

IPO readiness

8 critical steps to prepare for going public

Taking your business public requires a great deal of preparation. After all, publicly held companies are subject to a different set of standards than private companies. To prepare, you'll need to address issues across the organization and make changes so you're ready to operate in the public markets.

As any publicly traded company will attest, the initial public offering process is complicated. Operating in the public markets requires focusing on key business areas, using robust tools and adopting new methodologies.

A typical IPO can take 12 to 18 months to execute. During this time, there are many areas of your business that will likely need to be transformed. This process is extremely time- and resource-intensive. The most important steps in this process are making sure your equity story is quantifiable and supportable, and that your financial reporting is ready for external auditor and public market scrutiny. In addition, it's necessary to look holistically at your business to make certain that all critical functions are prepared to support public company compliance requirements.

An IPO readiness assessment is an effective first step to understanding where to focus your time and resources. This assessment is a high-level analysis to identify gaps, areas for improvement and actionable items to consider.

Based on our experience working with clients in taking their companies public, these are the eight critical areas to be addressed:



1. Equity story development

Before embarking on the IPO process, the first thing you must have in place is your equity story, which articulates to investors your unique value proposition in the market and your path toward value creation. A compelling equity story forms the backbone of a successful offering at an attractive valuation.

While an equity story is partly qualitative, it must have the numbers to support it. It's your chance to demonstrate that your business model is sound and that you understand what the key growth drivers will be. That enables your investment banker to generate excitement for your IPO during the ensuing roadshow. It also helps establish investor confidence and avoid delays during the due diligence process.

Do the following:

- Build a long-term financial model, which bridges the gap between short-term results and long-term growth and profitability.
- Ensure your model is telling a consistent story and using the correct data, and can be easily updated.
- Plan for and communicate consistent, predictable guidance to establish investor confidence.



2. Financial planning and analysis

The financial planning and analysis (FP&A) function is the engine that drives your ability to instill investor confidence. Therefore, a public company should have an FP&A function that can provide reliable and accurate expectations to the market. In order to do this, you will need to gather information from different parts of the organization, including accounting, treasury, tax and other finance-related teams.

Many companies embarking on a public offering underestimate the amount of time required to get this information compiled accurately. In addition, be sure you have a realistic understanding of the level of market scrutiny that comes with public company communications.

Do the following:

- Develop key performance indicators (including non-GAAP measures) for monitoring and communicating financial performance.
- Establish regular budgeting and forecasting cycles that track historical data.
- Make sure your close times allow for coordinating with other teams so you are able to get what is needed to make accurate forecasts.
- Identify and select comparable competitors for benchmarking. Investors will naturally do this, so make sure you understand their approach.



3. Financial reporting

Public companies have compressed timeframes for financial reporting compared to private ones. Therefore, preparation should begin early with your finance and accounting teams to ensure that financial statements are ready to be presented in accordance with the appropriate reporting regulations.

Quarterly reporting will additionally be required; this adds yet another external reporting requirement beyond annual requirements. Understanding all the minute details can be daunting when you're facing severe time pressures.

Do the following:

- Conclude on the company's reporting status (i.e., smaller reporting company, accelerated filer, etc.)
- Convert private company financial statements to Regulation S-X compliance statements, including those for:
 - Segment reporting
 - Earnings per share
- Complete or update historical financial statement audits in accordance with Public Company Accounting Oversight Board (PCAOB) standards.
- Identify the need for accounting position papers to amend certain highlighted items (i.e., segment reporting) now needed as a Securities and Exchange Commission (SEC) registrant.
- Evaluate the financial close process, including reporting needs and calendar, as well as time to close.
- Prepare other financial statement information, including a registration statement and management's discussion and analysis of historical financial statements.
- Identify needs for pro forma requirements, including evaluation of any significant acquisitions under SX Rule 03-05.
- Prepare historical quarterly financial statements.



4. Internal audit, controls and risk

Operating as a public company requires a different, more stringent level of compliance. If your organization doesn't have internal expertise in Sarbanes-Oxley Act (SOX) compliance, it's important to hire a consulting company that does. Look for one that also understands the importance of adjacent risks such as cybersecurity and data privacy.

Do the following:

- Establish your current state of readiness and a roadmap that incorporates key SOX compliance dates and requirements.
- Provide detailed assessments based on defined materiality to identify key processes and in-scope IT systems.
- Document key processes and map controls to identified risks based on an appropriate framework.
- Test the design effectiveness of controls and develop a plan to test the operating effectiveness.



5. Corporate governance, legal and compliance

Establishing a robust corporate governance structure, operational processes, and controls and risk management are all key to mitigating risks and positioning your company for value-creation opportunities. You may be in unfamiliar territory as you deal with some of these activities.

Do the following:

- Establish board of directors' compensation policies.
- Establish investor relations function.
- Establish listing exchange and governance.
- Create a code of conduct and ethics policy.



6. Human resources

While financial considerations are the most visible aspects of the IPO process, considerable work also needs to go into the people side of the equation, so your company is IPO-ready.

Do the following:

- Evaluate and understand the new HR operating model and existing key policies and procedures to identify gaps, and create a new model based on public company best practices.
- Identify new roles the company will need to support growth, compliance and reporting.
- Evaluate and document total rewards strategy and compensation processes to determine competitiveness and reasonableness.
- Evaluate and execute compensation policies, processes and procedures related to the board of directors, committees, SEC disclosures, future state executive compensation plans and compensation strategy.
- Evaluate HR technology to determine whether it can support SEC reporting requirements, compensation disclosures, policy distribution and acknowledgment, and training delivery and documentation.



7. Technology

Your IT team needs a defined three- to five-year strategy that aligns with and supports your organization's overall vision and strategy. With the right technology, you will be able to see data in new ways, which can provide valuable insights during your IPO process. As a public company, it is also vital that the infrastructure and controls are in place to ensure cybersecurity and data privacy protections.

Do the following:

- Establish IT and cloud strategy, design and governance.
- Establish infrastructure deployment and managed IT services.
- Focus on data privacy and cybersecurity.
- Select, implement and support core business application (i.e., enterprise resource planning, business intelligence, customer relationship management).
- Plan for disaster recovery and business continuity.



8. Taxes

Keeping tax requirements at the forefront can drive better returns for a newly public company by maximizing tax benefits while minimizing tax risks. Do you have the right team to advise you through the IPO process and then handle complex public-company tax requirements?

Do the following:

- Ensure proper tax structuring takes place to achieve the most advantageous outcome.
- Define the new legal entity tax structure.
- Ensure the right tax team is in place after the IPO to assist with additional compliance complexities.
- Add appropriate tax resources to support financial reporting (i.e., tax provision/ASC 740).
- Plan for future expansion to minimize tax exposure and corresponding tax filings.

Get help along the way

Middle market, growth-oriented companies can usually benefit from partnering with strategic advisors and external auditors to support them in the run-up to an IPO and see them through the process. RSM has the specialized knowledge and necessary experience to help with the eight key considerations addressed in this guide. Among your most important initial steps, a public company readiness assessment can help you identify where you are today and what you should do next on your journey to going public.

Going public is a huge achievement for any growing business. Make the most of that achievement by thinking today about what [needs to happen next](#).



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