

GilmartinGuides

Going Public



gilmartingroup



Initial Public Offering 101

This guide intends to provide a comprehensive overview of the processes leading up to and through an initial public offering, with a particular focus on the healthcare sector.

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A woman with long dark hair and glasses, wearing a white t-shirt, is standing in a meeting room. She is pointing her right hand towards a wall covered with numerous sticky notes. The room is dimly lit, and the background is slightly blurred, showing other people seated at a table. A large, dark blue circular graphic is overlaid on the bottom left of the image, containing the text 'Getting Started' in white.

Getting Started

Evaluating Pre-IPO Capital Needs & Crossover Financing

For most companies, the most critical order of business leading up to the IPO is to bolster their balance sheet by attracting one or multiple top tier crossover investors that, in addition to providing the company with financial flexibility, lend credence to the company's IPO-readiness and lay the groundwork for IPO share demand.

- **What is a crossover fund?**

A crossover fund is an investment fund that invests in both publicly traded and privately held companies. Crossover funds are designed to give investors the ability to invest in private companies without having to be a “qualified” investor or an investor in a venture capital fund. Mutual and hedge funds that invest in private companies do so in order to potentially increase their return, but this potential return comes with higher risk.

Investments in privately held companies by crossover funds are typically made in “IPO-ready” companies before entering the public markets, giving these funds a foothold into a potential IPO at a discounted price. On the surface, selling shares at a pre-IPO discount does not make sense for a private company, but this late-stage crossover round can serve many purposes. The most obvious of these is that crossover funds provide capital to run the business. Many late-stage private companies are burning through cash and need to raise more capital in order to grow. Selling a portion of equity to crossover investors provides additional capital to the private company, potentially giving it more time to reach a stage that public company investors will find more intriguing. A subtler benefit of a crossover fund investment in a private company is the perception of quality. Having a strong group of venture capital funds and a solid list of blue-chip crossover funds invested in a private company can be a signal to public investors that the private company is potentially a good investment.

- **Research on Crossover Funds**

In November 2014, Bruce Booth, a partner at Atlas Venture, ran a study comparing pre-money IPO valuations and post-IPO stock performance for 94 therapeutically focused IPOs, of which 24 had crossover led financing rounds. Based on the data, which came from an investment bank active in therapeutically-focused IPOs and spanned from January 2013 through late 2014, the median pre-money valuation at IPO for the companies with a crossover led pre-IPO financing was over 128% higher than companies without. When adjusting for the additional capital from the crossover funding, the median pre-money valuation at IPO was still over 80%.

- **Research on Crossover Funds (cont.)**

For funds that cannot participate in private company financings, post-IPO stock appreciation matters most. For the 24 companies with crossover financings in the study, the median stock appreciation was 83% from pricing to September 30, 2014, despite having a higher IPO valuation due to the crossover round. This median return compares very favorably to the negative 10% median return for those companies without a crossover round. While this study only included 94 companies, and stock price fluctuations occur for many reasons, the results of this study are quite remarkable.

- **Crossover Round Execution**

Crossover rounds typically occur 6-12 months prior to an IPO, although recently it has become more common for companies to conduct a crossover round even closer to the IPO pricing (sometimes even as the company conducts “Testing-the-Waters” meetings 2-3 months before IPO pricing). For crossover rounds conducted prior to the launch of the IPO process investment banks which are particularly interested in being included in the IPO syndicate, in tandem with IR partners, assist by introducing companies to prospective crossover investors. Most crossover rounds include the participation from one or a few of the ~20-30 funds (T. Rowe, Fidelity, Rock Springs, Janus, Orbimed, Wellington, etc.) that most frequently engage in these types of financing rounds. In recent years, more and more mutual funds and hedge funds have become increasingly willing to invest in crossover financings as they look to maximize returns.

Wall Street Relationship Development

In addition to attracting and educating new investors, companies should also prioritize developing relationships with other key IPO stakeholders on Wall Street early on in the pre-IPO process. The two most significant groups are investment bankers and sell side equity research analysts. Developing these relationships is beneficial to private companies for a few significant reasons:

- The more time spent developing relationships with bankers and analysts, the easier it will be to create your IPO syndicate “wish list” and subsequent selections for the IPO.
 - Bankers and analysts can invite you to their investor conferences and leverage their relationships to
- connect you with investors for crossover rounds.
 - Bankers and analysts act as conduits to potential investors and strategics and can therefore help
- raise visibility and interest your company prior to the IPO.
 - Bankers and analysts provide critical feedback on your corporate and capital markets strategies in
- addition to how you tell your story.

- **Investment Bankers**

While most companies' management teams and directors have developed relationships with bankers through the years, it is critical to re-evaluate and bolster those relationships through the lens of IPO readiness in the 6-12 months prior to the IPO. Management should also expand their horizons by working with their IR team to develop new relationships. In the early stages it is prudent to cast a wide net, developing relationships with a myriad of bulge bracket and emerging growth-oriented banks. While politics, egos, and precedent will shape the final structure of the syndicate, in the early stages it is beneficial to preserve optionality and flexibility prior to finalizing IPO book structure and economics.

- **Sell-Side Equity Research**

As it is with many bankers, most private companies will have already interacted in some way with various research analysts prior to the launch of their IPO process. However, expanding your horizons and educating analysts on your latest corporate developments is critical as you evaluate banks for syndicate selection. This is particularly relevant for analysts at banks that may act as co-managers on the IPO. Keeping in front of analysts ahead of time will ensure a smoother education process during the more formal analyst teach-in process following the org meeting and allow you to solicit their feedback sooner rather than later. Work with your IR partner to schedule meetings with prospective covering analysts in the 12 months prior to your anticipated IPO.

Tip: *You should be more vigilant about what you share with analysts vs bankers as how you position your story and model (and particularly what non-GAAP metrics you provide in your talk track). Remember that what you say early on can impact how analysts will eventually build their revenue models as they build their forecasts. Work with your IR partner to review your forecasting model and evaluate your metrics disclosure strategy.*

Evaluating External Readiness

Preparing for and executing an IPO involves managing multiple concurrent work streams and requires mindful project management. Typically, the nascent public company's CFO and IR team manages the process in tandem with the lead bookrunners' team. Together, they work with several other constituents including:

- Company leadership (CEO, CCO, COO, General Counsel, etc.) & the BoD
- Other underwriters (joint bookrunners & co-managers)
- Legal teams (corporate counsel & underwriter's counsel)
- Auditors

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- Auditors

The exact timing for individual workstreams and engagement timelines varies between companies, but generally an IPO process takes 6-12 months (~6-9 months from syndicate finalization). At the outset of the process, management and their IR partners should create an Internal Readiness Strategy that identifies key objectives to complete before officially launching the IPO process with the Organizational Meeting or “Org Meeting”. Following the Org Meeting, they should reevaluate the project timeline and individual workstreams.

Tip: *Your IR team should create and maintain a “master” IPO timeline workbook which tracks each workstream and identifies key objectives on a weekly basis. This meaningfully improves effective project management and ensures that no task slips through the cracks. As you seek to broaden and deepen relationships on the Street, make it a priority to evaluate and “stress test” your external model and your messaging – particularly as it relates to your TAM (Total Addressable Market). It is critical to have a thoughtful approach to delivering your expectations for the years ahead to the Street, as this will set the bar for their own expectations and models. Testing your message with bankers and analysts early will allow you to identify strengths and weaknesses and best prepare for the Q&A you’ll hear throughout the IPO process. Your IR partner will be particularly helpful in identifying topics that will be more heavily scrutinized based on previous experiences.*

- **Model & Messaging “Stress-Testing”**

Before divulging any internal expectations for the growth of your business, gross and/or operating margin, and your path to profitability externally be sure that you have predictability of revenue and confidence in your forecast model’s accuracy. If you’re not yet confident in your expectations, consider the timing of the IPO carefully and consult with your IR team and underwriters as your credibility will be highly contingent on your ability to meet the expectations you provide in the first quarters as a public company. When you do have confidence in your model, consider how you’d like your covering analysts to model your business. From there, determine which metrics will be necessary to provide to make this a reality. Some non-GAAP metrics commonly updated on a quarterly or annual basis by newly public, revenue generating companies include:

- Sales by geography (\$)
- Sales by business segment (\$)
- ASP (Average Selling Price) (\$)
- Active accounts/install base (#)
- Trained clinicians/surgeons (#)
- Sales headcount (#)

If you plan to IPO before generating revenue, more focus will inevitably be on operating expenses, cash burn, and regulatory milestones. Some of these metrics may be updated quarterly on earnings calls and 10-Q filings, annually in 10-K filings, or on an ad hoc basis in various public remarks. When considering which metrics you'll be disclosing, take into account the impact each would have on how external audiences will evaluate your business and remember that there will be an expectation for periodic updates.

Once confident in your model and your preliminary metrics disclosure strategy begin stress testing your message with bankers (particularly with those you expect to underwrite the offering) to solicit feedback. In this phase, it's best to limit your talk with potential investors and research analysts more stringently and stick more to providing historical details and trends.

- **Total Addressable Market (TAM)**

Another key element to consider when evaluating your IPO readiness is TAM. For growth stage companies understanding and communicating your TAM is of critical significance. For investors, understanding your market model on a very granular level will be paramount when considering the investment thesis. For these reasons, you should have confidence in your market model and state TAM very early in the process as to avoid “downsizing” later on. TAM is typically given as a “dollarized” figure that considers the current market and the projected market (typically out 5-10 years). When speaking to TAM, consider viewing and speaking to it through two distinct but related lenses: theoretical TAM and actual TAM.

- **Theoretical TAM:** Theoretical TAM is inclusive of every potential person who could benefit from your offering. For example, an insulin company's theoretical TAM would include every person globally who currently utilizes and is expected to utilize insulin, regardless of access to care, contraindications, and other limiting factors.
- **Actual TAM:** Actual TAM considers only realistically applicable populations and time horizons. Actual TAM takes into account every reasonable limiting factor and your near to medium term commercial strategy. For example, an insulin company seeking to limit commercial activity to the U.S. market for the next 5-10 years, would have an actual TAM may be limited to the number of non-contraindicated, diagnosed, adult diabetics currently receiving insulin treatment in the United States. When calculating your actual TAM, consider every limiting factor that could be reasonably assumed by an analyst or investor.

Once you have each TAM, reassess your talk track when speaking to market dynamics and proactively consider any holes in your market model. Analysts and investors will always view TAM figures critically, so to the extent possible be prepared to answer a considerable number of questions on how you came your figures and what gives you confidence in your assumptions.

Messaging & Investor Presentation Refinement

Once you have confidence in your model and broader market dynamics, it's time to refresh how you're telling your story to the Street.

Here are the steps for reassessing and communicating your message:

- 1 Clearly define your corporate strategy
- 2 Consider key objectives, milestones, timelines, and financial projections to inform value proposition positioning
- 3 Thoughtfully determine metrics/KPIs to be disclosed vs held confidential based on analyst modeling expectations and peer evaluation
- 4 Distill 3-5 clear, concise, transparent and credible message you'd like every person to walk away from an introduction with
- 5 Determine conservative/bull case "beat and raise" guidance scenarios grounded on LRP & financials that will be provided to analysts
- 6 Ensure communications are driven intentionally
- 7 Continue to conform and refine communications materials in perpetuity

Once you've distilled your core messaging strategy, be prepared to update any already public materials accordingly. You should also keep in mind that your message will undoubtedly continue to evolve, particularly through the S-1 drafting process.

For a more in-depth look at investor presentation refinement, check out the [Gilmartin Guide to Better IR Presentations](#).

Core Messaging Strategy



S-1



Fact Sheets



**Investor
Presentation**



Q&A



Press Releases



Website



1x1 Talk Track

Vendor Selection

One final step to consider while preparing for your IPO is selecting the right vendors and external consultants. Key third parties that will be involved through the IPO process include:

- Legal counsel
- Auditors & technical accountancy advisors
- Printers
- Investor Relations & IPO advisory consultants
- Marketing & Website hosting

While evaluating your options, be sure to consider existing relationships, prior IPO experience (particularly for recent peer companies), and of course cost. As mentioned earlier, the IPO process is extremely dynamic and takes an army of professionals to execute. Picking the right partners can drastically increase your ability to work with underwriters to meet deadlines and take your IPO to the finish line with minimal hiccups. Consider identifying and engaging third party vendors as soon as possible.



The background image shows a man in a white shirt standing and presenting to another man sitting on a couch with a laptop. A whiteboard is visible in the background with columns labeled 'Story', 'To Do', 'In Progress', 'Done', 'Goals', and 'Backlog'. The whiteboard contains handwritten notes and sticky notes. The scene is set in a modern office or meeting room with large windows and a brick wall.

Pre-IPO Readiness

Considerations

12 Months Prior to Your IPO

The IPO process ramps up quickly. The 12 months before a company goes public is a period of increasing complexity that requires strong execution. We offer a framework of four broad areas to help you organize high-level goals and manage the ever-accelerating swirl of demands as you prepare for your IPO.

Cultivate External Relationships

Strong connections to the sell-side, buy-side and bankers are vital. Each of the aforementioned groups plays a vital role in the interaction between the company and the market.



Start to cultivate relationships early on with sell-side analysts

Not only will the analysts have crucial insight into your peer group and be able to help inform some of your pre-IPO decisions, but partnering with strong analysts early lays the groundwork for participation in their conferences and industry events as well as potential coverage once you IPO.



Initiate conversations that “test the waters” with buy-side investors

Instead of a one-sided pitch, seek feedback from large institutional accounts in the target space. View meetings as a chance to hone the presentation and, more importantly, seek candid feedback to avoid future pitfalls.



Know Your Bankers

The diligence process when choosing a banking team can be arduous, but it can ultimately lead to a positive, long-term relationship. Make sure you understand the strengths of the lead bankers and their team, and do your homework when it comes to evaluating their recent IPOs in your space.

Establish a Strong Financial Foundation



Strengthen Your Balance Sheet

Conduct a final late-series financing or crossover round to: 1) Capitalize the business to provide flexibility and avoid reliance on the initial public offering; 2) Bring in investors that will act as significant buyers in the IPO; and 3) Demonstrate your ability to attract top tier investors. You should also consider paying down or restructuring debt to more favorable terms if necessary.



Finalize Audited Financials

Revising historical numbers does not inspire external confidence; avoid the onerous task of regaining lost ground and redoing work.



Building Financial Projections

Build financial projections and stress-test the models, ensuring that underlying assumptions are logical and quantifiable. A stable valuation is difficult if independent outsiders converge to different conclusions.



Determine Guidance Metrics

Determine guidance metrics by analyzing recent-IPOs and relevant public comps. Ideally, new companies will offer as much, or more, granularity than existing companies. Counterbalance this transparency with clarity; failing to consistently meet expectations will undermine your credibility. Utilize the relationship between you and your banking team to help establish realistic goals and metrics.

Fortify Internally



Prepare Management for Increased Public Scrutiny

To effectively navigate public markets, prepare the team to communicate the business and respond well to public inquiry. Strong internal controls, especially in the finance department, form a pathway to avoid and minimize missteps.



Designate 2-4 Executives as Liaisons to the Street

Fewer liaisons avoids inconsistency and minimizes the risk of accidentally violating securities law. Primarily, this group needs to be trained on Regulation Fair Disclosure rules (commonly called Reg FD) to avoid disclosing material non-public information.



Round Out Your Management Team

Many investors consider management's credibility as a key investment criteria. Ensure that you have the right team in place to execute effectively. Consider candidates' public company experience.



Build a Robust Board

Assemble a board of relevant industry experts as well as those you can lean on for guidance and support. Board members that have experience running a public company and/or taking a company public can be valuable resources to help guide you through the process. Ultimately, a strong board can help navigate the process and translate the corporate vision into durable value.

Effectively Communicate Your Story



Clear and Consistent Messaging

Clear and consistent messaging coupled with strong internal controls, is key to attracting and retaining investors. To convey the company's story efficiently, craft a presentation consistent with style expectations on the Street. The more clearly and concisely you present your story to investors and analysts, the faster it will "click."



Partner With Your Investor Relations Team

Partner with your IR team to create a myriad of different materials you may need such as pitch decks, board decks, quarterly and FY reporting updates, press releases, investor updates and one-pagers. Make sure your website is updated and features a clear and concise IR landing page that includes press releases, financial news, upcoming events, corporate governance information and investor contacts.



Laying the groundwork in the 12 months leading up to your IPO will set the stage for a successful public offering. Establishing relationships with analysts, investors and bankers will help inform your decisions along the way and lead to a successful public offering. Partnering with a firm such as Gilmartin Group can ease the pre-IPO process and set you on the right track as you embark on becoming a public company.

Critical Pre-Org Meeting Objectives

Messaging & Marketing Materials

- ✓ Develop clear, concise and consistent corporate messaging
- ✓ Develop a compelling corporate presentation while refining your storytelling
- ✓ Prepare for Q&A
- ✓ Preliminary S-1 business section drafting
- ✓ Consider KPIs and guidance metrics

Wall Street Exposure

- ✓ Create list of target shareholders and track meeting interactions
- ✓ Attend select investor conferences with robust private tracks
- ✓ Engage with sell-side analysts - 1x1 investor conferences, medical meetings, etc.
- ✓ Build banker relationships; evaluate bankers and their proposed deal structure - hold bake off & finalize syndicate

Corporate

- ✓ Prepare audited financials & re-assess financial projections
- ✓ Appoint credible directors and fill critical management positions (consider corporate governance requirements)
- ✓ Consider/close a crossover round
- ✓ Prepare for Org meetings & create diligence materials

IPO Readiness Checklist

Document Preparation

S-1 materials

Financial audits

IR website

Cultivating External Relationships

Identify your the bankers

Early relationship building with sell-side analysts

Testing-the-waters meetings with the buy-side

Establish a Strong Financial Foundation

Strengthen your balance sheet

Finalize audited financials

Build financial projections

Determine guidance metrics

Fortify Internally

Round out your leadership team

Prepare management for increased public scrutiny

Designate 2-4 executives as liaisons to the Street

Build a robust Board of Directors

Communicate Your Story

Clear and consistent messaging

Partner and strategize with your IR team

The background of the slide is a blurred photograph of several people in a meeting, overlaid with a semi-transparent blue filter. In the foreground, a dark blue circle contains the text.

Syndicate

Finalization



Syndicate

Finalization

Now that you have met with a multitude of bankers and analysts, it's time to make some decisions.

- **Select Process & Formal Bake-Off**

For some companies, the selection process is coordinated mostly by members of management, while others prefer a more formal approach. The more formal approach includes a “bake-off” between candidates, during which each bank makes consecutive formal presentations to the company’s board of directors and management team. After requisite follow ups, the board will then make final recommendations for syndicate structure and management will “build the book”. Regardless of the process, syndicates are typically be built “top down”, with the company first identifying their lead bookrunner and then adding subordinate bookrunners, lead managers, and co-managers. Once you have a commitment from your lead bookrunner, they will also become integral in the syndicate building process. Through the evaluation and selection processes, your IR partner will provide counsel on the dynamics between banking teams, precedent deal economics, and syndicate structure, and can guide you through the negotiation process.

- **Dual-Track Considerations**

Many private companies pursuing an IPO run a “dual track” process during which they also consider strategic alternatives to publicly listing. If considering M&A as a strategic option, be considerate of this while selecting your underwriters. In many cases, companies will selectively disclose their intent to pursue alternatives to their lead underwriter, who will also act as a strategic advisor. This synergy enables your bankers to focus on continuity of messaging and act as a close partner for you throughout the entire dual track process. Others opt to have a different bank advise on M&A - allowing each to leverage their respective strengths and remain focused on their mandate. In our view, there is no best practice here as every company (and relationship) varies. Still, it’s worth remembering that almost all bankers would prefer to have both roles, and in fact, M&A may be the primary reason certain large banks take on smaller IPOs. Either way, be sure to consider experience with dual tracking when evaluating bankers and be intentional with who and when you disclose your intentions to. In almost every case, keeping your intent to solicit offers “close to the vest” is critical to managing Street expectations, IPO messaging, and importantly, valuation.

Considerations for Choosing An Investment Bank

Executing an initial public offering is one of the most important milestones for many companies. It is vital that you do your homework when considering which investment banks you will use when you are approaching an IPO, as well as acquisitions and additional capital raising events. This relationship can make or break the success of your planned event, and many times, it is a relationship that can last for years to come.

Below are some of the top factors to consider and question when choosing an investment bank partner:

- **What is the bank's transaction experience, specifically with comparable companies?**

As many transactions can take several months to complete, it is important that the team at your investment bank has the skills and experience necessary to move the deal process along to an ultimate close. Ultimately, this team is comprised of constituents from investment banking, equity capital markets, equity research, institutional sales and trading. There are many potential hiccups and pitfalls along the way, and you want to feel confident that your team has "seen it all." Ask about their prior deals and transaction experience - specifically what has gone wrong and how they have dealt with it.

- **Analyst thought leadership in the sector?**

While your banking and ECM team will drive the successful execution of your IPO or transaction, the analyst relationship is critical. You will develop a long-term relationship and regular dialogue with your covering analysts. It is important that they understand your sector and company well, have strong relationships with investors and strong distribution of their research. Do they cover companies of a similar size and stage? Is their research thoughtful and impactful?

- **Is your transaction important to the bank?**

Specifically, who is on your deal team and will you get senior level support? Also, get to know the other players that will be working on your deal, as you will be spending a lot of time together. Are you comfortable with the analysts and associates who will be doing much of the day to day work? Ultimately, the hope is that the senior banker will leverage their years of experience and deep network to nurture your deal through to close, while giving you the level of attention and involvement you feel is necessary.

- **How many deals has the bank worked on recently that didn't close, and why?**

This is a subtle yet important conversation to have in order to understand why deals may have fallen apart, and how the banking team handles challenges along the way. Ask for referrals to recent companies they have worked with to get a better understanding of the banker's work ethic, morality and level of engagement.

- **Overall - is this a good partnership?**

While your banking and ECM team will drive the successful execution of your IPO or transaction, the analyst relationship is critical. You will develop a long-term relationship and regult is not always best to only partner with bulge bracket banks. Often, emerging growth banks may be a better "fit" for an emerging growth company, depending on size and stage. Your partners - in banking, equity research and equity sales - will all need to understand your business and where it fits into the sector, and then communicate that knowledge externally. You are also relying on your banking team to set a valuation range for your company Be open to hearing the banker's rationale as to how they got to that number, and don't set unrealistic expectations for your company's worth. At the end of the day, trusting your team is important, and you need a solid partnership.



View the process as
an **Investment in
Your Company**

While the process of choosing an investment bank partner may seem daunting, following these suggestions can set you up for success. Remember, view the process as an investment in your company for the long term. If you take the time to get to know the collective teams at several banks, you will build relationships that will inform who ultimately becomes your deal team. In addition, you will ideally be paid back with a successful deal close and a strong banking relationship for your future needs. Talk to us about our vast network of investment bankers and how we think about identifying the right banking syndicate.



S-1

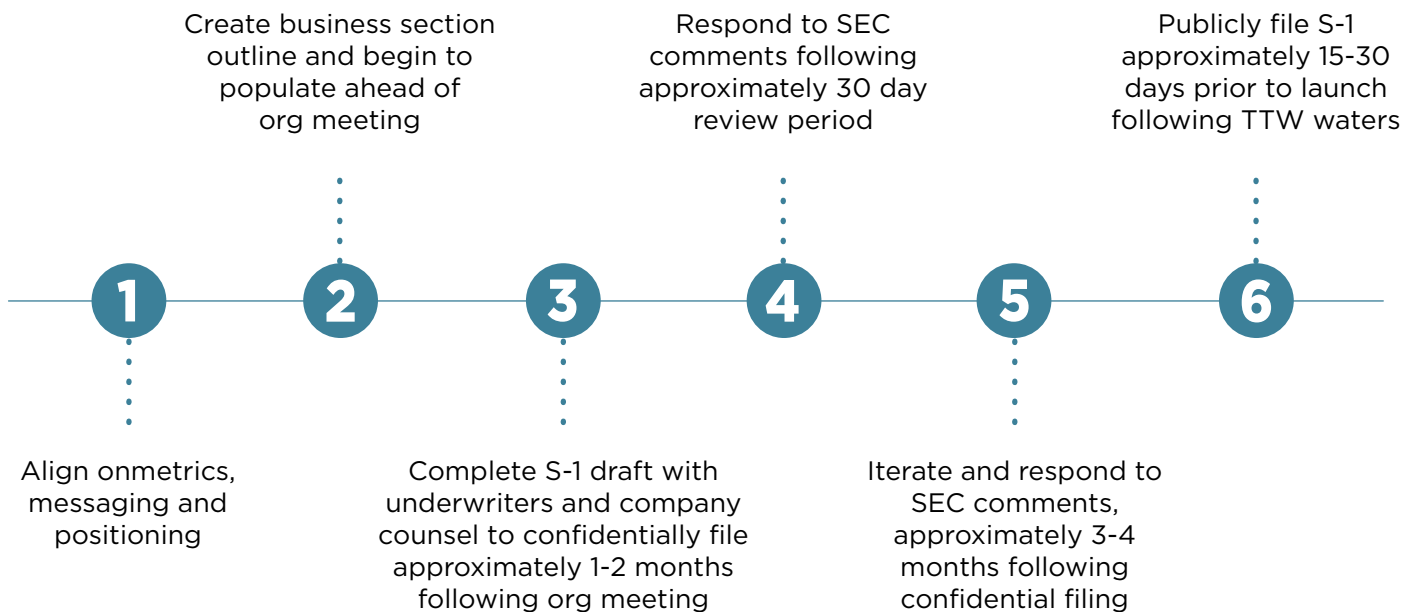
Drafting

S-1 Business Drafting Process

Form S-1 is a filing with the Securities Exchange Commission (SEC) used by private companies planning to go public, and it is comprised of business and financial information designed to inform any interested prospective investor and outline all material business risks. The S-1 offers an in-depth, first look at a private company, and analysts and portfolio managers often comb through the public document carefully when considering an investment.

Generally, the **business section** is where you will have the most latitude to tell your story and make the case to prospective investors regarding why they should make an investment in the IPO. It's important to remember that the S-1 serves two purposes: to market your IPO and to disclose risks and satisfy other legal requirements. As a management team, you should generally focus on including what you'd like to say. Leave it to your underwriter and legal teams to guide you in satiating legal requirements and mitigating risk. As a reminder, everything included in your roadshow deck must be included in the S-1, and every data point included in both must be well-sourced and factually supported.

General Timeline:



Preliminary (Pre-Org Meeting) S-1 Drafting

Coming to your first formal S-1 drafting session (which typically immediately follows the Org Meeting) with a first draft of the S-1 business section is always prudent. In addition to the obvious benefit of having “words on paper” from which to draft, it also serves as an opportunity to think about how you'd like to tell your story.

Outline & Structure

In terms of content, most S-1 business sections will follow the same general outline, with some nuance depending management's preference and investment thesis specifics. It's also worth noting that much of the business section will be repetitive by nature.

1. Overview (The Box)

Goal: This section is a comprehensive yet high-level overview of the entire business section where companies make their strongest case, in their own voice, on the attractiveness of the offering.

Length: 4-6 paragraphs

Topics:

- Mission/vision
- Brief product overview
- Market highlights/opportunity
- Growth/progress to date

2. Competitive Strengths

Goal: This is effectively a more thorough version of the investment thesis slide found in the beginning of roadshow decks where the company highlights the most compelling components of the offering.

Length: 4-6 bulleted (short) paragraphs, each formatted with a bolded highlight plus additional support copy

Topics:

- Technology
- Clinical validation
- Payor value
- Established reimbursement
- IP
- Management team

3. Growth Strategy

Goal: This is effectively a summary of the drivers behind your success (answering the question why/how are we going to be successful?); may also include your commercial strategy, pipeline and short term/long term growth drivers

Length: 4-6 bulleted (short) paragraphs, each formatted with a bolded highlight plus additional support copy

Topics:

- Strength of product
- Initial strategy
- Mid-term commercial strategy
- Longer term commercial & growth strategy
- Pipeline
- Market expansion

4. Market Opportunity

Goal: To convey the size and scope of the addressable market(s) and how management is approaching it. How you discuss the opportunity should align with the commercial strategy.

Length: Variable - typically 3-6 pages

Topics:

Unmet needs

- Existing alternatives/competition
- Limitations

Addressable market

- Disease overview(s)
- Market segments
- TAM (\$) - Theoretical vs Attainable

5. Product Overview/Solution

Goal: To demonstrate that you have the solution to address the unmet needs outlined previously and take share aggressively.

Length: 3-6 pages, including images/graphics

Topics:

- Procedure/technology overview
- Mechanism of Action (MoA)
- Advantages
 - Patient
 - Provider
 - Payor

6. Clinical Data

Goal: To provide a succinct and compelling overview of clinical data demonstrating the safety and efficacy of the product/solution.

Length: 3-5 pages

Topics:

- Overview
- Trial Results
 - Explanation of endpoints
 - Data tables
 - Comparative data sets

7. Reimbursement

Goal: To demonstrate the current and expected status of reimbursement for the product/solution.

Length: 2-6 paragraphs depending on level of nuance

Topics:

- Covered lives
- Coding
- Payment
- Go forward strategy

8. Commercial/Growth Strategy

Goal: To convey what you're doing to capitalize on market now and in the future. Consider modelling implications for how you outline your strategy.

Length: 2-5 pages

Topics:

- Sales and marketing strategy
- Salesforce expansion
- Clinical pipeline
- Product pipeline

9. Intellectual Property

Goal: To explicitly state details relative to IP portfolio.

Length: 2-4 paragraphs

Topics:

- Patents by geography
- Issues/pending

10. Manufacturing & R&D

Goal: To provide details around current and expected manufacturing strategy. To convey focus on specific product development.

Length: 1-2 pages

Topics:

- Facilities
- Contract manufacturer relationships
- Quality management
- Supply chain

11. Government Regulation

Goal: Provide boilerplate type details to satisfy disclosure requirements.

Length: 1-2 pages

Topics:

- FDA approval process/timeline
- Continuing regulation
- OUS regulatory authorities
- HIPAA, CMS, private payers, etc.
- Other relevant regulations

12. Additional Details

Goal: Provide boilerplate type details to satisfy disclosure requirements.

Length: 1 paragraph maximum

Topics:

- Employees
- Facilities
- Legal proceedings/ongoing litigation

Post Org Meeting Expectations

After your org meeting, your bookrunners will typically manage the remainder of the S-1 drafting process, scheduling a number of calls each week for the month or two following your org meeting—with the goal to complete and confidentially file the S-1 around 3-4 months prior to anticipated IPO pricing.

The SEC will typically provide comments to the confidentially filed Form S-1 in approximately 30 days. Corporate and underwriter counsel will work to address any issues and will coordinate with management and bankers to respond and amend the S-1 accordingly. This process continues until the SEC approves the S-1, typically after 1 to 2 rounds of comments, at which point the filing can “flip” to public and the IPO roadshow can commence. Typically, S-1s flip public 2-3 weeks prior to the roadshow.



Illustrative Drafting Timeline

	Topic	Primary Drafting Responsibilities
-7 weeks from org	Outline Timeline & Structure	Gilmartin Group
-6 weeks from org	Industry Overview / Market Opportunity & Current Treatments	CEO/CFO
-5 weeks from org	Our Solution	CEO/CCO
-4 weeks from org	Commercial Strategy	CEO/CCO
-3 weeks from org	Clinical Results & Regulatory Overview	CEO/CCO
-2 weeks from org	Competitive Strengths and Growth Strategy & Overview Start	CTO
-1 weeks from org	Overview Summary	CEO/CFO
Org Meeting		
+1 weeks from org	Complete full business section	Underwriters / Counsel
+2 weeks from org	Complete “The Box” and risk factors	Underwriters / Counsel
+3 weeks from org	Complete MD&A, F-gagers and review of full S-1	Underwriters / Counsel
+4 weeks from org	Review of full S-1	Underwriters / Counsel
+5 weeks from org	Conduct printer sessions to review full S-1	Underwriters / Counsel

File Confidentially

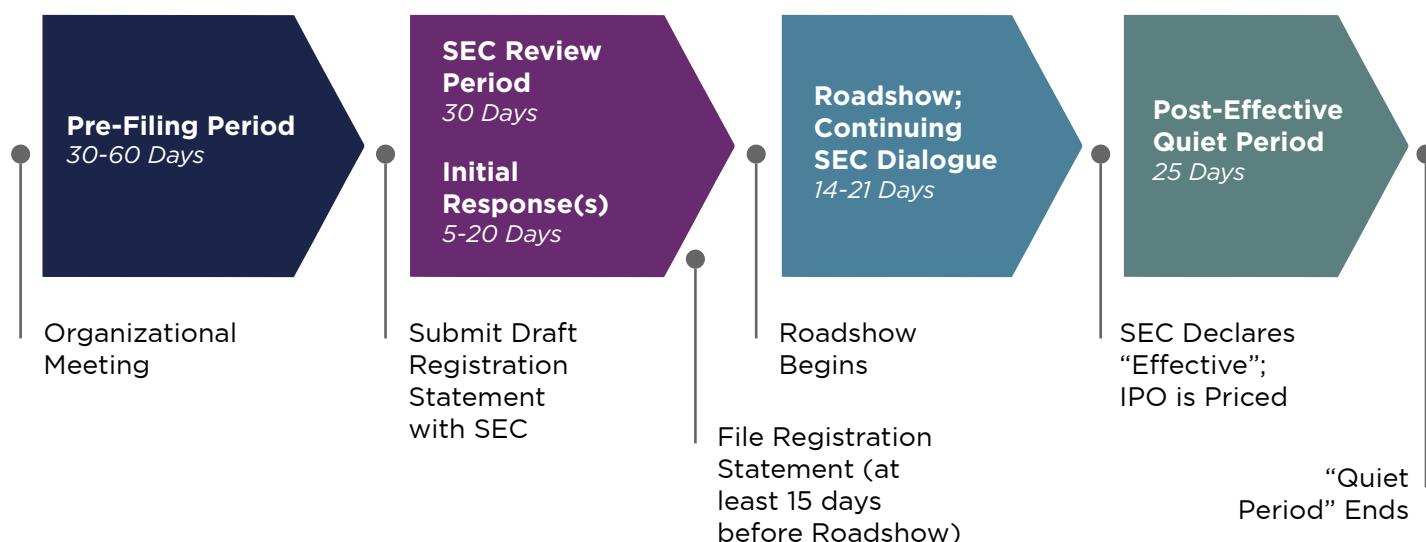
The Flip to a Public S-1 Filing from a Confidential Filing

The decision to convert an S-1 filing to public from confidential instigates a chain of events that signal IPO readiness to the Street and enhance the level of scrutiny at which regulators and potential investors place on your company. As part of the SEC rule on confidential S-1 filings, companies must make public their financials at least 15 days prior to the start of their investor roadshow, allowing potential investors time to review the filing before a potential meeting with the company. Based on recent history of confidential filings, most companies commence their roadshow the day after the mandatory waiting period.

The “flip” also precedes an influx of media and investor requests. While the company is technically in a “quiet period” once it formally engages their underwriters to begin the IPO process (i.e., the Org Meeting), remaining quiet becomes more difficult once the filing becomes public. Companies should have a plan in place regarding which corporate officers are the official spokespersons for the firm, and only these persons should speak for the company. Having a thorough communication plan in place can help prevent “gun jumping,” or in general terms, a violation of communication restrictions. The communication plan can also prevent the SEC from misconstruing any communication with someone outside the firm as promoting the offering, which could delay or ultimately derail its IPO.

Filing an S-1 with the SEC can be very exciting for a private company, but with this filing comes SEC rules and regulations. Being prepared and partnering with an experienced and knowledgeable investor relations firm can make the difference between a successful and unsuccessful S-1 filing and IPO.

S-1 SEC Timeline



Source: Wilson Sonsini Goodrich & Rosati



Hiring an Outside Writer for Your S-1 Drafting

Often times, executives simply can't find the time in the day to give the attention necessary to preliminary S-1 drafting.

The scope, complexity and legal requirements of the S-1 can make the process feel very daunting, particularly for managements who are undergoing it for the first time. And, while there are many outside advisors available to help with portions of the document, the primary responsibility of producing the initial draft of the S-1 will always fall on senior management. More and more companies are hiring ghostwriters to write the initial management draft of the S-1. Over the past year, Gilmartin Group has begun managing the S-1 drafting process for an increasing number of clients; this service has become one of our core competencies. As the number of clients we have worked with on S-1s has grown, we have observed a number of ways that ghostwriting benefits managements.

- **Outside Writers Optimize Management's Time**

Writing an S-1 is a painstaking and time-consuming process, as the document must help create investor interest while also standing up to legal and regulatory scrutiny. Using an experienced outside writer will optimize management's time during the document's creation, review, and edit periods, resulting in a higher quality document in a shorter period of time. Before the writer drafts the documents, management should share what information must be included and who from management will provide and validate it. This allows senior management to continue devoting the majority of their time to their "day jobs" (aka running the business) and only involve themselves in the drafting process on an as-needed basis. The review process is also streamlined for management due to the fact that editing an existing draft is a far less burdensome process than creating one from scratch. It also allows individuals to edit sections of the document that fall under their areas of expertise while maintaining strict "version control." This is a very necessary and elusive aspect of creating an S-1. We have found that our involvement allows for many more revisions, or "turns", of the document in a short period, greatly enhancing its quality. This time management benefit is extremely popular with our clients.

- **Outside Writers are Natural Liaisons with Legal and Financial Advisors**

After creating an internal draft of the S-1, the management passes the draft to the lead underwriters and legal team, typically at the org meeting. Then the bank-led drafting sessions begin. During this roughly month-long process, the document is scrutinized and edited to the satisfaction of all parties prior to submission to the SEC for comment. An outside writer can play a valuable role at this stage. He or she can act as management's interface with the other advisors while ensuring that management's vision of the document, and all subsequent marketing efforts around the financing, is preserved to the greatest degree possible during the legal review.

Another benefit that we have observed from participating in this process is bringing the bank's lead drafter up to speed much more rapidly, as we are able to advise him or her on the work that has gone into the document and provide insights that may not be obvious upon initial review. It is also important to note that due to the high volume of S-1s being created, the investment banks are experiencing capacity constraints in terms of their ability to create documents simultaneously, and our mutual clients have welcomed any ability to expedite this process.

- **Outside Writers Become Experts Who Don't Go Away After the IPO**

From a holistic perspective, hiring an outside S-1 writer, particularly if it is part of a broader IR relationship, creates the opportunity for the external consultant to immerse themselves deeply in the overall corporate culture in a very short period of time. The knowledge and relationships gained during this intense period create a skill factor that has long-lasting corporate benefits pertaining to the overall IPO process and beyond. All subsequent corporate messaging and connectivity with Wall St. will now be entrusted to someone who has truly become an expert in the opportunities, challenges and competition that the company will face. This distinct advantage becomes even more apparent in the post-IPO period when interaction with the banks decreases measurably. The inherent structure of the relationship between IR consultant and senior management is intended to last longer than that with banks and therefore becomes a very natural fit to fill the gap post-IPO as the bank moves on to other deals.



Org
Meeting

Organization Meeting

Following the underwriter selection and initial S-1 drafting processes, the lead bookrunner will coordinate the scheduling of the formal commencement of the IPO process: the organizational meeting or “org meeting.”

The org meeting serves three essential functions:

- 1 To bring together the working group to review the offering process and economics, the proposed offering schedule and timeline, and the allocation of responsibilities for each IPO workstream
- 2 To formally initiate the underwriter diligence process, beginning with a comprehensive presentation by management on the company, its offering, and its strategy
- 3 For the working group to begin considering how the investment thesis should be communicated to potential investors via the S-1 and the roadshow.

It is common for the first formal S-1 drafting session to occur

A typical IPO working group includes:

- Company management & IR team
- Company counsel
- External auditors
- Underwriting teams
- Underwriter counsel

Illustrative Org Meeting Agenda

Company Participants: CEO, CFO, COO, VP Commercial/Sales, General Counsel & IR team
Duration: 9:00 AM - 1:00 PM (S-1 drafting 1:00 PM - 4:15 PM)
Total Time: ~7 hours

TIME	EVENT	RESPONSIBILITY
9:00 - 9:15AM	Welcome and Introductions	All
9:15 - 9:45AM	Organizational Discussion Timeline Due Diligence Plan Offering Documents Overview of Financial Statement Presentation in the Prospectus	Underwriters
9:45 - 10:15AM	Introduction to Company, Product and Key Markets Corporate History and Key Accomplishments Market Overview and Segmentation Technology Introduction	CEO
10:15 - 10:45AM	Overview of Product Technology, Regulatory Approvals, Platform	VP, Commercial
10:45 - 11:00AM	BREAK	All
11:00 - 11:45AM	Commercial Strategy & Competitive Landscape Competitive Landscape & Products US/OUS Strategy Industry Trends, Size and Growth Sales Case/Customer Economics Business Strategy	VP, Commercial
11:45 - 12:00PM	Manufacturing & Operations COGS Reduction Strategy	COO
12:00 - 12:30PM	Finance Overview Historical Financials (and potential high level forecasts) Key Accounting Concerns Overview of Projections Growth/Margin Improvements Path to Profitability	CFO
12:30 - 1:00PM	Legal, Regulatory & IP Overview	General Counsel
1:00 - 4:00PM	S-1 Drafting Session	All
4:00 - 4:15PM	Discussion of Next Steps	All

Preparing for the Org Meeting

In addition to preparing a first draft of the S-1 business section as discussed previously, management will work closely with their IR team and their legal counsel to create a comprehensive presentation on the business and adequately prepare for Q&A. The presentation will generally follow the agenda and speak to the company's history, their product offering and addressable markets, the growth strategy, key accounting concerns, and historical financial performance. Underwriters will typically ask several of questions throughout the presentation. Coordinate with IR partner to understand what should and should not be included in the presentation and to ascertain the level of granularity that should be provided for each topic. You should be considerate of the fact that different members of the working group will come to the meeting with varying levels of understanding about the company, the market, and the industry generally.

Your IR team will also help you in determining which members of your team should present to the working group and assist with speaker preparation and potential Q&A. Management should plan on conducting at least 2 to 3 complete dry runs with of the presentation (with Q&A) to adequately prepare. Your legal counsel and auditors will help identify and assess any issues that could delay the preparation of audited financial statements and the IPO generally. Underwriters will prepare comprehensive Org Meeting materials with a summary of the offering and related details/workstreams, the S-1 drafting timeline, the offering timeline, and the working group list with contact information. It is also typical for the lead bookrunner to review the company's presentation prior to dissemination to the broader group.

Post Org Meeting Considerations - Don't "Jump the Gun"


Following the completion of the org meeting, the IPO process has officially commenced. While this is an exciting, and particularly busy, time for management teams, it is critical that they remain cognizant of the increased level of scrutiny under which the company will be evaluated by the SEC. Specifically, management must be extremely careful to avoid "gun jumping".

"Gun-jumping" serves as a blanket term, not officially defined in the U.S. securities laws, that refers to violations of the communications restrictions under the Securities Act. Specifically, SEC regulations prohibit communications outside of a normal course of business that improperly solicit the securities to be offered in an IPO. The restrictions are designed in part to ensure that proper risk disclosure is conveyed fairly and comprehensively to all potential investors. The specifics of these restrictions evolve through the stages of the IPO, becoming relevant as soon as the company reaches an agreement with its lead underwriter(s) and remaining in effect up to 25 days following the pricing of the IPO as underwriters continue to sell shares. While exceptions implemented as part of the JOBS Act have made gun jumping somewhat less of a concern for certain emerging growth companies who are now able to "test the waters," companies deemed to have "jumped the gun" will see their offering delayed for weeks or months and their credibility on the Street significantly eroded.

“Gun-jumping” restrictions apply to every corporate communication, from press releases and social media posts to marketing campaigns and simple emails that could be considered intentional or unintentional solicitation. Statements made about a company’s future prospects are the most likely to be considered as improper solicitation, and, as a matter of practice, an issuer should avoid public disclosure of any financial forecasts or projections, expected valuations, and IPO proceeds; they should implement specific disclosure procedures for all public materials. With an IPO around the corner, companies and their communications partners should also consistently seek review by counsel before disseminating any written materials, and employees responsible for generating and posting written content should be educated on the nuances of “gun-jumping” restrictions. Proper review and approval policies are particularly critical for press releases, which under Securities Act Rule 169 are exempted from “gun-jumping” restrictions so long as they are considered regularly released business information in line with prior communications and exclude any forward-looking statements. Companies should also conduct comprehensive reviews of websites, social media accounts, and other existing marketing materials to ensure that content is factually correct and well aligned with the registration statement to avoid being considered an illegal offer of securities.

“Gun-Jumping” restrictions also apply to oral communications, particularly those with potential IPO investors via 1x1 meetings and media interviews. While emerging growth companies are afforded the ability to hold testing the waters (TTW) meetings in the so-called “quiet period” between the organizational meeting and the filing of the registration statement per Section 5(d) of the Securities Act, management teams should be extremely careful to avoid making an offer as defined by the SEC. Specifically, they should avoid making an explicit case for purchasing shares of the company, making any forward looking statements, or discussing specifics around expectations for the IPO. Once the registration statement is filed publicly but not yet declared effective, emerging growth companies are afforded the ability to make oral and certain written offers on TTW and official IPO roadshow meetings. These conversations may reference a preliminary prospectus, or “red herring,” which can be used to make written offers and include a price range for the offering. They cannot reference a final offering price or corresponding proceeds and underwriting discounts. For the IPO roadshow, slide decks, handouts, and videos presented during the time of the meeting are not considered to be written offers so long as copies are not left behind. By collecting these materials, companies avoid having them considered free writing prospectuses (FWP), which are otherwise used after the registration statement is filed but before it becomes effective to inform potential investors of any changes to the offering. Companies are also able to publish a limited notice of the upcoming IPO in addition to disseminating a rather boilerplate press release upon pricing.

Once the IPO has priced, company communications remain somewhat restricted as underwriters continue to sell shares before their final prospectus is delivered within 25 calendar days. During this time, management must not disclose information or make forward-looking or speculative statements that would make the prospectus inaccurate. In all, executives should pay special attention to “gun-jumping” restrictions throughout the entire IPO process and remain closely aligned with their IR team and legal counsel. This will help them avoid running afoul of these somewhat nuanced regulations that can derail an IPO and lead to less than favorable media attention.



**Analyst
Educations
& Diligence**

Analyst Education & Diligence

During the IPO process, analysts are required to conduct formal diligence of the market opportunity, the unmet need, your company's solution and your prospects for long-term growth and business viability. This is typically initiated with companies hosting an Analyst Diligence meeting, then following that up with an Analyst Financial Diligence meeting – both with the entire group of analysts and their associates. There will be additional diligence calls with industry participants, as well as subsequent company hosted calls and meetings to review any outstanding items throughout the process.

Analyst Diligence Meeting

The Analyst Diligence meeting provides an opportunity to tell the story that is becoming solidified through drafting the S-1. It also provides a forum for you to showcase the depth of management with business leaders each presenting their respective sections. Analysts receive an in-depth overview of the company and begin shaping the way they think about the business as a public company.

This is a similar exercise to the Organizational Meeting, albeit with a much smaller group and a slightly different focus and will typically be scheduled for 3-4 hours. While the analysts will not ultimately be privy to as much detail as the Working Group, you will generally provide more information in diligence sessions while private than what you plan to share as a public company.

Analyst teams will come to the meeting with varying degrees of understanding of the company – this is a chance to level set their knowledge base and educate the group on nuances of your sector and company.

Don't be surprised if the analysts ask a lot of questions, or if some stay relatively quiet. We find that this is a function of individual knowledge levels coming into the meeting, current bandwidth, politics among the group, and their specific focus areas. They will typically dig in more deeply over the following few weeks as they conduct industry diligence and create their models in advance of the IPO roadshow so that they are prepared to answer questions. Later – after the IPO has priced – they will work on their initiation reports and circle back with final questions as they arise.



What the Analysts Expect

The analysts use this time to get to know the broader company better, meet members of the management team beyond the CFO and CEO, and to get up to speed on current information.

The analysts are starting to form the framework around how they will be thinking about your business as a public company and determining what the key metrics are that will demonstrate commercial success and execution of milestones and, ultimately, value creation. This will be crucial once you get to the Financial Diligence meeting (which will be several weeks after the Analyst Day), but it will be helpful to start laying the groundwork for these key performance indicators (KPIs) here.

The analysts will also start to ascertain where potential challenges lie and where the investment community will find any weakness in your story. This is important, as the analysts will be talking to investors, so we want them armed with good information. And, we want their feedback on what we can communicate more clearly or with additional information.

A few tips:

- Keep in mind this is an interactive process. Be prepared to have follow-up discussions with individual analysts as they conduct diligence and construct their models.

- As your business continues to evolve, you may be in a position where you want to provide a business update to the analyst group. It isn't unusual for companies to schedule a follow up call late in the process with slides showing new information since the initial diligence meeting.

- Prepare a Q&A document and practice. The analysts will ask provocative questions, and you don't want to be caught flat-footed or seemingly ill prepared. It's OK if an answer is that you will circle back with them later, but know in advance that is the plan.

- Bear in mind that that the analysts are asking questions to better understand the business, they generally aren't being critical. They are also pre-empting questions that the investment community will have, and it's important that you maintain an open dialogue.

- The analyst teams will receive electronic copies of the deck in advance of both meetings. Nothing should be shared that you aren't comfortable with them having access to once you are public, and you have the opportunity to redact certain slides that you plan to present.

- Analysts will likely use graphics from your materials in their initiation reports (we suggest they request permission before using any content from the Analyst Day materials to confirm any graphics used in their reports are current and up to date).

- The better educated they are on the story, the better the analyst reports will be and the more useful they can be to investors.

- Coordinate with your IR team to solicit feedback from analysts to inform messaging

Analyst Financial Meeting

The primary purpose of the Financial Diligence meeting is to review the financial model, historical performance and future projections. This discussion will provide the framework for how analysts should think about the business on a quarterly, annual and long-term basis. Almost universally, the financial diligence meeting is separate from the initial analyst diligence meeting, following it by a few weeks or more.

This is a condensed meeting that is focused on the financials and is usually scheduled for 1-2 hours. Typically, this is a call rather than a meeting, and we expect that to continue in today's environment.



Companies normally present between 10-25 slides, focused exclusively on quarterly performance, KPIs and assumptions behind forward projections.



Most companies include current year quarterly projections and three-year forward annual projections.



Plan for this discussion to be much more interactive than the original diligence meeting; the analysts use this information to create their revenue builds, so they are stress testing assumptions.

What Analysts Expect

The analysts are looking to use this time to understand how you expect your company to grow over the next few years. The analysts expect you to provide enough information that they can understand the assumptions behind your projections and build their models. Ideally, you can tell them what metrics you will be providing once public. This is important as they want to include items that they can update over time.

Key questions the analysts will want to have answered during this discussion include:

- What is your addressable market opportunity, and how should they differentiate between theoretical and addressable markets?
- How will you penetrate your market, and how will you expand the opportunity over time?
- What are the current market dynamics and assumptions on ASPs, share capture and competitive dynamics?
- What are the right metrics to demonstrate success?
- Are the growth rate estimates achievable based on their understanding of market dynamics and your strategy?
- What are the appropriate sales and support structure with commensurate expenditures and margin expansion as you grow?



A few tips:

- Be prepared to have multiple follow-up discussions with individual analysts as they conduct diligence and construct their models.

- Following the financial diligence call, if you haven't heard from one or more of the analysts, reach out to schedule time to answer their questions. It's in your best interest that their model accurately represents your business.

- Prepare a Q&A document and practice. The analysts will ask provocative questions, and you don't want to be caught flat-footed or seemingly ill prepared. It's OK if you answer that you will circle back with them later, but know in advance that is the plan.

- Stress test your assumptions and be prepared for push-back. Don't get defensive; this is part of the process.

- Ask to review the model before it's final—this is one of the last chances you have to provide feedback down the P&L while you are still private.

- Plan to send electronic copies of your slides, and, if possible, the financial model information in Excel, before the call. This will give the analysts time to review the materials and come to the meeting prepared with thoughtful and productive questions.

- Work with your IR team to create a consensus tracker that consolidated analyst estimates and compares consensus to internal forecasts. This will help guide how you communicate with each analyst for final tweaks ahead of the IPO

A blue-tinted photograph of people in a meeting. In the foreground, a person's hand is pointing at a tablet. In the background, another person is looking at a laptop. The scene is dimly lit, suggesting an indoor office or meeting room environment.

IPO Timing Considerations



IPO Timing Considerations



Market Conditions

No one would argue that when market sentiment is negative, the ability to execute a public offering becomes increasingly more difficult. Specifically, if public investor appetite for risk is low, less capital will be raised, resulting in lower valuations and increased shareholder dilution. In the worst-case scenario, demand could be so low that a deal just does not get done.



Raising Additional Capital as a Public vs. Private Company

Following the excitement of becoming a public company, executives and bankers often establish a plan to raise additional capital in the future that will allow the company to reach certain profitability milestones (EBITDA, Net Income, free cash flow, etc.). Given the increased disclosure requirements and transparency of quarterly financial statements (and annual audits), public companies can raise capital more quickly and efficiently now that they have access to all public market participants. Further, the cost of debt or equity capital for public companies is oftentimes lower, given increased transparency. Conversely, as a private company, raising capital can be time consuming and inefficient as private equity and venture capital firms require a full financial and business due diligence process to allow them to properly evaluate the company. Also, raising capital in a timely manner from private investors relies heavily on existing relationships, which significantly reduce the pool of potential investors and may result in suboptimal deal terms.

Corporate Readiness

Even if market conditions were optimal, we would strongly advise a management team to get as organized as possible to facilitate a smooth public offering. We break down corporate readiness into three buckets:

Practicalities

Leading up to an IPO process, every company has structural and administrative tasks that need to be completed. For example, if a company has not done so, a major gating factor for filing documents with the SEC is having a third-party accounting firm perform a financial audit. Given the increased accounting requirements for public companies, it is prudent for private companies to hire the appropriate back office and logistical support staff well ahead of a public offering. Additionally, it is highly recommended to reconstitute the board of directors, prioritizing diversity and candidates with complementary expertise and a history of strong character.

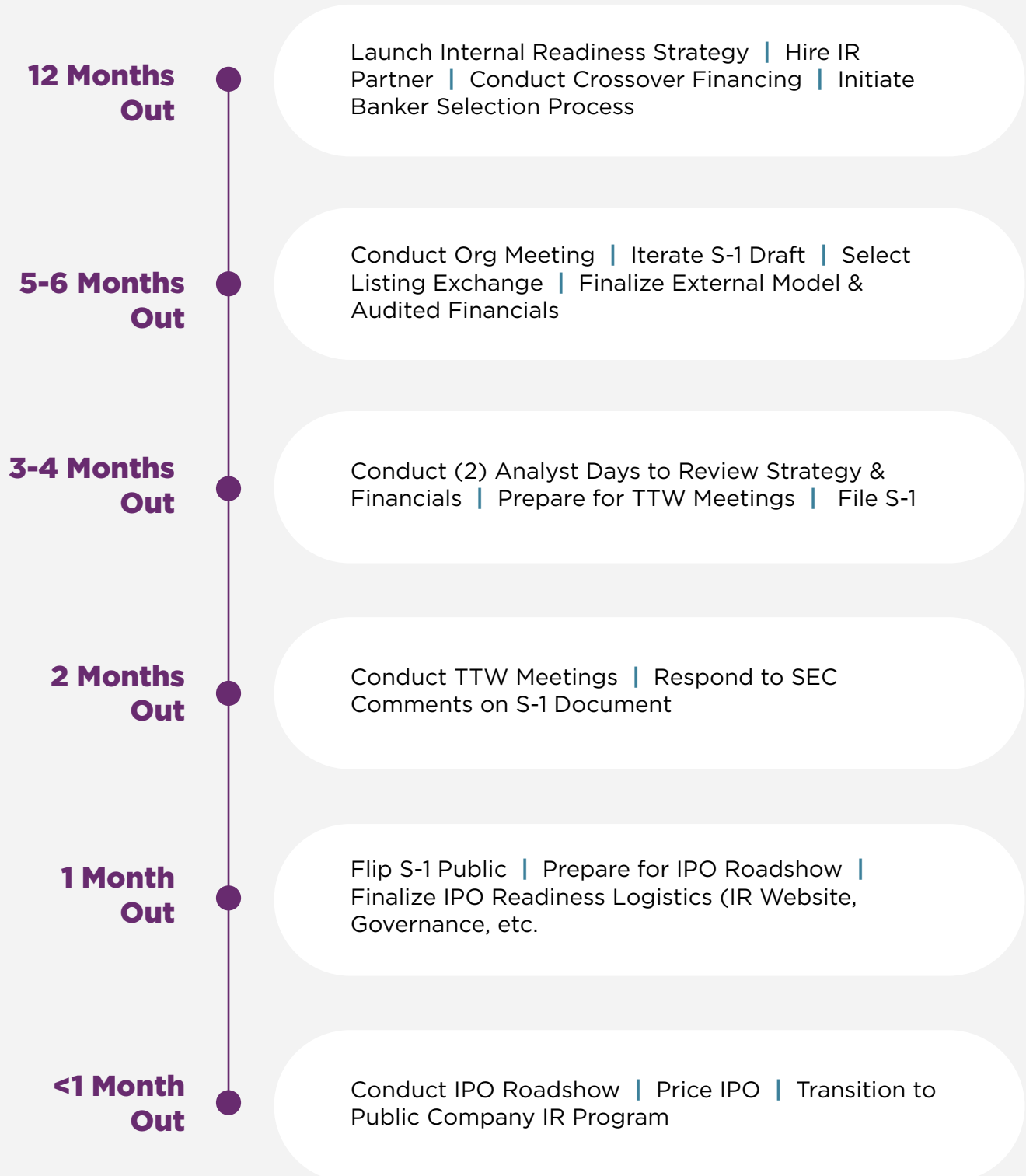
Wall Street Preparedness

In order for management teams to get off on the right foot, it is critical that they have confidence in their ability to forecast revenues. As a public company, a surefire way to lose credibility with public investors is to miss quarters and lower guidance shortly after going public. If a company is having a difficult time forecasting revenue and expenses as a private company, we recommend not testing the public markets until the predictability of the model improves. Conversely, if the business has a high degree of predictability, the focus should shift to developing a concise message regarding the company's growth strategy. In doing so, it is recommended that companies provide a high-level analysis of their total addressable market (TAM), while utilizing reliable third-party sources. This last point goes without saying, but it is crucial for executive teams to be as prepared as possible when interacting with public investors for the first time. When an investor initially meets a new CEO and CFO, they likely will not have a long list of detailed questions. In fact, most meetings will be high-level in nature to get a feel for the overall business and the executive team. In order to make a good first impression, we advise management teams to commit to intensive Q&A prep sessions. This prep will pay off in spades as it will give CEOs and CFOs the added confidence they need to truly tell the company's story.

Changes in Model & Valuation

Companies need to understand what market conditions mean for valuations and target multiples within respective comp groups. This may impact valuations and bring them below a desirable threshold for existing investors from a dilution and palatability standpoint. Conversely, in thinking about public markets, companies want to avoid a situation in which they have limited investor interest due to valuation and technical factors, like float and daily liquidity.

High-Level IPO Timeline



An aerial photograph of a city, likely New York City, showing a dense cluster of skyscrapers. The image is overlaid with a semi-transparent blue filter. In the center, there is a dark blue circular graphic containing white text. The text reads "Listing Exchange Selection".

Listing Exchange Selection



Other Key Considerations

Marketing

Both NYSE and NADAQ maintain in house PR and marketing teams to assist listed companies with visibility campaigns, particularly around the IPO. Their offerings are similar and can be specifically tailored around each listed company's broader marketing/media strategy. NYSE also offers opportunities for companies to conduct media interviews on the NYSE trading floor on Wall Street.

Vendors

Both exchanges offer IR website build and hosting services in addition to pre-paid webcasting packages (for earnings calls) for newly listed companies. NYSE contracts with Q4 Inc. while Nasdaq contracts Intrado. They also offer complimentary access to wire services, BusinessWire with NYSE and GlobeNewswire with Nasdaq. In our view, these services in addition to services provided by other contracted vendors are comparable.

Corporate Governance

Both exchanges have similar but slightly nuanced governance requirements and listing standards. Some key differences include: NYSE's requirement for an internal audit function, NYSE's requirement that companies disclose specific corporate governance guidelines, Director "Independence" definitions and standards - Both require that a majority of directors are independent by the first anniversary of the listing, Nuanced committee guidelines

Daily Support & Stock Surveillance

both provide stock surveillance services to alert management of unexpected volatility or other notable trends. Both also provide access to data platforms like IR Insight (Nasdaq) and IHS Markit (fka Ipreo), NYSE Connect, and FactSet (NYSE). While both assign relationship managers to assist to provide daily support, NYSE also assigns a DMM who in addition to deploying capital to stabilize the stock if necessary, will regularly communicate with the company and provide trading updates as often as on a daily basis. Nasdaq's Market Intelligence Desk (MID) provides similar services.

Getting to Know the Stock Exchanges

As you begin accelerating down the path towards your IPO, another key consideration is which stock exchange to list on. The exchange acts as the market where stock is bought and sold by brokers and traders, and its primary function is to provide a place to sell stock, making it a liquid asset. This is accomplished through the tracking of buy and sell orders, allowing exchanges to set prices and match the buyers and sellers. In particular, the exchange a company chooses to list with is responsible for managing the opening and closing of each day's trading, which establishes the opening and closing pricing of stock.

In the United States there are two main legacy listing stock exchanges, the New York Stock Exchange (NYSE) and Nasdaq. Both NYSE and NASDAQ trade stocks algorithmically, matching buys and sells electronically.



New York Stock Exchange (NYSE)

Founded over 225 years ago, the NYSE is the world's largest stock exchange by market capitalization. As of June 30, 2018, the exchange's total market cap was \$28.5 trillion. In 2018 NYSE listed 73 IPOs which raised \$30 billion in proceeds. The last 25 consecutive U.S. IPOs raising \$1 billion or more listed on the NYSE. The NYSE is an auction market where a designated market maker (DMM) is responsible for maintaining a fair and orderly market in a security. The DMM helps to oversee that the highest bidding price for a security will be matched with the lowest asking price.

The exchange is located in an iconic building at 11 Wall Street in New York City. Fittingly, the NYSE is owned by a publicly traded company, Intercontinental Exchange, which trades under the ticker ICE on the NYSE.



NASDAQ

Nasdaq is the second largest stock exchange in the world with ~4,000 total listings and a total market capitalization of approximately \$15 trillion. The exchange began trading in 1971 and was the world's first electronic market. Unlike the NYSE, Nasdaq is a dealer's market where participants buy and sell through a dealer/market-maker, as opposed to directly with each other. The matching of buyers and sellers happens electronically through the dealers in split seconds.

In 2019, Nasdaq listed 75 healthcare IPOs raising a total of \$9.9 billion. Nasdaq claims to have won 95% of the new healthcare listings since 2016.



BATS

While companies don't list on the Bats exchanges, they host a significant share of US equity trading volume. In fact, they do the most retail volume and by trading volume market share are the second largest exchange. CBOE Global Markets acquired Bats in early 2017.

Newcomer Exchanges



IEX

Founded in 2012, the Investors Exchange, or IEX, launched as an SEC approved national securities exchange in September 2016. With the goal of building fairer markets, the main differentiator of the IEX is a speed bump feature that creates a level playing field for all buyers and sellers by eliminating any opportunity for execution speed advantages. In December 2018, IEX achieved an average daily trading volume market share of 2.462% for US equity trading.

IEX received regulatory approval to list companies in 2017. On October 5, 2018, Interactive Brokers (IBKR) began trading on IEX as the first founding issuer. With this, NYSE and Nasdaq now face listing competition for the first time since before NYSE bought the American Stock Exchange in 2008. Now that the first domino has fallen, we'll wait and see if anyone chooses to follow.



Members Exchange (MEMX)

On January 7, 2019, plans to launch Members Exchange (MEMX) were announced. Leaders in the world's financial markets, including Morgan Stanley, Bank of America Merrill Lynch, Citadel Securities, Virtu Financial, Fidelity Investments and Charles Schwab, plan to launch and control the exchange. The goal of MEMX is to provide increased competition, improved transparency, cost reduction and simplification of equity trading in the U.S. The regulatory process to gain SEC approval for a new exchange can take 12 months or longer, making 2020 the earliest the exchange could be operational.



Testing the Waters (TTW) Meetings



Material Non-Public Information

While emerging growth companies are afforded the ability to hold testing the waters (TTW) meetings in the so-called “quiet period” between the organizational meeting and the filing of the registration statement per Section 5(d) of the Securities Act, management teams should be extremely careful to avoid making an offer as defined by the SEC. Specifically, they should avoid making an explicit case for purchasing shares of the company, making any forward looking statements, or discussing specifics around expectations for the IPO.

Once the registration statement is filed publicly but not yet declared effective, emerging growth companies are afforded the ability to make oral and certain written offers on TTW and official IPO roadshow meetings. These conversations may reference a preliminary prospectus, or “red herring,” which can be used to make written offers and include a price range for the offering. They cannot reference a final offering price or corresponding proceeds and underwriting discounts. For the IPO roadshow, slide decks, handouts, and videos presented during the time of the meeting are not considered to be written offers so long as copies are not left behind. By collecting these materials, companies avoid having them considered free writing prospectuses (FWP), which are otherwise used after the registration statement is filed but before it becomes effective to inform potential investors of any changes to the offering. Companies are also able to publish a limited notice of the upcoming IPO in addition to disseminating a rather boilerplate press release upon pricing.

Presentation

Be Clear & Concise

Keep your story to a manageable number of slides (typically between 20-30 content slides) that illustrate a clear and digestible message. Investors will have a wide range of sector knowledge. As such, we recommend creating a presentation that assumes your audience has little to no knowledge of your underlying science and avoids acronyms and scientific jargon. It is easy for investor presentations to become too scientific and overly technical. Tailor your deck to the generalist investor, and create an appendix of back-up slides for those who want to delve further into the weeds.

Keep Slides Clean & Simple

Each slide should communicate a single message that is easy for the reader to understand. A clean and visually appealing deck allows viewers to quickly process and digest presented information. When possible, use graphics and images to support your talk track.

Arise Interest Immediately

Potential investors will want to quickly understand the market landscape and market size. Do not wait until the very end of the presentation to explain this information. Pique their interest upfront! Answer key questions, such as: Why is your technology important? What is the address patient population? What is the competitive landscape? Why are you likely to succeed? And, most importantly, why should anyone be investing now?

Provide Substance

While you want to avoid a deck full of overly complicated clinical data, it is important to clearly illustrate data that supports your technology and how this differentiates your product in the market. Be sure to clearly highlight future milestones so that investors know what to expect in the months and years ahead. Make sure these milestones are realistic and achievable. Don't overpromise.



Project Solid Management Expertise

Explain how your team is uniquely qualified to develop and potentially commercialize this technology. Strong leadership is critical to the success of any product. What experiences do your senior team, board of directors or advisors possess that distinctly position you to be successful in this market? Sharing information about the people and institutions who participate in your company will communicate credibility to the investor world about strategy and approach.

Prepare and Practice

Before you enter a meeting, know the key points you want to convey and how to navigate away from disclosing information you are not ready to share. Practice your story so that you are familiar with your presentation, using the investor deck as support and not a crutch.

The background of the slide features a blue-tinted image of a modern office interior. In the foreground, several business professionals are silhouetted against a large window. They appear to be in a meeting or discussion, with some looking towards each other and others looking out. The window provides a view of a city skyline with various skyscrapers. The overall atmosphere is professional and collaborative.

**Internal &
External**
Communication

Communication Policies, Employee Training & Public Company Readiness

In this chapter we'll cover IPO preparations with respect to internal and external corporate communications. As discussed earlier with respects to "Gun Jumping", both already and nascent public companies (following their Org meeting) come under an extremely high level of external scrutiny from regulators and investors during and after their IPO.

External Communications

Once you've initiated your IPO process with the organization meeting, all external communications with Wall Street, media, and customers will be scrutinized by the SEC to ensure that the company is not prematurely marketing their IPO ("gun jumping"). The level of scrutiny is highest from the public flip of the S-1 through the IPO quiet period (pricing + 25 days). This is also the period when external interest in the company will be highest.

The most important policy for management to make clear to all employees is that any and all requests for information relative to the IPO or expectations for the future should be referred to the CEO, CFO, and/or company counsel. For senior leadership, any external communication outside of normal course of business should be vetted by counsel, underwriter counsel, and their IR teams to ensure compliance.

Prior to the end of the IPO quiet period company spokespeople must not:

- Be quoted in publications during the quiet period;

- Provide financial or operational forecasts & metrics;

- Solicit investment/reference the IPO;

- Make statements about the company not captured within the S-1 publicly on file with the SEC.

As you progress towards your IPO, you should also coordinate with your legal and IR teams to draft and implement clear disclosure and social media policies. These will help to ensure that proper protocols and expectations for employees are in place and understood to best mitigate risk potential for gun jumping or improper disclosure. Once the IPO is completed and the quiet period concluded, companies must shift their focus to remaining regulation fair disclosure (Reg FD) compliant.

Regulation FD prohibits companies from disclosing material nonpublic information to select analysts, institutional investors and others without making widespread public disclosure. The rule reflects the view that all investors should have equal access to a company's material disclosures at the same time. Since its enactment in 2000, Reg FD has fundamentally reshaped the ways public companies conduct conference calls, group investor meetings and 1x1 meetings with analysts and investors.

Here are six frequently asked questions about Reg FD and some examples of violations:

- **Why was Reg FD Adopted?**

The SEC adopted Reg FD to address the selective disclosure by issuers. The goal of Reg FD is to level the playing field between investors, and between potential investors and the investing public.

- **What Does Reg FD Require?**

Under Reg FD, whenever a public company, or any person acting on its behalf, discloses material nonpublic information to certain enumerated persons, the company must disclose that information to the public.

- **Which Employees are Covered by Reg FD?**

Regulation FD applies to all public companies and any "person acting on behalf of the company." This definition includes the following individuals:

- Senior company officials (a director, executive officer, investor relations or public relations officer, or other person with similar functions), including individuals acting under their direction; and
 - Other officers, employees, or agents of the company who regularly communicate with securities market professionals or security holders.
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- **What is "Nonpublic Information" for Purposes of Reg FD?**

Essentially, information is "nonpublic" if it is not available to investors generally. For information to be made public, "it must be disseminated in a manner calculated to reach the securities marketplace through recognized channels of distribution, and public investors must be afforded a reasonable waiting period to react to the information."

- **What Constitutes “Material Information” for Purposes of Reg FD?**

Information is considered material if there is a “substantial likelihood that a reasonable shareholder would consider it important” in making an investment decision, or if the facts “would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.” The following are likely considered material:

- Earnings information (including historical or earnings guidance)
- Mergers, acquisitions, tender offers
- Joint ventures or changes in assets
- New products or discoveries
- Developments regarding customers or suppliers, such as the acquisition or loss of a contract
- Changes in control or management
- Change in auditors or auditor notification that an issuer may no longer rely on an auditor’s report
- Defaults on senior securities
- Stock splits or dividends
- Redemptions or repurchases of securities
- Public or private sales of securities; and bankruptcy

- **What Communications are Exempt from Reg FD?**

Reg FD specifically excludes certain communications from the scope of the regulation. These exempted disclosures generally fit into the following three categories:

- Communications to a person who owes the issuer a duty of trust or confidence. This would include counsel, financial advisers, and other so-called “temporary insiders.”
- Communications to any person who expressly agrees to maintain the information in confidence.
- Communications in connection with a registered securities offering.

Your IR partner and legal counsel will help you to understand and comply with SEC rules. They will also be critical in helping to implement best practices for disclosures, manage Q&A preparation and to educate your employees on compliance standards.

Internal Communications

In addition to preparing for external corporate communications, leadership teams should also work with their IR team to manage internal communications around the IPO. For most companies, the list of people aware of the intent to IPO is limited and the message well controlled. In the earliest stages through the Org Meeting and S-1 drafting period, management teams should stay tight lipped around the process with respect disclosing specific updates and timelines. If possible, limit discussions to the management level.

As you approach the public flip of the S-1, you should work with your IR and legal teams to prepare answers to questions that will inevitably be asked by employees and job candidates. Once the S-1 is public, the CEO should communicate the news to employees proactively and share the resources developed to answer questions. The email should also note who employees should reach out to with any additional questions (HR reps, team leaders, general counsel, etc.).

Management should also work with their IR team to hold “town halls” with employees on the basics of the IPO process, what it will mean for team members and the company generally, and how employees may be impacted financially. It is also important to educate employees on the policies that will be implemented ahead of and after the IPO.



Policies that will be distributed and take effect upon completion of IPO include:

- Insider trading & material non-public information (MNPI)
- Regulation fair disclosure (Reg FD)
- Disclosure policy
- Internal corporate communications
- Trading windows
- Code of ethics

Illustrative Employee Training & Communications Guideline

DATE	TOPIC	ATTENDEES
+2-3 Weeks from Org Meeting	Review and Align on Employee Training & Comms Timeline	CEO & CFO
Prior to Initial S-1 Meeting	Management Training on SEC Registration Period	All Senior Leadership
-1 Week from S-1 “Flip”	Public Flip Materials Review (including comprehensive employee FAQ)	CEO, CFO, HR
-1 Day from S-1 “Flip”	Call to align on materials for Public Flip	CEO, CFO, HR
S-1 “Flip” Day	All-Employee Email announcing intent to IPO/S-1 public flip from CEO	CEO & All Employees
+1-2 Days from S-1 “Flip”	Employee Townhall on Public Company Readiness	All Employees
Prior to IPO Pricing	Management Training on RegFD Requirements	“Street-facing” Management
IPO Day	IPO Day Celebration	All Employees
+2 Days from IPO	Employee Townhall on Public Company Requirements & Policies	All Employees



The **Roadshow**

The Roadshow

Following your analyst diligence meetings, TTW meetings, and the flip of your S-1 from confidential to public, you'll be ready to embark on your IPO roadshow. The roadshow will entail several types of one-on-one meetings with key audiences. These can range from meeting with a single analyst to a sit-down with multiple PMs and analysts. For the roadshow, we encourage you to remember two things: first, you'll encounter varying levels of engagement and this is just the beginning of life as a public company. Roadshow meetings run the gamut in regards to audience engagement. Some accounts will not be fully prepared, need to see the full roadshow presentation, and will finish up with few questions. On the flip side, other meetings may involve a PM who has completely marked up the prospectus and wants to dive in with granular questions. Keep in mind, though, that regardless of initial engagement, either of these accounts could end up being your largest buyer. We have seen clients come out of a meeting thinking there is no way the account was interested, only to have the account be a large participant in the IPO and aftermarket. Regardless of perceived interest, give each account your full attention and treat them like they're already your largest shareholder.

Practice Makes Perfect: Pre-recording Your IPO Roadshow Presentation

A strong, polished corporate presentation can be one of the deciding factors for institutional investors thinking about investing in a new company. A company that prerecords its IPO roadshow has the opportunity to practice and even view its presentation before presenting live to investors. This advantage can be invaluable, as management has a chance to observe the presentation and make any adjustments it deems necessary.

- **Multiple Tries**

Just like movies and television, prerecording an IPO roadshow allows for multiple retakes. If a word is flubbed or a sentence does not sound quite right, the speaker can record another version of that sentence, and it can be edited during post-production.

- **Professional Editing**

Unlike an IPO roadshow recorded during the underwriting sales teach-in, prerecorded IPO roadshows are professionally edited and enhanced, potentially making the presentation look and sound better.

- **Cost**

As with any service, there is always an associated expense. On average, a 30-minute IPO roadshow can cost between \$15,000 and \$20,000 for taping and editing. The actual cost could be higher depending on the amount of time it takes for post-production.

- **Timing**

Timing is typically the reason many companies decide to forego prerecording their IPO roadshows. A video production company will want at least seven days to record and edit a customized video, forcing the company to record its IPO roadshow within a few days of flipping its S-1 to public. While many companies will have their roadshow decks nearly finalized by this time, prerecording an IPO roadshow will preclude any possibility of making final changes to a presentation.

IPO Roadshow Logistics

- **Meeting Schedule**

Some of the earliest feedback on the deal's interest will be in the quality of the accounts taking 1-1 meetings. Ideally, the schedule, which will be put together by your underwriting team and their sales team, will be filled with the highest quality accounts that are active in the sector and shown to be long-term investors.

- **Meeting Feedback**

During the roadshow, and up to pricing, feedback from the 1-1 meetings gives a sense on whether an account plans to build a long-term position or plans to flip their allocation (if any). The more positive feedback from larger accounts with a proven history of building large positions in the space, the stronger the deal.

- **Market Conditions**

While market movement and comps can be tracked quantitatively during the roadshow, this will not always have an impact on pricing. However, a weak market or a sell-off in the comp group can spook investors into not taking new positions, and thus passing on the deal.

- **Salesforce Teach-Ins**

The in-house presentation provides a great opportunity to tell your company's story to the bookrunners and co-managers' salesforce, who will in turn help tell your story to potential investors. These in-house presentations will likely be your final presentation before meeting with investors. By this point in the process, you should be well-versed in your slide deck and fully prepared for a tough Q&A session following the presentation. Many of the salespeople have deep sector knowledge and can anticipate, or may already know, the questions their clients will be asking. This time can be instrumental in preparing you for anticipated questions.



Pricing
& Allocation

Pricing 101

The culmination of all of this work is the IPO pricing, which is far from an exact science and is impacted by many different inputs and factors. We often hear of an “upsized” IPO and/or “pricing above the range,” but how are these parameters determined, who determines them, and why?

The level of interest in an IPO indicated by potential investors is arguably the most fundamental factor in determining the IPO price. “Building the book” is the common terminology used to describe the underwriters’ process of obtaining indications of interest, which may include a specific price and quantity matrix of desired share allotment, from potential investors. During the roadshow, as management presents its story to gain interest in the company’s IPO, the underwriters’ capital market groups follow up with the potential investors to gauge interest in the IPO by recording the number of shares each investor would be willing to purchase and how much the investor would be willing to pay. This allows the underwriters to gauge investor demand for the offering once the roadshow concludes, as well as the number of shares that can be sold (including the over-allotment option) and what the optimal price will be. The underwriters look at all indications and the matrix of shares desired at different potential price points to determine the optimal offering price and how many shares to offer.

Determining Pricing

Whereas an IPO has a price range on the prospectus to give investors a starting point to where the deal may price. The S-1 will list the last reported sales price of the company stock before it filed, but it will be the next few days trading and demand that will determine the price. From here, there are several scenarios including:

- **Strong Demand from Investors**

If there is strong demand (which hopefully was anticipated), there is a chance that the stock does not move drastically from the last trade listed on the S-1. In this event, many investors may end up putting in orders at the market, meaning the underwriters may price the deal at the closing bid on the night of pricing, or at a slight discount (say pricing at \$10 even despite the closing bid being \$10.12).

- **Weak Demand/Price Sensitivity**

Investors may also be more price sensitive. This can end up being reflected in the stock trading down from filing, or investors putting in limit orders. Using the \$10.12 closing mentioned above, an investor may put in an order such as this:

500,000 shares at 9.50 | 250,000 shares at 9.75 | 100,000 shares at market

Qualitative & Quantitative Metrics

for Consideration

The book is only one of several factors that determine the final IPO price and shares offered. Other factors include the following:

- Quantitative factors including the company's current sales, expenses, earnings, and cash flow. Projected earnings are also factored in.

- Qualitative factors including the quality of the 1x1 meeting schedule, 1x1 meeting feedback and market conditions.

- Valuation multiples comparable to the company's industry peers

- The size of the current and near-future market for the product or service that the company produces

- The marketability of the company's stock in the current economic environment

- The underwriters' view of current market, industry, and economic conditions and developments. If stock market or industry conditions deteriorate, even a book that had been strong may be impacted.

- Outline the addressable market opportunity

- Explain what is differentiated about your technology

- Map out a commercial strategy

- Delineate upcoming milestones and opportunities for growth

- Summarize financial highlights

With all of this, the underwriters must also balance the interest of multiple involved parties. The company's executives and early investors want to price the shares as high as possible in order to provide the highest return and raise as much capital as possible. On the other side, the buyers, led by institutional investors, want the lowest possible price in order to increase the chances of a positive return, not only in the immediate aftermarket, but in the long-term.

In a well-received offering, buyers may be willing to pay at the high-end of the filing range or above in order to start building their long-term positions. In a scenario like this, the investment bank will go back to more price sensitive buyers and let them know that other buyers are willing to pay more, and unless they are as well, they may receive a smaller allocation or miss out altogether on the IPO. By then pricing above the mid-point of the filing range, the company will raise more money than originally expected without further diluting the private investors, management team and other company employees who own stock.

Interestingly, for an IPO that is oversubscribed and prices at the mid-point of the filing range or higher, there is an expectation that the stock will trade higher in the immediate after-market. While this appears to leave the issuing company with less money raised, this so-called IPO discount helps to entice investors to buy into a company that has not yet proven itself as a public entity and provides an attractive entry point for building a position. In addition, as one of the goals of an IPO is to create liquidity, it is a positive to see the stock trade up and have active volume.

Looking further at price increases in the aftermarket, much of the buying demand is a result of long-term investors receiving only a portion of the necessary shares to build a meaningful position in their portfolio. As an example, a fund may only receive 50,000 shares on the IPO, but need an additional 200,000 shares to build a meaningful position. They may then choose to build this position over the first few days of trading when liquidity is highest with an end result of a 250,000 share position with a volume weighted average price (VWAP) that is nearer to the closing price over the first few days than it is to the IPO price. While the lead underwriters will work to price an offering at the highest possible price while balancing the need for aftermarket performance, pricing remains more of an art than science. Unknown factors such as short-term traders, retail demand and even unknown long-term buyers can all cause a stock to rise more than expected after pricing.

Shares Offered

The other input that can be modified for the final IPO terms is the total number of shares offered, with the main drivers of this number being the quality and breadth of the investor demand along with the total desired funds to be raised. Upon filing the S-1 with the SEC, the issuing company indicates the number of shares to be registered and pays a registration fee that is based on that number of shares multiplied by the high-end of the filing range. The Securities Act of 1933 (Securities Act), does provide that an issuer may upsize or downsize an IPO if the changes in volume and price represent no more than a 20 percent change from the maximum aggregate offering price set forth in the fee table in the effective registration statement.

While strong demand can lead to a higher IPO price, it can also lead to more shares being offered. There are scenarios where buyers may be price sensitive even in the face of strong demand, but if the banks feel the book contains breadth and quality of the investors who want to build long-term positions, they may recommend upsizing the deal. By doing so, the largest, high-quality investors can be given meaningful allocations which they can build on in the aftermarket.

Of course, the number of shares offered will impact capitalization and ownership/dilution, so this must be carefully considered. It will be of utmost importance to company insiders, investors and individuals who held shares pre-IPO. So, the shares offered is an important input in the big picture and can impact the capitalization, ownership, and future issuances for the company.



Allocations

Allocations can drastically differ depending on IPO pricing and how investors received the deal. Here are a few variables to consider:

When making allocations, it is impossible to predict who the long-term shareholders will be with 100% accuracy. An account that was initially expected to be an anchor shareholder may sell due to market conditions, thesis switch, or a host of other reasons. Ultimately, as a small-cap company (\$300MM to \$2B market cap), there won't be enough float for more than 10 to 25 accounts to have meaningful positions. As insiders sell stock over time, the market cap grows and there are further events such as a follow-on, the shareholder base will broaden to include more investors.

Cold IPO

In a deal that prices at the low-end of the filing range or below, allocations will typically be given to fewer investors and be heavily top-weighted. In this situation, the book-runner will inform accounts that indicated interest that they may receive a large percentage of what they have indicated for. This can lead to various outcomes, including the account canceling its indication and choosing to pass on the deal. On the flip side, an account that had initially indicated for 10% (a common way of expressing interest) may express interest in taking a much larger position.

Hot IPO

For a deal that prices at the high-end or above, the allocations will typically be spread among more accounts. One reason for this is that the broader demand will see more accounts interested in building long-term positions. In addition, more stock will also be allocated to accounts that are known to be short-term, or who will flip the stock. The flippers, or those that will sell the stock on the first day or shortly after, help by creating a liquid trading market (a goal of any IPO).

Long-Term Holders

When making allocations, it is impossible to predict who the long-term shareholders will be with 100% accuracy. An account that was initially expected to be an anchor shareholder may sell due to market conditions, thesis switch, or a host of other reasons. Ultimately, as a small-cap company (\$300MM to \$2B market cap), there won't be enough float for more than 10 to 25 accounts to have meaningful positions. As insiders sell stock over time, the market cap grows and there are further events such as a follow-on, the shareholder base will broaden to include more investors.

Subscription Levels

On one end, a deal that is subscribed one to three times is likely to be priced at the low end of the filing range or below while a deal that is more than 10 times subscribed has a chance to price at the high end or above. There is no exact subscription level to pricing formula, but this is a good metric to predict demand for the deal.

1-1 Conversion Rate

1-1 meetings typically consist of the biggest accounts that are most relevant in the space. The higher the 1-1 conversion (where an account does put in an indication of interest as opposed to saying no), typically the stronger the deal.

Building The Book

The level of interest in an IPO indicated by potential investors is arguably the most fundamental factor in determining the IPO price. "Building the book" is the common terminology used to describe the underwriters' process of obtaining indications of interest, which may include a specific price and quantity matrix of desired share allotment, from potential investors. During the roadshow, as management presents its story to gain interest in the company's IPO, the underwriters' capital market groups follow up with the potential investors to gauge interest in the IPO by recording the number of shares each investor would be willing to purchase and how much the investor would be willing to pay. This allows the underwriters to gauge investor demand for the offering once the roadshow concludes, as well as the number of shares that can be sold (including the over-allotment option) and what the optimal price will be. The underwriters look at all indications and the matrix of shares desired at different potential price points to determine the optimal offering price and how many shares to offer.



Greenshoe

The Over-Allotment Option, or Greenshoe (named after the first company to use the instrument), is an often-misunderstood device that gives underwriters the means to stabilize a company's stock for up to 30 days after an IPO or Follow-On pricing.

To help illustrate the mechanics and purpose of the Over-Allotment Option, we are going to walk you through a hypothetical deal in which a company files a prospectus for 10 Million Shares at a range of \$14-16.

We will use a 10 million share deal, consisting of only Primary shares being offered by the company, filed at a range of \$14-16/share. With the typical over-allotment equal to 15% of the shares covered, the underwriters in this case have an option to purchase a maximum of 1.5 million shares for up to 30 days after the IPO.

At the end of the roadshow, let's assume the deal prices at \$15. A total of 11.5 million shares are allocated to investors. On trade date plus three days (T+3), the underwriters settle the transaction and pay the company for 10 million shares, or \$150 million minus the underwriting commissions and discounts. At this point, the underwriters have a short position of 1.5 million shares that they can cover in one of two ways: stock trades above the IPO price in the aftermarket, or stock trades below the IPO price in the aftermarket.

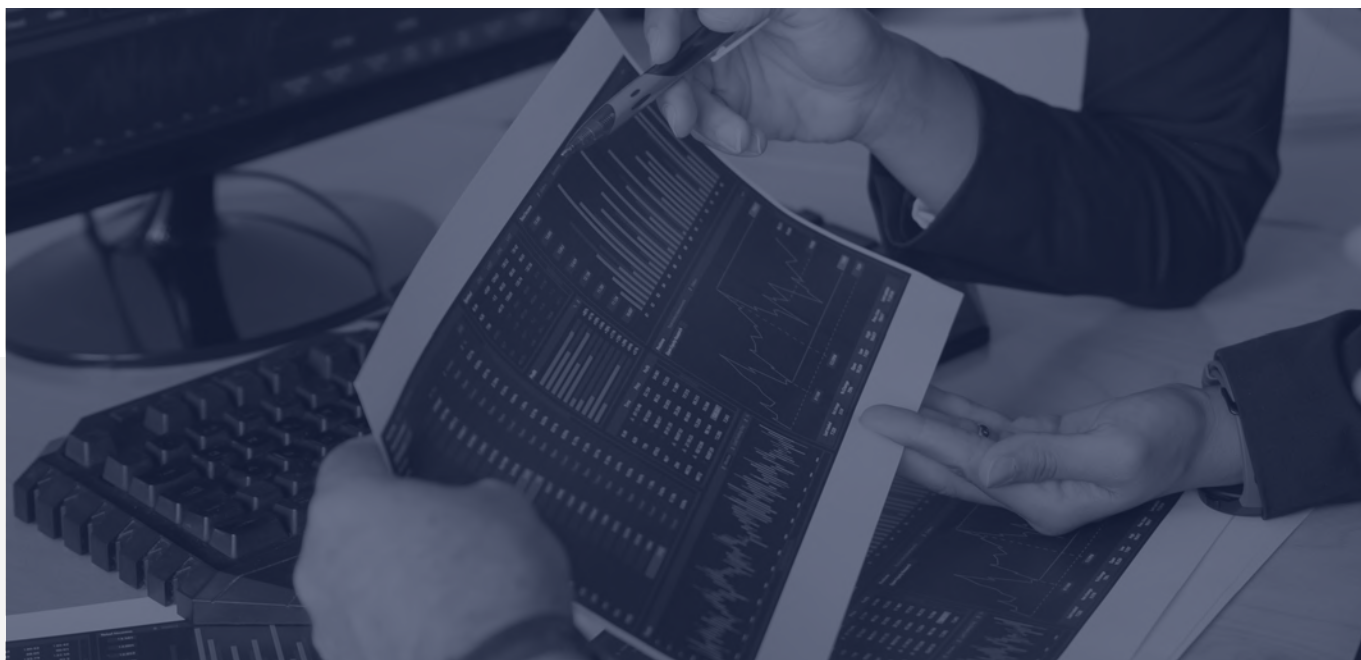
- **Scenario 1: Stock Trades Above the IPO Price in the Aftermarket**

If the stock trades above \$15, the underwriters will cover the short position by exercising the option to buy the additional 1.5 million shares from the company. By doing this, they are exercising the option to purchase the additional shares and increasing the proceeds of the deal to the company. The underwriters have up to 30 days to make this decision, though in some cases will exercise the option sooner.

In this scenario, it is important to remember that the shares were all sold to the investors at \$15 and that the underwriters are not selling the shares at the higher prices in the aftermarket. Thus, the company receives the proceeds based on the \$15 price minus underwriting commissions and discounts, even though the stock is higher.

- **Scenario 2: Stock Trades Below the IPO Price in the Aftermarket**

If the stock trades at or below \$15 within the first 30 days of trading, the Stabilizing Agent (typically the Lead Book-Runner) can use the 1.5 million share short position to become a buyer of stock in the open market. Typically, the Stabilizing Agent may start buying stock at \$15 if there are many sellers and will continue to buy at lower levels until other market participants become buyers and the stock finds a stable price. In this scenario, the 1.5 million share over-allotment position has been covered in the open market so the company will not receive any additional proceeds at the end of 30 days.



Conclusion

The Over-Allotment remains an important mechanism that can bring additional proceeds to a company in an IPO or Follow-On. In the event the stock trades below the deal price, due to market conditions or other factors, it can be a powerful tool to find a stable level for the stock where the company can build a long-term shareholder base. While much of the deal process and Over-Allotment sounds like arcane banker and trader talk, it's important to understand. Gilmartin Group has worked with dozens of companies through their IPO process and can help demystify the process and put you in a better position to work with your Book-Running Manager(s) and Co-Manager(s).

US/EURO		8/12	182.492
NAZ	\$	▼ -2.230	-0.0039
GT/56	€	▼ -0.592	-0.00053
YEH.		▼ -1.759	-1.759
KTC		▼ -68.23	-0.00e93
WIF		-456.56	-0.0057
WI-ILM	\$	▼ -8.354	-0.002
STJ		-0.036	-0.01126
B/LE/RE			
JOB	€	▼ -2.603	-0.3700
BLII		▼ -4.695	-0.99863
BLI		-35.30	-1.50
SNA	¥	▼ -134.56	-3739.49
Low 5.29	¢	Last 66.995	-23.588
on Raw 49 2t		at 2.5	Open 5.82

Currencies	\$1=	Change	%Change
British POUND	0.6529	+0.0001	+0.012%
Czech KORUNA	20.1790	+0.0010	+0.005%
Danish KRONE	5.4650	+0.0005	+0.009%
European EURO	0.7889	+0.0002	+0.028%
Hungarian FORINT	244.7800	+0.0000	+0.000%
Norwegian KRONE	6.0340	+0.0023	+0.038%
Polish ZLOTY	4.0000	+0.0000	+0.000%
Russian RUBLE	6.0360	+0.0000	+0.000%
Swedish KRONA	0.0000	+0.0019	+0.027%
Swiss FRANC	0.0000	+0.0018	+0.188%

Stock Sectors	3 Month % Change
Communications	-0.86%
Consumer Durables	+0.00%
Consumer Non-Durables	+2.88%
Financial Services	+6.60%
Healthcare	+2.53%
Technology	+6.81%
Utilities	+5.52%
Energy	+11.73%
Real Estate	+5.11%
Transportation	-1.57%
Other	+3.78%

IPO Lock-Ups & Early Releases

IPO Lock-Ups & Early Releases

When a company is about to go public, early investors anticipate the stock rising after the IPO, but they must also endure a mandatory waiting period called the lock-up period. This period keeps pre-IPO investors from immediately selling their stock. The IPO lock-up period is a pre-set period of time – conventionally 180 days – after a company goes public, during which some early investors and employees of the company are not allowed to sell their shares. These restrictions are not mandated by the Securities and Exchange Commission (SEC), but rather are self-imposed contractually by companies or are required by the investment banks underwriting the IPO. Typically, company insiders own a lot more shares than the public market. Therefore, if large shareholders were allowed to off-load holdings immediately after a company goes public, these selling activities could drastically depress the stock's price. As such, the purpose of a lock-up period is to ensure that shares owned by company insiders do not all flow out together into the public market too soon after the offering, increasing the supply (float) of the stock with a massive inflow of sellers and thereby negatively impacting the stock price. The “cooling-off” period mandated by the lock-up can also help reduce the volatility of the new stock and allow for the market to settle into a share price based on natural supply and demand and initial company performance. The traditional 180 days also give the company time to announce up to two consecutive earnings reports, which can serve to provide additional details and track record regarding the business operations and outlook.

Lock-up periods can also be a way for companies to keep up appearances. When those closest to the company hold their shares, it can signal to investors that they have confidence in the strength of the company. If company insiders start to sell their stock, investors may get suspicious and be tempted to sell their shares as well. Even if the insiders were trying to cash in their stocks for no other reason than simply wanting the money, public perceptions may change based on the selling activity of insiders. The lock-up period can prevent this from happening—at least while the newly public company gets off its feet.

While lock-ups do exist to protect the stock and the shareholders from an over-supply of shares and the potential downward pressure on the stock that can come with that, they can also create an “overhang” or pressure on the stock due to the expectation of an increased supply and concurrent price pressure. This overhang is why a company's stock price usually drops leading up to and on the day that the lock-up expires.

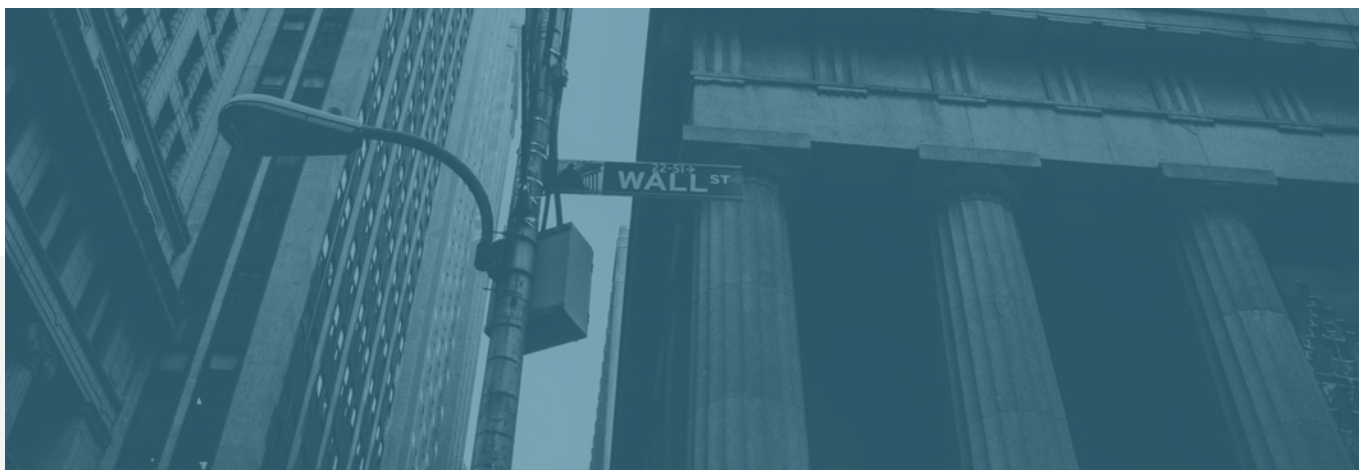
Early Lock-Up Release

Increasingly, some companies and banks are instituting earlier releases from lock-ups in order to lift the “overhang” and downward pressure on the stock and to relieve the pressure of a straight cliff after the 180-day lock-up. The main goal is to keep shares attractive to new investors by delaying the price pressure that can come with insider sales. At the same time, an early release can reward early investors for taking bets on the company by allowing them to benefit from IPO success and by giving them a “safe window” within which to sell their shares. This decision must also be weighed objectively by all constituents, balancing the fiduciary obligations of the board and the executives with their obligations to their institutions. Additionally, the decision should balance the underwriters' expertise and market knowledge with the fact that they will receive a fee for the underwriting of a secondary offering, at the likely expense of the company's share price. Keeping in mind all of these considerations, early lock-up releases can be done in several different ways.

Strategies for Lock-Up Releases

Companies may decide to have multiple lock-up periods that end on different dates and allow different groups of people to sell their shares at different times. For example, when one lock-up period ends, company executives might be allowed to sell their shares, while a subsequent lock-up ending means regular employees can sell their shares. While this approach can help in the orderly dissemination of shares, it also is generally done confidentially, and the surprise announcement can have a negative effect on both investors and insiders who are not included in the early release. If the stock price goes down as a result of the first early release, those investors who were excluded and who are still locked up then will be faced with a deflated share price when they are finally released from their remaining lock-up period.

Another option is for companies to specify a particular price target as a condition for early lock-up release. Many believe that performance-related lock-up expiration rules are beneficial for shareholders, as this approach is more transparent and formulaic than the informal and private discussions that can often take place between banks and the company about whether to allow early sales. While the confidential discussions and ultimate “surprise” decisions can upset some investors and insiders who are not included in the early-release, public disclosure of lock-up release parameters do not involve this element of surprise or perceived selling hierarchy.



Example | Snapchat IPO

For example, Snap, the parent company of social media app Snapchat, went public with an IPO on March 2, 2017 and closed at \$24.48 after pricing at \$17. The company used a system of multiple lock-ups with different expiration dates. The first lock-up expired in July 2017 and allowed early investors and insiders to sell up to 400M shares of the company; volume more than quadrupled from the average, and the stock closed at \$15.47 on the day of the first expiration after trending down leading up to that date. A second lock-up expired in August 2017, again with significant volume and the price closing under \$12, allowing regular employees to sell their pre-IPO shares in the company. When this lock-up ended, employees were allowed to sell more than 780M shares of Snap on the open market.

Example | Zynga IPO

However, the timing of a lock-up release off of the original terms must really be considered, particularly with respect to quiet periods and material matters in information as they relate to the company. After its December 2011 IPO, Zynga altered its lock-up agreement in early 2012 in order to stagger the shares over five separate stages. In the first stage, some executive insiders were released to sell shares before current and former employees. The price of Zynga shares collapsed just after this initial sale, leading to a flood of activity that unveiled an allegation that the insiders knew about prior to public disclosure. Zynga's financial operating results were deteriorating, and they still were released from lock-up and sold a portion of their shares, which is what gave rise to claims of insider trading and breach of fiduciary duty.

Example | Facebook IPO

When Facebook went public, the company established multiple lock-up dates. Facebook's stock declined so much during these lock-ups that when the largest lock-up released, the stock price actually rose significantly, as shorts covered and investors who had been waiting on the sidelines took advantage of the deflated price. As the stock rose, this could also have given holders of the stock encouragement not to sell, which in turn could put more pressure on shorts. It is becoming increasingly common to release shareholders early from lock-up provisions, but it is important to understand the entire picture and the number of unknowns when making these decisions. Predicting and understanding what a stock price will do leading up to and following a lock-up is a complex exercise. In addition to the laws of supply and demand combined with the recent and expected financial results of the company, one needs to anticipate the buying and selling activities of investors as well as short sale activities, general market sentiment and movement.

Conclusion

It is becoming increasingly common to release shareholders early from lock-up provisions, but it is important to understand the entire picture and the number of unknowns when making these decisions. Predicting and understanding what a stock price will do leading up to and following a lock-up is a complex exercise. In addition to the laws of supply and demand combined with the recent and expected financial results of the company, one needs to anticipate the buying and selling activities of investors as well as short sale activities, general market sentiment and movement.



Coming Back
to the Market



Coming Back to the Markets

For most, your IPO is just the first time you will leverage public markets over the course of your life as a public company

Maintaining flexibility in your capital market strategy is critical, and the only way to do so is to maintain a healthy balance sheet. While follow-on offerings have implications for dilution – particularly when a company already has a solid cash balance – recently companies have been rewarded for being conservative and adding to their coffers early, despite the dilutive impact.

- **Shelf Registration**

A shelf registration statement (or form S-3, in SEC terminology), is a flexible registration with the SEC that allows an issuer to essentially “pre-register securities” without a specified issuance date or terms. The issuer of a shelf registration is not required to specify the exact amount or offering price of each type of security in its registration statement but includes only an aggregate dollar amount of securities to be offered. An S-3 has a three-year lifespan, during which time the securities are “put on the shelf,” so to speak, allowing securities to be sold at any point within the registration period. An effective shelf registration statement permits issuers to take securities “off the shelf” and offer them to the public on a continuous or delayed basis.

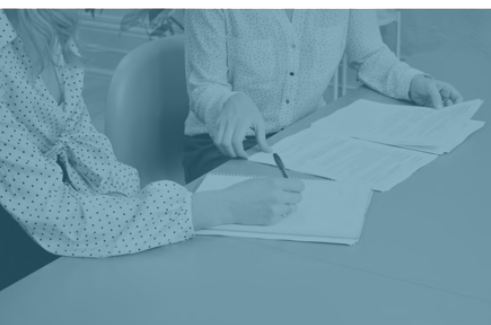
Shelf registrations are generally used when the issuer does not intend to immediately sell its securities. It can be used for both debt and equity offerings, which can be sold in one or more offerings from time to time. If utilized for equity, the shares in a shelf registration must be primary shares. There is no limit on the amount of securities that can be registered, and takedowns are communicated via a prospectus supplement.

- **S-3 Eligibility**

To be S-3 eligible, a company must have been a public company for at least 12 months prior to filing the registration statement, have a timely reporting history for the last 12 months, and cannot not be in default on indebtedness or dividend payments since the end of its last fiscal year.

Shelf-eligible companies are divided into two classes based on the size of the issuer's public float. A larger company can use a shelf if (1) within 60 days of filing the S-3, the aggregate market value of its public float is at least \$75 million, or (2) only nonconvertible investment-grade securities are being offered.

Smaller companies with a public float of less than \$75 million can utilize a shelf registration if the company (1) meets all of the other eligibility requirements, (2) is not a shell company, (3) has a class of common equity securities listed on a national securities exchange, and (4) does not sell in a 12-month period more than the equivalent of one-third of its public float. Although there is no limit on the number of shares an issuer may sell under a shelf registration statement, in certain circumstances the issuer may be required to obtain the consent of its stockholders.



Pros and Cons of a Shelf Registration

As with any financing tool, there are pros and cons associated with a shelf registration. Some of the advantages of utilizing a shelf registration are outlined below:

- Allows immediate access to the market without the need to wait for SEC clearance, as the SEC will not review offering documents for a takedown under an existing shelf registration.

- Allows the issuer to opportunistically take advantage of strong capital market windows or strong company stock performance windows.

- Allows companies to incorporate by reference reports that are filed after the effective date of the S-3, thus eliminating the need to file post-effective amendments and prospectus supplements upon new business and financial developments.

- Lower cost than an S-1

However, unfortunately the capital markets do not always appreciate the filing of a shelf registration as a positive event. Complaints arise primarily for some of the following reasons:

- Investors seek to avoid dilution, and as a precursor to a potential upcoming issuance of shares, a dilutive event, the filing of a shelf registration statement is viewed negatively. The hope, of course, is that if S-3 filers sell securities, they do so at a higher price to minimize shareholder dilution.
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- Filing a shelf registration signals to the market that a financing is forthcoming, which creates an overhang on the stock and can depress its performance. Big institutions might opt not to buy shares in the open market when they can instead wait and buy in an upcoming follow-on financing.
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- Some might view an active shelf registration as easy access to capital for management that can potentially be used haphazardly.



In recent years, access to capital markets has been very volatile, making it challenging for companies- particularly those in the growth stage - to fund their businesses via the public markets. Raising capital during these times has been difficult for multiple reasons including that available capital has decreased and doing public offerings can be costly, not to mention the negative impact to the price of a stock if an offering is announced but not completed.

As these trends have developed, less traditional approaches to raising public capital have emerged. These less traditional (or alternative) approaches - whether they are registered direct offerings, “at-the-market” offerings, “over-the-wall” offerings, or “overnight” offerings - have the intention of allowing companies to take advantage of an open “market window” on short notice, and to quickly and cost-effectively raise capital.

Regardless of the approach, to raise money as a public company - even via a not traditional method - requires a registration statement. Thus, the popularity of the shelf registration has grown. Shelf registration statements are very useful tools that allow issuers to quickly and cost-effectively access the capital markets, providing the ability to opportunistically raise capital. Shelf registrations give issuers great flexibility in timing, structure, amount and terms of a financing and are a tool that should be understood and used appropriately by public companies.

Marketed Follow-On

A marketed follow-on is a publicly announced offering that may include a short roadshow. Unlike an IPO roadshow which can take around two weeks, we typically see marketed deals that take just a few days from announcement to pricing. For example, earlier this month a company filed their S-1 and announced their deal on a Monday and priced four days later on Thursday afternoon. With a few days available, there are options for marketing the offering:

- **Quick Roadshow:** With just a few days, there is a chance to go to New York, Boston and possibly the Midwest.
- **Conference Calls:** With limited time and difficult logistics, it may make more sense to host a series of conference calls with investors.

The bookrunner(s) will best be able to recommend one of the strategies, or a combination of the two. The best use of your time will be based on factors such as: most recent conferences attended and 1-1 meetings; recent non-deal roadshows; and other meetings or calls with investors. The bookrunner(s) will also look at the recent trading activity to understand which investors may be the most interested in the offering.

Underwriters

With a new offering, there is an opportunity to look at the banks from the original deal and possibly make some changes. A few things to consider:

- **Evaluate the Bookrunner(s)**

While your bookrunner(s) may have done a good job on the IPO, it may be time to look at their recent performance and decide whether they are the right fit for the next offering. Do they continue to be a leader in the space? Have they continued to work with you as a partner since the time of your IPO? Will this transaction be important to them? A lot can happen between an IPO and a follow-on offering, so this is a good time to evaluate the relationship and figure out what is best for you and the company.

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- **Evaluate the Co-Managers**

Just like you evaluate the bookrunner(s) from your IPO, this is also a chance to look at the performance of the co-managers. Keep in mind, that just because a bank participated in the IPO doesn't mean they should automatically be involved in the follow-on.

- **Add New Bank or Banks**

A follow-on offering will typically be larger than an IPO providing the opportunity to add new banks to the deal. If you worked with a smaller bank during your IPO, now may be the chance to work with a bank that has shown consistent leadership in your company's space. It may also be a good chance to broaden your relationships with new banks.

All of the decisions listed above are important and should not be taken lightly. As with the IPO where there may have been disappointed parties who did not get to participate, be prepared for the same when it comes time to raise additional capital.

It will then be up to the bookrunner(s) to figure out the appropriate price with the most demand that will allow the stock to trade successfully in the aftermarket. If there is sufficient demand at the \$10 level and includes the well-known investors in the space, then the orders that come in at the \$9.50 level can be ignored. On the other hand, if the demand is price sensitive then the investors may have more leverage to force a pricing at a discount to the closing bid.

One interesting scenario is where a large, existing investor chooses not to participate in the follow-on offering. It may be that they already have a full position and are unable to buy any more shares. There is also a possibility that they will be a seller after the deal prices in anticipation of increased liquidity, especially in the first few days after the deal prices.

Alternative Forms of Follow-On Transactions

The traditional fully marketed transactions, however, have become somewhat archaic, replaced by faster and more nimble transactions. Coupled with a broad range of mitigating actions to manage the cost base and cash flow, there are several alternative transactions that can provide sufficient liquidity to deal with this challenging trading environment. Such alternatives provide increased balance sheet protection for companies raising extra cash as a way to shore up their balance sheets and provide increased comfort as they navigate through the crisis. Furthermore, existing investors seem to understand that being diluted by fundraising may be a worthwhile tradeoff to ensure the business can survive.

Due to market developments, such as heightened volatility and concerns about investor front-running, fewer public offerings now involve traditional marketing. Additionally, in 2005, in conjunction with some regulatory reforms, a new category of issuer — the “well-known seasoned issuer” (WKSI) — was adopted, which enables WKSI-qualified issuers to benefit from some registration flexibilities including the ability to register their securities offerings on shelf registration statements that become effective automatically upon filing. As a result, a WKSI is not required to wait for a review period or to declare its registration statement effective before selling securities. Instead of the traditional publicly marketed deals, many of today's follow-on transactions are executed in shortened windows, essentially making public offerings less public and allowing liquidity discounts to be minimized. We will discuss a few of these alternative transactions below.

- **Confidentially Marketed Public Offering (CMPO)**

Sometimes referred to as a wall-crossed offering or pre-marketed offerings, a CMPO is an offering that is initially marketed only to specific institutional investors who may have an interest in purchasing the issuer's securities. During this preliminary, confidential phase, no public announcement of the offering is made and no preliminary prospectus is used. Once the issuer and institutional investors agree on the basic deal terms, the offering is then "flipped to public" via a Form S-3 takedown shortly before pricing so that the underwriters can market the offering more broadly. Selling efforts may be completed over the next trading day but are often completed overnight, and final pricing and terms are announced before the market opens the next day.

Considerations: This type of offering, which requires an active shelf registration, does not benefit from the robust marketing efforts of a traditional marketed deal and therefore can involve a higher risk of execution given the need to generate demand in a short time frame; however, public "exposure" and market risk is limited, as is management time requirement, and overall costs to the company are lower.

- **Bought Deal**

Bought deals occur when an underwriter purchases securities directly from an issuer before a preliminary prospectus is filed. The underwriter acts as principal rather than agent and actually owns or "goes long" the company's stock. The underwriter and the issuer negotiate a price that is usually at a discount to the current market price, and then the underwriter uses best efforts to sell the stock.

Considerations: Generally, a bought deal will only be feasible for a WKSI. There is no pre-marketing involved in a bought deal, and the amount of the deal is a certainty without execution or financing risk to the issuer – the risk is put on the shoulders of the underwriter. Subsequently, Bought Deals are usually priced at a larger discount to market than fully marketed deals, and therefore may be easier to sell. Additionally, because Bought Deals generally involve only one bank, the banking fees are often lower for the issuer.


- **Block Trade**

A company may also sell secondary shares through a block trade, but most often these are used by sponsors, VCs, and other large stockholders (such as holders that acquired stock in an M&A transaction) to sell down their position. Block trades, which are effective for selling smaller amounts of stock, are cheaper than an underwritten transaction.

- **Bought Deal**

Private Investment in Public Equities (PIPEs) can provide an alternative source of funding for businesses that are trying to weather the current crisis. PIPEs allow private investors to purchase common stock or preferred stock in a public entity at a predetermined price. PIPE shares do not need to be registered in advance with the SEC or meet all the usual federal registration requirements for public stock offerings. These transactions are done confidentially and allow issuers to raise capital quickly without public disclosure, thereby eliminating the potential impact of the deal announcement on the stock price.

Considerations: Because they have less stringent regulatory requirements than public offerings, PIPEs save companies time and money and raise funds for them more quickly. The discounted price of PIPE shares means less capital for the company, and their issuance effectively dilutes the current stockholders' stake.



Being prepared and partnering
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knowledgeable investor relations
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between a successful and
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