

Key Considerations in Running a Dual-Track Process

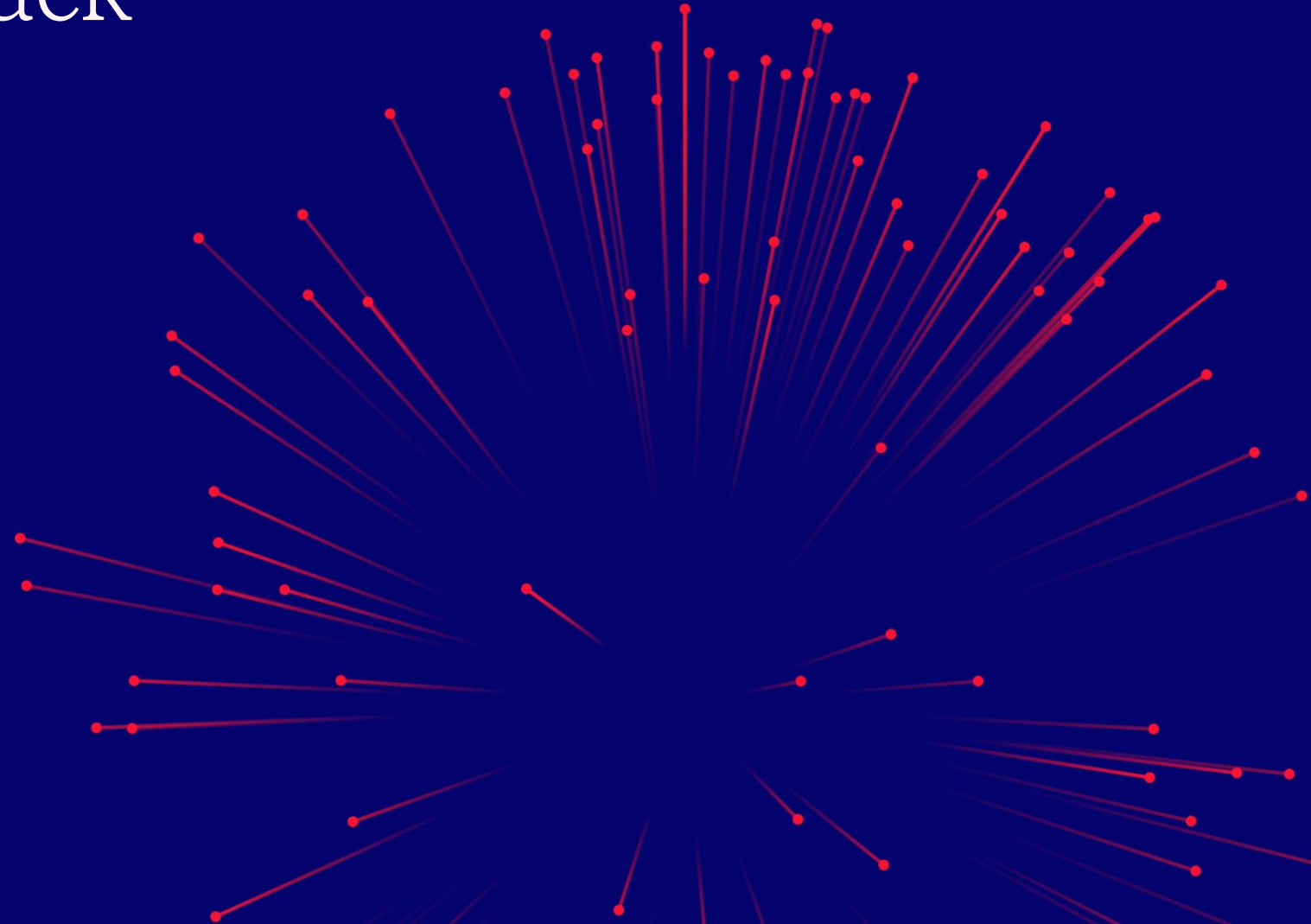


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What is a dual-track process?

What is a “dual-track” process?

A dual-track exit process prepares a company for both an IPO and a potential private sale, aiming to maximize stockholder value while hedging against market volatility.

The IPO process

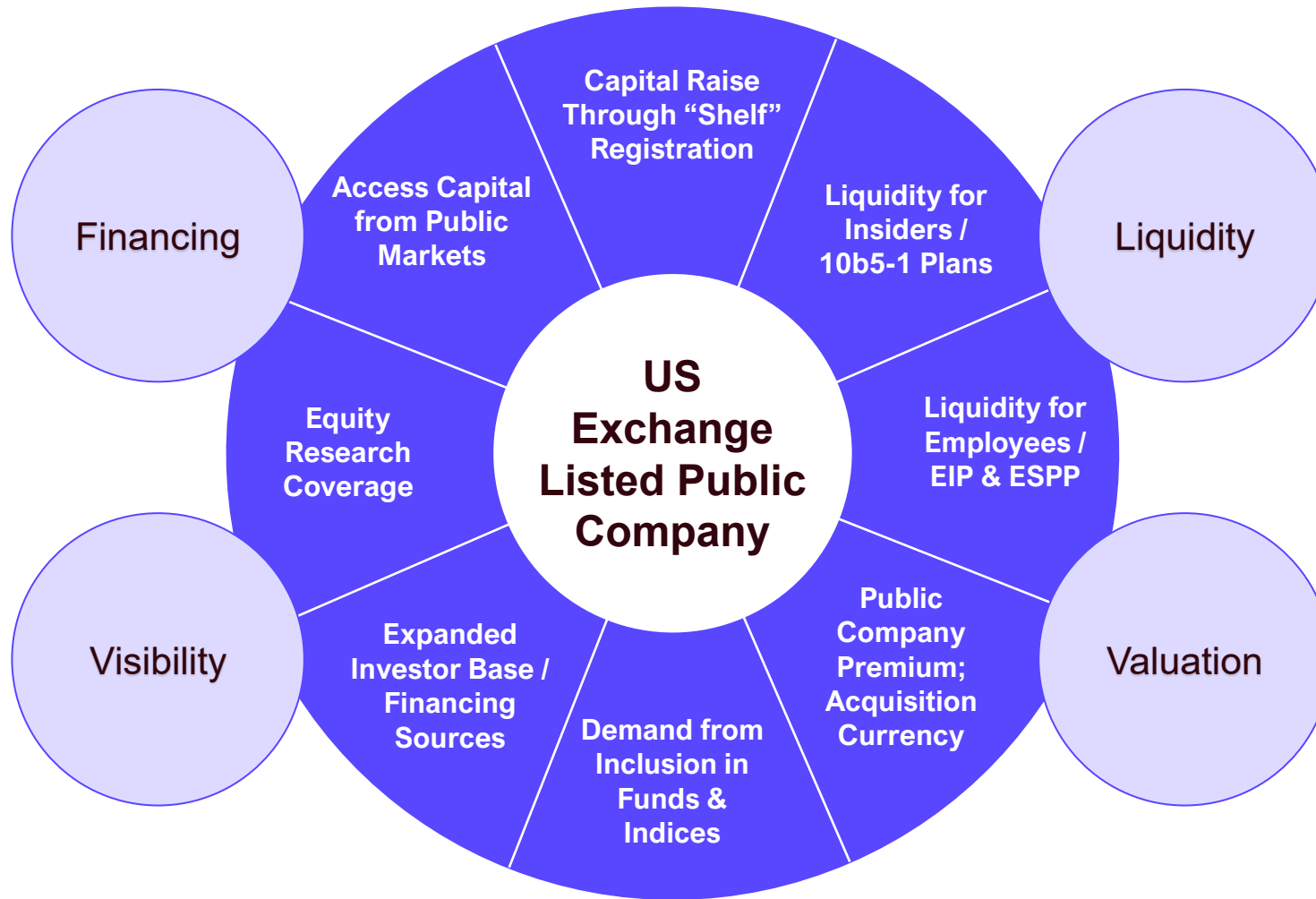
- **IPOs are the primary go-public path in dual-track processes**, though deSPACs, reverse mergers, and direct listings may also be options with different timelines.
- The IPO track is typically the most time- and resource-intensive, requiring full public-company readiness before the M&A track usually begins.
- Much of the IPO preparation—financial reporting, governance, internal controls—does not carry over to an M&A outcome.
- While some diligence and financial preparation overlap with M&A, **each track still requires separate coordinated effort**.
- IPO readiness **creates valuable timing pressure and leverage in negotiations**, though this is harder to achieve in weak markets.

The M&A process

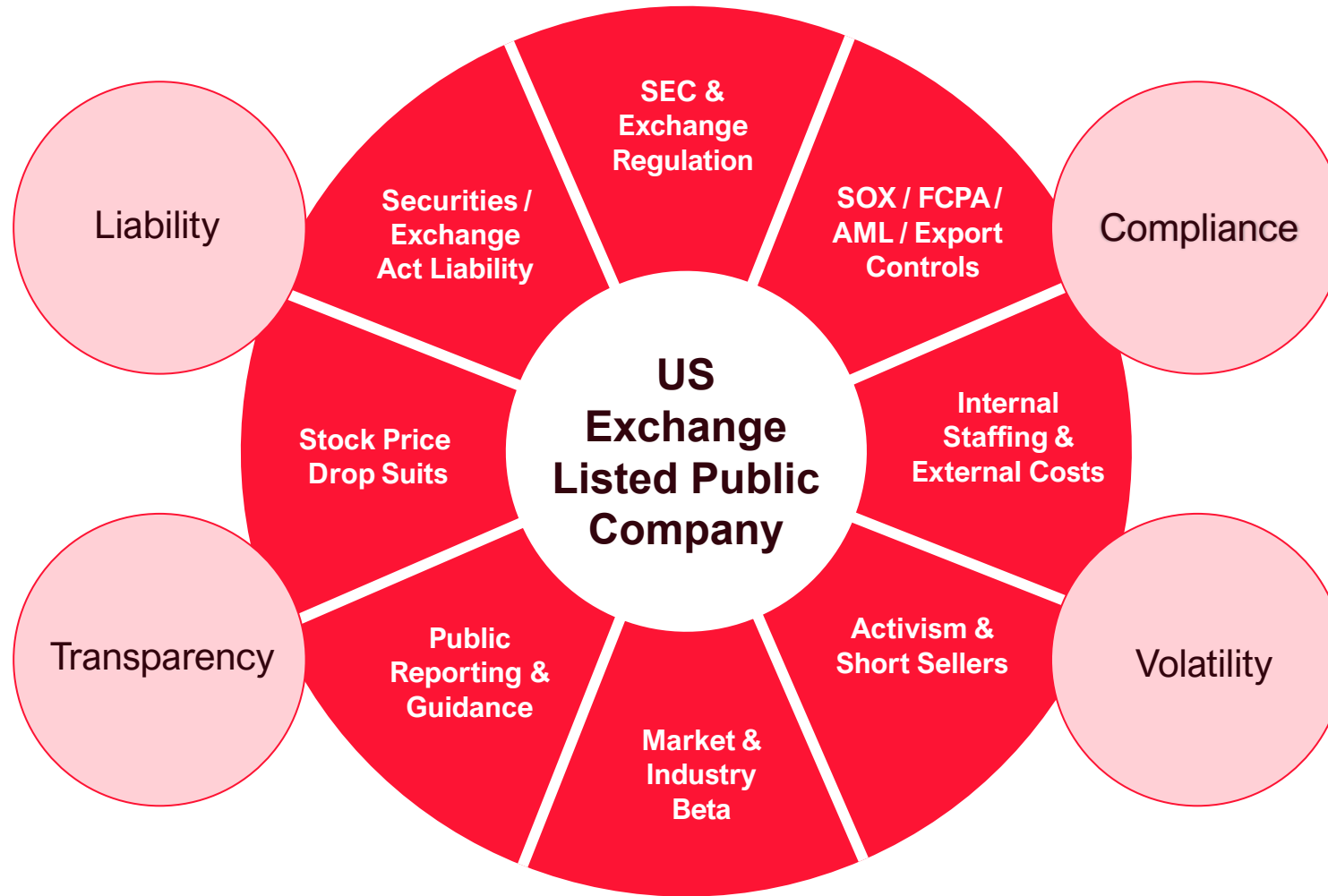
- Strategic sale processes are **often run as competitive auctions**.
- M&A and IPOs offer different liquidity timelines and return profiles, so stakeholder priorities heavily influence whether a dual-track is appropriate.
- Dual-tracking creates leverage by showing credible alternatives, but **this leverage is harder to maintain when M&A markets are weak**.
- The **M&A workstream includes diligence and deal-specific requirements** that do not overlap with IPO preparation.
- **The M&A process typically begins once IPO readiness is well advanced**, enabling buyers to see the company is capable of going public.

Preparing for an IPO

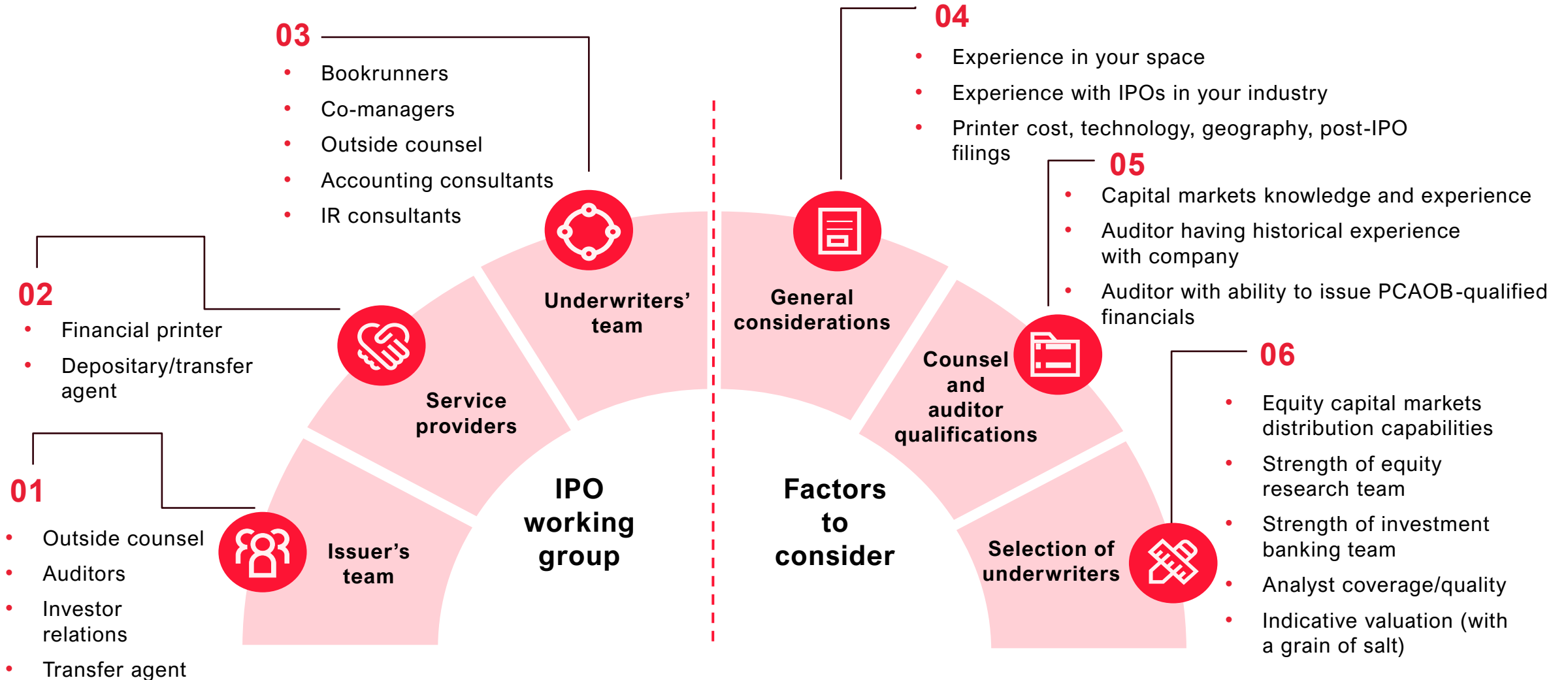
There are significant benefits to going public ...



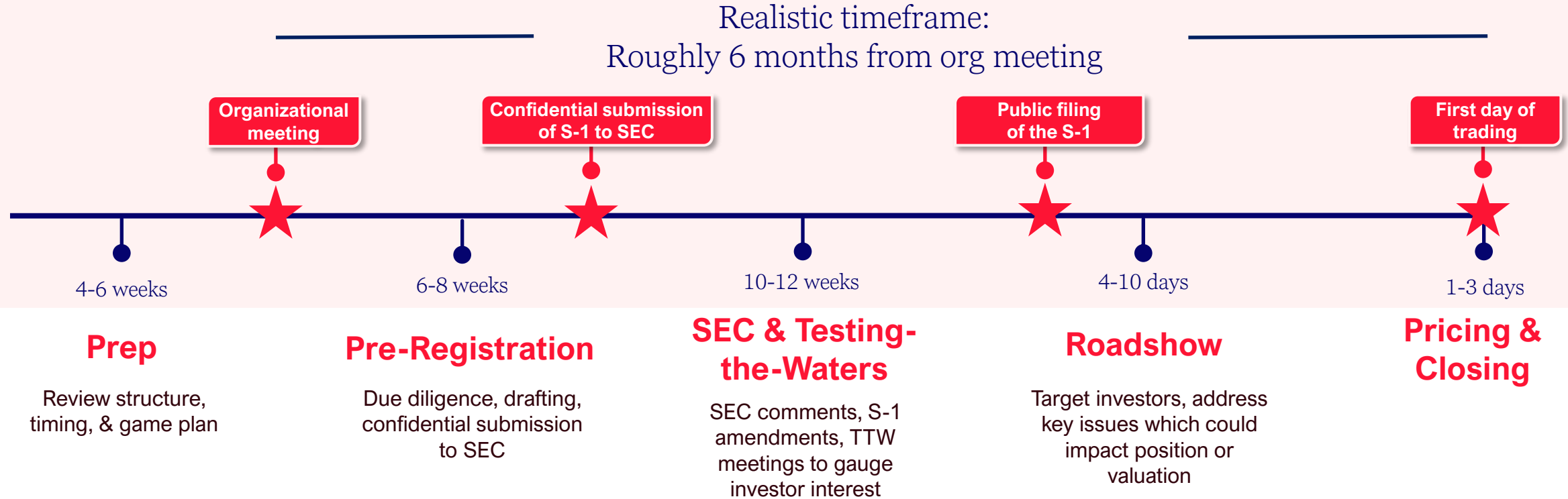
... But there are also important considerations



Who gets a seat at the table?



Overview of IPO process



Risks to timing

1. Audit
2. Market, economic, political conditions
3. Aging financials (availability of quarterly results)
4. Understand potential consents required
5. Business challenges

IPO workstreams and responsible parties



Finance

- Determine key financial and operational metrics
- Cultivate relationships and refine the message
- Draft key parts of S-1
- Select banker
- Determine guidance strategy

Project leads

CEO
CFO
Management team
In-house counsel
Outside counsel



Audit/tax

- Secure auditor and tax adviser relationships
- Identify and resolve key accounting and tax issues
- Identify and effect changes needed to report as public company
- Complete necessary audits and SAS 100 quarterly reviews

Project leads:

Finance team
Auditors
Tax preparers



Legal

- Review and address key legal areas
- Scrub cap table
- Prepare data room
- Draft key parts of S-1

Project leads:

In-house counsel
Outside counsel
Finance team



Human resources

- Engage compensation consultant
- Review and address post-IPO executive compensation terms and documentation
- Review and address post-IPO equity compensation strategy
- Determine post-IPO director compensation

Project leads:

HR lead
Comp consultant
In-house counsel
Outside counsel



Governance

- Recruit outside directors
- Identify desired cap structure (e.g., dual class).
- Determine stockholder protection measures
- Decide on committee composition
- Figure out which directors go in which classes (if board classification desired)

Project leads:

CEO/founders
CFO
In-house counsel
Outside counsel

M&A process and considerations

M&A transaction process

PHASE I

- Organizational meeting with advisors
- Identify potential buyers and plan reach out strategy
- Identify any needed approvals and consents and key timing drivers

PHASE II

- Conduct sell-side diligence and prepare due diligence reports
- Build deal model and marketing materials
- Hold preliminary conversations with buyers

PHASE III

- Hold management presentations and launch dataroom
- Hold detailed diligence conversations with buyers
- Sign term sheet/LOI
- Negotiate transaction documents

PHASE IV

- Prepare estimates for funds flow
- Plan for any separation activities
- Finalize ancillary documentation
- Obtain needed regulatory approvals

PHASE V

- Determine post-closing purchase price adjustments
- Potential indemnity period
- Release of escrows
- Track any earn-outs or contingent consideration payments

Launch auction process

Sign definitive agreement

Close transaction



1-2 WEEKS

Pre-signing:
Get organized

2-3 WEEKS

Pre-signing:
Finalize sale readiness and initiate preliminary outreach

3-4 WEEKS

Pre-signing:
Get bids and negotiate deal documents

3-4 WEEKS

Interim period:
Period between signing and closing (if needed)

90 DAYS+

Post-closing:
Finalize any payment adjustments and liabilities

Overview of M&A valuation drivers



Valuation and stakeholder alignment

- How much is the buyer prepared to pay for the company?
- What will be deducted from headline price? Debt-like items? Working capital?
- What will be sold (assets, legal entity)? Any residual liabilities remain?



Certainty of price

- Is the consideration cash or equity or both? How will the purchase price be distributed among stockholders?
- How much of the purchase price will be paid to the stockholders at closing (e.g., escrow; contingent consideration)?
- Will stockholders be subject to potential post-closing liabilities (indemnification regime)? Is this capped to escrow or could there be a clawback of purchase price?



Certainty of closing

- What has to happen to cause the transaction to close (assuming not a simultaneous sign/close)?
- How can the transaction be terminated?
- Regulatory approvals (HSR, CFIUS, other)?
- How will the buyer pay (financing)?

Key preliminary M&A workstreams

- 1. Clean house**
- 2. Audit needed?**
- 3. Master due diligence**
- 4. Understand potential consents required**
- 5. Intellectual property**
- 6. Build your team**
- 7. Equity issuances**
- 8. Check the box on regulatory compliance**



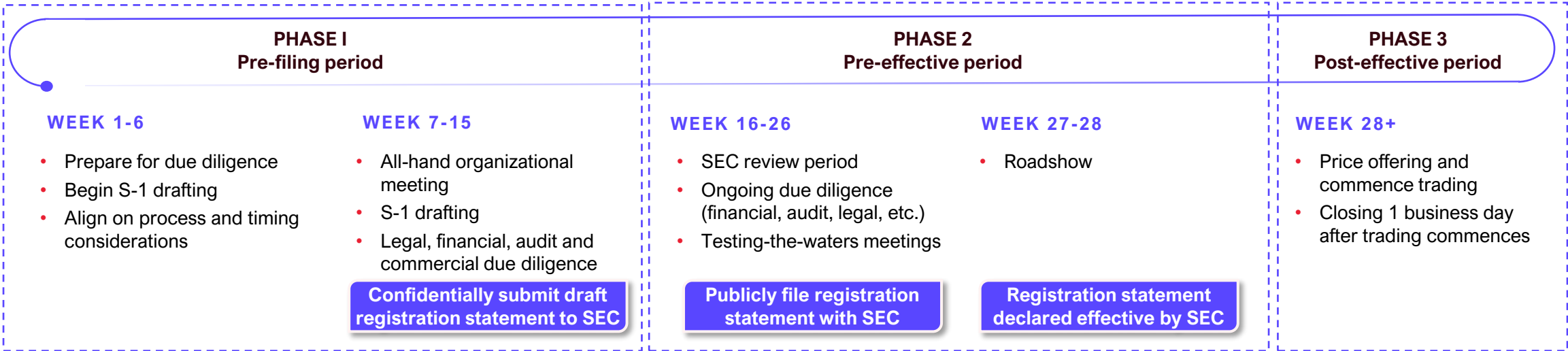
Key Theme: Advanced preparation avoids diligence and management speedbumps



How it all comes together

Dual track transaction process

IPO Process



M&A Process



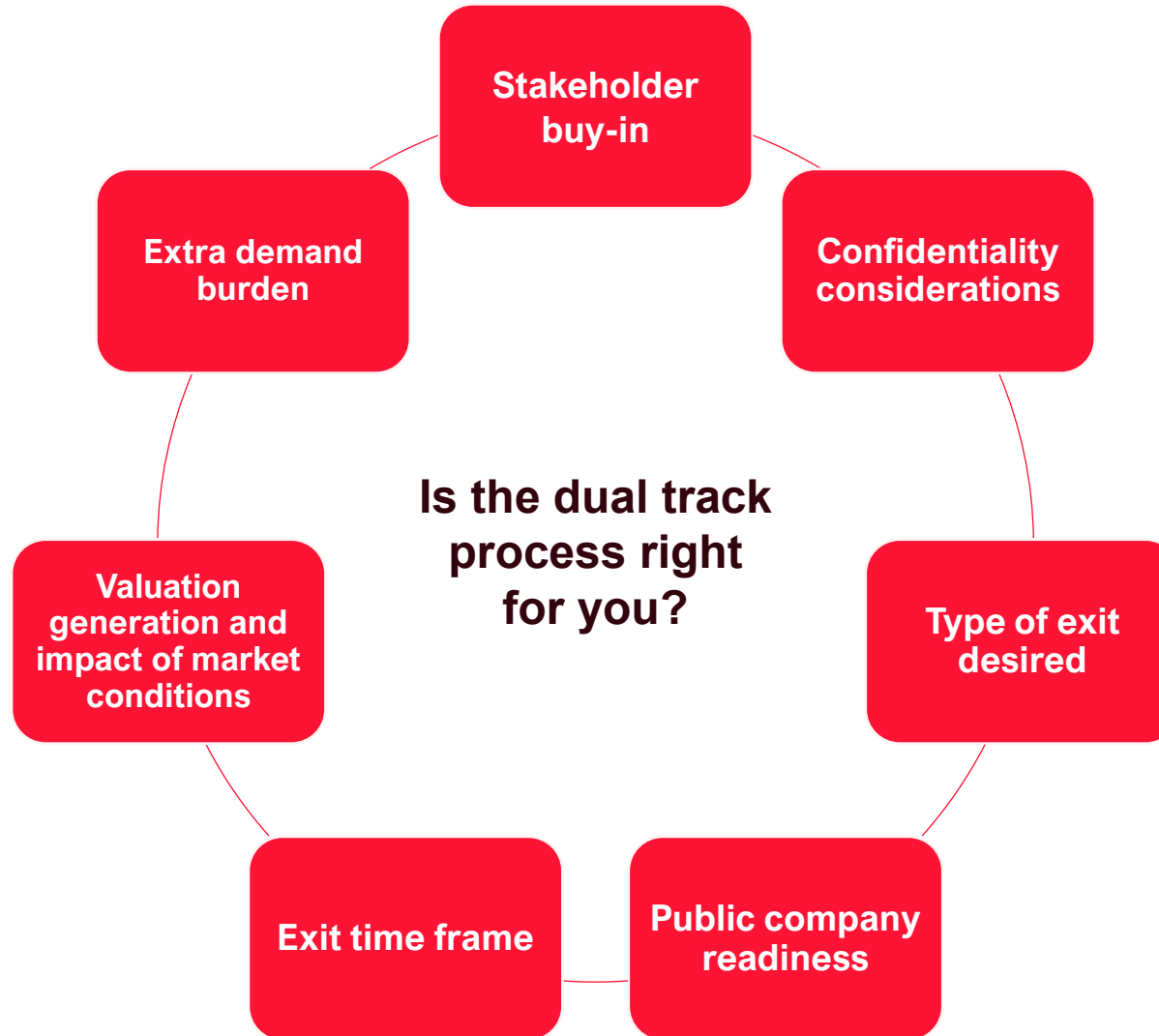
Key inflection points

1	Selection of advisors	Selection of legal, financial and accounting advisors and the underwriting syndicate managing the IPO process.
2	Due diligence prep	Due diligence preparation – collect, centralize and categorize.
3	Coordination on pacing	Coordination across banking and legal teams in diligence, pacing, messaging and ear to the ground.
4	S-1 prep	S-1 preparation will often lead the auction sale process given significant lead time required to file with the SEC.
5	Auction process kickoff	M&A process customarily kicks off after initial filing of registration statement or later, depending on contemplated IPO execution plan.
6	Comparing relative valuation	Target company compares relative valuations offered by an IPO versus an M&A exit and chooses ultimate track.

Key overlapping workstreams

1	Cap table audit	<ul style="list-style-type: none">• Ensure cap table is up-to-date and issuances are documented and accurately reflected.
2	Corporate clean-up	<ul style="list-style-type: none">• Identify material contracts, including any change of control provisions, and ensure that they are executed;• Assess compliance with applicable laws and regulations in the jurisdictions in which the company operates;• Identify any investor and third-party consents required for both the IPO and M&A path.
3	Due diligence	<ul style="list-style-type: none">• IPO diligence and M&A diligence are substantially different. In the IPO process, underwriters are potentially liable for misstatements or omissions in the issuer's disclosure, so everyone is largely on the same team. In the M&A process, diligence issues translate into dollars (via purchase price adjustments, indemnity or earn-outs).• However, much of the underlying documentation and materials can be leveraged for both processes.
4	Positioning/KPIs	<ul style="list-style-type: none">• Positioning is key regardless of whether M&A or IPO is the ultimate outcome – ultimately the same equity story is being sold.• The work that goes into S-1 drafting and KPI selection all adds value to the M&A process.
5	Financial forecasting	<ul style="list-style-type: none">• The forward model typically drives valuation in both IPO and M&A transactions.
6	Management compensation	<ul style="list-style-type: none">• Assess current compensatory arrangements (both cash and equity) and ensure that management is appropriately incentivized, including upon a change of control.

Dual-track considerations



Liability and risk / ROI profile distinction

	IPO	M&A
Liability profile	<p>IPO litigation is a near certainty</p> <p>Good governance provides the best defense through the business judgment rule</p>	<p>M&A may offer a more contained liability profile:</p> <ul style="list-style-type: none"> • a privately negotiated transaction, • investors signing off before completion, and • use of competitive tension to get “public-style deal” terms
Ongoing exposure / potential ROI	<p>Continuing skin in the game for investors with potential upside and more flexibility on liquidity</p> <p>But also longer exit horizon with risk to downward market pressure outside of the company’s control</p>	<p>In a cash deal, no ongoing skin in the game for existing investors (subject to negotiated earn-outs)</p> <p>In a stock deal, diversify holdings through combination with existing company with own product profile</p>

Advisor strategy

Align on bank selection

Approximately 50% of the time, the same bank handles both the IPO and M&A process — though often through different teams within the same bank.

Ensure bank coordination

Regardless of whether the same banks are handling both sides of the transaction, the M&A bank and the IPO bank being unaware of each other can result in a worse process on both sides.

The M&A market informs IPO pricing and vice versa — coordination between them creates better marketing and better outcomes.

Assemble the right team

Identifying the right advisors is crucial.

Ideally, investment banks, legal advisors, auditors and other accounting, business and due diligence advisors all collaborate with the business team to ensure regulatory compliance, optimize structure and streamline the process.

Surface board priorities and opinions

The advisor selection process is a useful opportunity to solicit input and feedback from board members about their priorities.

The process of selecting advisors can itself be a galvanizing force to get different viewpoints into the open.

Key takeaways

- 1 Start early

- 2 Both tracks must be credible

- 3 Leverage advisors

- 4 Confidentiality is a differentiator

- 5 The GC is a critical manager of process and timing

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Thank you

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