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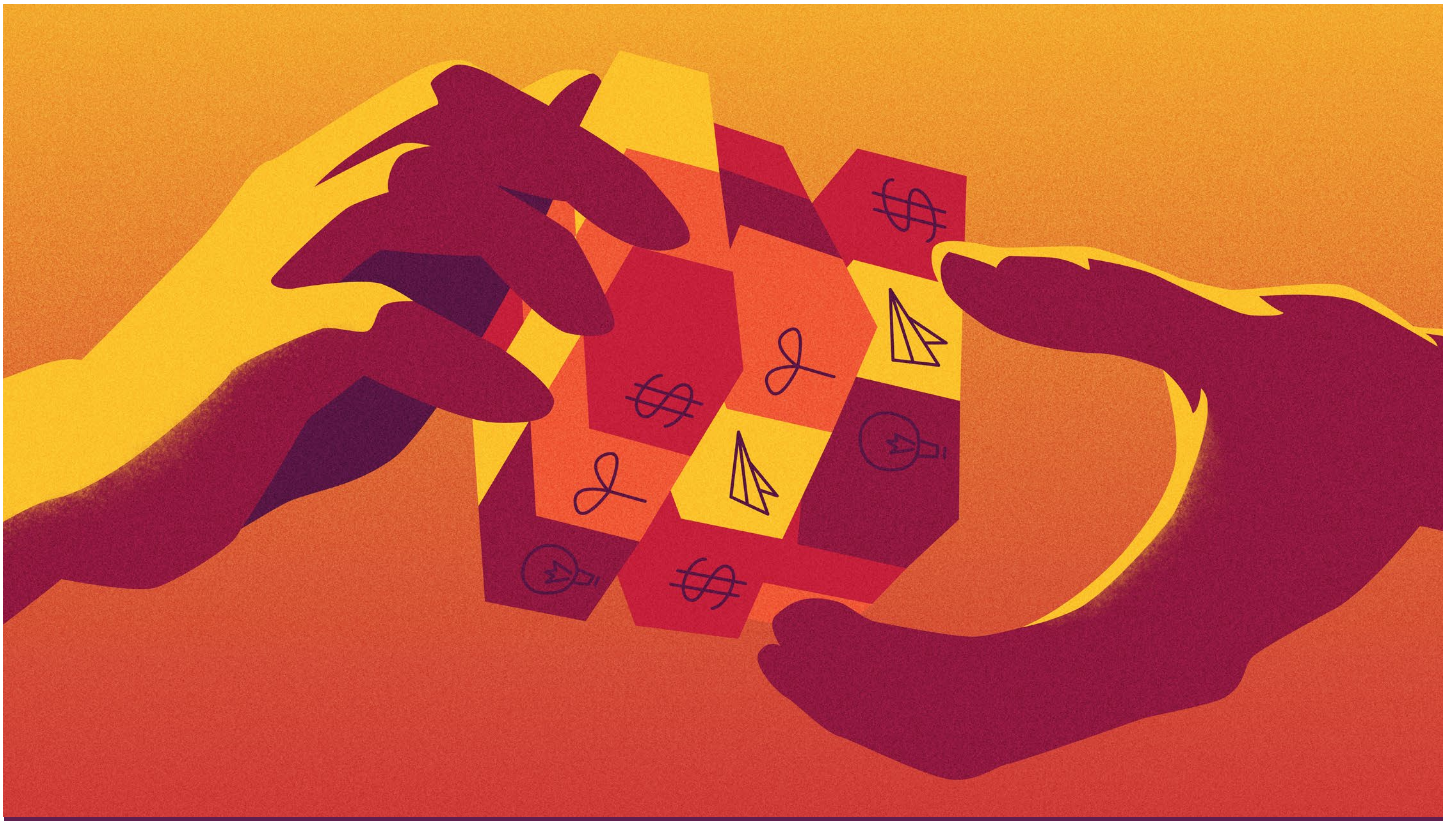

The IPO journey

6 potential obstacles to avoid for a smooth trip

By Kathy Ryan

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Going public is a complex and expensive endeavor. There's the S-1 filing, the exhausting roadshow and the elation of seeing the company's shares get snatched up by investors.

That's actually the easy part.

The tough aspect is all the preparation that leads up to the IPO that could take anywhere from a year to potentially two years. And the really tough part comes after the first day of trading—when endurance and stamina are required just as employees want to take a deep breath and chill.

Working at a newly public company quickly becomes complicated. Everyone leans in to watch your every move. Competitors suddenly know what the company has planned and when the company expects to start bringing in revenue, if it hasn't already. Analysts will have a rapid-fire flow of questions in their back pocket, prepared to probe about your commercialization strategy. Regulators could chime in at any moment about the details that only your management team know.

Too often, top executives underestimate the extensive work involved in becoming a public company and end up making blunders that can block its growth, burn out employees and hold back the business. This paper reveals 6 commonly overlooked areas that can trip up leaders of fast-moving companies as they plan for an IPO.

> The truth is that going public is an arduous journey, and very different from actually being a public company. The frenzied IPO transaction time is just one short stage in the long journey toward becoming a successful business that has well-established processes and slick efficiencies. Smart companies build their infrastructure well in advance and plan for a lengthy transition to being a public company—all of which easily spans two to four years in time.

1. Avoiding the tough questions

Valuations. Glamour. Prestige. Working at a company that goes public under your watch can be gratifying and exciting. It's an accomplishment. Suddenly, the company gets attention and its worth gets debated. Instead of the company's financial reports getting internally circulated, they're getting widely disseminated for a wider range of investors. But is the company ready for such a change? It's not a question that's always asked when companies are in the midst of IPO mania.

Be sure to ask the following questions before moving forward on the IPO journey.

Are you doing it for the right reasons? Of course, a notch in the ol' ego is no reason to go public. But it's easy to get swept up. While personal wealth is indisputably nice for the stock-holding employees who stand to benefit, it shouldn't cloud anyone's judgment. The road ahead to and beyond the IPO is riddled with enough potholes that only valid business reasons (the need for a boost in capital to fund the company's growth trajectory) should be what is driving the company forward.

Have you thought about the alternatives? CEOs and CFOs need to give both the pros and cons a thorough look before putting their company, their employees and their own reputation on the line. Throughout the process, the company should keep its options open and consider alternatives as the market and conditions change. An M&A route would require many of the same cautions we've made in this guide, while private equity and strategic alliances are other possible avenues.

Are you prepared to give up control? Consider the fact that the company will no longer be an organization run by just a few people but a company owned by anyone who wants to buy a piece. Investors will earn their right to get some of the decision-making power—and their portion of the profits—and the existing management will no longer have all the control.

These new owners and observers will want a constant stream of information—whether it is details about timelines and burn rates, new client acquisitions, partnership agreements, when the next product is coming out, how the latest clinical trial is going or what's holding up an FDA approval. Get ready for key investors to play a larger role in managing the day-to-day business. And question as you bring investors into the fold whether they are the right ones, the type of investors who agree with the business strategy.

2. Skipping the prep work

Think of when you last sold a house and someone finally made a bid. Did dread kick in once you realized you had one more hurdle to cross—the inspection? A pre-inspection would have saved you some anxiety and prevented surprises.

Similarly, companies need to get ahead of potential problem areas by undergoing a thorough self-assessment and getting their house in order before their IPO. Get ahead of potential issues, and the company can minimize the cost and risk involved.

It's so much easier to fix problem areas *before* you go public. Note that we didn't say this would be "easy"—just easier. Companies that were unprepared are the ones you see making restatements and having to explain their mistakes. How to preempt mishaps? Take these actions before going public:

Get your story straight. The story in the prospectus, on the website and in the press releases has to match the one told by senior leaders when they're promoting the company. Surprisingly, this is not always the case. Investors and analysts need a compelling and truthful story. What are the key business metrics the company uses to make decisions? How does it stack up against the competition?

Brace for scrutiny. Anticipate questions and have potential answers ready. It's one way to think out the right responses, and it will also help the company keep a united front. Be sure to loop in all functions in the company, including investor relations.

Start acting like you're already public. Operate like a public company for at least a year before the IPO, and stretch it out to two years if you can. You'll avoid the mad scramble toward the end because you'll have ironed out the wrinkles—the outdated systems, the manual processes and the learning curve over SEC requirements.

Develop a SOX timeline. While companies do not need to submit their first Sarbanes-Oxley (SOX) compliance reports until their second 10-K, they should assess their corporate governance and internal controls way before then. A well-designed system of internal controls will help prevent material misstatements to financial statements. And it can prepare the company for the testing that'll be needed to be done before that 10-K filing. The first rounds of SEC reporting deadlines create their own challenges without having to build in a SOX program from scratch on top of it all.

Keep in mind, plugging holes that creep up before the IPO is a much easier task when you're out of the public eye.

3. Being unprepared for a big culture shock

There's a bubble that forms over young, private companies. They may grow rapidly, from the a-ha moments in a lab to a full-grown machine making a product that can save lives, with dedicated employees making it all possible. They can operate under a looser structure than the more mature crowd, following their own rulebook, handmade metrics and a select few observers and invested parties. They may dress the part and become buttoned up when meeting with lenders and venture capitalists, but most of the time they do their own thing.

Prep the troops. Going IPO is a tectonic shift. And all too frequently, companies don't stay in front of it to actively manage the needed changes to their corporate culture during this time. That's a mistake.

Employees are being asked to go along for the ride as the company transforms away from an entrepreneurial mindset to a more disciplined, accountable organization. This new mode of operating may clash with previous philosophies of the company founders. At the same time, most of the management team will be hyper fixated on this massive project and distracted from the core needs of the business. They might accidentally overlook the necessary steps needed in this area.

Being tight-lipped at this point is not going to fly. Keep employees informed, when the time is appropriate, on insider-trading rules and restrictions, such as the initial lockup period.

Set the tone. Establishing a tight culture is one way to keep everyone motivated. The type of culture a company follows determines whether employees believe in what management is doing, whether they feel others in the company have their back, and it has a deep effect on how they present the business to others, including clients and suppliers.

Culture should be managed during the move from private to public status. Decide how it will evolve and how much you want it to stay the same. Managing the culture involves more than sending an email to the entire company and hoping everyone pays attention. It needs to be continually communicated, with incentives for employees to follow it and provide feedback. Here is how to begin:

1. **Understand the existing culture.** Go beyond what you want the culture to be or how you think it should be. Observe from afar and get a sense of the norms that have developed over time. How do employees and managers interact day to day? What are the common threads?

2. **Define the desired culture.** Establish a set of core values and share them with the team, customers and suppliers and anyone else who needs to know. These values influence everything the company does and are always in the back of everyone's mind as they work. New operating rules will shift the patterns of communication, openness and transparency, making widespread use of the values even more crucial.

3. **Actively manage the culture.** The shift to a more disciplined, rigorous environment will require executive support, to bring about process tune-ups, system upgrades and behavioral changes at all levels. Celebrate the successes. Be frank and honest in assessing any missteps. Regulatory requirements will dictate some changes in behavior and culture—for example, future forecasts might not be able to be shared as openly as when the company was private. By keeping everyone informed of the changes, the company can hold onto the culture everyone holds dear.

4. Lacking the right talent at the right time

Carefully evaluate the staff and their skillsets throughout the IPO journey. Is it a good match? Are you covered for the increased workload? Make sure your team is not stretched too thin. We once worked with a resources-strapped client that was heavily dependent on two people in the finance organization, but it did not add headcount when it went public. When one of those key people left, a huge vacuum was created and the pressure was thick. Shortly after, the company took on an acquisition, further overloading the existing team.

Big transactions overload employees, especially understaffed teams. Before the IPO, do an inventory of the skills within the company and what it will need on the other side. Look under the hood: Who will be able to carry this effort forward, and will they stay for the whole ride? Anybody been through it before? To what extent can existing employees be trained to withstand the needs of a public company, and to what extent does the company need to look outside to fill in skills gaps? Is the management team a cohesive group that can work together despite differences, even when heated issues arise? Get ahead of the tsunami.

Another factor that can slow down employees is the changeover to new systems and processes. They need to be scalable to meet the increased business needs. A switch to robust systems and automated processes is better done early, so the company can train employees on the new ways of doing business and squash any bugs beforehand. (If this sounds like a pretty basic suggestion, then you're ahead of the game. We are constantly surprised by manual process that have crept up at companies and the "this is how we've always done it" thinking that is hard to overcome.)

5. Being in denial about the Day 2 hangover

Trust us, there will be an IPO hangover and it's what happens on "Day 2" after the IPO when the company starts operating in a whole new world. The celebratory balloons have run out of helium and are grazing the floor. The investment bankers and advisors have long ago left the building.

The emotional frenzy felt throughout the company in the weeks leading up to the IPO is waning just as the higher demands for all sorts of business information and activities are ramping up. The team will need to grow accustomed to the fact that, in the beginning, following new rules will take longer and be more cumbersome until it becomes routine.

Consider the winds of change that take place post-IPO:

Private company norms vs.	Public company reality
Loose deadlines	Strict deadlines
Wiggle room to procrastinate on reports	Shorter turnaround times
Accounting rules are viewed as guidelines	Accounting rules must be followed
Headcount can stay small; more flexibility to outsource	Need for specialized skills (i.e., SEC reporting, SOX compliance)
Decision-making is centered around long-term needs and results	Decision-making is centered around short-term needs and results
Accountable to a select few	Accountable to shareholders

The transitional period after the IPO, when the team gets its bearings, deserves as much attention as the other parts of the process. It could mean bringing in specialists to supplement the work that needs to get done and alleviate some of the stress.

6. Not actively managing the share price

Contrary to popular opinion, corporate leaders can influence how investors perceive and thus value their company. But so many executives throw in the towel when it comes to managing their share price. They simply think it can't be done.

With the right messaging, executives can indeed tell their story to investors in the language investors can appreciate. We're not talking about typical PR or investor relations here. Effective messaging with investors takes some getting used to as company executives and fund managers tend to live in two different worlds, with different languages and different priorities. Corporate leaders might have MBAs or scientific and advanced technical degrees and know how to run a business, while many investors have degrees in mathematics. Analysts are more focused on the future—the longer term growth and prospects for the business—while management is more accustomed to focusing on the latest quarters and how they are doing this year.

CEOs and CFOs share a steady stream of numbers, from current revenues and costs to assets and liabilities. In addition to this, the investor camp is interested in more information. They evaluate the longer term factors that increase the stock price "multiple." They look at a range of business assets—both real and intangible—as they evaluate whether to buy shares of a company for their portfolio. To bridge the gap, company leaders need to hone their storytelling skills to speak this language of investors. How a company describes its talent, product roadmap, geographic expansion and channel moves, for instance, can highly influence share price.

Combined with first-rate investor relations efforts, a robust share price strategy will make the company shine over the competition. Vital tools such as an "equity storyboard" for letting investors know how the company is managing factors that push it above their industry benchmark can be used. And techniques such as carefully matching the outbound corporate communications to the equity storyboard and identifying improvements can also influence the share price.

Conclusion

With so much on the line, companies should plan carefully when going IPO and steer clear of underestimating the work involved in these 6 problematic areas. That means dealing with the tough questions head on and preparing the company for the IPO a year or even longer ahead of time. Shoring up the systems and processes is a must as is managing the corporate culture during this transitional trip. Assess the talent on hand and the company's changing needs, all while learning to speak the same language as investors. It's a tall order. But by viewing the IPO as a journey, companies can plan for a smoother ride.

Great finance can help you stay upright as your company undergoes radical change. The right finance solutions involve getting your financial house in order, firming up your internal controls and aiming for the most beneficial outcome for your IPO. Get ready for the grueling trek through the Day 2 hangover and the first years acting as a public company. Lean on the experts to interpret regulations and accounting rules that you'll need to navigate. Let us guide you through the exciting journey ahead.

About the author

Kathy Ryan guides the ship of RoseRyan as CEO and CFO. Since founding the firm 25 years ago, she has worked with hundreds of Bay Area life sciences and technology companies in CFO and other advisory roles. Her leadership has been widely recognized, from the *San Francisco Business Times* naming her an influential woman in Bay Area business and the *San Jose/Silicon Valley Business Journal* naming her one of the most influential women in Silicon Valley. Kathy also made *Accounting Today's* national listing of the sector's top 10 leaders, known as the Managing Partner Elite. Kathy was director of finance at Quantum and tax manager at Price Waterhouse before co-founding RoseRyan in 1993.

About RoseRyan

RoseRyan takes dynamic companies further, faster, by delivering specialized finance and accounting solutions at every stage of your company's growth. Versed in Silicon Valley's rapid pace and unique business environment, our consulting firm has helped 800+ companies achieve success since 1993. No matter the size of your company or the scale of your next endeavor, RoseRyan has the wide-ranging solutions you require to accelerate growth.

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