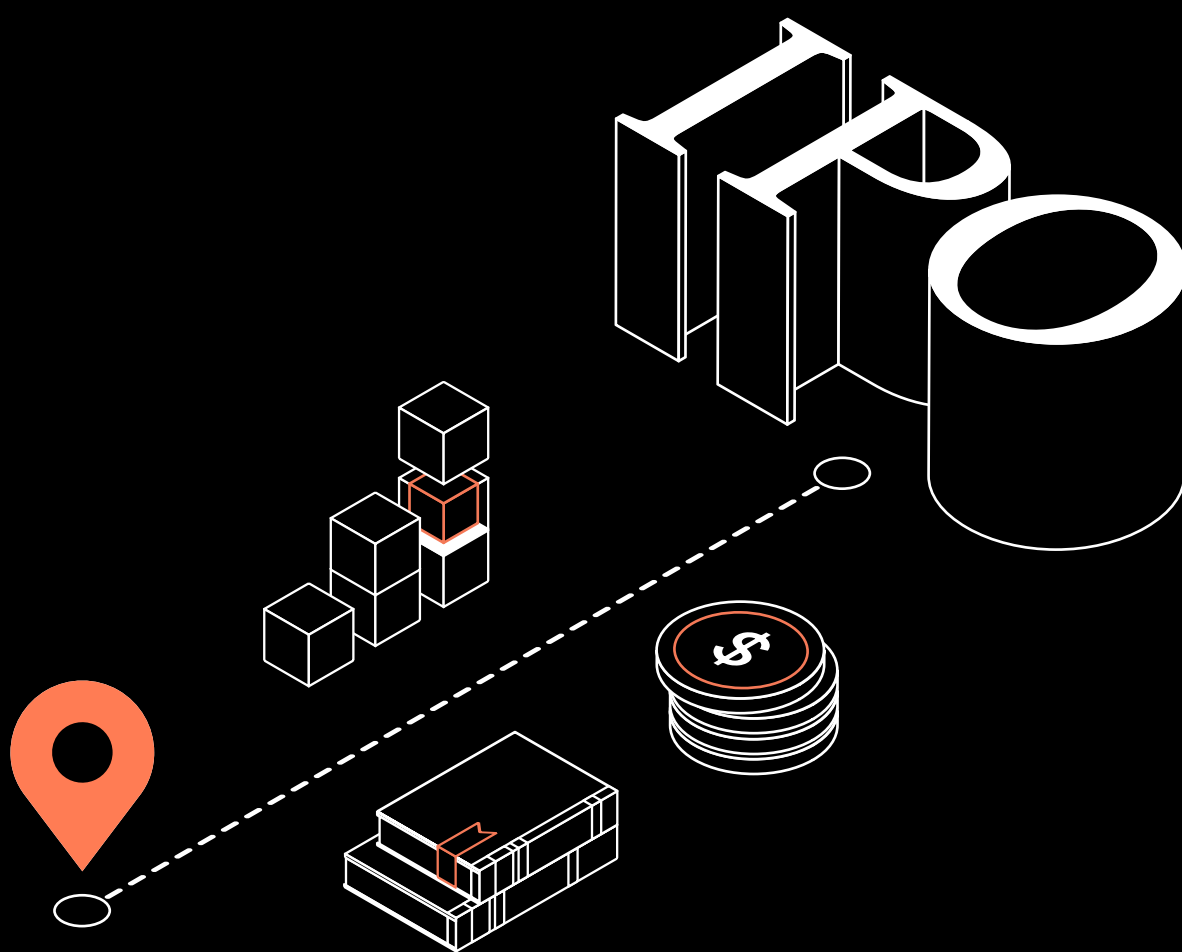


carta

# IPO Preparation Guide

Learn the language of IPO readiness, so you can go public with confidence.



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# Table of Contents

<b>Introduction</b>	→
Glossary	→
<b>IPO strategy</b>	→
Common approaches to going public	→
Benefits and limitations of different IPO strategies	→
<b>IPO process</b>	→
Short-term plan: 18–24 months	→
Long-term plan: 3–5 years	→
IPO preparation checklist	→
<b>Support from Carta</b>	→
Pre-IPO: Advisory services	→
Why companies stay on Carta until listing day	→
Transition phase: Working with Morgan Stanley	→
Post-IPO: What happens after going public?	→

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# Introduction

As the global economy begins to recover from several years of rising interest rates and slow venture activity, an increase in company exits could be on the horizon. On the Carta platform alone, there are nearly 2,000 companies on the pathway to IPO. The public markets are also flourishing, with the S&P 500 up 25% between January 2024 and 2025.

This comprehensive guide is designed to help late-stage private companies prepare for a potential IPO and understand the various exit strategies available to them. We'll cover the processes and considerations involved in taking a company public, and explore how Carta works with Morgan Stanley to provide end-to-end support during the transition from private to public markets.

## Glossary

We've defined some of the key terms used in this guide. For a more comprehensive list, see our [equity glossary](#).

<b>ASC 718</b>	Accounting Standards Codification Section 718: The standard accounting guidance used by companies to expense share-based compensation and recognize the cost of equity awards on their financial statements.
<b>Audit</b>	A review of a company's financial statements to help ensure they accurately represent the financial condition and transactions of the company.
<b>GAAP</b>	Generally Accepted Accounting Principles: The accounting standard used by most U.S. companies when preparing financial statements.
<b>Issuer</b>	A legal entity (such as a corporation, investment trust, or government) that sells securities to the public to finance its operations. In the context of an IPO, the issuer is typically a former private company listing its securities for trading on a public U.S. stock exchange for the first time.
<b>Lockup</b>	An agreement between the issuer's existing shareholders, directors, officers, and option holders to not sell any shares during a set period after the IPO (typically 180 days, but companies may allow early releases).
<b>Retail investor</b>	An individual investor who buys and sells private company stock, most often via a broker.
<b>S-1</b>	The SEC form used by U.S. public companies to register securities for the first time. Must be filed with the SEC and declared effective before any shares can be listed on a stock exchange. The information provided in the prospectus included in an S-1 helps investors decide whether or not to purchase the securities.
<b>SEC</b>	Securities and Exchange Commission: An independent U.S. government agency charged with enforcing the federal laws that govern securities trading.
<b>Roadshow</b>	A series of presentations, usually given by the CEO and CFO, to underwriters and buy-side institutional investors. Used to gauge the level of demand for the company's stock in an IPO.
<b>Transfer agent</b>	An individual or entity responsible for maintaining a company's securities records and liaising with its stockholders. Transfer agents handle reporting and record-keeping for non-employee equity and work with third-party administrators of employee equity plans.
<b>Underwriter</b>	An investment bank that promotes and places securities during an IPO. Also known as a bookrunner.

# IPO Strategy

## Common approaches to going public

There are several different ways a private company can list its shares publicly: through a traditional IPO, a direct public offering, or a SPAC.

### Traditional IPO

If a company goes public via a traditional IPO, it places its shares into the market via underwriters (i.e. investment banks acting as brokers). This purchase is recorded in an underwriting agreement.

Underwriters then place the shares to institutional and retail investors, raising new capital for both the company and selling shareholders. In addition to other costs, investment banks typically take a 4–7% cut of the capital proceeds raised.

### Direct listing

In a direct listing (or direct public offering), the private company lists its shares on a public exchange without actually issuing or selling any new stock, so no new capital is raised. Any trading on the open market is done by existing stockholders (i.e. employees and investors) without the benefit of an underwriter.

### SPAC

A special purpose acquisition company (or special purpose acquisition vehicle) is a public shell company that raises capital through an IPO in order to acquire a private company.

The SPAC market experienced a huge boom in 2021, as part of a global economic upturn: public stock prices soared, venture capital flowed freely into private companies, and Wall Street had a record year for IPOs. When the wider market froze in 2022, the number of IPOs by SPAC fell significantly. Today, this is the least common approach to going public.

## Benefits and limitations of different IPO strategies

Strategies	Benefits	Limitations
<b>Traditional IPO</b>	<ul style="list-style-type: none"> <li>✓ Tried-and-true approach to going public.</li> <li>✓ Investment bankers can participate in every part of the IPO process (e.g. the roadshow).</li> <li>✓ The issuer can raise a targeted amount of capital.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Issuing new shares dilutes existing stockholders.</li> <li>✗ Stockholder lockups restrict liquidation opportunities.</li> </ul>
<b>Direct listing</b>	<ul style="list-style-type: none"> <li>✓ No “game playing” over the company’s stock price because its value is based on supply and demand.</li> <li>✓ No lockups, so stockholders can sell their shares on listing day.</li> <li>✓ No dilution for existing stockholders.</li> </ul>	<ul style="list-style-type: none"> <li>✗ There is no underwriter to provide price stabilization.</li> <li>✗ Stockholder trading doesn’t raise money for the company. However, the SEC now allows issuers to raise capital alongside a direct listing.</li> <li>✗ Direct listings are less common, which causes uncertainty in the process.</li> </ul>
<b>SPAC</b>	<ul style="list-style-type: none"> <li>✓ Transaction is done at a set valuation, unlike a traditional IPO.</li> <li>✓ Allows some companies to go public even if they don’t have access to the IPO market.</li> <li>✓ Typically the quickest way to go public, due to less scrutiny and disclosure required by the SEC.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Lack of extensive diligence due to the compressed deal timeline.</li> <li>✗ Pressure on the SPAC to find a suitable target company, usually within 6–12 months.</li> <li>✗ Possible capital shortfall: The SPAC may raise less money than expected.</li> </ul>

# IPO Process

If you're planning to go public, it's crucial to understand how the IPO process works so you know what to expect and how to prepare. In this section, we'll outline two typical timelines (short-term and long-term) and what you should think about in the lead-up to listing day.

## Short-term plan: 18–24 months

### 1. Increase the cadence of your 409A valuations

Late-stage private companies need more frequent 409A valuations and ASC 718 expense accounting reports as they prepare to go public. These valuations must be conducted by an independent valuations provider to ensure they are audit-ready (i.e. able to withstand increased scrutiny from auditors and the SEC).

### 2. Hire experienced service providers

- **External legal counsel** - Hiring a new law firm allows you to leverage public sector expertise you may not already have. A lawyer can also conduct pre-IPO diligence and audit your cap table and company records before the hiring of an underwriter.
- **Auditor** - Prior to listing day, your company's financial statements must be audited to the satisfaction of the SEC. The audit drives the entire pre-IPO timeline, so it's important to select an appropriate auditor as early as possible. Switching auditors at any point could significantly delay the process.
- **Transfer agent** - While a company can technically act as its own transfer agent, this is not advisable after going public, given the scope and importance of the role and the liability associated with incorrectly maintained records.
- **Stock administrator** - Many public companies engage a third party to track and manage employee equity. Stock (or equity plan) administrators will work with your law firm, HR team, and transfer agent to customize plan features, communicate with employees, and ensure compliance across jurisdictions.
- **Underwriters** - If you go down the traditional IPO route, you may require multiple investment banks to underwrite the offering. There is usually one bank (known as the "lead left") driving the process and negotiating for the other underwriters.

### 3. Review your board composition

During an IPO, the composition of your board of directors is likely to change because:

- Some existing directors may resign to avoid the increased visibility and scrutiny that public company boards are exposed to;
- You need to comply with board diversity requirements maintained by Nasdaq and certain institutional investors;
- The SEC and stock exchanges may require public companies to create audit, compensation, and nomination committees. This could involve hiring new directors with relevant expertise.

Identifying, interviewing, selecting, and negotiating with potential new board members can be a time-consuming process, so it helps to get started as soon as possible.

## Long-term plan: 3–5 years

### 1. Decide how much time to spend actively preparing

Most private companies don't exit via a public offering, even if they initially plan to. Perhaps an M&A opportunity arises, or macroeconomic conditions freeze the public markets. Laying the groundwork for an IPO shouldn't distract executives from current business goals. A lot can change in a few years, so flexibility is key.

### 2. Hire people with experience taking a company public

The most important and time-consuming aspect of IPO preparation is the audit, followed closely by drafting the S-1. It's worth having experienced people on your executive, finance, and legal teams, because they'll need to undertake these tasks on top of their usual duties.

### 3. Conduct an IPO readiness assessment

In-depth reviews conducted by audit and compliance firms (or IPO consultants) are not mandatory, but they can help to identify gaps that need addressing before an IPO. For example, the financial statements of most venture-backed companies are not compliant with the standards set by the Public Company Accounting Oversight Board (PCAOB). Flagging this issue in an IPO readiness assessment gives finance and legal teams enough time to rectify it before the IPO process officially begins.

### 4. Prepare financial statements for an audit

It's common for a private company's books and records to be inspected during a funding round. However, investor due diligence pales in comparison to the scrutiny you'll face in the lead-up to going public. Auditors will leave no stone unturned, asking hundreds of questions and reviewing thousands of documents. A good way to prepare is by familiarizing yourself with financial statements and reporting requirements. For instance, is your company correctly accounting for stock-based compensation expenses?



Public companies are subject to regular reporting requirements with the SEC—including annual, quarterly, and ad hoc reports for material events. Applying for access to EDGAR, the SEC's company filings system, is a key part of the IPO process.

# IPO Preparation Checklist

What steps can companies take with Carta six months prior to listing?

## 1 Notify your Carta CSM or Carta Support of your intention to go public

What you'll need to know:

- Anticipated listing date
- Anticipated offboard date (i.e., the date your shares will move to the transfer agent)
- New transfer agent
- New stock plan administrator (if applicable)
- Best company contacts regarding IPO matters
- Law firm contact(s)
- Auditor contact(s)

## 3 Download historical and current records related to your cap table and securities ledger. Your public transfer agent, auditors and external law firm will require access to important documents. As your private company transfer agent, Carta has been your repository for many of these materials.

- Download these equity reports

One-click download in bulk for all reports listed here—  
[click here for instructions](#)

- “Granted”
- “Cap table”
- “Securities”
- “Securities acceptance”
- “SOC”
- “Certificate transaction”
- “Common securities”
- “Documents”
- “Equity plan balance”
- “Exercised and settled”
- “Forfeiture”
- “Historical Termination”
- “ISO/NSO vesting”
- “Option outstanding”
- “Round modeling”
- “Rule 701 analysis”
- “Share registry”
- “Stakeholder contacts”
- “Stakeholder ownership”
- “Tax withholding”
- “Termination modeling”
- “Vesting details”
- “Voting Rights”
- “Warrants outstanding”
- “Waterfall analysis”
- “YTD payroll records”

- Mass issuance file (this is particularly important for option-related tax filings at year end)
- All historical and current 409A valuations
- All historical and current financial reports

Other documents required:

- Stock plans and template equity agreements
- Bylaws
- Financing documents

## 2 With Carta's help, evaluate public stock plan administrators and transfer agents to identify the best fit. Morgan Stanley is Carta's preferred U.S. public equity management platform.

- Add your [lawyers](#) and [auditors](#) (or other IPO advisors), to your cap table so they can access necessary information during the IPO process.

## 4 Work with your public company transfer agent to create accounts for each stockholder

- Once those accounts are created, Carta will work with the transfer agent and any stock plan administrator to move shares ahead of listing day. As part of the share movement to the new transfer agent, your company's shares within Carta will be canceled. Carta supplies shareholder communication templates to help employees understand why their equity appears to be canceled.

## 5 Notify stakeholders in [Carta's Communication Center](#)

- Inform stakeholders they should conduct any transactions on Carta prior to the date the shares move from Carta to the new transfer agent, and that during the transition to the new service provider, their ability to transact upon their equity may be limited.

# Support from Carta

## Pre-IPO: Advisory services

Customers planning to go public within the next 18–24 months can leverage Carta's [IPO Advisory service](#) to streamline their transition and avoid costly errors. Our Advisory team is on hand to support late-stage private companies, legal teams, and other service providers by:

**Coordinating with transfer agents and equity plan administrators** to securely migrate relevant data or files from the Carta platform;

**Completing cap table health checks** to ensure company data is accurate and up to date, and executing pre-IPO stock splits and conversions;

**Managing stakeholder outreach** in the lead-up to listing day, which includes providing educational resources and reminding shareholders to accept their securities and update demographic data;

**Pulling templated reports and identifying insiders** (e.g. CEO, CFO, executives and top shareholders) to help the legal team complete relevant disclosures in the S-1;

**Providing access to a sandbox environment**, allowing companies to simulate transactions and audit their data without making changes to the live cap table.



For more information, please contact [ipo-advisory@carta.com](mailto:ipo-advisory@carta.com).

## Why companies stay on Carta until listing day



Familiarity with the platform makes it easier to pull reports and documents for an audit, and handle equity conversions and splits.



Built-in flexibility in case of a delay or an [alternative exit strategy](#). Switching platforms too soon can be disruptive for employees and create more work for finance and legal teams.



Carta's [private market liquidity solutions](#) can offset the pressure for liquidity that often drives an IPO, allowing management to wait until the right time to go public.



Access to our [Equity Advisory service](#) and [QSBS support](#) for eligible shareholders, helping employees and investors manage the tax implications of an IPO.

## Transition phase: Working with Morgan Stanley

Carta is collaborating with [Morgan Stanley at Work](#) to bring leading equity management to companies across the private and public markets. Our integrated IPO solution helps to ensure an easier transition for companies and their employees.

Here are some of the ways in which Carta and Morgan Stanley can support you:



### Data cleanup

We'll review your cap table to help ensure that sensitive data is accurate and matches legal documents before you go public.



### Data migration

We'll make sure your cap table information and relevant documents are transferred securely between platforms.



### Expert guidance

Our teams will guide you through the listing and transition process, calling upon decades of combined experience.



### Shareholder communication

Our customized communication plans make it easier to share important updates with your investors and employees.



### Reduced overheads

Transferring your equity plan from Carta to Morgan Stanley reduces the management costs of going public.



### Shorter timeline

Streamlining the listing process means less hassle and fewer delays, so you don't have to spend as much time preparing.

## Post-IPO: What happens after listing day?

Once the IPO process is complete, our team will work to [offboard customers](#) from Carta and finalize their transition to Morgan Stanley's industry-leading public equity management platform (or the customer's preferred provider). Note that, for record-keeping purposes, companies retain access to their Carta account for six months after listing day.

At this point, participants can benefit from a full spectrum of offerings, including:

- Public equity compensation solutions
- Investment and wealth management
- Liquidity and financial planning support

From private to public, we've got you covered

Get hands-on support before, during, and after your IPO.

[Learn more](#) →

Wherever you are,  
**we speak startup**



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