PE vs IPO & Dual Track:

Deciding the Best Exit Strategy for Your Business's Growth

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Planning for an Exit/IPO

Overview

Having established a successful and growing business, entrepreneurially minded shareholders and management teams will often seek to realise the value in their business and/or take the company to the next stage in its growth cycle. In this document, we set-out the practical considerations from a financial advisory perspective for a business looking to take its next step down a sale or IPO process.

Stages in an Exit/IPO lifecycle

The roadmap opposite summarises the key stages in a sale or IPO process:

1. Assessing options
2. Pre IPO/sale preparation
3. The transaction itself
4. Post transaction.

Key considerations at each stage are discussed overleaf.

Most companies plan for a sale or IPO at least one year ahead of the transaction taking place. We typically advise undertaking a readiness assessment up to two years in advance in order to assess the company's suitability for sale/IPO and the various options available. The earlier this process starts, the more time the management team has to prepare for the process, whilst giving more flexibility to adapt to market conditions and realise the most value from the transaction.

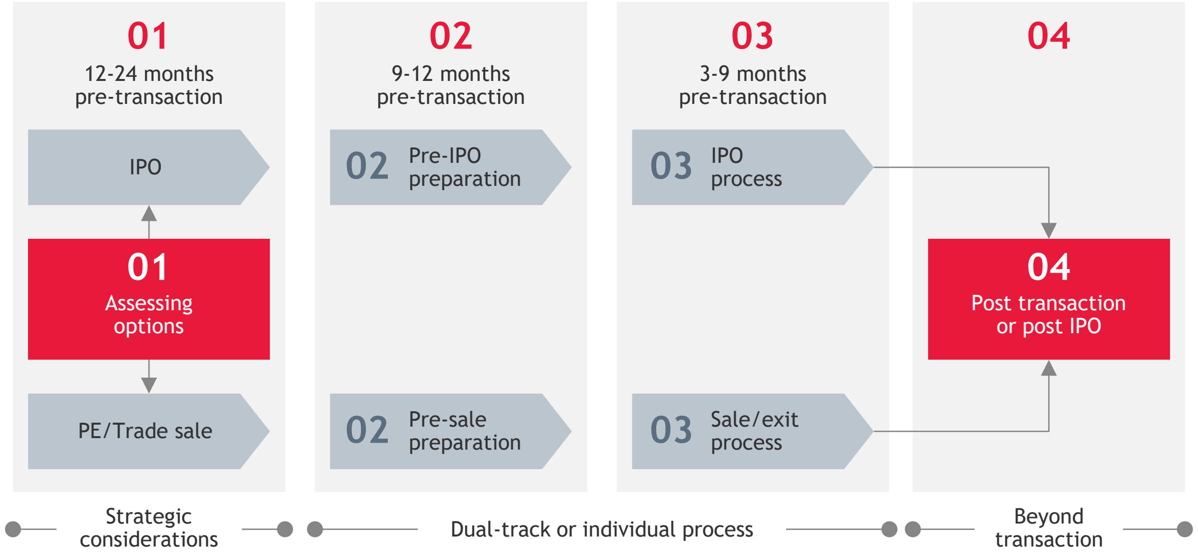
Dual or tri-track processes for more optionality and flexibility

A dual-track or tri-track process allows vendors/companies to simultaneously explore two/three paths for their exit or capital raising strategy. This could include an IPO plus a potential sale to a strategic buyer or private equity firm.

A dual-track should be initiated as part of Step 1 'Assessing Options', including engaging in early discussions with selected IPO institutional investors (and a sponsor/nomad) as well as potential PE or trade partners. The process enables businesses to gauge market demand and evaluate whether it is most beneficial to pursue an IPO, trade sale or PE route.

In many cases, this assessment is sufficient to solidify a preferred exit route, supported by shareholders or management. However, a dual-track process can be extended through steps 2 'Pre IPO/sale preparation' and 3 'IPO/ sale/exit process', allowing companies to be flexible, evaluating the alternatives and making an informed decision based on prevailing market conditions and offers received.

In our experience running dual-track processes, it is important to establish the workstreams that are consistent for both IPO and trade/PE sale routes - some key ones are outlined on the following page - to ensure work can be undertaken to maximise the opportunities to transact via either route, without duplicating work. We have experience handling the complexities of running parallel tracks, ensuring confidentiality, and optimising the company's negotiating position.



Typical exit rationales

- Realise value through the disposal of shares for cash consideration
- Partial shareholder exit and recapitalisation
- Improve perceived status of your listed company for more favourable stakeholder terms
- An opportunity to establish a market value for shares in a listed company
- Enhance management and employee motivation through incentive schemes
- Issue of new shares to utilise as consideration for acquisitions
- Access to funds on an ongoing basis for expansion

Roadmap of key considerations

Effectively executing individual and dual/tri-track transactions requires careful planning, coordination, and execution.
The table below includes key financial considerations, flagging those which are consistent across sale and IPO processes, and how BDO can support.

01 Assessing options

- Assess suitability of business for Exit/IPO
- Evaluate strategic Exit/Investment options: IPO, trade or private sale, PE investment
- Analysis of sector/market landscape, and relative strength of markets (public, private, PE, debt markets)
- Consideration of potential investors/buyers
- Advice on best IPO/Exit timing
- Consideration of individual or dual/tri-track processes in order to keep options open
- Indicative valuation and benchmarking
- Support with strategy and business plan.

Dual/tri-track or individual process

02 Pre exit/IPO preparation

02 Pre exit/IPO preparation	IPO	PE exit	Trade exit
Bespoke Exit/IPO readiness assessment, including evaluating financial controls and procedures, forecast/working capital requirements, tax environment and control	● (three)	● (three)	● (three)
Establishing key Exit/IPO workstreams and developing an Exit/IPO or dual-track timetable and plan	● (three)	● (three)	● (three)
Introduction to key stock exchange representatives	● (one)		
Introductions to key advisors	● (three)	● (three)	● (three)
Corporate governance planning including Director/NED introductions and incentive plans for key personnel	● (one)		
Corporate and capital restructuring/planning	● (three)	● (three)	● (three)
ESG strategy assessment/planning	● (three)	● (three)	● (three)
Business plan/strategy document (including ESG)	● (three)	● (three)	● (three)

03 IPO/sale transaction process

03 IPO/sale transaction process	IPO	PE exit	Trade exit
Sponsor role required for the main market or financial adviser for AIM, including process coordination, sounding board, negotiation of terms, and business presentation preparation	● (one)		
Broker/nomad selection	● (one)		
Identification of potential investors, purchasers and running of sale process		● (two)	● (two)
Assistance with preparation or review of Prospectus/Admission Document	● (one)		
Vendor assistance (forecasts, financials)	● (three)	● (three)	● (three)
Due diligence documentation (IPO: Long Form, Financial Position and Prospect Procedures and Working Capital; ESG Reporting; Exit: vendor due diligence)	● (three)	● (three)	● (three)
Audit of historical financial information if required (or IFRS conversion)	● (one)		
Support with business presentation to investors		● (two)	● (two)
Sounding board throughout the process including process coordination, attending meetings, and reviewing key documentation	● (three)	● (three)	● (three)
Tax structure implementation, incentive planning and implementation	● (three)	● (three)	● (three)

04 Post transaction

- Sponsor services (if main market listed)
- Ongoing strategy/M&A advice and transaction support for any further growth activities
- Introductions for bolt-on acquisitions
- Tax compliance and advisory services
- Tax governance and strategy
- ESG compliance and advisory services
- Ad-hoc financial advice
- Audit/accounts preparation services.

Ongoing project management and communication

● (three) Activity common across three processes ● (two) Activity common across two processes ● (one) Activity common across one process

Comparison of Exit outcomes

	01 Initial public offering	02 Trade sale	03 PE exit
Benefits	▶ Access to funds for growth ▶ New shares can be used as consideration for future acquisitions ▶ Lower cost of capital than private equity ▶ Enhanced profile of the company and its goods or services ▶ Improved credit rating ▶ Opportunity for owners to establish a market value for their shareholdings, and realise part or all of their investment ▶ Enhanced management/employee motivation through share schemes ▶ Provides an opportunity for existing shareholders to participate in future growth ▶ No regrets investing in controls, systems and good governance.	▶ Trade sales offer a streamlined and efficient transaction process, enabling vendors to realise the full value of their business immediately ▶ Trade buyers provide a quicker and cleaner exit for entrepreneurs ▶ Owners can potentially secure a role within the acquiring group if they wish to remain involved in the business ▶ Enhances the likelihood of achieving higher sale prices and capturing synergies through acquisition ▶ Synergy with the buyer allows for smoother transitions and the possibility of cost synergies in a competitive process.	▶ Investment is more flexible and could be used to fund growth in the business and/or shareholder cash realisation ▶ Private equity investment enables the company to leverage the experience of its private equity backers, improving business processes to drive profitability ▶ PE investors will bring a focus to achieving a successful exit ensuring decisions are made in this context ▶ Having a well-known PE investor on board improves the financial standing of the business, often giving credibility in areas such as raising bank lending or buying other companies.
Challenges	▶ Monetary and time costs of the IPO process ▶ Increased regulatory/reporting costs and draw on management time ▶ Public scrutiny and accountability ▶ Reduced control over the business, and vulnerability to an unwelcome takeover bid ▶ Small companies may not find marketability of shares has increased due to low trading volumes ▶ Pressure to achieve short term results ▶ Share price movements may lead to stakeholder concern ▶ Not a short-term exit route for all shareholders ▶ Do not have the required systems, processes and controls in place during an IPO or to grow post-IPO ▶ Do not have the skills and talent in place for an IPO, typically resulting in failure especially around financial reporting.	▶ Strategic trade deals seek premium value beyond financial aspects, aiming for a natural fit and creating new opportunities ▶ Downsides may include redundancies and brand loss, but the overall goal is to enhance business prospects ▶ Securing a strategic buyer requires a thorough auction process, targeting key decision-makers and private equity investors ▶ Careful research identifies optimal strategic acquirers based on global intelligence and buyer knowledge.	▶ Some PE investors will require a majority stake in the business ▶ PE investment will often involve the introduction of debt, whether from a bank or the PE house. The business will be required to fund these debt facilities ▶ PE Investors will typically focus on achieving an exit in three-five years ▶ PE investors will have legal mechanisms that could result in changes to the management team if targets are missed.

Key solutions at a glance

Governance and leadership

- Building effective management teams, board and committees
- Public company governance and compliance
- Investor relations
- Compensation levels
- Financial position and prospects procedures (FPPP) – support with establishment of procedures and FPPP memorandum ahead of IPO
- Incentivising and retaining talent
- Resource and expertise diagnostics.

ESG

- Defining Task force on Climate-related Financial Disclosures (TCFD) reporting framework
- Establishing ESG metrics
- Climate-related risks and opportunities
- ESG health checks and due diligence (ahead of sales processes/IPO).

Internal controls and risk assessment

- Building robust internal controls for timely reporting
- Effective use of technology
- Cyber-security risk assessment.

Mergers and acquisitions

- Assist with exploring and agreeing on best strategic options
- Ensure stakeholder objectives are clearly understood
- Preparation of a business plan
- Identifying potential buyers and/or investors
- Sector expertise.

Accounting and financial reporting

- GAAP/IFRS assessment and conversion
- Financial statement preparation or audit
- Preparation or audit of Historical Financial Information in public documents (for IPOs).

Financial advisor and sponsor

- End-to-end IPO process advisory including org structuring, timing of listing, valuation, appointment of other advisers, incentive schemes and amount of fund raising
- Advice on appropriateness of an IPO for a company
- Advice on relevant rules and regulations, and required documentation for the IPO process.

Financial analysis/due diligence

- Diagnostic forecasting processes
- Vendor assistance (for IPOs and sale processes)
- Sophisticated modelling
- Due diligence (for IPOs and sale processes) including acting as reporting accountant.

Taxation

- Group tax strategy and tax governance
- Optimising tax structure
- International tax planning and compliance
- Management incentives – tax planning.

Valuations

- Financial instruments
- Goodwill and intangibles
- Management incentive schemes.

Why BDO - BDO approach

Full-service offering	Bespoke solutions based on clients' needs	Collaborative approach across services	Sector expertise, experience and reputation	Partner-led approach	Helping with value creation	Timely communication	Approachable and flexible	Connections with other industry specialists

Recent deals and thought leadership

Selected BDO case studies

Applied Nutrition

BDO supported Applied Nutrition with IPO readiness advice and subsequently acted as Reporting Accountant on its £350 million Main Market IPO.

Applied Nutrition is a leading sports nutrition, health and wellness brand which formulates and creates health and wellness products.

Alphawave Semi

Evaluated Alphawave's finance function and prepared financial position and prospectus procedures as part of its IPO process.

J.P.Morgan

£149m of JPMorgan Global Core Real Assets ('JARA') on the premium segment of the Main Market.

BDO acted as sponsor on the IPO of a new investment fund JARA, managed by JPMorgan Asset Management ('JPMAM').

JARA was designed to provide access to underlying private global real asset strategies investing in Infrastructure, Real Estate and Transport as well as some liquid quoted assets in these sectors managed by JPMAM on its alternative investments platform.

The IPO was on the premium segment of the Official List and raised £149m by way of an initial placing, open offer and a further £55m through a 12-month placing program.

NewRiver

End to end support with NewRiver's Class 1 disposal of Hawthorn Leisure to Admiral Taverns, starting with Exit/IPO readiness and process planning and including dual-track financial process covering sale and IPO options.

Wickes

Supported Wickes with its de-merger from Travis Perkins Group, including preparation of the financial position and prospectus procedures. Post-IPO improvement actions procedures were also performed after the de-merger.

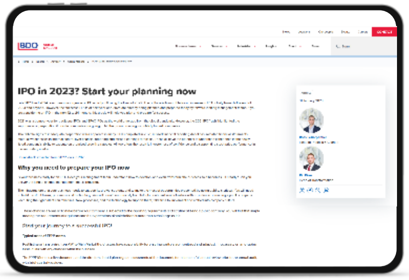
We are the market leader - #1 for:

- Reporting accountant on AIM and Main Market across the last ten years[1]
- Financial adviser globally[2]
- Auditor to UK Listed companies[3]
- Financial due diligence provider in the UK and Ireland[4]

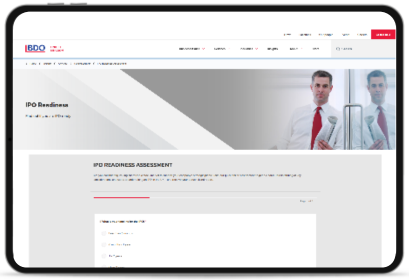
[1] Number of IPOs BDO acted on up to December 2023 [2] Factset League Tables 2023 [3] Advisor Rankings Ltd - May 2024 [4] Mergermarket UK League Tables by volume 2023

Recent thought leadership and links

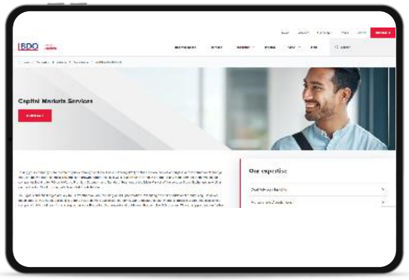
IPO Planning



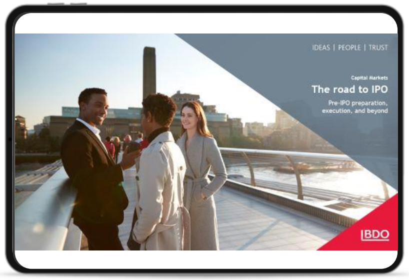
IPO Readiness Assessment Tool



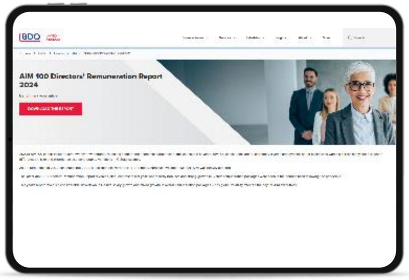
Capital Market Services



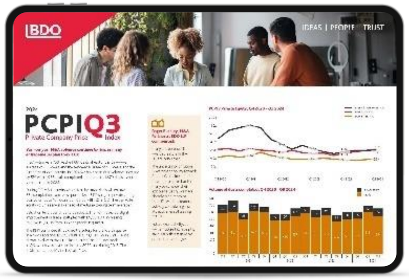
The Road to IPO - Planning your IPO



AIM 100 Directors' Remuneration Report



Private Company Price Index (PCPI)



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