



# To IPO, or not to IPO, that is the question

How to prepare for and execute a successful  
public offering in the life sciences industry

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Senior executives in the life sciences industry along with a group of experts in accounting, banking, legal and other areas gathered at Life Sciences Pennsylvania to discuss how to best prepare for a successful IPO. The seminar, presented by DFIN and CFGI, explored the current regulatory environment, market trends, the preparation necessary to ensure readiness, as well as the transition and long-term effects of becoming a public company.

### Panelists included:

[Jeff Ammerman](#), Managing Director, Piper Jaffray  
[Rachael Bushey](#), Partner, Pepper Hamilton LLP  
[Roberto Cuca](#), Chief Financial Officer, OraSure Technologies  
[Barbara Elias](#), Managing Director, DFIN  
[Thomas Hess](#), Chief Financial Officer, Genomind  
[Dan Rudio](#), Managing Director, CFGI  
[Carolyn Saacke](#), Chief Operating Officer, NYSE  
[Stephen Simpson](#), Partner, EY

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## Introduction

More than ever, life sciences companies are going public to raise capital for future growth. In fact, U.S. equity financing in life sciences skyrocketed to a record \$7 billion in 2018—a 69% jump over the year before.<sup>1</sup>

Funding is flowing, to be sure. But that doesn't make the complicated IPO process any easier to navigate. An IPO remains a multi-year initiative that will demand deft decision-making, an aptitude for involved processes and adherence to tight deadlines. No wonder, then, that most private companies approach an IPO with a confluence of uncertainty and apprehension.

To explore best practices in executing IPOs, CFGI and DFIN brought together advisors from all angles of the process on December 6 at Life Sciences Pennsylvania to participate in its To IPO or Not discussion. “That’s the question,” said moderator Barbara Elias, DFIN managing director, in welcoming remarks. “You can rest assured that our program today will be on a much lighter note than what Hamlet had been contemplating. An IPO is not life or death.”

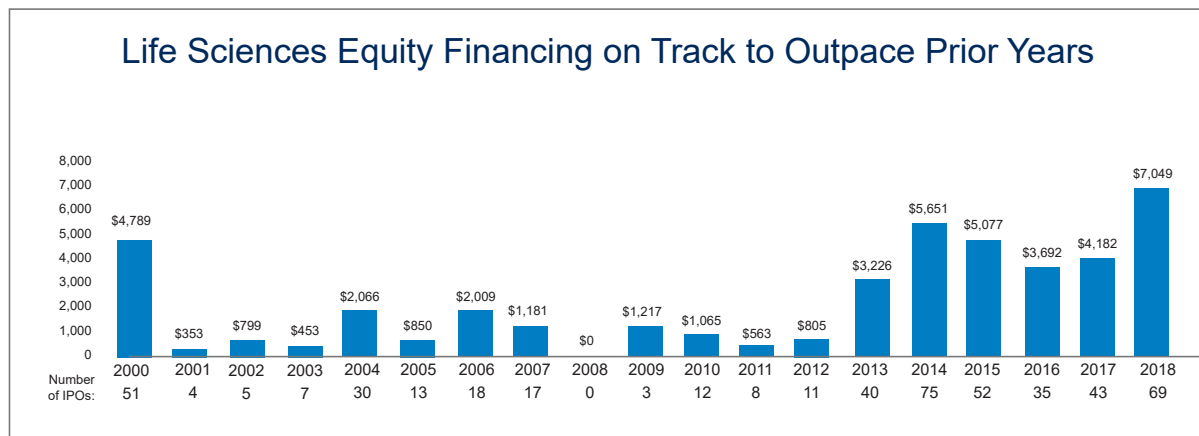
This paper is a summary of the two-hour interactive discussion, and provides some the panelists’ perspectives on the challenges of IPOs and lessons learned.

<sup>1</sup> Jeff Ammerman, Piper Jaffray, December 6, 2018

## Equity funding soars in 2018. What's in store for 2019?

Jeff Ammerman, managing director of healthcare investment banking at Piper Jaffray, kicked off the session with an overview of life sciences IPOs in 2018. As noted, 2018 was a banner year for life sciences IPOs, with more than \$7 billion raised in 69 transactions, compared with \$4.2 billion in 2017, according to Ammerman. Follow-on equity offerings, however, slid by 0.46% to \$28.9 billion.

While the IPO market soared in 2018, Ammerman noted that year-end spikes in volatility stalled equity issuance. Consider that, on the day of our panel discussion, the Chicago Board Options Exchange Volatility Index (VIX) closed at 21.19, at the upper range of what is considered normal volatility. Eighteen days later, the VIX had skyrocketed to 36.07.



Source: Dealogic, Data as of December 4, 2018



## Advance planning for the IPO

The IPO process is a complex, resource-intensive exercise that touches stakeholders and processes across business functions and external advisors. Accordingly, panelists recommended that companies start planning an IPO at least two years before the target go-public date.

They noted, however, that business leaders often underestimate the time and resources needed—sometimes comically so. “I’ve gotten phone calls in August where the caller said, ‘We want to file the IPO by Labor Day,’” said Stephen Simpson, a partner at EY.

To get to the opening bell on a more feasible schedule, businesses will need to formulate an IPO strategy that can be packaged in a compelling story with a revelatory hook. It’s important that business executives can clearly articulate what they aim to achieve by taking their companies public, as well as provide detailed, focused post-IPO business objectives.

An IPO is a multifaceted initiative that is all but certain to disrupt day-to-day operations as management and finance stakeholders are deployed to meet deadlines. The IPO strategy should address ways to lessen these disruptions and help optimize resources. “Six of your management team members may be focused on something that feels like it’s life or death, and thinking about how to balance all of those demands is pretty important,” said Roberto Cuca, CFO for OraSure Technologies, a medical device manufacturer. “The IPO will be a very high priority, and other things will end up slipping. You need to plan for that.”

In addition to strategy, a fully vetted financial model is critical to execution of the IPO and creating accurate performance projections. “A well-thought-out financial model is probably the number one most important thing for bankers,” said Ammerman.



## Putting the people in place

Start-ups and other growing companies often lack CFOs and other finance and governance officers necessary to plan and execute an IPO. One of the first steps will be to put these people in place.

Panelists recommended that companies start by hiring a CFO. CFOs typically lay the groundwork for the IPO, as well as lead efforts to boost the resources and capabilities of the finance function to accommodate quarterly closings and earnings statements. Businesses should hire a CFO before they choose the banker, according to Cuca.

He also recommended that companies establish an early relationship with an auditor. “Just knowing an auditor and having them give you very rough advice about how to think about things or how to prepare can really put you ahead of the process and help avoid errors,” Cuca said. “Having this relationship even before you have a CFO or controller can be very useful.”

Companies considering an IPO should also recruit an audit committee chairperson for their board early in the process. Doing so enables the audit committee to build an early relationship with the auditing firm. Rachael Bushey, a partner with Pepper Hamilton, noted that the audit committee chairperson should have solid experience working with public-company audit committees within the company’s industry.

The right connections can provide an advantageous shortcut to recruiting people—now and in the future. “You should always be out there building relationships so that when the time comes, you’re ready to go,” said Thomas Hess, CFO of Genomind, a company that offers genetic testing for personalized wellness. “Football coaches do it all the time. If they lose their offensive coordinator, they already have three people lined up, so they don’t have to wait.”

Building the right leadership and board is critical to both the IPO and the long-term success of the business, yet it’s a step that companies often fail to prioritize. “You have to devote significant time to this process and understand who your leadership team will be, what your board dynamic will look like, and whether these individuals are a good fit for your organization,” said Bushey. “When we work with clients on IPOs, we advise them to start thinking about these issues early on because you need at least six months to consider and interview candidates.”

Ammerman recommended that companies also carefully consider the pedigree of their board—because investment bankers and investors certainly will. Ask questions like: Where have they worked? What are their accomplishments? Do they have solid knowledge of your business goals and processes?



## Some tips on talking to advisors, bankers and legal counsel

Once key internal finance and board members are in place, panelists recommended that businesses begin discussions with external advisors, bankers, legal counsel, and audit firms. These interviews should begin a year before the IPO date.

No matter the role, panelists stressed the importance of hiring knowledgeable people who are deeply committed to your company's success and will serve in the trenches with you during and after the IPO.

An investment banker should understand the positioning of your company and embrace your IPO story. Bankers will also expect a persuasive narrative that explains how much capital the company aims to raise and why.

"[The story] has to be a bridge to something tangible and specific that the buy side can say, 'A-ha, I got it,'" said Ammerman. "If you're not able to succinctly describe the reason to exist and its key inflection points, it's going to be very challenging."

To better convey the narrative, Ammerman recommended that executive teams brush up on their presentation skills, which are often lacking. "Get some coaching. It's a big interview when you present to banks and research analysts," he said. Ammerman recommended that presenters shy away from denigrating competitors but focus instead on the merits of one's business and how it will effectively navigate external pressures.

"Don't call your company a 'billion-dollar opportunity,'" Bushey further advised. "If you go that far in your presentation, you create unnecessary liability for the Company with minimal upside. Also, from an investor's standpoint, it's not a persuasive statement. They've heard that phrase many times before."

Cuca noted that even the most carefully planned IPO can get bogged down during the regulatory review implementation. In part, that's because much depends on the personalities and particular interests of the examiners, which is largely unknown during the IPO process.

You may be able to get a head start on understanding regulatory reviewers by asking your legal firm about their experiences with reviewers. "Their relationships with regulators can make your life so much easier," Ammerman said.

### What not to say. Clichés to avoid when talking about your IPO

"We're a game changer."

"This is a billion-dollar opportunity."

"We're going to take down this multibillion-dollar big pharma product."

"There are no competitors in this space."

"Our internally developed products are better than externally developed solutions."

"Being transparent with regulators and following up is important," Bushey said. "Many times, people respond to regulators, but then don't make the follow-up calls or focus on communications and transparency with the SEC throughout the process. Make sure that you proactively communicate to ensure you're responsive to their requests."

Companies don't have to be SOX-compliant when filing an IPO, but it's a good idea to assess their internal controls and accounting capabilities against SOX standards. Some may need to disclose control and accounting weaknesses in their S-1s, according to Dan Rudio, managing director at CFGI. "Even though you're not SOX-compliant, if you can't close your books and your accounting firm is finding all sorts of errors, and you haven't built the right team yet, you've got to put that in your S-1 because it's just a litigation waiting to happen if something goes wrong," Rudio said. "You can say, 'We're building a finance team and we've hired a CFO, and we're bringing in controls, and we're working with advisors, and we're doing all these things to get there. But to this point, it's been a challenge for us to close our books. There have been errors and so forth.' That's why you should start thinking about your accounting function well in advance of the IPO."

Another reason to prioritize accounting? "If the accounting is not done right, it's going to hold up your filing and your financing," Simpson said.

## Challenges with reporting and disclosure

Perhaps the two most challenging issues facing private companies are the procedural and cultural changes associated with highly visible quarterly reporting and increased transparency into business operations.

Hands down, quarterly reporting will be the most daunting, panelists said. “It doesn’t sound like much, until you realize all the supporters that you need to line up, auditors you need to get into your calendar to make sure that you can accomplish everything, and the governance you have to put in place,” said Cuca. “Quarterly reporting is a real cultural change, particularly for smaller, more entrepreneurial companies that play things a little bit more by ear.”

Similarly, transparency is likely to be a novel concept for life sciences companies and their employees, particularly when it comes to disclosure of clinical trial results. Life sciences firms are accustomed to interpreting and communicating trial results on their own timeline. That all changes after the IPO. “You’re going to be on the clock when it comes to talking about what you learned in clinical trials,” said Bushey.

Disclosure can be a bit bewildering for many employees. So, it’s essential to develop and implement comprehensive communications guidelines that include disclosure requirements. The comms strategy should be grounded in open, transparent communications with all internal parties, including the CFO, the management team, counsel, and auditors, as well as external advisors.

Communications strategies should also address the pre-IPO quiet period, an SEC-mandated embargo on promotional activities. It’s critical to train employees on quiet-period guidelines and review all pre-IPO communications with your counsel, the underwriter’s counsel, and investment bankers, said Bushey.





## Choosing an investment bank and exchange

When it comes to selecting an investment bank, perhaps the most important consideration is the bank's people and an unwavering commitment to service.

"When you go public, you will hit road bumps, and you need to be sure that the bank will be there for you," said Ammerman. "Is the investment bank going to trade your stock? Are they going to take you to non-deal roadshows? Are they getting you in front of their conferences? Do they get your story?"

Before selecting a bank, explore the range of advisory and support services it can provide, as well as downstream opportunities and level of support from senior executives. "You really need a firm commitment," Ammerman said.

It's also important to consider relationships among groups and partners. Often, for instance, early-stage biopharma companies enter a co-development agreement with a bigger firm, and the individuals work well together, Simpson said. "Then, when they go to the IPO, they are handed off to somebody who's

in the SEC practice area, who they don't know that well or don't get along with as well," he said. "It's worthwhile to take a look at different service providers when you're at different stages of the maturity of the company or doing different types of things."

Simpson echoed the importance of selecting the right people. "It's the individuals you pick that matter most," he said. "Because it really does matter who's going to be there at 2 a.m. helping you get the S-1 done when it's due the next morning."

Due diligence in selecting a stock exchange is a task that companies typically pursue half-heartedly. Since there are only two exchanges in the U.S., it's worthwhile to talk to both, according to Carolyn Saacke, chief operating officer, capital markets, for the New York Stock Exchange.

She said businesses should consider the long-term capabilities and support provided by each exchange. "This is going to be a partner for years; it's not just a place to trade your stock," Saacke said. "It's a place where you're going to get a lot of investor relations services as well as visibility opportunities. You should use the media that the exchange provides for marketing and visibility opportunities."





## Oh happy IPO day

Let's face it: The IPO process can be a high-pressure, multiyear exercise in building out staff and processes, filing complex documents, and meeting with advisors. But it can also be an exciting, rewarding experience.

"Some of the best times I've had have been working with companies that are going public and working with great teams, the banks, the lawyers, the management teams," Simpson said. "It's incredibly challenging, but it's usually incredibly satisfying when you get to the finish line. It can be transformative for the companies, and there's nothing more exciting."

Saacke shared a similar perspective. "When the stock exchange bell rings on the first day of trading, take a moment to celebrate with your employees. Remember your families that have supported you through all of this. So bring them to the exchange and serve them a mimosa. It's going to be one of the most exciting times of your life."

## Contacts

To have a further discussion regarding IPO's, please contact:



**Dan Rudio**  
Partner  
drudio@cfgi.com  
215.558.2863



**Jim Quinlan**  
Partner  
jquinlan@cfgi.com  
857.939.0504



**Ryan Dolan**  
Partner  
rdolan@cfgi.com  
978.317.9398



**Greg Lynch**  
Partner  
glynch@cfgi.com  
603.479.4110



**April Coleman**  
Director  
acoleman@cfgi.com  
603.686.2020

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