IPO Readiness

Setting up Finance & Accounting for Success as a Public Company

BLACKLINE
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You’ve dedicated tremendous resources to innovation, growth, and meeting customer needs—and now you’re going public.

Yet once your IPO is in play, what’s going on behind the scenes—and on your financial statements—may suddenly take center stage and be subject to rigorous scrutiny. Shareholders, the board, lenders, and even the media may want to know before they commit that your financial performance and foundation is on solid ground.

The problem? Because you’ve had to allocate so many resources to innovation, development, and go-to-market, your day-to-day back office processes (including finance and accounting) have had to make do with fewer. Even if you’ve adequately maintained every accounting transaction, everything you’re doing may not be enough once you go public.

Functioning as a public company means handling new requirements, not to mention facing increased scrutiny from multiple entities, and doing all this faster and with little room or tolerance for errors. The benefits for going public can be exponential—but without a finance and accounting function that is in order, transparent, and ready to scale, the risk exposure also grows exponentially.

Too many companies today find their IPO timelines affected through surprising (or not so surprising) accounting challenges. Learn from their mistakes by getting your finance and accounting department in line early.
Use these four steps to help ensure your finance and accounting department supports, rather than impedes, your IPO:

01. Take Stock Before Selling Your Stock

02. Evaluate Your People Power

03. Invest in Smarter, More Scalable Processes & Systems

04. Ensure Controls Are Paramount, Not Peripheral
“Remember, ringing that bell on the floor of the NYSE or NASDAQ, while a huge accomplishment, is not the end. It’s just a beginning. Companies need to think well before that moment on how they plan to function as a public company.

“Start getting the ducks in a row early because once you’re public, it’s game on. You don’t have ramp up time to figure it out. You are expected to function like a public company from that moment forward.

“So ask yourself early, are you ready for the rigors of becoming a public company?”

—DEEPIKA SANDHU, PARTNER, CONNOR GROUP
The Ghosts of Accounting Past & Present

Unlike Vegas, what happens in Accounting doesn’t stay in Accounting. Any skeletons in the closet—such as incorrect Accounting and disclosures around revenue, equity, and other complex areas—can create major hurdles and delays as you prepare for your IPO.

Closed audits may need to be re-opened, and Accounting thought to be correct may need to be reexamined to ensure it is appropriate and aligned with generally accepted accounting principles (GAAP).

Shore Up the Past

Identify your accounting skeletons as soon as possible. This may require additional time and people power—resources likely already in short supply—but it’s far better to know now than to be surprised by your past, just as all eyes are on your numbers. Identify what needs to be fixed and create a plan to address all issues.

Going public means sharing your past and present numbers with the world. Yet addressing historical accounting matters can take time, which can be a challenge when your S1 filing date is just around the corner. Engage appropriate members of your team and outside experts as needed, to not just bring historical accounting issues to light but to address them swiftly.

Most common matters include the following:

- Closing out any open audits and updating completed audits to meet Public Company Accounting Oversight Board (PCAOB) audit standards.
- Addressing complex accounting transactions—revenue, equity, software capitalization, etc., may need to be reviewed (or re-examined) to ensure they are accounted for and disclosed correctly.
- Updating financials to align with public company reporting disclosure requirements.

Stay On-Top of Daily Operations

A common accounting challenge for companies preparing for an IPO is falling behind in the day-to-day tasks. Many companies live in a state of perpetual catch-up, dealing with prior year audits, fixing historical accounting (as discussed above), or even stuck in transactional processing hell (especially if those processes are highly manual or spreadsheet driven).

While being in a state of perpetual catch-up might work now, it won’t once you embark upon the IPO or go public. Simply put, as the IPO filing process may run four to six months (or longer) and thus require periodic updates to financial results, companies that can’t keep up with daily Accounting will likely cause delays in the IPO timeline. So carefully take stock of what is affecting your ability to stay on top of current Accounting and determine how to best address the most critical bottlenecks.
Are You Ready for a Close-Up of Your Close Process?

One process that is a typical challenge for any company aspiring to go public is the close. Transitioning from your private company close to the requirements of a public company close can be daunting.

Today, your close may take you 10 days or 40. Or you may not really complete a close. It happens more often than anyone thinks, especially if you’re still relying on multiple systems, accountants scattered across multiple offices, unclear accounting policies, and a slew of manual processes and spreadsheets.

Going public means focusing on the ART of the close, one that is Accurate, Reliable, and Timely. That means creating a close that is not only speedy, but more importantly, accurate, reliably correct, controlled, and consistent every time.

Specifically, a public company-ready close is defined as the following:

+ All “sub-ledger or sub-system” entries are posted, closed, and reconciled
+ All journals and month-end entries are posted
+ All key balance sheet and key P&L accounts are analyzed and reconciled
+ The financial analysis is completed
+ Management reviews are performed
+ The reporting package is completed and submitted
+ All of the above is done with zero audit adjustments post close

While anyone not working in Accounting and Finance might think this is a simple checklist, in reality, each step can take days or even weeks to complete. Worse, each step has the potential for numerous pitfalls due to:

+ Weaknesses in upstream processes
+ The way information is received from supporting systems
+ Having sufficient people or capabilities to perform close tasks
+ Reliance on manual processes and Excel...and many more

It’s important to assess what is challenging your close process—is it the team, the process, or the systems?—and determine how to address the most critical areas first so you can close as a public company before you even go public.
Preparing to go public means evaluating not just your process past but your people present. Your accounting staff is key to helping you get the most out of your accounting process and technology. They’re also your most valuable resource in analyzing and creating strategies that support the company’s longterm financial health and sustainability.

Yet too often, accounting teams within private companies lack the experience and capabilities that are critical to transitioning to—and functioning successfully as—a public company. The best advice is to start early evaluating what you have and what you think you may need. Consider these three points:

1. **Recognize that you may need new skills.**
   To get through the IPO process and to function as a public company, you’ll have new requirements. And this means you’re going to need people who know how to deal with these requirements. In addition, as a public company you won’t be able to rely on auditors to provide accounting or reporting expertise. This separation is a key part of the independence rules and will become apparent very early in the IPO process.

   Therefore, you will need technical accounting capabilities even before being public. Know that the most profound gaps in skills are often seen in revenue recognition, SEC reporting, and general technical accounting. Plan and prepare for this early; otherwise, the risks of IPO filing delays increase significantly. These new skills—and perhaps even new employees—are also a key component in avoiding indications of material weakness, or worse, the need for a financial restatement.

2. **To hire or train? Either way, do it early.**
   If you determine new people or new skills are necessary, decide how you’re going to accommodate this need. Do you need to hire new team members? Do you need to train existing employees? While it may be tempting to “wait and see” which resources you need after you go public, don’t. You need a good team in place and it takes time to find the right people.

   In addition, you may need to line up external resources. Companies that have had a successful and timely IPO process both plan far in advance and know when to ask for help. Your team can’t do it all—and shouldn’t have to—and engaging experts in certain key areas can be a smart move.

3. **The IPO increases work, so plan for it.**
   Going through an IPO and being public is significantly more work than most companies expect. The reality is you will most likely need more capacity and resources to keep up with the additional work stemming from the IPO and from functioning as a public company. Plan early and look to build the team over time. This is crucial to ensuring you’re not short staffed at a critical time in the IPO or while rushing to meet a public company reporting deadline.
Is your existing ERP “future proof?”

“While preparing for an IPO, manage your accounting department as if you are already a public company. Subject yourself to SEC reporting deadlines and the rigors of SOX internal controls testing. Leverage these experiences to identify the gaps in your people, processes, and systems and make the necessary investments to solve for these gaps not just for today, but for two to three years down the road.

“Then, as the confetti rains down on your head on the floor of the exchange, you will sleep easy knowing the next day you will be prepared to be a leader within a publicly traded company.”

—PATRICK VILLANOVA, CHIEF ACCOUNTING OFFICER, BLACKLINE

Going public also means your accounting processes and systems may need to be smarter and more scalable, capable of handling a growing volume of transactions and/or greater accounting complexities as the business evolves.

Your existing enterprise resource planning (ERP) system may have been a perfectly adequate solution to your accounting and finance needs as a private company. But as you get ready to go public, ask yourself this: Is your existing ERP reasonably “future proof?”

+ Can it handle the increased complexity of evolving and growing business?
+ Does it support localization requirements if you expand into new markets?
+ Does it provide robust and flexible reporting?
+ Does it provide and support appropriate controls, e.g., Sarbanes-Oxley (SOX)?
+ Is it able to scale with growing volumes and workloads?
Think, too, about other areas for which you may not have strong systems in place, such as billing, expense reporting, stock administration, procurement, and close management. Continuing to manage accounting tasks manually may mean it’s difficult to complete the close on time. As a public company, this can do more damage than you might think.

Accurate, reliable, and timely reporting to stakeholders requires easy and timely access to every transaction and the ability to aggregate data from disparate sources—without sorting through spreadsheets, or worse, file folders.

Take time to carefully evaluate your business processes and consider how you want to conduct business moving forward. Then select and implement services and systems that will improve and support your processes today and as you expand.

This doesn’t happen overnight. It takes time, from evaluating what is and isn’t working, to determining the best solution, and finally to implementing, testing, and training staff on the new process and system. Give yourself the best chance of success as a public company by being thoughtful about the processes and systems you implement.
As a public company, you will be responsible for reporting financial results and other information to the street in an accurate, reliable, and timely fashion. Your stakeholders, stockholders, customers, and more have many expectations about the company’s growth, smart use of resources, and ethical behaviors. Effective internal controls and systems can be a powerful solution for getting this right. Controls enable good business practices, provide better reporting to enable better decision-making, and help ensure timely compliance with regulations.

Additionally, you will be subject to a variety of internal controls requirements. Thinking about controls while private and implementing strong controls early can increase board, investor, and auditor confidence in your accounting processes and readiness.

Because you will have even less time to fix and improve things as a public company, evaluating controls early gives you the time to identify your biggest risks before you go public. It also reduces the probability of having a material weakness disclosed in your IPO filing.
3 Steps to Putting Controls Front & Center

1. **Identify and assess the controls you have in place now.**
   Spend the time to understand the controls you have in place and if they are sufficient to mitigate risks posed to your organization and the requirements of SOX. Identify where the gaps are, prioritize those that are most significant, and determine how you will address them.

   Therefore, you will need technical accounting capabilities even before being public. Know that the most profound gaps in skills are often seen in revenue recognition, SEC reporting, and general technical accounting. Plan and prepare for this early; otherwise, the risks of IPO filing delays increase significantly. These new skills—and perhaps even new employees—are also a key component in avoiding indications of material weakness, or worse, the need for a financial restatement.

2. **Think like an auditor.**
   What would an auditor identify as the biggest areas of weakness today? What risks might they see a year from now if you don’t enhance existing controls? What controls will help avoid any significant audit adjustments or misstatements?

3. **Get clear—crystal clear—about reporting requirements.**
   As a newly public company, whether you fall under the Jumpstart Our Business Startup (JOBS) Act or not, you are subject to certain controls reporting requirements. These requirements start with the 302 certification in your first quarterly filing as a public company. In summary, this requires the CFO and CEO (typically the certifying officers) to certify the following:
   
   - They have reviewed the report, i.e., 10Q or 10K filing.
   - The report does not contain any material untrue statements or material omission and can’t be considered misleading.
   - The financial statements and related information fairly present the financial condition and the results in all material respects.
   - The signing officers are responsible for disclosure controls and procedures and have evaluated these internal controls within the previous 90 days and have reported on their findings, i.e., if the controls are effective or not.
   - All significant deficiencies in internal controls and any fraud involving management or employees have been disclosed to the Audit Committee and Board.
   - They have reported any significant changes in internal controls or related factors that could have a negative impact on the internal controls.
Furthermore, public companies are required to certify as to the operation of internal controls over financial reporting (ICFR) by the second 10K. The JOBS Act removes the need for auditor attestation over ICFR (assuming certain requirements are met, though management’s responsibility is undiminished).

Know where you will fall from a SOX reporting perspective and get ready to comply early. As a private company, begin to build your internal controls. If you identify gaps, begin addressing them. Focus on remediating gaps in your highest risk areas first, ideally before that first 302 certification, to give your CFO and CEO confidence in your internal control environment.

**Don’t Be the IPO Bottleneck, Start Early**

Ringing that bell on the floor of the stock exchange is a thrilling milestone. But it’s just the beginning. Functioning day-to-day as a public company takes more than offering a great product or service. Newly public companies must not only manage the increased reporting and control requirements, but handle increased scrutiny from shareholders, the government, regulatory bodies, customers, and the media.

Reflecting back on many IPOs in recent years, the key takeaway is to start early and don’t wait. Remember that you have more time now than when you are public. Take the time today to assess where you stand, develop plans to fix your processes, systems, and controls, and start building a team ready to handle the tribulations—and triumphs—of functioning as a successful public company.
IPO Readiness

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Connor Group is a specialized professional services firm of Big 4 alumni and industry executives. Our team of highly experienced professionals helps financial executives with their most complex and significant matters, including financial accounting and operations, IPO and M&A services, digital solutions, and managed services. Our clients are the world’s top growth companies, and we support them as they change the world and create new markets! The firm was founded in 2006 and has grown to more than 300 professionals with core offices in Silicon Valley, San Francisco, New York, Salt Lake City, and Boston.

We have served more than 1,000 clients on six continents and have a 54% market share for Bay Area IPOs in recent years. Our client portfolio includes multi-billion-dollar public, mid-cap public, and pre-IPO companies ranging from early stage to late stage. Our global clients represent the most exciting industries including high tech, Internet, social networking, gaming, software, ad tech, cleantech, life sciences, financial services, consumer products, biotech, services, and manufacturing. Our goal at Connor Group is to be the most respected firm across our service lines by delivering the highest quality services to our clients. We are hired by finance and accounting executives who understand the importance of leveraging their time as well as having a partner that can successfully execute their needs.

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BlackLine Is the World’s Most Trusted Platform for Finance & Controls

Companies come to BlackLine, Inc. (Nasdaq: BL) because their traditional manual accounting processes are not sustainable. BlackLine’s cloud-based solutions and market-leading customer service help companies move to modern accounting by unifying their data and processes, automating repetitive work, and driving accountability through visibility.

BlackLine provides solutions for financial close management, accounting automation, and intercompany governance, helping large enterprises and midsize companies across all industries do accounting work better, faster, and with more control.

Over 3,400 companies trust BlackLine to help them close faster with complete and accurate results. The company is the pioneer and recognized Leader in Gartner’s 2019 Magic Quadrant for Cloud Financial Close Solutions. Based in Los Angeles, BlackLine also has regional headquarters in London, Singapore, and Sydney. For more information, please visit blackline.com.