The decision to go public

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Content

Introduction

"Going public" refers to the process of Initial Public Offering (IPO) that a company holds to sell pieces of shares in a public market. It means a lot more than just listing them on a stock exchange, **it represents a whole new phase in the corporate development,** marking an important change for its entire structure, employees, and **owners.**

Many are the reasons behind the decision to launch an IPO. For example, you might be looking for an opportunity to enhance the company's reputation, get additional funding to expand, improve the company's competitiveness, finance R&D, pay off debts, or even offer a way out for some of the shareholders.

Because of the complexity of this process and its impact, the decision to "go public" must happen with proper investigation, and the time must be exceptionally precise. For instance, during the initial stages of the IPO process and immediately after, a company will be subject to deep scrutiny and for this reason, the primary stages of an IPO are normally focused to set the company affairs in order; considering that for the entire duration of the IPO process, the company will be under the spotlight, being measured and analyzed.

You will need the help of an interdisciplinary team of advisors, lawyers, and management consultants, who are going to contribute to executive decisions, strategy, decisions, financial analysis, legal compliance, and marketing campaigns. So, **if you are following this road, it will be crucial to surround yourself with specialists and experts to ensure the detection and unraveling of problems as early as possible**.

With all the above points in mind, this paper does not aim to be a guide on the hows, whens, and whys of "Going Public". Our goal with the first whitepaper from our IPO sequence is to provide you, the reader, with an overview of the initial changes that will happen when you prepare to go public, including planning on key points, pros, and cons of going public and alternatives that could be considered as preferred options.

We will provide you with a series of different whitepapers, painting the full picture of what you should expect to face, from fundamental changes to the way the company is run until the moment of preparing to list shares on a stock exchange for the first time. Despite all the challenges, **a well-timed IPO is most certainly a game-changer**, and regardless of your region and industry, we are excited to initiate this journey with you.

IPO initial consideraton stage

1

Pros and Cons

Evaluate the advantages, disadvantages of proceeding with the IPO, considering all the many expenses related to this process.

2

Evaluate alternatives

Understand the reasons for going public, and the many available options such as SPACs and direct listing.

3

Reshape the mentality

Prepare executives, owners, and the management team for the change in mindset and structure required for going public.

4

Start to build market

Perform a deep diagnostic of the company capital structure, understanding what the required adjustments are.

5

Modify the ecosystem

Prepare to build new functions with an internal cross-functional team, get the company ready for the first steps as public.

6

Count with the talents

Get ready to select an external IPO team to focus on the tasks needed to prepare the organization for being public.

IPO consideration, the entrepreneur's pathway

Change in ownership

The control and voting rights of the company might end up in the hands of new people, outside the original founders.

Loss of privacy

Adoption of a whole different methodology and reporting structure for constant and open interaction with market and clients.

External pressure

New strategies to engage and deal with shareholder and market's expectations, with the possibility of expansion or withdrawal from certain markets.

During the consideration phase, it may be the first time that your company's board realizes the importance of **"the market", the semi-abstract entity that will rule their lives after the IPO.**

This shift is especially difficult for company owners, as it becomes clear that the company doesn't belong entirely to them. **Replacing an owner with a CEO is not always successful, requiring a great deal of planning.**

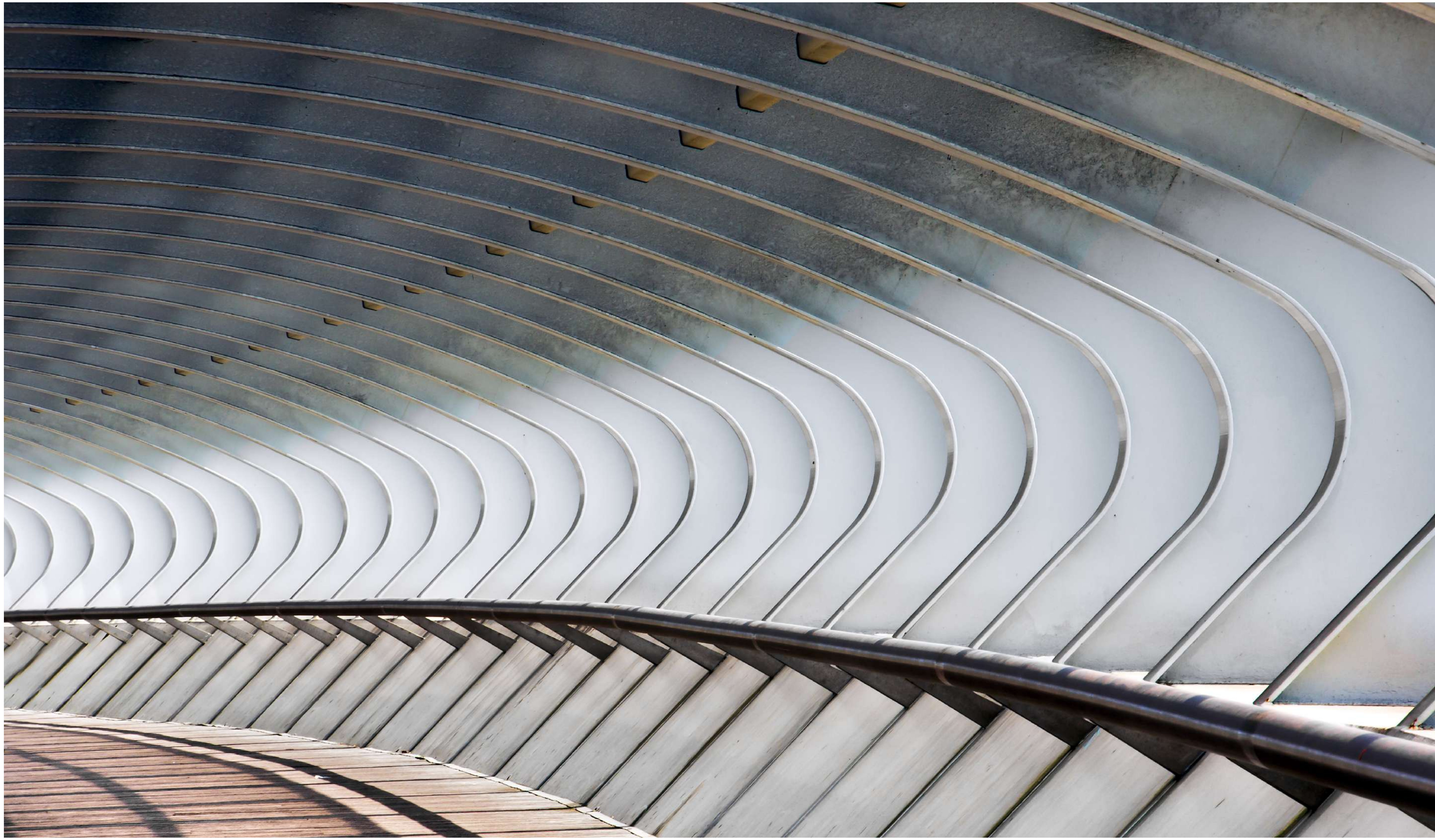
Before going public the senior executives and the owners are the only ones accountable in law for the company, and since ownership can only change hands privately, **the management is always aware of who owns the company.**

Suddenly, board members of a listed company could be accountable to anyone, if this person is a shareowner. Moreover, their success will not only be measured by financial or operational results but mainly by the way the shares perform in the market, and this will become a benchmark for the quality of leadership - or lack of it.

Consequently, **"giving away" shares in a company translates into a complete change of culture, from ownership to control.** The owners may not have an active role in the company anymore, and as a result, the three types of roles at the top of a company - ownership, supervision, and executive management - may be filled by completely different individuals, each with their own responsibilities.

The way the market can react to lower profits is often something of a “culture shock” to people with no experience in running a public company. It is very common for the market to react better to an expected loss, which could be due to investment, mergers, or new business lines than to a sudden and unexpected drop in profit.

That is why a profound transition towards complete transparency and board accountability is required, and focusing narrowly on accounting and financial reporting matters is not the appropriate approach. A cross-functional, holistic view of readiness is critical to preparing the organization to operate as a public company.



Laying the foundation

The road that leads to an IPO it's long and rough, for sure. During the pre-IPO stages, it is essential to tighten up any loose ends in the company, or at least try not to expose them, if there is any mistake to be found, it better be found in advance and by your own firm, rather than be caught and brought to light by an outside financial analyst.

The company will be judged by the public and by an army of experts, to be prepared you will need to build a team of individuals; management consultants, and advisors, dedicated to the different parts of the pre-IPO stages, and since most financial jurisdictions require IPOs to be managed by specialist advisors, part of this team will often include investment bankers.

An IPO is not a one-time deal, but a continuing process that may take many years in the making. During this time, the company must continue trading and producing; and even if the company has in-house experts to review how the changes required to go public are going, those people will also need to be focused on making constant results for the company, this means that there is no way to avoid hiring new personnel, and being a public company will require inside and outside talent in many different areas.

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Costs involved in an IPO

During the “going public” process, many are the expenses related to the required changes and business continuity.

Creating new structure

Hiring new talent for internal functions such as investor relations, corporate governance, and human resources.

Attracting investors

Fees related to the external “IPO team” composed of advisors, lawyers, auditors, consultants, and investor relations.

Welcoming the experienced

Fees related to underwriting, accounting, legal, registration, printing, and the roadshow.

Delivering promises

Add-on costs associated with the ongoing requirements as listed company and the structure necessary to be public.

Responsibilities of the IPO team

At the preparation stage, use every minute to shape and buildshape build up a complete and multidisciplinary team of advisors and other specialists, because every knowledge will come in handy at the right moment. Also, many companies support the misconception that a large advisory team is a waste of money, this is far from being true, an IPO is a web of complex topics that range from economics and law, reaching marketing and data analysis, with every person playing a part in this process, so better be sure that you going to need every tool in your box and their absence may prove fatal.

The IPO advisors should specialize in the business sector of the company they are going to manage Their role is crucial to

- Help the company's management and board transition to the new legal structure.
- Provide advice on the valuation and due diligence.
- Support the management of the underwriters and consultants.
- Oversee the paperwork for listing, providing clarity on the number of shares to be included and work on the IPO order book.
- Guide you on the specificities of the jurisdiction you plan to list.

Aside from the listing paperwork and structuring of the company's future, the advisors will also be part of the promotional campaign that precedes the IPO. These promotions are intended to make sure the IPO is not undersubscribed. Large institutional investors and underwriters are usually offered securities before the date of the IPO. In many jurisdictions, these are called "placements" because the shares are not really sold, as it is illegal to sell them before the date of the IPO. In summary, they are just reserved for later purchase at a prearranged, usually discounted, price. So it is very wise to employ the advisors' help to

- Organize roadshows for institutional investors and financial analysts.
- Monitor the media coverage of a company before the IPO.
- Secure as many placements deals as possible before the IPO date.
- Guide you on the specificities of the jurisdiction you plan to list.
- Lay the foundations for the company that will emerge from the IPO.

- Organize additional departments during the pre and post IPO phases, aligning processes and infrastructure, helping to allocate resources to those tasks.
- Compile the prospectus, a description of the company and its operations, representing the terms and conditions of the initial stock offering.

It is interesting to highlight an important part of your advisors' role, the support on the management of consultants and underwriters, who are financial specialists working closely with IPO advisors to determine the initial offering price of the securities, buy the shares from the issuer, and sell them to investors through their distribution network - lawyers, certified public accountants (CPAs), and Securities and Exchange Commission (SEC) experts, or their equivalent in each jurisdiction. Those people, they are crucial to prepare the company prior to going public because the increased level of transparency that comes with being a publiccompany is not to be taken lightly. In many ways, if you have the right team involved, it is an ideal opportunity to tidy up your databases, executive reporting, and procedures.

During these stages you should have an idea of where you would like to list, especially ifyou plan to list outside your jurisdiction. If you choose an advisor in your jurisdiction to guide you through the early stages, you may have to find another advisor once you decide where to list, depending on the jurisdiction of the exchange. The second advisor will be authorized in the jurisdiction of the exchange where you intend to list.

Taking this into account, A good IPO advisor must gauge the market's appetite to invest in a specific business sector. If they have reasons to believe that the timing is not right,

Why go public?

Given the many drawbacks, the most important question one could ask is, “Why go public?” There is a multitude of benefits, and they go way beyond equity or accessing public capital markets. In most cases, many reasons collide to make the mind of owners and entrepreneurs.

1

Succession

Going public could be an excellent way to keep the business rolling for shareholders and consumers if the heirs do not hold an interest in keeping the family business.

2

Angel investors

Because of its frequent association with prestige and high earnings, an IPO is one of the preferred exit strategies of Angel Investors and Venture Capitalists.

3

Funding or fundraising

Access to public capital markets could be a less costly, faster, and more flexible funding option when compared to raising capital via loans or private equity deals.

4

Growing by acquisition

Very often, sellers are more willing to accept shares in a newly merged entity as part of payment if the buyer’s shares are liquid in a public trading market.

Advantages

Favorable risks

New capital is raised without the associated risks, restrictions, and cost of debt or the constraints of venture capitalists.

Expertise attraction

Stock options can become a useful tool to attract senior staff. In general, public companies have an easier time attracting top-tier talent.

Business transparency

Because of the regular audits, ESG requirements and financial scrutiny, it becomes easier for customers to have a better perception of the company.

More liquidity

The company's debt to income ratio is reduced and there are more funds for the development of new products or compensation packages for example.

There are many possible benefits of going public, with the improvement of the company's financial situation being the greatest one. The process allows a lot of wealth for the company founders and for the pre-IPO stockholders, creating liquidity for the shareholders.

In many cases, the capital raised for the company is more advantageous than another form of funding, such as loans or private equity deals. Access to public capital markets allows a company to raise money faster, with more flexibility, and at a lower cost.

Going public has a huge impact on all company's departments, including corporate development. The capital boost can be used to expand activities, fund innovation, pay off debts, and perform M&A using its stocks as

Disadvantages

In some cases, the amount of money required to launch an IPO will certainly be a motive for not wanting to choose this route. There will always be the risk of a failure and disturbance on the company´s “engines”, impacting the employees’ performances, the company’s profits, and market presence.

Another strong motive that often speaks against the IPO process is timing. Bear in mind that some companies, because of the nature of their business or other aspects, won´t have many investors lining up to buy shares. In those cases, it is up entirely to the board to assess if there are real buyers interested in spending money to fund the business expansion before they launch the IPO.

Time-consuming obligations

Periodic audits and public reports are required, bringing on scrutiny from shareholders who can end up losing touch with day-to-day operations.

Expensive talent

External requirements, such as advice from lawyers, accountants, investment bankers, and, management consultants.

Timing determinants

A poorly timed IPO can destabilize a company, making it detrimental to the company’s growth and stability.

Structural weight

The cost and effort behind financial reporting, specially to tasks related to investor relations.

Alternative Ways to “Going Public”

An IPO is a long, tightly regulated process and its regulatory framework is designed to ensure that investors are protected from misrepresentation, fraud, or the risk of “inconvenient surprises” post-purchase. Any potential risk associated with the investment is clearly stated in the prospectus; to give potential buyers all the information they need before they decide to invest.

From the point of view of the company, an IPO could be seen as a long and expensive process with a circus of consultants who keep key people away from their corporate role, sometimes for a long period of time. It is understandable that companies may want to investigate alternative ways to IPOs, such as bank loans or selling to private equity, venture capital or family office, or even look at other ways to get listed on stock exchanges. With that in mind, we decided to bring to the discussion other ways to list ytour shares in a stock exchange without an Initial Public Offering. Those forms are going to help you save some money, although each one of them requires some effort and different preparations, it is worth mentioning that they also hold some pros and cons, and that you can´t abandon cautious stance.

DL – Direct listing

Through this method, the company lists directly on the stock exchange, with none of the protection, transparency, or risk management of a traditional public offer.

SPAC – Special Purpose Acquisition Company

This is where your company merges into a shell company that is already listed on an exchange. This is the fastest but also the least controlled route to listing and offers no protection or guarantees to investors. Some jurisdictions limit the use.

Direct Listing

As highlighted throughout the paper, an IPO could be a very interesting growth mechanism, it will always be a very expensive process. A team of advisors, lawyers, accountants, consultants, public relations specialists, and many other professionals are necessary to make things happen, not forgetting the underwriters, that charge a fee per share, so, a portion of the money raised through the IPO will be destined to intermediaries.

The most famous example of Direct Listing was Spotify on the New York Stock Exchange in 2018.

Some companies may not have the resources to pay for all the professional help, also they may not want to invest time and effort in an IPO, or just don´t want to issue new shares. Instead, they can list their shares directly on a stock exchange using the Direct Listing Process (DLP), also known as Direct Placement or Direct Public Offering (DPO).

The existing shareholders of the company can sell their shares directly to the public. However, thereis no sale promotion, no guaranteed long-term investors, and no large shareholder protecting the stock from price volatility. This is the price you pay for saving on the costsof the IPO.

The most famous example of Direct Listing was Spotify on the New York Stock Exchange in 2018; at that time, Spotify was already a well-known company, considered a pioneer in the music stream business.

Once a company is public and its shares are listed on the stock exchange the obligations are the same as they are for a company that has gone through an IPO. The process of going public may be different, but once it is finished and the company is public the legal requirements are the same.

There is a difference between going public to allow some shareholders to take the profits of their investment and going public to raise funds. The former does not necessarily imply issuing more shares; therefore, you can go public via Direct Listing. The latter implies issuing more shares, and consequently, you cannot choose Direct Listing. Moreover, if you are seeking funds, you need to have a clear plan to use those funds, and it's wise to write that down in the prospectus.

SPAC

A special purpose acquisition vehicle (SPAC), also called “a blank check company,” is a shell corporation, a company that exists only on paper, with no activities, employees, or headquarters; holding just the appearance, when it’s emptyon the insides, listed on a stock exchange.The main purpose of a SPAC is to acquire a private company, which then acquires a Stock Exchange listing without going through an IPO.

Merging with a SPAC is mostly used by early-stage companies that do not have sufficient track record, or profits, for a traditional IPO process. Early-stage private companies that decide to be “bought” by a SPAC tend to have lower revenues, a business model that it´s not mature yet and are often still incurring losses. Although the share price is negotiated as part of the acquisition process, there is the risk of poor performance, and the stock could crash as a result.

Before the merger, the SPAC is an empty shell; all the reporting obligations of a public company will be the responsibility of the company that merges with it.

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What happens next

When discussing going public, it always pays to be prepared. Whether your company is pursuing the IPO for a groundbreaking decision, or if it is a move dictated by the need of the shareholders to cash on their investment, you now have an overview of the consideration process, enabling you to make strategic decisions, should your company decide to cross the bridge to go public.

Keep in mind that any sacrifice made, time invested, and money spent into the preliminary phases of the IPO is the only way to guarantee that your company is financially solid and hasthe legal documents ready, which will turn into advantages in subsequent phases.

During the many phases of this process, it is crucial to have a clear idea of what the company is trying to achieve. For instance, there is a difference between going public to allow shareholdersto take the profits of their investment or going public to raise funds. For example, the former does not necessarily imply issuing more shares; therefore, you can go public via Direct Listing. The latter implies issuing more shares, and consequently, you cannot choose Direct Listing.

Regardless of the reasons, it's crucial that you keep well informed about your company on a day-to-day basis and reserve some hours of your day to focus on its management and performance.

Keeping in mind that advisory teams are valuable assets and can feed you with important data to uphold the decision making, remember thatan advisor´s role is to advise only, and ultimately the final decision is always your company's to make.

Moreover, if you are seeking funds, you need to have a clear plan on how and when to use those funds, this plan should be included in the prospectus from day one. Whatever the reason is, it is an important step in the life. For many companies the IPO consideration stages represents a profound adjustment period, and we believe that the more you get informed the bigger the changes of a successful transaction, for this reason in the next whitepapers of this series, we will proceed this journey with you, covering important topics such as the IPO factbook, due diligence, marketing presentation materials and prospectus concept.

The whole process of working with iDeals VDR wentvery smoothly. It's pretty intuitive to work with the framework provided, the team is great, ready to help fast.

David Strycek,
Senior Consultant, EY

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