WINSTON & STRAWN LLP

Playing the Dual-Track

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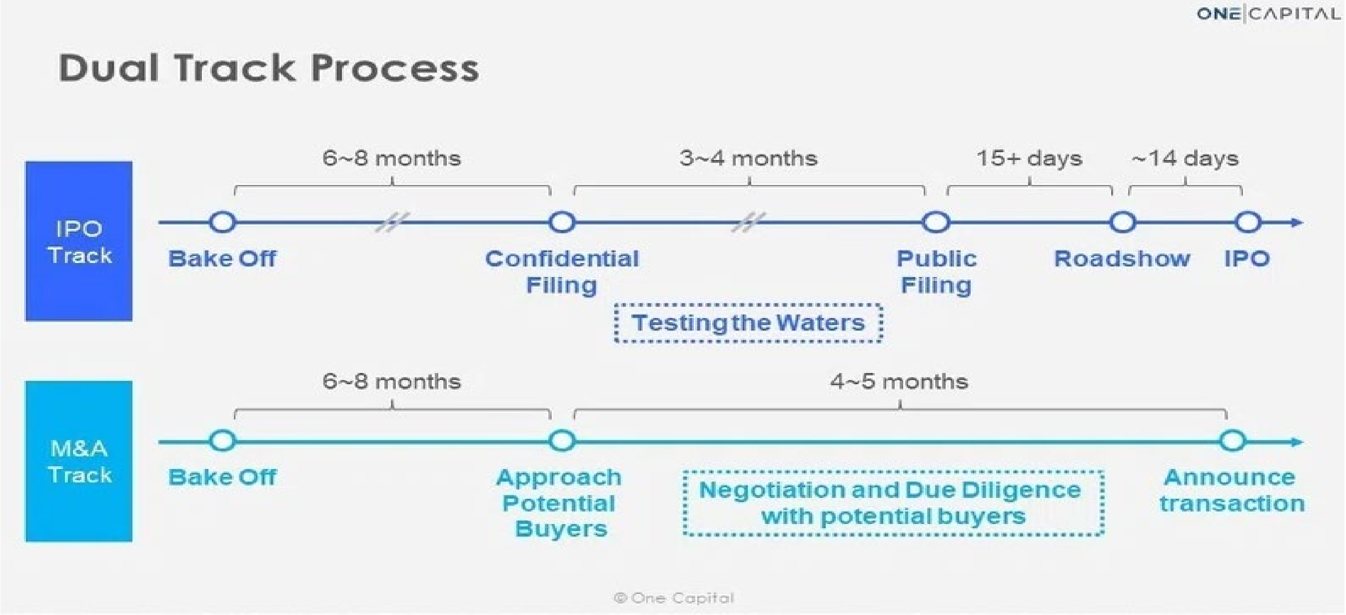
Agenda

- What is the Dual-Track Process
- Why Sellers Pursue the Dual-Track Process
- Market History and Outlook
- Selecting Advisors
- The IPO Track
- The M&A Track
- Conflicting Views of Stakeholders
- Advantages
- Disadvantages

What and Why

What is the Dual-Track Process?

- A company considering an exit transaction concurrently pursues two paths:
  - an initial public offering (IPO) and
  - a merger or other sale transaction (M&A).
- Historically, an M&A exit was the fallback for an unsuccessful IPO. But this is evolving because:
  - companies are remaining private for longer, and
  - an IPO may not result in a higher valuation than the latest investment rounds.



Why Sellers Pursue the Dual-Track Process?

This parallel process can substantially increase the chance of:

- successfully exiting and
- achieving a higher valuation.

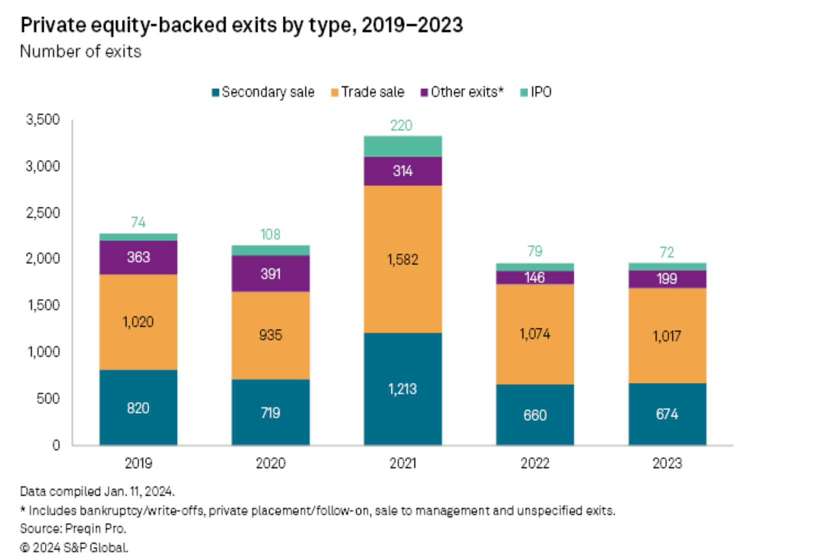
Flexibility

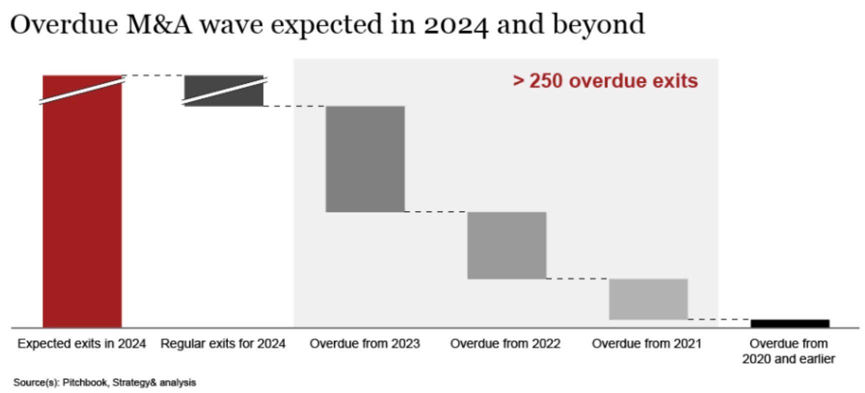
Sellers choose the transaction that is most likely to close and yield the greatest return.

Market

Market History and Outlook

- After the exit spike in 2021, the downturn in transactions over the last two years was caused by numerous headwinds, including rising interest rates and inflation.
- As a result, there's a substantial backlog of assets accumulating in portfolios.
- Based on an analysis by PWC, expected exits in 2024 and beyond will include many overdue exits from 2022 and 2023.
  - ~50% of all overdue deals expected for 2024 and beyond come from the backlog of deals that were expected for 2023.





Choosing the Right Advisors

Selecting Advisors

- Advising on Both Work Streams?
  - Optimizing Efforts
  - Aligning Incentives
- The Team
  - Investment Bankers
  - Auditors
  - Legal Counsel
  - IPO Readiness Firm
  - Investor Relations Firm

The Two Tracks

The IPO Track

- Financial Statements
- Underwriting Agreement
- Due Diligence Process with the Underwriters and their Counsel
- The Registration Statement
- SEC Review and Comment Process
- Roadshow
- Pricing and Closing

The M&A Track

- Auction Process (typically involving multiple strategic and financial bidders)
- Confidential Information Memorandum
- Data Room
- Form of Purchase Agreement
- Bidding Rounds
- Negotiating the Definitive Agreement
- Do bidders know about the IPO?

Conflicting Views of Stakeholders

- Founders vs. Private Equity vs. Venture Capital vs. Board vs. Management vs. Late Investors
- Controlling Shareholders; Common vs Preferred
- Complete Exit in a Sale Process
  - PE preference to sell in a single transaction
  - Loss of Control/Influence
- IPO Exit takes Time
  - Lock-up Agreements
  - Affiliate Positions
  - Insider Trading Restrictions
- Strategic and Financial Counterparties
- Employees

Advantages

Less Dependence on Market Conditions and Greater Flexibility

- Market Volatility
  - Impact on IPO Pricing
  - Sector Peers
- Regulatory Uncertainty
  - SEC Review Process
  - Timetable Dictated by Securities Laws and Stock Exchange Rules
- Flexibility helps Manage Volatility and Uncertainty of the IPO Track
- M&A Track Risks
  - Industry Consolidation
  - Recent Comparable Transactions
  - Regulatory Review

Leverage for the Process

- IPO Track increases Seller's Leverage in M&A Track
  - Pressure on Buyers (Post-IPO Valuation may exceed Pre-IPO Acquisition Cost)
  - Higher Purchase Price
  - More Favorable Deal Terms
  - Quicker Execution

Disadvantages

Management Distraction and Risk to Business

- Dual Track Process Demands Substantial Time and Resources
- Management Focus
  - Day to Day operations
  - M&A Track
  - IPO Track
- Limited Internal Team to Maintain Confidentiality

Managing Two Streams and Increased Costs

- Timing Misalignments between the Tracks
  - SEC review process for IPO
  - Bidding and Negotiations for M&A
  - Financial Statement Staleness
  - Market Volatility
- Expensive
  - Fees Paid to Advisors on Two Work Streams

Dual-Track Synergies Can Offset Certain Disadvantages

- Financial Models/Forecasts
- Offering Documents
- Due Diligence and Data Rooms
- Management Presentations

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