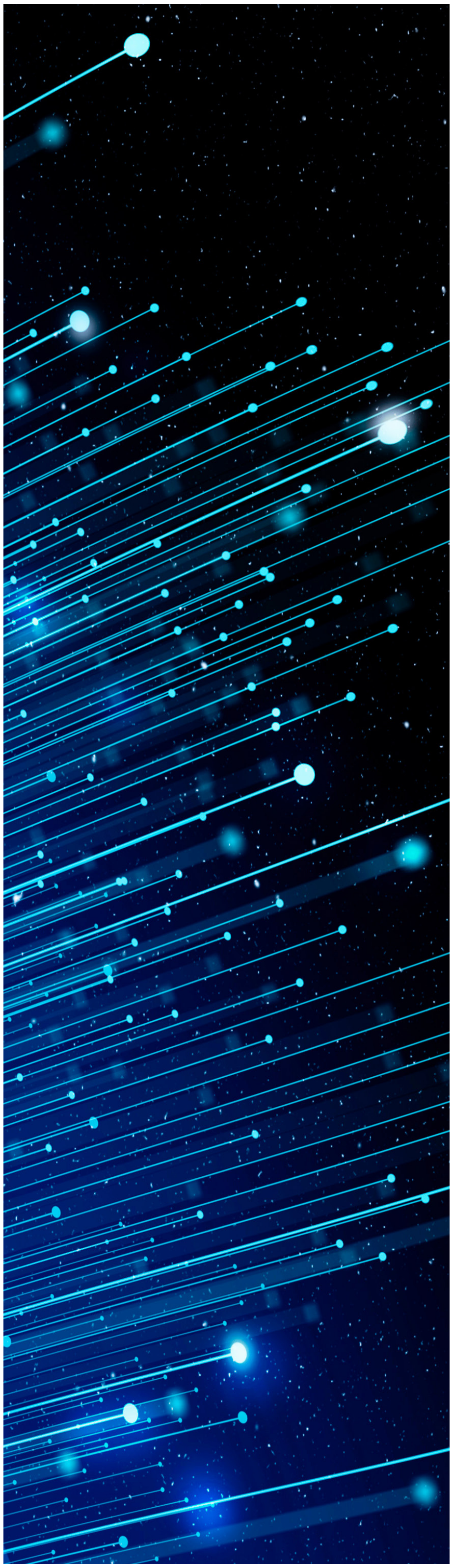
Decoding the IPO Journey for Consumer Companies: Trends, Lessons, and Strategies

Host: • Sam Loughry

Guest speakers: • Will Braeutigam and Trent Brown

Sam: Welcome to *Consumer Speaks*, a Deloitte podcast series where you'll hear industry specialists share their perspective and insights on emerging topics impacting the consumer industry. I'm Sam Loughry, the leader of our Consumer Industry Audit & Assurance practice at Deloitte & Touche LLP. I'm joined by Will Braeutigam, Audit & Assurance partner and US Capital Markets Transaction leader at Deloitte & Touche LLP, and Trent Brown, Audit & Assurance partner and Los Angeles Consumer Industry leader at Deloitte & Touche LLP. Today, we'll be discussing IPOs [initial public offerings]. We'll cover the current state of the IPO market, reflect on the lessons learned from the 2021 and 2022 IPO bonanza, and explore the trends around readiness and how consumer companies can prepare to go public. Thank you both for joining us. Will, to kick it off, could you share with us the current status of the capital markets, including your views on the IPO window in 2024?

Will: I think to understand where we are currently, we have to go a little bit back in time, and, if we do so, we'll see that the average IPO market in a year raises around $40 billion of capital. And if we go back in time, we go back to 2021, we'll see that we raised over $180 billion. So certainly when we're thinking about an IPO window, we're thinking about getting back to the levels of the $40 billion and $50 billion of capital raise versus the $180 billion that was raised in 2021. And thinking through that, and



thinking about what happened between '21 and '22 that drove to the market where we're at today, let's talk through some of those items.

So one, volatility increased substantially. We saw in January '22, inflation started to pick up. We saw war in Europe. We saw continued constraints in supply. And overall, valuations began to come down in the market. And that's not uncommon, especially for high-growth companies. Whenever volatility goes up, the expectation of return increases, discount rate increases, etc., and valuations come down. And as such, the IPO market came down, and in '22, the capital markets raised around $10 billion in IPO funding.

As we moved into '23, some of those items: this war in Europe resided, getting an understanding of how high will rates go… and as we started to look into the summer of '22, we started to see some names—and some of those names in the consumer side of the house—go public. And as we moved into the third and fourth quarter, we saw additional companies attempt to go IPO, and many were able to do so.

Well, when we look at the overall market in '23 and we think about what happened, over 70% of the companies that went public vis-à-vis an IPO were down from their IPO list price. So, some things still need to be worked on in the capital markets pricing. The bid ask spread between willing investor and willing seller is still wide, but there is hope. As we look into the end of '23 and the beginning of '24, the VIX [Volatility Index], the index for measuring volatility and fear within the US, is now down below 15, which is a positive indicator of a capital markets environment. When we start to look at other elements, like just how the capital markets are doing in general, the S&P 500—and I need to date this conversation because things move so quickly—on January 22, just hit an all-time high. And when we think about inflation, the Fed came out in December '23 and started saying that maybe inflation was under control and maybe we'd see a rate reduction in the second or third quarter of '24.

So by all means, the capital markets looks very positive going into '24, but we do have some elements that are going to increase volatility. We still are in a relatively high-rate environment. We have a large election occurring this year, which generally increases volatility, and we have a lot of other aspects that are driving valuations. So, in order to have a healthy IPO market, I think we have to have some early success from some of the big names out there that have announced that they want to IPO. And I think hopefully, we'll be looking at marked improvement from the $18.5 billion we raised last year, and we'll raise somewhere between $25 billion and $30 billion in '24. Still shorter and lower than we've seen in an average year, but marked improvement from '23 and '22.

Trent: To add on to what you were saying, Will, about the capital markets specific to consumer companies, I really think there is mixed reception for consumer companies that went public during 2023 and we really saw extremes. Some companies that went public, their share prices rose immediately and others had decreases.

Sam: Will mentioned that there is some light at the end of the tunnel here and maybe things are loosening up in 2024. Some consumer companies have expressed interest in going public this year. Can you shed any light on this and what that might say about the consumer industry in general?

Trent: I do think there is some level of optimism going into 2024 for consumer companies, and really what drives the IPO market for consumer-type companies is spending, and spending was relatively positive for most of 2023. I think that most IPO hopefuls for 2024, they're being very mindful of the consumer spending data. And so I think you're going to see companies that have very strong prospects in the consumer sector to do IPOs earlier. And those will be companies that are larger scale, have a very profitable business with line of sight to growth. And then others, I think they're going to wait and see how Q1 plays out in terms of consumer spending.

Sam: Will, you mentioned in 2021, IPOs raised $180 billion. Can you talk about what the lessons learned for CEOs and CFOs were during that time?

Will: I didn't sleep much during 2021, I'll tell you that, which is lessons learned on my side! [laughs] But if I think about what CFOs—and by the way, 554 US companies went public in 2021 and 170 companies on average in a high-profile IPO window go public, so more than 3X a normal year of going public, and those do not count IPO SPAC IPOs. It does count SPAC mergers. So these were literally 554 US companies becoming public and trading publicly. When that occurred, we did a survey of our clients and people that we knew within the industry and CFOs and C-suite and asked them, what do you wish you would've spent more time on if you had had more time in preparing for your IPO? And resoundingly, the number one item was forecasting. Forecasting under different scenarios, being able to communicate to the street and building a model. Certainly, many did not see the increasing interest rate environment, but forecasting was number one on CFO's minds.

Number two was developing an equity story that's also aligned with the KPIs [key performance indicators] that you were going to share with the street and having a firm belief in that equity story and testing that model for several quarters prior to going public. Many CFOs, as part of the process—many, many companies brought in CFOs to take companies public three, four, five months prior to the fundraise. Many of those CFOs did not have an opportunity to test those models. I do feel like that was a resounding answer to the question that we got where they wish they could have spent more time.

And number three was governance. I think we saw close to 70% of all companies going public in 2021, going public with a disclosing in material weakness and controls. Many companies that went public were looking for board members at the last minute.

They were looking for finance executives and accounting executives as they were going public, looking to upgrade. And there was a tremendous human capital shortage as companies wanted to go public in '21. So, I think some of the lessons learned around human capital and/or governance is hire up maybe a year in advance, or further. Start thinking about key positions you need to start interviewing and hire into.

Number two, start building out your compliance infrastructure. Maybe not wait until you're going to go public to start on that, but do low-hanging fruit items to knock those out as you're going along in the IPO process. Your journey will be a lot easier as you're heading towards an IPO. So those are the three main takeaways. Sam, if you have any other questions, I'm happy to jump in and tackle those. Those are three main takeaways that we heard from the C-suite in 2021.

Trent: I think another thing, Will, just to add on, is ensure that you've nailed down what your key KPIs are. You want to think through that in advance, understand the industry, understand what KPIs your competitors are using, and then develop your KPIs well in advance of going public.

Sam: Appreciate that. Trent, within the consumer industry, are we seeing specific sectors that are showing more readiness in going public?

Trent: I think the theme for 2024 is that there isn't a theme in terms of what sectors within consumer are more prominent than others. So for instance, I don't think you're going to see a flood of restaurants doing

IPOs or apparel companies doing IPOs. Instead, I really think you're going to see a full range of consumer sectors because there's not really a clear winner right now. There's no one sector that's really doing that poorly or that's doing that well. I think it's going to come down to each company being weighed on its own merits. And I think that the IPOs that we're going to see that are going to be successful in 2024 are going to be those companies that have scale, that are profitable businesses, with high growth.

Sam: Trent, finally, with the hope of a 2024 window opening for IPOs, what are some of the specific challenges that consumer companies may face when going public, and how can they adapt to the changing market dynamics as they prepare for an IPO?

Trent: When you think about going from private to public, you have to be able to close your books in seven to 10 days. And a lot of consumer companies, you have a lot of accounting issues and things that you have to deal with, you have inventory. And so companies looking to do an IPO need to invest early in the finance function, be able to reduce the close, and focus on those things really that are going to benefit you first, whether you're a public company or a private company. So, for instance, if you invest in shortening the close process, that's going to benefit you no matter what. If you strengthen your FP&A [Financial Planning & Analysis] group, and you could tighten up forecasting, that's going to benefit you, whether you're a public or a private company, because timelines are fickle. Invariably, every year when Fortune 500 comes out with a list of the top companies that are going to go public this year, half of them wind up never going public, and then another quarter they go public a year later. So I would say invest in your finance function, shorten the close process, and really focus on those things that are going to benefit you first, whether you're a public or a private company.

Sam: Will, one last question for you. How are companies reevaluating their IPO readiness plans?

Will: When we looked back at the companies that went public in 2023, many of those companies have been actually on file with the SEC [Securities and Exchange Commission] for one or two years prior to the actual window being appropriate for them to raise capital. So, when we think about how companies take advantage or get ready for the IPO window in the future, many are going to do earlier. Earlier in the process, I mentioned some of the lessons learned, so they can identify those. Many of them are going to get on file earlier with their S-1 as they start to consider when the next window would be open, which is one of the reasons that we've actually created a tool for external use. It's my favorite four-letter word that starts with an "F": *free*. IPO SelfAssess. Go online, take it. And it kind of gives you an understanding in 30 minutes or less, from an infrastructure perspective, what you may need to focus on in a full-scale readiness assessment. It's a great place to start. For companies that might be thinking about going public even three or four years from now, as the strategy for going public has changed over time. In the market itself, we are seeing a tremendous number of companies come and talk to us about IPO readiness, and we're excited for 2024, and we'll hopefully blossom into a completely open window in 2025.

Sam: Free tool! Well, that's a great place to end. Really want to thank you guys, Will, Trent, for joining the discussion. There are a lot of considerations for companies to think about when they're going public, and readiness is a key. I appreciate hearing your perspectives on what's anticipated to come in 2024 and look forward to seeing how it plays out.

We hope today's episode will provide insights if your company is thinking about going public. For more consumer insights or thoughtware from our Capital Markets practice, please visit our website at deloitte.com or email me, Sam Loughry: it's sloughry@deloitte.com. Thank you for listening to *Consumer Speaks*, sponsored by Deloitte's Audit & Assurance business. Until next time, take care.