SIX KEYS TO PREPARING YOUR SOFTWARE COMPANY FOR IPO

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The initial public offering is an important milestone for any private technology company and one that requires a great deal of preparation and planning. When I took NetSuite public in 2007, it was my third IPO. IPOs are taking longer and there are more considerations that the CFO and CEO need to take into account. The stakes remain high and there is little room for error, so I'd like to share with you my thoughts on what it takes to position your company for IPO success.

Before I get into the details of the six keys for IPO success, I'd like to touch on the importance of pre-IPO planning and preparation. You must take the time to consider the impact going public will have on all areas of your company; this goes beyond financial, legal and investment banking capabilities. Identifying the gaps between the requirements of being a public company and your current capabilities is a great place to start. The most important advice I give private company executives who are considering an IPO is this—you need to start acting like a public company before you are one. These six keys will help you make the transition from private company to public company success.

1. Upgrade the finance organization
   A public company requires a sound finance function run by the right people and well-documented processes. Of course, the staff must be experienced in areas such as accounting, tax, stock, IR, legal and SEC compliance. A strong CFO and Controller are obviously important, but so is finding mid-management individuals with sound expertise and decision-making capabilities. Many people focus on hiring individuals with prior experience working for a public company, but I think it is equally important to find individuals who have been successful in rapid-growth tech companies. The finance team must also be well versed in systems and processes—willing to identify and shore up any gaps with regard to data management, automation and reporting.

2. Improve systems, processes and controls
   It is critical to lay a strong and comprehensive financial foundation in advance of beginning the IPO process. Piecemeal approaches often lead to investments later that exceed the cost of doing it right from the beginning. You'll need three years of audited financial, which means you need three years of financials and data in your systems. For example, revenue recognition is very complex for software and technology companies, and having a system with integrated support for the EITF 08-01 and 09-03 will eliminate the manual reconciliation that often leads to errors and a lengthy close cycle.

Processes must be established for key areas that touch revenue, headcount and all other major expenditures. But establishing these processes is just the first step; your infrastructure must have the necessary controls in place to manage these processes, as well as the flexibility to accommodate changes down the road.

3. Prepare for rigorous financial reporting
   Your financial statement production must be clean and efficient so it pays to invest in systems and automation that supports global consolidation and financial reporting. Eliminating manual reconciliations and data entry is critical as these will not scale as your business grows in volume or complexity. Ensuring that your reporting processes are transparent with full audit trails will not only benefit you during the IPO journey, but will continue to pay dividends post-IPO as your business continues to grow.

   While SEC compliance reporting is important, don't neglect the management reporting that you need to run the business. This is equally important and requires that you deeply understand the fundamentals of your business. The ability to analyze past performance and forecast future performance requires investments in business intelligence and analytics so don't overlook these areas.

4. Establish good corporate governance
   Many private companies underestimate the time and effort required to establish good corporate governance. The board plays an important role in overseeing management's goals, strategy and decisions. They should understand the industry and the challenges the management team faces and be able to give sound and objective views and opinions. Establishing a governance framework helps both the board members and executive management understand their responsibilities and roles.

5. Establish investor relations and communications
   In addition to finding a good IR person early and involving them in the process, you must take the time to determine the key metrics you'll be reporting. Consider what drives your business and which metrics your competitors report. Keep in mind that, once these metrics have been determined, you won't be able to change them later. Then you must ensure that your infrastructure can report on these metrics. You must close any gaps identified in this area and build in a visible and transparent reporting processing in advance. I recommend that two quarters in advance of going public you run a test—what will you report and can you report it? "Missing" a quarter will result in a lot of pain for your company and recovering from a misstep like that will take a tremendous amount of time.

6. Develop risk management capabilities
   The world changes significantly as soon as you are a public company. You need a good relationship with Legal and a DNO policy. You also need processes for when the audit committee and/or the board begin to ask question about management expenses, approving costs, access to cash and cash forecasting.

I stated earlier that you should run your company as if it were a public company prior to the IPO. I'd also like to point out that if your private company aspirations are to be acquired by a public company, they will be looking for this same type of discipline in your finance organization. Investing in the infrastructure necessary to prepare for your IPO is just the first step to success. You must also ensure that this foundation has the flexibility you need to meet your future growth needs. After all, the IPO is just the beginning of the journey for transitioning from a private to a publicly held company.