



Private equity portfolio companies' path to going public

What private equity investors can do to
take advantage of the next IPO window



The IPO window

Experience from the past two years has proven that an IPO window can close almost as quickly as it opens. This can put private equity (PE) firms, or sponsors, and their portfolio companies in a position where portfolio companies must attain at least some level of IPO readiness to keep an IPO on the table as a viable exit strategy.






In the past, some sponsors preferred not to invest in IPO readiness and instead tried to manage it during the S-1 filing process. Ultimately, many of their portfolio companies missed the IPO window because they were unable to identify deal breakers; some were unable to effectively scale their people, processes, and technology to execute the deal; some failed to overcome unplanned SEC requirements before the window closed.



Asking the effective questions

To take advantage of the next IPO window, sponsors will likely need to ask tough questions today about their portfolio companies' current readiness as well as their road map over the next 6, 12, or 18 months. This may involve imposing a requirement that portfolio companies provide regular IPO readiness snapshots to benchmark their progress against an established road map or project plan.

A few key items that sponsors should consider asking for include:

-  Quality and timeliness of financial reporting and forecasting processes.
-  Preparation of Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) audited financial statements.
-  Understanding of the public offering process, including SEC requirements.
-  Access to outside advisers.
-  Identifying quality directors with experience and diversity.

Quality and timeliness of financial reporting and forecasting processes

Sponsors often find that even their mature portfolio companies may have processes and systems in place that are insufficient to support operations as a public company. For example, companies that leverage disparate or outdated IT systems or that rely on highly manual processes may be unable to produce reliable and timely financial information and forecasts. Without such information, management will be hard-pressed to react to financial and operational developments, meet regulatory reporting deadlines, and update investors promptly.

A public company's financial reporting approach should be supported by dedicated and experienced people; integrated systems of reporting that are the reliable source of truth for underlying data and accounting; and a structured and controlled financial close and reporting process. Collectively, these

components can improve the company's ability to forecast with increased precision. The development of sophisticated close, reporting, and forecasting processes can require a significant investment of time and resources and cannot be completed overnight. Understanding a portfolio company's current state and acting now to remediate gaps identified will likely be invaluable down the road.





Preparation of SEC-compliant and PCAOB audited financial statements

Prior to going public, portfolio companies often don't have financial statements that satisfy the requirements imposed by the SEC and don't have the resources in-house to efficiently and effectively perform the required uplift. Areas typically requiring uplift include segment reporting, compensation disclosures, goodwill, earnings-per-share calculations and disclosures, and the preparation of quarterly financials.

Portfolio companies also often face challenges related to their audits. Portfolio company audits commonly are not conducted in accordance with PCAOB standards, and their auditors may not be SEC-independent or registered with the PCAOB. Changing auditors can take time, and delays in providing the requisite audited financial statements can potentially disrupt a deal.

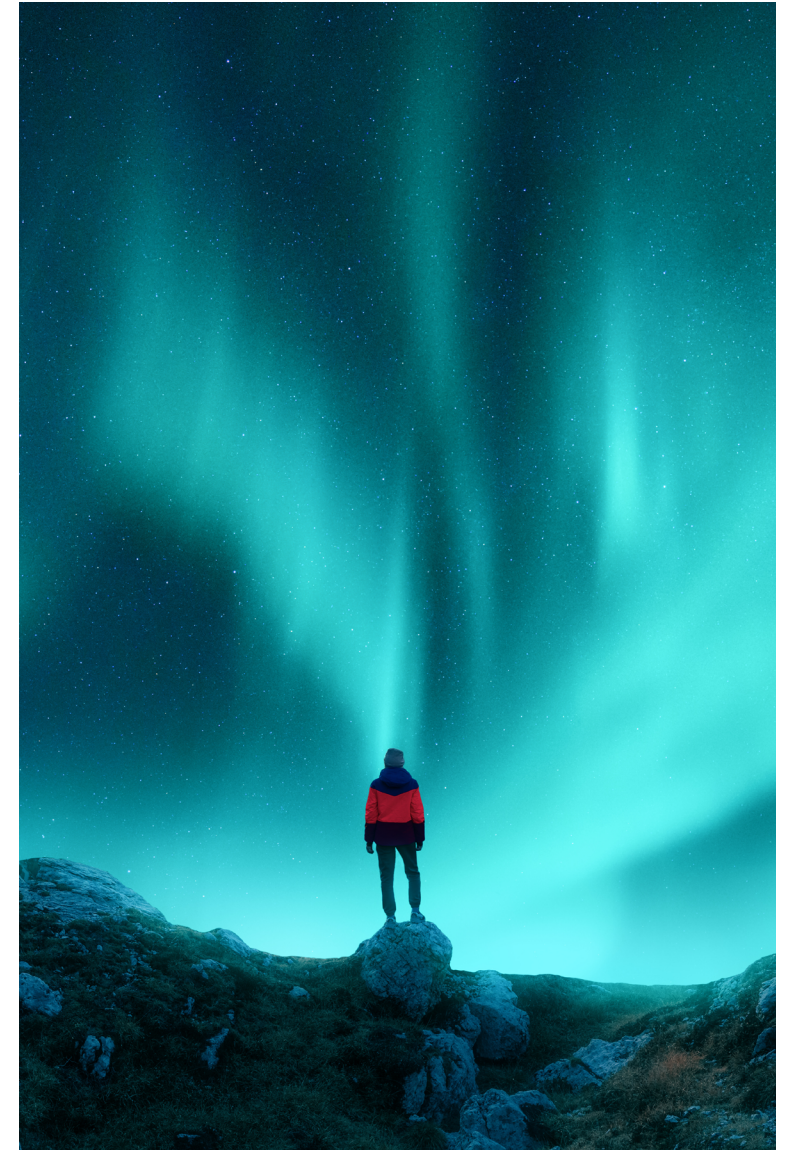
Understanding the public offering process, including SEC requirements

PE firms have long treated management development as a core competency, and understanding the path to going public should be an aspect of the education and development process. In addition to the going-public process, portfolio companies should also understand SEC reporting requirements to ensure that no surprises put the deal timeline at risk (e.g., Rule 3-05 financial statements).

Preparing the portfolio companies to be familiar with the process and recognizing the challenges and opportunities to the path ahead can be key to a successful transaction.

Access to outside advisers

Effective IPO execution requires extraordinary focus from the company and sponsor as well as substantial outside support. Experienced advisers may help you identify potential deal breakers before they become problematic. That support can be increasingly difficult to source during times of peak demand, such as when an IPO window opens, as many accounting, legal, tax, and other advisers essential to the transaction become fully subscribed with other clients. PE firms should plan early, work with their portfolio companies to build out their set of advisers, and involve those advisers early in the process.





Quality, experience, and diversity of directors

One area where PE firms can provide significant support to their portfolio companies relates to their network of board members, potential C-suite executives, and other experienced individuals. By building a set of contacts that can be plugged into key roles at IPO-ready organizations, PE firms are able to help connect their portfolio companies with individuals who can bring a diversity of backgrounds, experience, and leadership to both the transaction and the post-IPO company.

Conclusion

In order to take advantage of an IPO window, a portfolio company will likely need to put in the time and effort preparing to both execute its transaction and operate successfully as a public company. PE firms can act today to help their portfolio companies evaluate their current state of readiness and support their path to going public.



If you're weighing an eventual IPO, there's no time like the present to get your house in order. Our free [IPO SelfAssess](#) tool can help you gauge your ability to go public with a tailored assessment. The tool provides you with useful insights and identifies potential areas for improvement based on the feedback you provide. Check it out, and let us know what you think. And if you'd like to discuss your company's IPO readiness journey in greater depth, let's connect.



Will Braeutigam
US Capital Markets Transactions leader
Accounting & Reporting Advisory
Deloitte & Touche LLP
+1 713 982 3436
wbraeutigam@deloitte.com



Jeff Kranzel
Partner
Accounting & Reporting Advisory
Deloitte & Touche LLP
+1 212 653 7517
jkranzel@deloitte.com



Jason Menghi
US Audit & Assurance Private Equity leader
Audit & Assurance Partner
Deloitte & Touche LLP
+1 516 918 7842
jmenghi@deloitte.com



This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances.

About Deloitte

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2024 Deloitte Development LLC. All rights reserved.