IPO Readiness: Control the Variables Within Your Grasp

Although the level of U.S. IPO activity is lower so far in 2016 compared to past years, the number of such deals more than tripled from the first to the second quarter. In addition, newly listed companies have performed strongly—offering fresh encouragement to prospective issuers.

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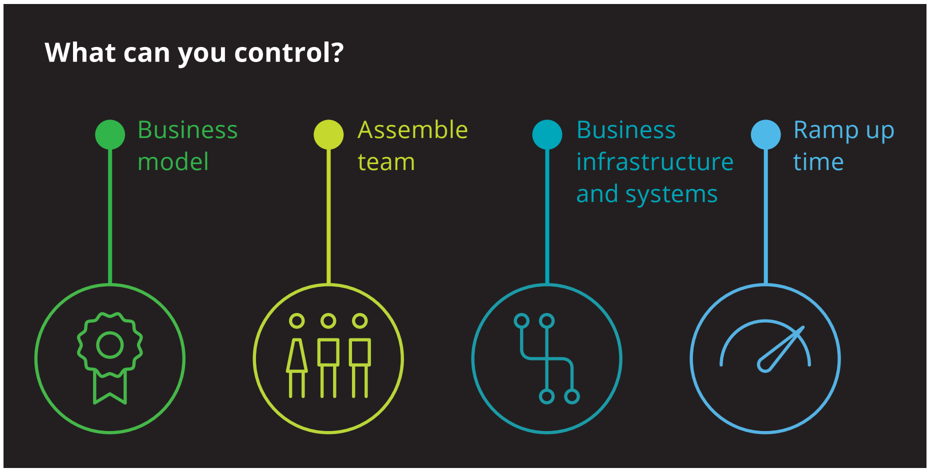
For companies deciding whether to start the IPO process, what can they do to prepare? And how will they know when the time is right for an IPO?

Most importantly, the company itself needs to be ready. "The stars have to align for the company," says Jim Atwell, National Managing Partner, Technology and Emerging Growth Company Practices, Deloitte & Touche LLP. "It should have a product or service that is well accepted in the market and be generating a significant amount of revenue with a very good growth rate." >



Still, even for well-positioned companies, history shows that many, if not most, factors affecting IPO markets are beyond the control of the issuer. Trying to time the IPO market is akin to timing a slump or spike in stock indexes.

Facing this inescapable uncertainty, what should a private company aspiring to go public do? The simple answer is to focus on what *can* be controlled: creating a business model that articulates key goals and appeals to the investing public; assembling the team for the IPO journey; ensuring strong business infrastructure and systems; and allowing adequate time to ramp up for the IPO. By addressing factors within the company's grasp, owners and executives can smooth the IPO process and establish credibility with investors, both ahead of the offering and in the quarters that follow.

Important IPO Readiness Considerations

Unsurprisingly, publicly traded companies face high standards for financial disclosure and other regulatory reporting. For some earlier-stage, privately held companies that use less formal processes, a critical step in preparing for an IPO is assessing the readiness of key internal systems and processes for this increased rigor. It is crucial to take a measured approach to this assessment because the company may have limited people and resources, and in a high-growth company, they may already be stretched to the limit.

IT systems. Upgrading financial systems in advance of an IPO can help address the public markets' more stringent requirements for data accuracy. Introducing technology during the ramp-up could also help enhance communications between the tight-knit group of managers and salespeople typically responsible for revenue generation and the other company functions involved in IPO preparation, including accounting, finance, legal, and logistics.

Another vital capability of a publicly traded company is the monthly, quarterly, and annual "closing of the books" for financial-statement purposes. As the business scales and prepares for an IPO, more sophisticated financial systems and processes may be required.

Internal controls and processes. Provisions of the 2012 Jumpstart Our Business Startups (JOBS) Act offer accommodations to qualifying "emerging growth companies" regarding compliance with internal control requirements of the Sarbanes-Oxley Act of 2002. Nevertheless, under Section 302 of Sarbanes-Oxley, a company's CEO and CFO are still directly responsible for the accuracy, documentation, and submission of their organization's financial reports, which rely on an effective internal controls structure. It is vital that those internal controls receive adequate attention in the ramp-up to an IPO, along with an

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effective and timely financial close process, as previously noted.

Business and legal matters. Other important factors to consider during the IPO ramp-up include having a formal business strategy that tells the company story, articulates key goals, and maps a path toward those goals. Also needed is corporate governance that approaches the levels of publicly traded companies in the same or related industries, including policies, procedures, and controls that are clearly documented and articulated.

Having adequate liquidity or financing in place to address contingencies or delays in the IPO process is also essential. And, from a legal standpoint, it is important to prepare an inventory of material agreements (contracts) and assess whether they are properly executed.

An effective CFO and finance team. One factor that cannot be overemphasized is the need for having an effective CFO and finance team with skill sets appropriate to the context of a publicly traded business. Companies preparing for an IPO often focus on hiring a CFO who has previous IPO experience.

Such experience is certainly a plus, but two other qualities are just as important. One is leadership that can "see where the puck is going" in terms of business plans and strategy, and that can assemble a team with the skills needed to execute. The other is financial planning and analysis (FP&A), controllership, or technical accounting skills that come from having held a corporate controller position, a position within a public accounting firm, or investment banking–like experience.

Preparation Drives IPO Success

An IPO involves more than producing a hot product or realizing a stellar sales trajectory. Before embarking on the process, it is important to build a solid foundation that will be ready for the changes brought by going public.

So how does a company know whether this is a good, bad, or so-so time to go public? "The ideal time is when you have the confluence of all things: a very robust financial market that is excited about and open to new issuances, along with a company that is at the right maturity level, offers predictable business growth, and is truly ready to take on the markets," says Heather Gates, West Region Managing Director, Emerging Growth Company Practice, Deloitte Services LP. "The ones that have already invested in those things often have success as soon as they hit the public market."

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