



# The IPO and Beyond:

## The Keys to an Enduring Financial Foundation

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## **Executive Summary**

For thriving businesses, the initial public offering (IPO) is a major milestone, as your company receives a capital infusion and undergoes a far greater degree of financial scrutiny from auditors, regulators, and investors. In most respects, the reporting, process, and control burdens fall on the shoulders of the CFO, controller, and the rest of the finance team. And those responsibilities begin well before the watershed date when shares are traded for the first time.

This white paper describes the four keys to IPO readiness: streamlined financial processes, robust internal controls, a skilled financial staff, and best-in-class business systems. But it's important to remember that the IPO isn't the finish line. In most respects, it's actually the starting line, marking the beginning of new demands on your people and processes. This white paper will also discuss post-IPO considerations using the experiences of executives who have successfully taken their companies public. You'll learn about the essential requirements for fast and accurate financial reporting, regulatory compliance, forecast accuracy, and data visibility.

## **Getting Ready for the IPO**

For most executives, the IPO represents the culmination of a long, successful journey from start-up to market-proven success. But preparing for the IPO is generally one of the most challenging processes a business leader can undertake. The large volume of challenging financial preparations leaves many finance leaders unsure where to start.

The best place to begin is with your financial system. Smart pre-IPO firms start to use a modern, IPO-ready financial management system at least 12-36 months before the planned IPO. Entry-level accounting software like Intuit QuickBooks may have been valuable during the early months of a small company—and perhaps could even stretch to handle a few elements of the IPO process. But it's absolutely infeasible to build a corporate IPO process on QuickBooks.

Similarly, you also don't want to rely on outdated and inflexible legacy financial systems that lack the features and reporting capabilities you need. You want to avoid employing your finance team just to manage all the reporting and analysis work that your legacy system is incapable of handling. A dynamic, cloud-based financial management system ensures that you, your team, and your system are ready to handle the rigors of the IPO process and keep your staffing level low as you prepare to go public.

## **Pre-IPO Key No. 1: Streamlined Financial Processes**

Public companies must be able to close the books in a timely fashion and create the financial statements. Leaders of companies on the cusp of an IPO understand that the company needs streamlined financial processes and a robust financial management system to handle the scrutiny of the IPO disclosures and financial reporting before and after the big event.

A modern, cloud-based financial system enables your company to be IPO-ready with financial statements built on well-documented, carefully organized transactions and balances. The best cloud financial systems make it easier for you to trace all financial activity from the original transactions and supporting documentation through the business processes and into the financial statements for faster closes, accurate financials, and easy auditability.

A modern financial management system automates functions like order processing and consolidations, preventing (or, at minimum, delaying) from the need to hire added financial staff. Eliminating the use of spreadsheets for processes such as revenue recognition or currency conversions ensures a greater level of accuracy and stronger compliance with accounting standards. In addition, look for a system with powerful and flexible reporting capabilities that enable you to meet statutory reporting requirements as well as your own management reporting needs.

## **Pre-IPO Key No. 2: Robust Internal Controls**

IPO preparation requires a robust set of internal controls that demonstrate the effectiveness of your accounting and reporting processes. For example, you must document and follow approval processes for POs, employee expenses, sales contracts, journal entries, and more. Proper financial controls ensure these transactions cannot be completed without proper approvals—every time. A system of checks and balances (segregation of duties) ensures no single individual has control over all parts of a financial transaction—and generates the audit trail to prove it.

One key to IPO readiness is complying with the guidelines of the Sarbanes–Oxley Act of 2002 (SOX). Under SOX, publicly traded companies undergo a strict audit of their financial information and the internal controls they use to determine how well the company establishes and maintains adequate management controls over its operational and financial information. Part of your pre-IPO ramp involves preparing to comply with the many provisions of SOX, which can take 12-24 months before the IPO.

The right financial management system should assist you in your SOX compliance and audit process. For example, you need to demonstrate to SOX auditors who can access financial systems, what tasks they can perform, and who can enter and edit data. SOX compliance also requires you to show the history of changes to system access, settings, and data. Your system should let you report on these settings and activities to clearly demonstrate that proper controls are in place to govern finance and accounting processes.

## **Pre-IPO Key No. 3: Skilled Financial Staff**

Too often, a pre-IPO company perceives that it must significantly expand its finance team to meet the coming challenges. However, with a modern financial management system, most companies can comfortably manage their growth without hiring extra staff because there's no major increase in manual work. With a more efficient closing process and stronger reporting, finance can focus on analyzing the unique dynamics of the business, not merely churning out basic reports. With time to truly understand the nature of your business, you can focus on the new skills you need to develop or hire to prepare for the IPO and beyond: budgeting and forecasting, treasury, and SEC reporting.

## **Pre-IPO Key No. 4: Best-in-Class Business Systems**

No modern financial system can exist in a silo. It must connect with numerous other applications, systems, and processes. Using standard APIs and Web services in the cloud, companies can link all business systems into a comprehensive financial system of record. With a free flow of data from payroll, stock administration, project management, billing, and CRM systems, you can do more with less. You can have more confidence in a faster close process, spend less time tracking down details across multiple business systems, and scale your finance capabilities without hiring extra staff or specialized IT resources.

Your system should also be capable of growing with your organization, with the flexibility and scale to support you as you add revenue and expand your business opportunities.

## **Beyond the IPO**

After you establish solid accounting and reporting procedures and strong controls, you and your finance team are ready for the rigors of going public. But this isn't the finish line—it's the starting line. Things change for your business once you are publicly traded. Business leaders who have taken companies public agree that there are four things that merit your focused attention:

### **Post-IPO Key No. 1: Fast, Accurate Financial Reporting**

While the IPO is a tremendous milestone for any company, it is, after all, a single day. The financial processes and systems of public companies must continue to evolve and improve over time. As the public company grows, the finance team must manage global expansions and M&A events while continuing to build a best-in-class ecosystem of business solutions.

The right solution must be configurable to meet your unique initial requirements, while remaining flexible enough for you to subsequently make further configuration changes without requiring extensive customization by your IT staff. A modern, cloud-based financial-management system should have an easily scalable architecture for adding multiple entities and locations as your business expands.

## **Post-IPO Key No. 2: Regulatory Compliance**

After the IPO, your company's margin for error is lower than ever. There is much greater scrutiny on your reporting—SEC regulators, auditors, analysts, investors, and the media are all paying very close attention. You no longer solely report to the board and your lenders or private investors. Now, your financial statements are posted online for the world to see every quarter.

Look for a cloud-based financial management solution that receives regular updates every quarter so your company remains current with ever-changing guidelines for revenue recognition and other complex accounting standards. The best financial management systems let you establish internal policies and exercise accounting judgment using a flexible system that you can configure to meet your unique needs. Avoid the constraints of systems that use a fixed, predefined methodology. Your system should let you keep pace with business and regulatory changes—without burdening you with extra work and costs.

## **Post-IPO Key No. 3: Focus on the Forecast**

Providing guidance on future earnings is an important change for the newly public company. Before the IPO, a then-private company looks ahead for planning purposes and to inform the board of the company's outlook. Most often, that happens in the form of a few slides and spreadsheets—and behind closed doors. As a public company, however, your forecast becomes public. What's more, your ability to meet that forecast is perhaps scrutinized more heavily than the forecast itself. Miss that earnings or revenue guidance—too low or too high—and you're signaling investors that you lack the ability to forecast accurately and manage to the specific plan you set. This weakens public trust in your guidance, makes your business appear more risky, and ultimately lowers your stock price.

The most important component of forecast accuracy is a system that enables greater insight into business operations. To keep on top of your forecast, you need real-time visibility into both financial and operating data—in the same place. Of course, what's important to your business will change over time. So, a flexible, modern financial management system is needed to keep up with the rapid pace of change.

## **Post-IPO Key No. 4: Data Visibility**

Going public means that the CEO and CFO spend less time on the top line and more time on the bottom line. As a private company, the focus is on growth—revenue growth in particular—with careful attention to bookings forecasts, revenue forecasts, billings, and cash flow. This is particularly true for software companies, for instance, that rely on recurring revenue, renewals, and low churn to keep growth humming along.

But after the IPO, much of the CEO's and the CFO's attention turns to the revenue and profit forecast and managing to that guidance. Rather than focusing exclusively on growth, a public company now requires visibility into to a variety of costs. The focus on the bottom line is an implicit change that CFOs must figure out quickly before suffering the market's wrath after a missed earnings forecast.

Before the IPO, the corporate controller was generally tasked with managing the bottom line. Post-IPO, a new discipline emerges – financial planning and analysis (FP&A) – that combines cost management and revenue planning. FP&A may be handled by a new person you hire, or it may be a responsibility that the CFO takes on. Either way, it is a significant change for a newly public company.

For reliable data visibility, you need a financial management system with the flexibility to drill down into any exception and slice-and-dice by business drivers such as project, customer, or department to understand the true nature of your business. You can master the cost-management process by getting granular – by digging into the budgeted and actual expenses for each department, team, and project – but you need the ability to do that in real time. By achieving this detailed level of real time visibility, you can hold small groups more accountable for their own budget and performance management. The burden of accountability no longer lies just with the finance team because individual departments have granular access to their numbers, providing a level of detail that lets you identify and respond to both challenges and opportunities faster.

## **An Unwavering Focus on Growth**

The IPO may be an exit event for some investors, but for your employees, customers, and new investors, the IPO is merely another milestone in a long journey of building and operating a successful company. By selling a portion of the company in the IPO, you receive millions of dollars in cash that can help fuel future growth. To manage all that new, public money you need a system that supports operational growth and strategic complexity.

Fast-growing companies must understand what's working – and what's not working – from a business perspective, not just the financial metrics. If something's not performing, you need the deeper insights to understand why, and you need this insight in real-time so you can make rapid course corrections. When you are moving faster, you need to see further ahead. The right financial system helps you achieve this visibility before and after your IPO.

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