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10 KEY CONSIDERATIONS FOR GOING PUBLIC

It's easy to underestimate the time and capital required to execute a successful IPO. Below are 10 key considerations that will help you avoid common pitfalls and best prepare for life as a public company.

1. Identify key drivers and metrics of the company's success early

Early in the process, companies should identify the key financial metrics they plan to provide to investors post-IPO and consider if this information can be included in their registration statement for additional consistency. Specific consideration should be given to the metrics that peers use to describe their businesses and guide future performance, along with any additional supporting materials they provide. Understanding and adhering to these standards will ensure your company's information is consistent with investors' expectations, while also demonstrating a commitment to open and honest communication.

2. Perform valuations early to prevent filing delays

Pre-IPO companies are often unaware that some complex financial instruments must be marked to fair value at each reporting period. Insufficient historical common stock valuations or failure to fully analyze these instruments up front can leave your company scrambling to perform third-party valuations and receive sign-off from external auditors. These costly delays can be prevented by evaluating a company's historical common stock valuations, completing an inventory of all potential fair value instruments, and assessing the required valuation dates.

3. Maintain ownership records and detailed legal documentation

To complete an IPO, company ownership interests—including preferred stock, common stock, warrants, and stock options—must be tracked accurately from inception to date, and all corresponding documentation must be maintained properly. Proactive efforts can help your company avoid retroactively cleansing data and obtaining paperwork approvals from the board of directors. Such efforts include ensuring systems and processes are in place for real-time tracking of stock-based compensation activity, maintaining quality legal records, and preparing corporate documents for the due diligence process.

4. Prepare quarterly financial data for SAS 100 reviews

For trending purposes, underwriters often require that financial information for the most recent eight quarters be presented in the Management's Discussion and Analysis (MD&A), and they may request SAS 100 level "comfort" on these numbers. Interim financial statements included in the S-1 filing must be presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Your company can prevent delays by identifying and recording missing quarterly entries before external auditors begin their reviews.

5. Address and leverage SOX readiness and compliance

Preparation for SOX compliance requires an understanding of current state business processes, financial reporting risks and an optimally designed suite of internal controls to mitigate these risks. Documenting business processes is not only a starting point for SOX readiness, but also can help a company identify opportunities to automate and drive process efficiencies.

6. Don't underestimate the time needed to complete PCAOB-compliant audits

Annual financial statements presented in a registration statement must be audited in accordance with Public Company Accounting Oversight Board (PCAOB) standards. It is not uncommon for external auditors to request increased documentation from management and reassess past judgmental accounting conclusions. Management should maintain an inventory of all critical accounting issues and prepare technical accounting memoranda documenting conclusions for each issue. Critical accounting issues often include revenue recognition, capitalized software development costs, segment reporting, earnings per share, stock-based compensation, and other complex equity transactions like redeemable preferred stock and warrants.

7. Ensure finance and accounting roles are properly filled

The move toward becoming a public company is a general maturing of your business and an organization-wide transformation. The move requires a change in thinking that must come from the top. Your executive-level team should communicate their buy in to the benefits of acting like a public company and help their respective teams alter their mindsets, as well. Such a move will not affect just your finance and accounting departments, though that is a good place to begin assessing whether you have the right people in place—a strong controller to manage closing the books, a financial planning and analysis team to forecast results and provide estimates to analysts, and a financial reporting function to take care of SEC reporting needs. Filling these roles with individuals who have public company experience can be helpful, and you might also consider seeking an experienced CFO that has already been through the IPO process.

8. Evaluate technology systems

In preparing for an IPO, your company should evaluate the ability of its current technology systems and processes to support life as a public entity. You might need a new ERP system, a more robust inventory management system, or more advanced FP&A and financial reporting tools. The selection process for new technology can take months, and it can take a year or more to implement some business systems. You can be proactive and begin this process early instead of having to juggle significant technology changes at the same time you're doing your first filings as a public company.

9. Identify and assemble a team of advisors

A successful IPO requires effective coordination of numerous stakeholders, including company personnel, company counsel, underwriters' counsel, external auditors, investment bankers, accounting advisors, financial printers, investor relations resources, and valuation specialists. External partners provide experience and expertise in completing both the filing process and post-filing tasks. Identifying the right external partners is integral to ensuring a successful and smooth transition to public-company life.

10. Understand that ringing the bell is just the beginning

Successfully completing and filing the effective registration statement and watching the stock start trading is just the beginning of life as a public company. As a public registrant, your company must consistently and accurately close the books and produce financial statements by the required reporting deadlines. You may need to reduce financial close cycle times to meet SEC reporting requirements and/or produce timely financial information. Accurately forecasting revenues, earnings per share, and KPIs is critical, as analysts will build their models and measure your company's performance against those expectations.