

# IPO readiness

## 8 critical steps to prepare for going public

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 initial public offering (IPO) can take 12 to 18 months to execute. During this time, there are many areas of your business that will likely need to transform to ensure that your organization is ready to operate in the public markets. This process is extremely time- and resource-intensive. The most important steps in this process are ensuring your equity story is quantifiable and supportable and 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 understand 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. RSM can help you set realistic benchmarks to accurately determine the readiness across department structures, processes, risks, controls, policies and procedures—maximizing assessment effectiveness. In addition, RSM can help you sequence the order and timing of the related workstreams to help ensure a successful process.

**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 roadshow.

To establish investor confidence and avoid delays during the due diligence process, ensure you've addressed 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, 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.

Is your team ready for these new responsibilities? Consider these steps:

- 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. You want to ensure that financial statements are ready in accordance with U.S. public-entity accounting principles. Quarterly reporting adds yet another external reporting requirement beyond annual requirements.

Understanding all the minute details can be daunting when you're facing severe time pressures. Focus on these critical tasks:

- 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.
- Prepare other financial statement information, including a registration statement and management's discussion and analysis of historical financial statements.
- 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 (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.

Among the issues you will need to address are these:

- Your current state of readiness and a roadmap that incorporates key SOX compliance dates and requirements
- Detailed assessments based on a defined materiality to identify key processes and in-scope IT systems
- Documenting key processes and mapping controls to identified risks based on an appropriate framework
- Testing design effectiveness of controls and developing a plan to test 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:

- Board of directors' compensation
- Investor relations
- Listing exchange and governance
- Code of conduct and ethics policy

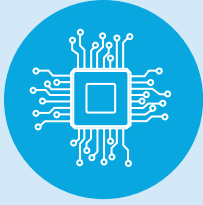


## 6. Human resources

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.

To prepare for life as a successful public company, make sure to address these critical tasks before and after the IPO:

- 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 to 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.

Here are some critical technology considerations:

- IT and cloud strategy, design and governance
- Infrastructure deployment and managed IT services
- Data privacy and cybersecurity
- Core business application (i.e., ERP/BI/CRM) selection, implementation and support.
- Disaster recovery and business continuity planning



## 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?

Here are some of the tasks you'll need to complete:

- Ensuring proper tax structuring takes place to achieve the most advantageous outcome
- Defining the new legal entity tax structure
- Ensuring the right tax team is in place after the IPO to assist with additional compliance complexities
- Adding appropriate tax resources to support financial reporting (i.e., tax provision/ASC 740)
- Planning 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 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 steps, we can help you conduct a public company readiness assessment so you can identify where you are today and what you should do next on your journey to going public.

**If going public is in your future, contact a member of our capital market services team to discuss.**

---

**+1 800 274 3978**

**rsmus.com**

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed. RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International. RSM, the RSM logo and the power of being understood are registered trademarks of RSM International Association.

