capital markets transactions.

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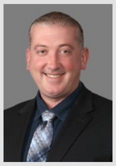

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