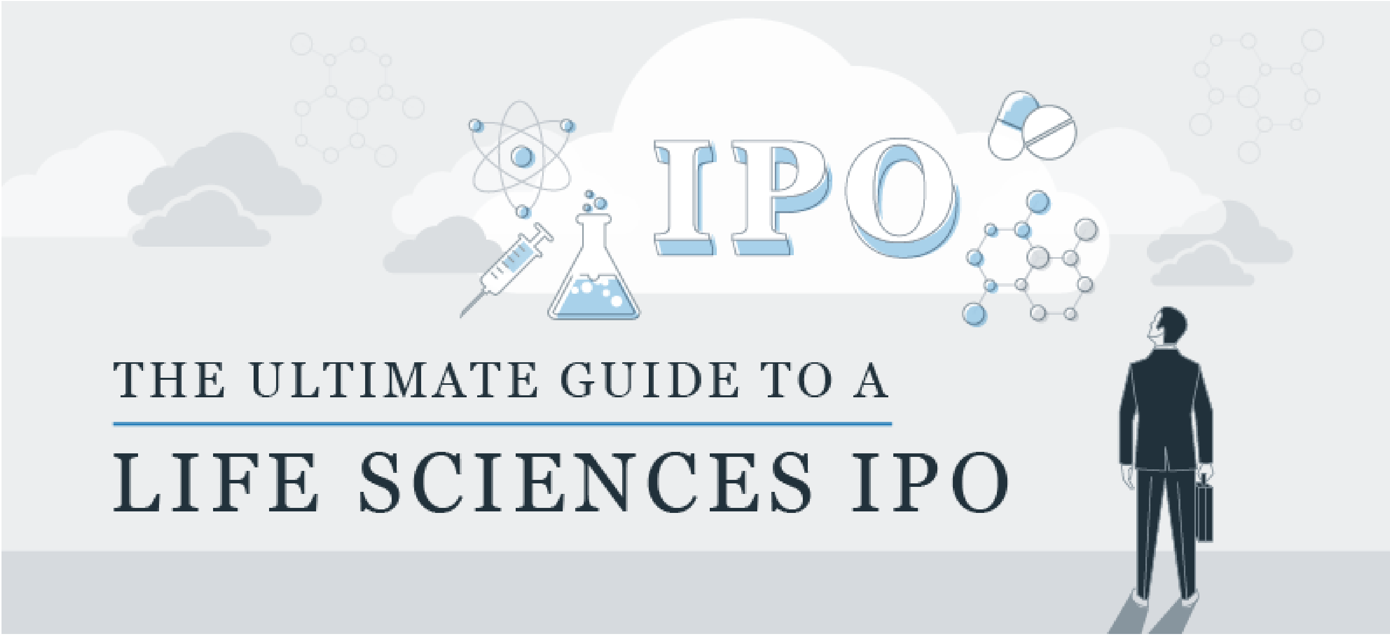

The life sciences industry is in the middle of an IPO boom, with the 10 highest-valued biotech IPOs raising $3.19 billion in 2020 (https://www.fiercebiotech.com/special-report/top-10-biotech-ipos-2020). Clearly, there is an enormous amount of interest in life sciences IPOs right now, and many companies are pushing to go public to secure funding for research and development, clinical trials and preparing for commercialization.

An IPO is a major undertaking, involving extensive planning, meticulous attention to detail and a consistent yet fluid workflow that needs to be followed. IPO teams include numerous stakeholders who represent different interests, both within and outside of the organization. Taken as a whole, the process of going public can be extremely overwhelming and there are many points along the way where teams can create bottlenecks and delays, run into bandwidth issues and lose track of what their next steps should be.

This is why communication is so important to a successful and streamlined IPO journey. With so many different voices in the room, working groups need to be able to keep everyone aligned at all times and clearly define responsibilities across every stage of the process. This guide lays out precisely what happens at each major step of a life sciences IPO, so everyone can better understand the role they play and communicate effectively with other stakeholders.

It’s also important to keep in mind that life sciences companies have different attributes and considerations that need to be accounted for with an IPO as compared with many other organizations. The following guide is tailored to the life sciences experience, with specific guidance and advice to help biotechs and other life sciences companies navigate the complex IPO process and streamline each step along the way.

Step 1: Lay out an IPO roadmap

Time is of the essence for life sciences companies going public, so they need to act quickly once a decision has been made to start the IPO process. From the organizational meeting to officially going public, organizations are looking at a three- to six-month window to complete the project.

Biotech companies need to be quick, but they also need to plan ahead. Coming into the IPO process with a detailed roadmap and strategy will help organizations avoid any unforeseen roadblocks that might occur further down the line. From the very beginning, companies should have a clear message and compelling pitch externally and to the stakeholder group so all team members, including bankers, lawyers, consultants, auditors and employees, are comfortable with the IPO plan.

Create an IPO timeline

When companies hold the organizational meeting and officially launch the IPO process, they should have a detailed timeline of each phase and realistic expectations of how long it will take.

If teams don't anticipate the financial requirements from the outset, those concerns can hold up the process at various stages of the IPO journey. Companies need to have their financial statements, audits and other documentation in order before they can go public, so be sure to create a plan of attack to address those obligations and avoid any delays.

It's also important to account for any clinical or other data readouts that are still forthcoming. Working groups typically know when those data readouts will be available, but not necessarily what impact they will have on the company's IPO price. Those results can be good news for an organization's IPO prospects or potentially halt the process altogether. In either case, the working group will likely need to update disclosures within the S-1 to factor in those data readouts.

Account for every conceivable extenuating circumstance that might come up. Some major questions to consider include:

- Which audited financial statements need to be included?
- How does the ideal IPO date impact the timing of required financial statements?
- Will those statements become stale during the process and need to be refreshed?
- Can the company take advantage of an emerging growth company or FAST Act rules and scale down disclosures or exclude certain financial statement periods from its

filings?

- When will data readouts become available, and might they impact S-1 disclosures?
- Are there any upcoming conferences on the calendar that might affect investment activity?
- How will seasonal changes in investment activity or upcoming holidays impact the company's IPO prospects?

There is a lot to consider when setting the stage for an IPO, especially when it comes to timing. Work backward from the ideal IPO date to create a timeline that accounts for the various factors that might affect the process one way or another. Also keep in mind if a company initially files confidentially, then it will need to account for the 15-day quiet period that is required after filing publicly.

In many cases, companies will want to secure crossover financing anytime from one to six months before the scheduled IPO date. Doing so will provide more money to bolster the company's balance sheet heading into the IPO. In addition, organizations can bring in investors who have a strong track record of taking companies into public markets and managing life as a public company. Although crossover financing typically occurs before the IPO process is underway, that's not always the case. Companies may pursue that type of financing at different stages of the IPO journey, but in either scenario, crossover financing must always be factored into the broader timeline.

Also think about your company's filing status and how that might impact timelines. Biotech organizations can often file as an emerging growth company (EGC), which is helpful in many cases because it can streamline reporting requirements. EGCs have a 5-year window to comply with SOX controls, but that grace period is dependent on maintaining your EGC status. If your company goes that route, pay close attention to your company's status during and after the IPO, and determine how urgently you need to address control environment requirements.

Assess accounting and reporting requirements and company preparedness

Companies need to do a lot of upfront legwork assessing their preparedness and financial reporting requirements to ensure a smooth IPO process. Getting the necessary financial statements and documents in order at the outset will save your team a lot of time and stress down the road.

Consider your IPO timeline and how those dates impact your financial reporting obligations. Depending on the projected date of your IPO, financial statements may need to cover different time periods and be updated along the way. Also, anticipate how any delays in the process, such as refreshing documents to respond to SEC comments or awaiting data or regulatory results, may affect your IPO date and, in turn, what financial statements need to be filed.

A good approach is to start with the expected IPO date and work backward. If teams know they want (or need) to go public (or obtain funding) on or by a particular date, then they can more easily identify which financial statements and other documents need to be included in the final prospectus.

When planning your IPO roadmap, be sure to answer the following questions as well to gauge your company's overall preparedness:

- Has the company been audited before?
- Did those audits comply with Public Company Accounting Oversight Board (PCAOB) standards, and are the company's financials prepared in accordance with SEC (S-X) standards?
- Has the company prepared quarterly/interim financials covering the required time periods?
- Has the company performed appropriate quarterly closes/cut-off procedures?
- Has the company obtained all the necessary valuations?
- Has the company assessed those valuations for any "cheap stock" considerations?

Working with an experienced IPO consultant that understands financial reporting obligations will help move the process along and prevent any unforeseen delays later on. Experts in all aspects of the process, including accounting experts who have been through IPOs before knowing what financials to include, ensuring you have the right documentation to support the S-1.

Form a dedicated IPO team

Life sciences organizations will also need to put their working group together, identifying the various roles and responsibilities that are required to move the project forward. The working group will comprise both internal stakeholders and external specialists, including:

- Bankers.
- Lawyers.
- Auditors.
- Valuation specialists.
- Finance and accounting professionals.
- Experienced IPO consultants.

Third parties play an important role in the IPO process, whether as independent auditors, capital markets counsel or accounting consultants. The team will inevitably grow, and everyone needs to work together to make the IPO happen, so biotech companies should consider how to manage all the different voices in the room from the very outset.

Communication is the most important aspect of managing stakeholder teams throughout the IPO process. Everyone involved should know exactly what their responsibilities are at each stage so teams avoid any unforeseen delays. Communicating timelines, tasks and expectations upfront and throughout the process will help stakeholders get on the same page and plan accordingly. Changes to the filings, offering and timing occur frequently, which makes constant communication imperative.

Step 2: Assemble the Form S-1

A Form S-1 is a massive document, with hundreds of pages of information that need to be compiled, reviewed and updated. The S-1 covers a lot of ground that relates to different key areas, including the business, financial statements and risk factors. This is yet another reason why effective coordination and communication within the working group is the most important factor to successfully compiling the S-1.

Potential investors want to know what a company's plans are following an IPO — in particular, how will it generate proceeds? While companies generally have a plan in mind, they need to collaborate with the working group to succinctly disclose how proceeds from the offering will be used and then incorporate that information into the S-1. Keep in mind that the S-1 is as much a marketing tool to communicate the company's story to investors as it is a required document for SEC filing.

Gathering the necessary documentation and verifying its accuracy is a common pain point for life sciences organizations, especially when it comes to financial statements. Although biotech companies typically have straightforward financial records compared to other types of businesses, preparing and supporting financial statements and other financial sections of an S-1 often proves to be a major headache.

Typically relying on small accounting teams, biotech or life sciences organizations may not have the bandwidth or resources or expertise to quickly and efficiently identify what financial statements should be included in the S-1, prepare such statements and facilitate their audit and/or review by the external audit firm. As a result, without preparation and the right resources, the IPO process can easily be delayed by the financial statement and audit process.

Step 3: Respond to SEC comments

After reviewing the S-1, the SEC will always provide comments to the company that need to be addressed. Because biotech companies are under intense pressure to go public within a specific timeframe, they need to be prepared to respond to those comments as quickly as possible.

Anticipating common issues like stale financial statements will help companies stay ahead of any comments they receive. If companies get caught in a back-and-forth with the SEC — building in amendments to address requests for additional information, only to get even more comments — then they run the risk of missing their IPO window or delaying the offering.

Putting together an experienced team of collaborators who understand the IPO process and have been through it many times before can help immensely. Consultants and specialists who know what documentation the SEC requires and the best ways to respond to further requests will be able to provide their expertise and insight to the process. In this way, biotech companies can have their S-1 declared effective by the SEC as quickly as possible and move closer to going public.

Step 4: Conduct roadshow and prepare pricing

All the time and effort that the working group puts into the S-1 leads up to the roadshow. Bankers drive this stage of the IPO journey, working with the company's management team to connect with investors and help companies to finalize the transaction.

As they approach pricing, companies will need to process a stock split to update their capital structure for the desired IPO price in accordance with its expected valuation. Those stock splits must be processed through the entire S-1 document in real time. This is a very time-consuming undertaking, and companies only have a small window to process these splits, so most lean on an experienced consultant along with legal counsel for assistance.

Banks will set up meetings with potential investors to listen to your pitch and decide if they want to fund your company. It's important to have your company story and pitch buttoned up and ready to go so your team can create a compelling presentation. Investors will make their decision based on many factors, including the science, research and development, and commercial potential. The financials may play a limited role in the roadshow depending on the company's circumstances. However, their accuracy, quality and timeliness are crucial to a successful offering.

Step 5: Consider life after going public

The IPO journey is so challenging and strenuous that management teams may feel like they need to take a breath and take their foot off the gas once they have gone public. However, an IPO is a financing milestone in a company's life cycle and not an exit. Operations must continue, and life as a public company is more demanding than operating as a private company. There are new obligations and requirements as a public company looming over the horizon that need to be addressed, especially in regard to compliance for finance, accounting, and legal or governance.

For instance, is the company prepared to complete its next public filing? Now that the company is public, how have compliance requirements changed? How will it adhere to Sarbanes-Oxley (SOX) guidelines and incorporate processes and controls to adhere to those standards?

Changes to the company's control environment are a major consideration that should be addressed. Public companies may need to either put tighter controls in place or ease up their control environment, depending on their specific circumstances. Working with an experienced risk advisory consultant (https://www.cfgi.com/solutions/risk-management/risk-advisory/) can help companies figure out the best way to address control environment issues without wasting time and resources.

There's a lot to consider, and many organizations will need to build out their accounting and finance teams to tackle everything. As noted earlier, early-stage life sciences companies rarely require an extensive accounting department since their financial statements are generally straightforward (by accounting standards, that is). Working with a third-party consulting firm can serve as a stop-gap as organizations expand their teams to position themselves for this new status as a publicly traded company.

Consultants can both ensure that their clients effectively navigate accounting standards and reporting requirements and help assemble the right team to manage these tasks internally.

Streamline the IPO journey through planning, organization and communication

Going public can be a daunting process for any company. There's so much to consider and plan for, especially if you want to meet your ideal IPO timetable. The efficiency of an IPO typically depends on two factors: communication and organization. If you can create a thorough roadmap, anticipate challenges and requirements and effectively manage your stakeholder team, the IPO journey will be much smoother.

That's what makes external consultants like CFGI so valuable to these types of projects. In addition to addressing all financial statement requirements, our experts offer extensive hands-on experience with the IPO process. CFGI's life sciences and capital markets professionals (https://www.cfgi.com/industries/life-sciences-healthcare/) understand what it takes to go public and know the best route for biotech and other life sciences organizations.

Throughout the IPO journey, keep in mind that while this is a major milestone in your company's lifecycle, it is not an ending in itself. View an IPO for what it is: a way to secure financing and liquidity so you can build toward even greater successes. There's still plenty of work to be done after the IPO to continue growing your business and creating value. Going public is just one step along the way.

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