Roadmap to a successful IPO for finance executives

Building a better working world

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Introduction and overview

The "Roadmap to a successful IPO for finance executives" conference held in Riyadh, Kingdom of Saudi Arabia, was a convergence of over 100 distinguished participants, including finance executives of public and private entities, as well as investment bankers and professionals from across the region. The survey conducted during the event was designed with the intent to delve into the intricacies of an initial public offering (IPO) process from the perspective of those at the forefront of finance and investment, to understand the appetite of the participants toward an IPO and their perception about the capital markets globally and in the MENA region.

The event was meticulously designed with these primary objectives: to network with companies and professionals with an interest in an IPO, to understand the core challenges and needs of the participants, and to identify the prevailing trends and insights from those companies actively charting a course toward an IPO. The synthesis of the survey's results offers a panoramic view of the aspirations, challenges and strategic considerations that shape the IPO ambitions of companies in the Kingdom of Saudi Arabia. The insights garnered here serve as a beacon for those navigating the IPO opportunities, illuminating the path to a successful financial milestone and listing as a public company.

About the report

The report is compiled based on the responses collected from the conference audience, at the IPO event. The report exhibits an overview of the audience responses to the questions asked during the event and also cover EY commentary on the capital markets appetite and outlook in the MENA region and globally.

Executive summary

Executives are optimistic about the IPO pipeline in the MENA region in 2024–25, with the KSA market standing out as a particularly attractive option for investors.

This optimism emanates from recent trends in capital raising and value creation, including achieving diversification goals, decarbonization, growth of family businesses and privatizations. These trends are fueling business growth and IPOs, and also play a key role in succession planning, enhancing governance and increasing transparency.

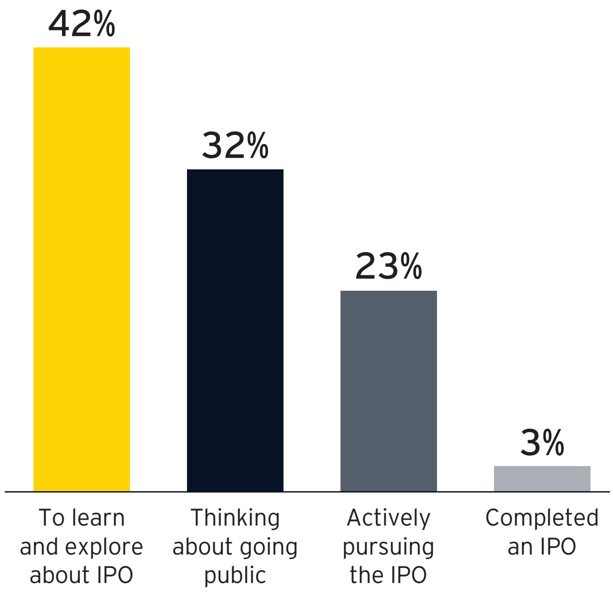
Finance executives believe that a successful IPO hinges on several key factors including, but not limited to, a well-structured equity story, right pricing and right timing, confidence in the management team and good corporate governance. Entities preparing and planning for an IPO must build a compelling equity story to gain investors' interest and build the right management team to achieve a successful IPO.

Post-IPO, the quality and reliability of financial information, as well as meeting public company financial reporting deadlines, are key challenges that can be addressed by building an experienced finance team and automating the financial close process and the preparation of financial statements. Failure to do so may result in financial penalties imposed by regulators, loss of investor confidence or a possible decline in share price.

Environmental, social and governance (ESG) is emerging as a key IPO pillar. Executives believe that ESG can be a competitive advantage and provide an opportunity to generate better valuations if articulated well in the IPO equity story.

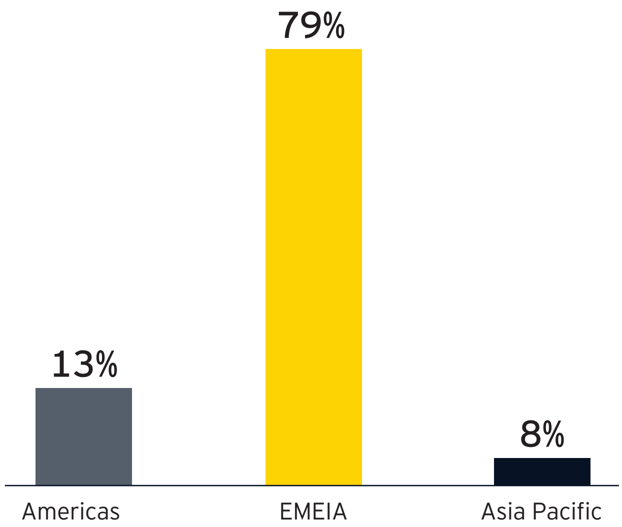
Exploring and understanding the IPO trends

74% of finance executives are currently either exploring or contemplating an IPO, while 23% of the executives are at an advanced stage of pursuing an IPO. Less than 5% of the executives had already completed an IPO process.



Past trends indicate that private sector entities have been instrumental in the diversification of Saudi capital market, through active participation in capital market transactions.

79% of respondents expect that the Europe, Middle East, India and Africa (EMEIA) region will observe the highest growth in the number of IPOs during 2024 and 2025, followed by the Americas and Asia-Pacific (APAC) region.



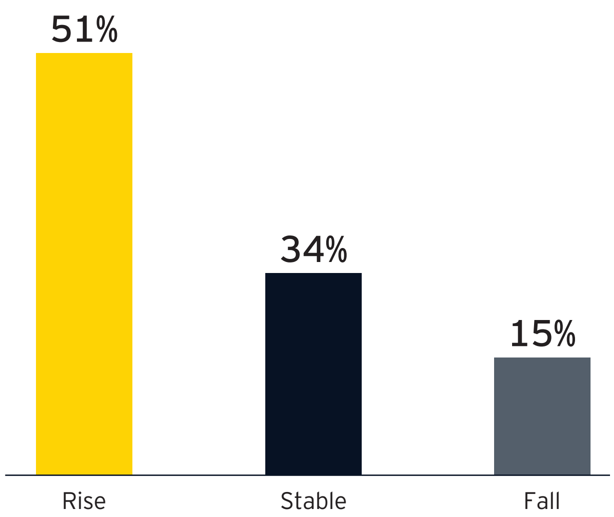
The responses are in line with what is being observed: EMEIA has shown a remarkable comeback, achieving its highest global share in the number of IPOs since the 2008 financial crisis, on the back of major European listings and strong activity in India. The Americas too have seen robust growth, with a notable increase in IPO proceeds. The APAC region has faced headwinds on account of geopolitical and economic challenges. Geopolitical tensions may compel businesses to explore alternative IPO markets and more favorable regulatory environments.

Finance executives forecast divergent paths for the KSA IPO valuations in 2024-25, driven by investor sentiments, past performance, growth prospects and market conditions.

Setting expectations for an IPO

To attract investors, an IPO must offer a competitive valuation. Key factors that can impact an IPO valuation include industry outlook and stability, growth prospects, favorable market conditions, company's track record and past performance, regulatory compliance, quality and experience of the management team and corporate governance practices.

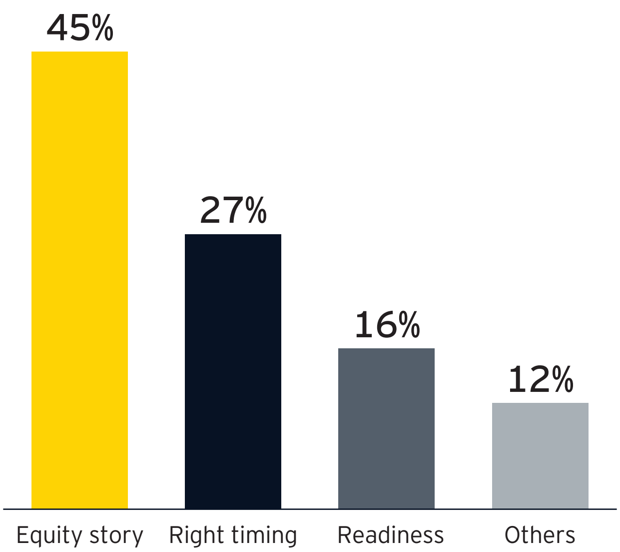
Investors scrutinize and closely examine factors such as revenue trends, profitability, market share, strategic positioning and overall growth trajectory to assess the company's growth potential. A strong historical track record along with a robust equity story is likely to lead to a higher valuation for an IPO. 51% of executives believe that valuations will improve, leading to more IPOs in the KSA during 2024-25, while 34% believe that valuations will be stable and 15% think that valuations will fall.



Saudi Arabia's Vision 2030 economic reform program continues to attract investors and drive IPO activity. Government initiatives to privatize state-run companies are also expected to further support IPO valuations. Lastly, family businesses looking for sustainability of their legacy and/or securing succession are likely to contribute to IPOs in 2024-25. However, external factors like oil price volatility and global economic conditions could hamper and negatively influence investor confidence and IPO performance.

Key success factors for an IPO

Forty-five percentage of finance executives believe that a good equity story is an important factor among others for a successful IPO, whereas 27% consider right timing and 16% prioritize readiness to provide transparency and confidence in management. Other factors include attractive pricing and the choice of listing venue.



A robust equity story is always fundamental for attracting investors. Management and investors must consider a realistic value of the company at pre-IPO stage. Shareholders will be reluctant to sell a piece of the company at a discount.

Right timing is a key success factor for a company going for an IPO. The position of the company within its life cycle will determine its future trajectory based on the expected performance and growth. For instance, the timing of an IPO to coincide with expansion phase of a company may help to attract investor interest.

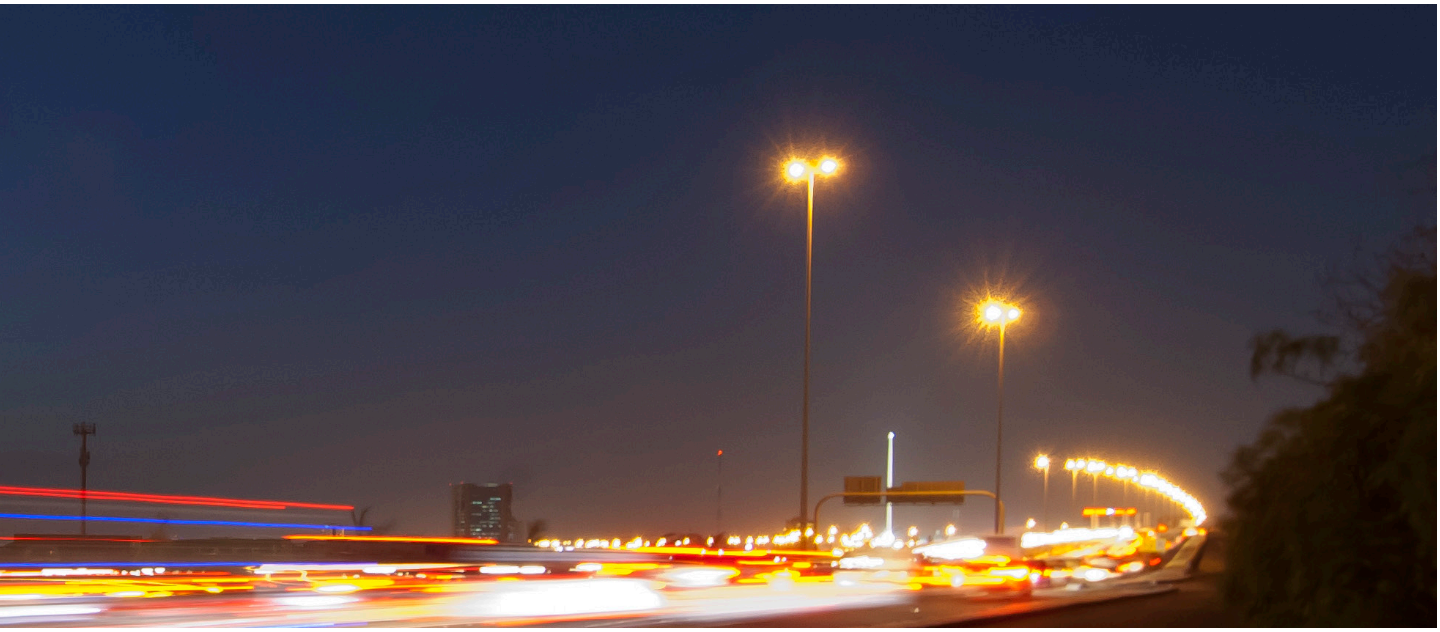
IPO roadmap and readiness assessment

Company's **readiness** for an IPO involves several key factors including, but not limited to:

1. Establishment of a robust corporate governance framework and development of a comprehensive investor relations strategy, especially to update investors on operational milestones and financial performance.
2. Key management experience and capability to effectively deal with roadshows and investor calls.
3. Financial reporting that is accurate, reliable, transparent and compliant with the applicable IFRS standards and regulatory requirements.

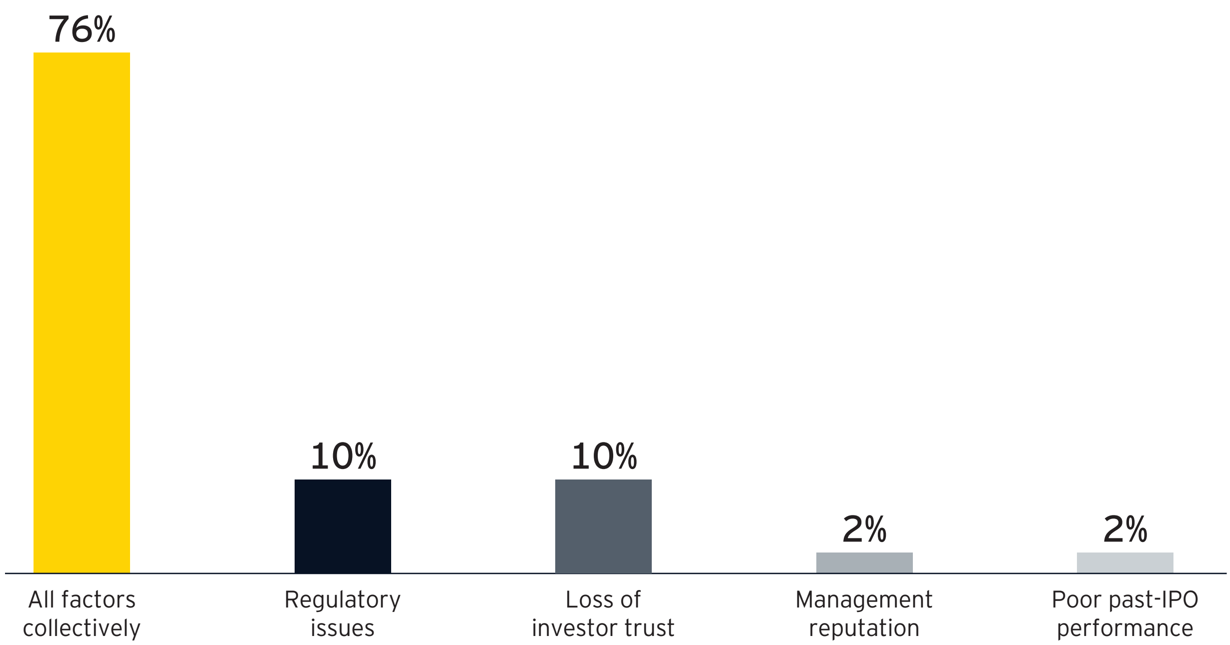
Read

IPO – Our latest thinking | EY – MENA and IPO readiness assessment services | EY – MENA and MENA IPO Eye resources to know more.



Risks and challenges during an IPO journey

76% of finance executives believe that a loss of investor trust, regulatory issues, management reputation and poor past performance collectively contribute toward the failure of an IPO.



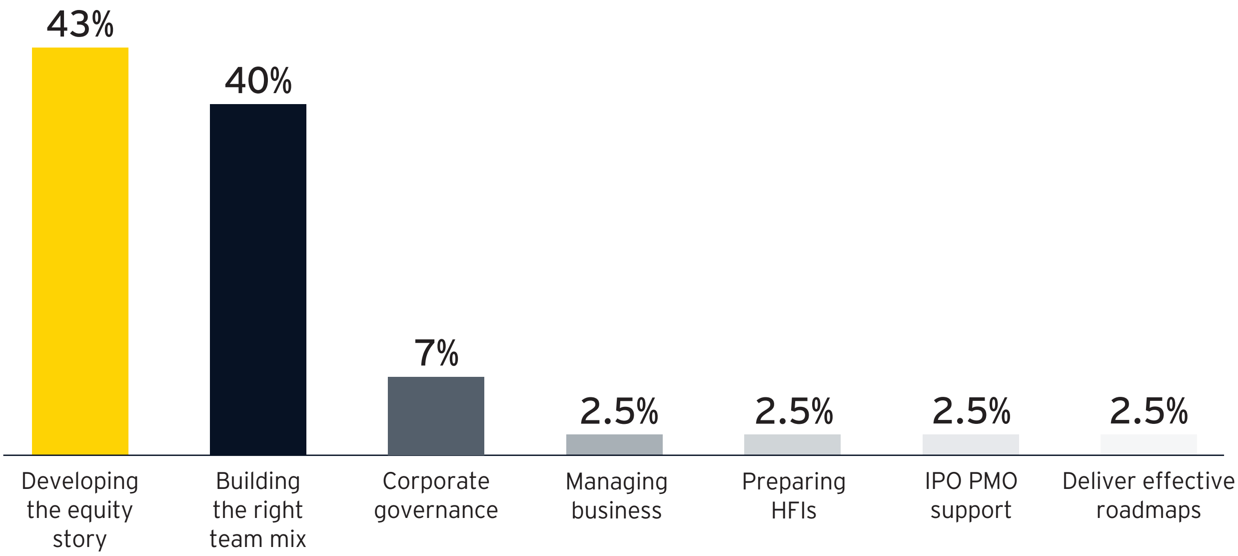
Investors trust in a company pursuing an IPO can be significantly impacted by several factors including, but not limited to, company valuation, management experience, governance structure, and the cyclical state of company financials. A management team lacking experience can raise red flags for investors, potentially leading to loss of investment interest.

Similarly, poor governance structures can deter investors, as exemplified by Enron's collapse in the early 2000s due to weak governance. Lack of transparency can also erode investor trust, as seen in the case of Theranos, which faced repercussions after misleading investors about its technology.

A history of regulatory breaches can severely damage a company's reputation. According to EY "Guide to Going Public," institutional investors base an average of 60% of their IPO investment decisions on financial factors — in particular, growth in earnings per share (EPS), revenue, profitability and earnings before interest, taxes, depreciation, and amortization (EBITDA) — and an average of 40% of their IPO investment decisions on non-financial factors, including the quality of corporate strategy and its execution, management credibility, operational efficiency and corporate governance.

Developing an equity story and building the right team

43% of respondents believe that developing the right equity story is the biggest challenge for an IPO, while 40% believe that building the right management team mix is the biggest challenge.

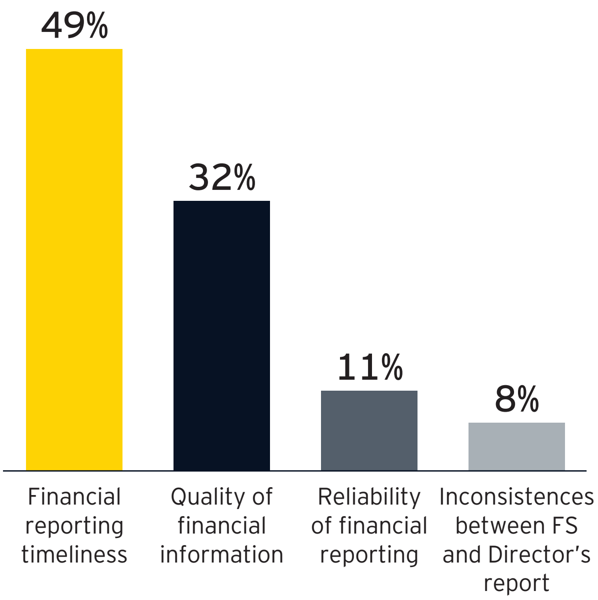


- Respondents' views resonate with recent IPO activity in the KSA, which shows corporates with excess liquidity are focused on identifying strategic and value-enhancing deals to strengthen their current positions.
- A solid and scalable business model with clear growth prospects is the foundation of an equity story. Investors look for companies with the potential for long-term growth and value creation.
- Key elements that can enhance the power of a persuasive equity story include company's value proposition, future expansion plans, financial stability and growth potential, management team and track record, market potential and CSR initiatives.
- Reputation and experience of the management team enhances investors' confidence in the company and IPO.

Quality, reliability and timeliness of financial reporting

Compiling and presenting historical financial information in a manner that meets public market standards can be very challenging. Many private companies lack robust internal controls, and their financial systems are not ready to present reliable external information for public scrutiny. Additionally, most private companies are not used to the rigorous financial reporting timelines that are applicable for public companies.

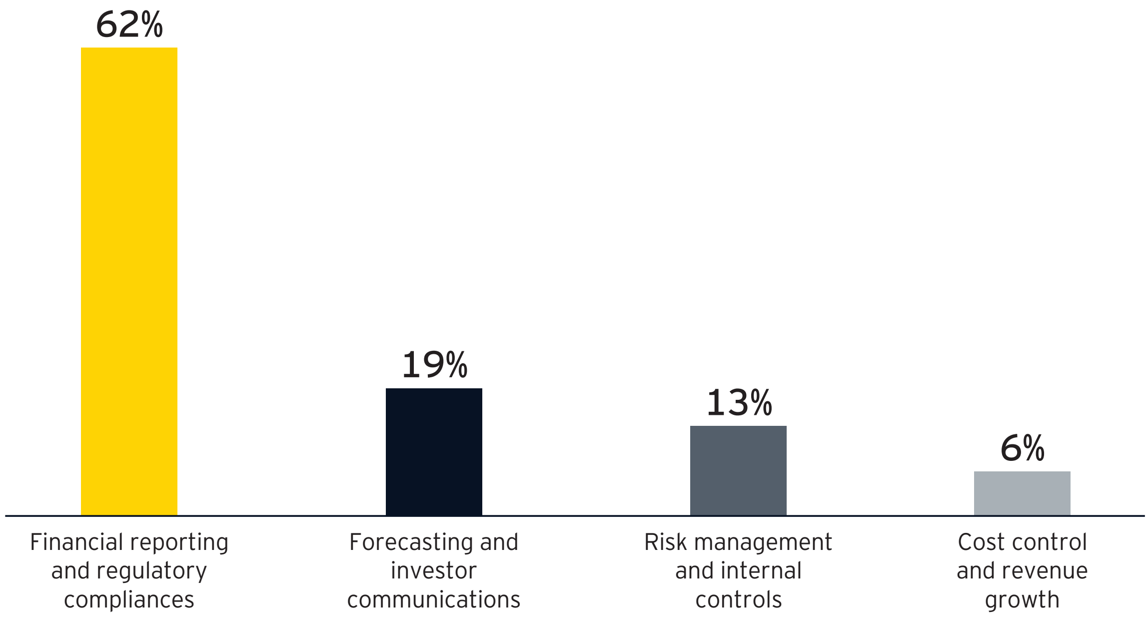
49% of finance executives believe that financial reporting timelines are one of the main financial reporting challenges faced by public companies, and 32% believe that the quality of financial information is another significant challenge.



Investors rely on the financial information to make informed decisions and regulators use it to ensure compliance with laws and regulations. Investors, regulators and other stakeholders expect transparency in financial reporting. Companies must provide clear, comprehensive and understandable financial information. In preparing for an IPO, management must critically analyze and evaluate the financial statement closing process and make changes appropriately to ensure both timeliness and quality standards are met when they become public and report externally.

Financial reporting and regulatory compliance

62% of respondents consider financial reporting and regulatory compliance the most scrutinized areas for CFOs of listed companies, while 19% believe forecasting and investor communications are, and 13% cite risk management and internal controls.



- The importance of financial reporting and regulatory compliance as highlighted by majority of the respondents is clear. Accurate and transparent financial reporting is key to building investor trust. Also ensuring compliance with regulatory standards is important to avoid reputational damage or even legal penalties.

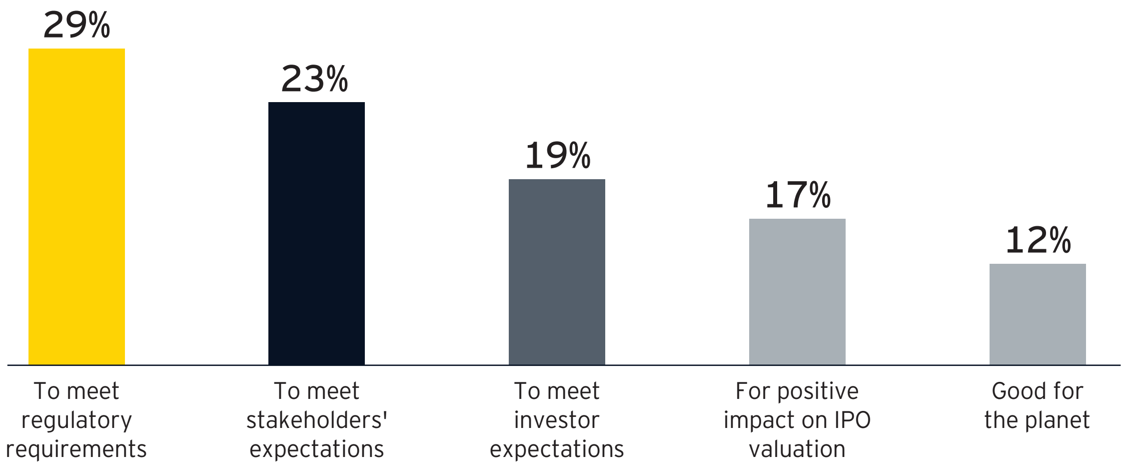
- Typically, listed companies are required to report their financial results using a pre-defined accounting framework (often IFRS) and within the timeline prescribed by the regulators. Potential delay in filing and failure to prepare financial statements in accordance with approved accounting standards may result in financial penalties imposed by the regulators. Ensuring adherence to financial reporting and regulatory compliance is important for the trust in CFOs of public companies.

- Accurate and reliable forecasting can help in setting realistic targets for revenues and growth. Meeting or exceeding market expectations is important for ensuring stock price stability.

ESG and its competitive advantage

In recent times, ESG-focused companies often attract a broader base of investors, including those who prioritize sustainable and ethical investments. This can increase demand for the IPO, potentially leading to higher valuations. To gain competitive advantage, entities should integrate ESG considerations into its long-term strategy, value creation and equity story.

29% of respondents believe ESG plays a vital role in IPO process to meet regulatory requirements and 42% believe that ESG is important to meet expectations of investors and other stakeholders.



EY Global IPO trends report identified ESG as a key theme since a number of years for IPO candidates and investors. There is a growing expectation from investors, consumers and regulators that companies going public integrate ESG reporting into their equity offering.

EY Global CEOs survey reveals that CEOs aim for a net-zero future by decarbonizing their business and creating new revenue streams in the longer term.

Summary

The "Roadmap to a successful IPO for finance executives" conference in Riyadh has provided valuable insights into the IPO landscape, particularly within the Kingdom of Saudi Arabia and the broader MENA region. A successful IPO is seen as a multifaceted endeavor requiring a compelling equity story, strategic timing, robust governance and a skilled management team. Post-IPO challenges such as financial reporting and regulatory compliance remain top concerns for IPO readiness, emphasizing the need for preparedness and transparency. The conference has underscored the importance of readiness, strategic planning, and adaptability as key drivers for a successful IPO journey.

Contact us for a conversation!

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