FIVE CRITICAL STEPS TO Prepare Your Business for New Funding, Whether IPO or Private Equity

ORACLE NETSUITE

INTRODUCTION

The capital markets landscape of today is vastly different than the space the first dot.com companies flooded some 20 years ago. The number of IPOs has continued to decline since its height in the late 1990's, but public companies today are generally much more stable and larger. About 140 companies now each exceed $50 billion in market value, representing more than half of the total US market capitalization, according to the Securities Exchange Commission (SEC).

At the same time, the private capital market has exploded. Regulatory changes and economic and market conditions have prompted many companies that may have considered an IPO earlier to stay private longer, financing through venture capital, private equity and debt financing. The explosion in private funding is clear evidence of the shift In 2006, $31.2 billion of venture capital money funded 2,888 private US companies. In 2015, $77.3 billion went into 4,244 companies, according to the SEC.

The landscape has been immutably altered by regulatory mandates, from those like SOX applying to public companies, to legislation like the Jumpstart Our Business Act (JOBS) that has fueled private capital markets by allowing emerging companies easier access to private capital, and enabling them to remain private longer.

And it all amounts to one simple fact—scrutiny of both public and private companies is perhaps at its highest ever. Between compliance with regulatory mandates and meeting heightened investor expectations, companies prepping an IPO who haven't operated as such for many years prior are bound to struggle. And because private companies are staying private longer than they had ever had before, the stakes for strong financial stewardship are much higher, with private investors scrutinizing "the numbers" as it gets harder to find goods deals and generate good returns.

2018 promises to be a strong year for both the public and private capital markets. The global IPO market is coming off its most active year since 2007, with 174 IPOs. The Americas markets continue to exhibit strong market fundamentals, and are expected to remain an attractive destination for companies looking to raise capital in 2018, according to EY analysts.

The bottom line for companies looking to take advantage is that strong governance, financial processes and automated systems are crucial, both in terms of accessing and providing timely information to prepare IPOs or continuing to satisfy and attract private investors.

THE SONG REMAINS THE SAME, WHETHER IT'S IPO OR PE

While the paths are different, the steps to prepare a finance organization for an IPO or to seek private equity converge in many ways. They both require a historical view of data and real-time access to financial and operational data to satisfy stakeholder concerns, make good decisions, and act as a guide for sustainable business strategies. Whether it's mandated by law in the case of a public company, or just a growing expectation of private equity firms who can request reports whenever they want, having streamlined processes and easy access to the information is crucial to the firms' success.

Can your business answer both tactical performance questions about budgeted vs. actual spending, sales pipeline and cash flow analysis, while delivering detailed information on your company's five-year strategic plan and access data that will enable detailed analysis of market share?

If this data lives in a combination of spreadsheets, QuickBooks and disparate systems, the answer is a resounding "no".

There is little room for error, and the importance of planning and preparation is paramount. With that in mind, we've compiled five steps firms operating in the capital markets can take to ensure their financial processes and system landscape will prepare them for success.

> "We wanted to implement something best in class, that would stand up to SOX requirements down the road. We didn't want to have to go and do this all again."
>
> **Jonathan Cochrane,** Assistant Controller, ScienceLogic

1. UPGRADE THE FINANCE ORGANIZATION

Start by examining the competencies of your finance team—whether that team be composed of one person or 100 people.

For companies pursuing IPOs, the skill requirements are more specific. Robert Half recommends starting the process of building out a team a year before the IPO. In doing so, it's important for the CFO to consider how his or her role will change post IPO, shifting from day-to-day management, to taking on more leadership and strategic oversight. That includes monitoring risk and compliance issues, and helping to drive technological innovation. Because the CFO will be pulled in many directions, it's crucial to have a strong controller. Companies will need to hire a controller and other trusted high-level professionals, who have knowledge of forecasting and budget planning, automated finance and accounting systems, SEC regulations, complex tax codes and reporting, and financial compliance mandates like SOX, according to Robert Half.

Report (Deloitte): The Role of the PE-backed CFO

For companies operating in private capital markets, longer holding periods have increased pressure on the CFO. "With fewer deals around, private equity houses today are spending more time with their portfolio companies with greater scrutiny and expectations of the critical CFO role," according to a Deloitte report. That includes the demand for rigorous stewardship (a concentration on the delivery of accurate numbers and financial reporting). The numbers need to be on time, accurate and in full, according to Deloitte.

Above all, it is important to have individuals on the team who have been successful in fast-paced environments, and are 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

With the increased pressure on the finance department for accuracy and speed, automating financial processes is absolutely crucial. For many companies looking at ERP software, the impetus is an upcoming IPO, and the recognition that QuickBooks or a legacy system simply can't enable the control requirements nor provide access to financial data necessary for filing and ongoing compliance. But for companies operating in the private markets, access to financial data for accurate forecasting of cash flow and liquidity is paramount as well.

One benefit of integrated, automated finance processes is the ability to close the books, fast. For any company operating in the capital markets, it is crucial to complete month-end close in a timely manner—in no more than seven days. This will enable pre-IPO companies to meet the demanding reporting requirements (public companies need to file quarterly statutory reports within 45 days of a determined deadline), and for private companies to deliver timely reports to investors. A repeatable close process provides adequate time as well to prepare certain disclosures required by the SEC and report on internal controls required by SOX.

Blog: Preparing for 606: Perspectives from KPMG, Nutanix and Quicken

In turn, for companies that charge for their products or services on a subscription basis, the ASC 606 requirements, now in effect for public companies and fast approaching for private companies, will change the rules on how revenue is recognized. Automation of revenue forecasting, recognition reclassification and auditing is crucial to achieving compliance with the new standard.

3. ESTABLISH GOOD CORPORATE GOVERNANCE

The most basic, and important, acronym to grasp when it comes to operating in capital markets is GRC, for Governance, Risk and Control. But without solid control of that first letter, any attempt to limit risk and ensure compliance will be futile. Often, private companies underestimate the time and effort required to establish good corporate governance—something that needs to be in place long before an IPO is even a vision.

The board plays an important role in overseeing management's goals, strategy and decisions. The board should understand the industry and the challenges that 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.

There are best-of-breed offerings in the market that claim to address IT governance. But the best practice is to take the proper steps to ensure good governance processes when setting up a system. With cloud-based software, it is easy to ensure that data and documentation is part of the implementation, and baked into your daily processes.

4. DEVELOP RISK MANAGEMENT CAPABILITIES

For any company operating in the capital markets, there are two parameters of risk to examine.

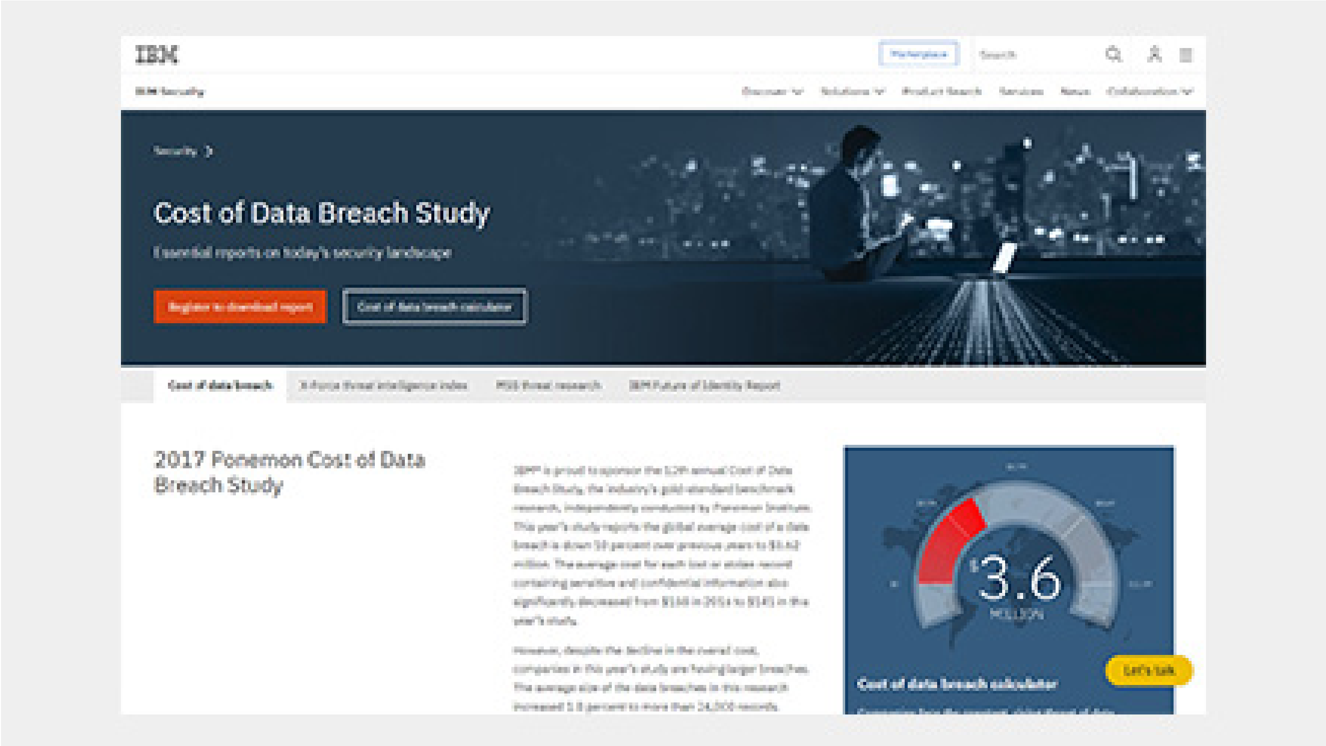
First, of course, is ensuring internal processes fuel compliance. When it comes to SOX compliance, the cost for the public SMB can be significant. The hours devoted to SOX compliance continue to rise, particularly for companies with revenue under $500 million, according to a survey from Protiviti. For public companies, complying with SOX will necessitate the implementation of workflow capabilities, permissions and more that can ensure robust controls.

NetSuite provides template-based workflows based on industry best practices, as well as the ability to configure workflows to business needs, while ensuring proper documentation is easily accessible for audit trails.

Secondly, public and private companies operating in the capital markets must guard against their risk from cyber security incidents, and ensure cyber security and data privacy. The global average cost of a data breach stands at $3.6 million, with the cost of each stolen record at $141, according to the 2017 Ponemon Cost of a Data Breach Survey, sponsored by IBM. With the ease of upgrades promised by cloud-based software, companies can be assured their software is regularly patched to protect vulnerabilities, plugging a hole against cyber-attacks.

5. ESTABLISH INVESTOR RELATIONS AND COMMUNICATIONS

For companies operating in the capital markets, one of the best investments to make is in shoring up



Report (IBM): 2017 Ponemon Cost of a Data Breach Survey

investor relations. The best IR professionals have strong backgrounds in communications and are able to easily identify the needs and speak the language of shareholders, investors, and for public companies, financial analysts. They have a unique matrix of communication, legal and financial acumen.

For companies going public, involve this person early on in the IPO process in driving strategic communications. Consider what defines your business, and which metrics your competitors report on in crafting and telling your story. With software that easily allows access to key metrics and reports, the IR role is empowered to focus on communicating the company's position, rather than spending time finding the information to do so.

Having a solid IR function is as important when seeking private equity funding. Consider, for instance, the capitalization table, which, at its most basic level is a list of securities and who owns them. This simple concept quickly can become challenging to deliver when additional rounds of funding are sought, and at that point, many companies outsource this aspect to a law firm. With a solid financial system, the business can encompass the investment details in the equity section of the balance sheet, establishing a solid cap table with all the details from the equity type down to the individual investor. This not only saves another layer of cost, but empowers the IR professional or team with access to data for reporting.

CONCLUSION

Some of the most successful public companies on the planet, like Groupon, LogMeIn, Inc. and OpenTable, have leveraged NetSuite to run their businesses, and ensure the agility and scalability needed to operate in today's capital markets.

Report (Capgemini): Top 10 Trends for Capital Markets 2018

According to Capgemini, the move toward SaaS is gaining huge acceptance because of evolving regulatory and business needs, time to market pressure, and the potential for cost savings on IT infrastructure.

NetSuite is helping customers confront some of the biggest challenges of meeting today's expectations in the capital markets including:

Expedited monthly close. NetSuite's financial management solution expedites daily financial transactions, accelerates the financial close and ensures compliance. The cloud-based single platform architecture ensures complete real-time visibility into the financial performance of the business from a consolidated level down to the individual transactions.

Ease regulatory compliance. NetSuite Advanced Revenue Management eases compliance with ASC 605, IFRS 15 and ASC 606. Public companies must comply with ASC 606 now, with deadlines for private companies a year later. NetSuite Advanced Revenue Management automates revenue forecasting, allocation, recognition, reclassification and auditing through a rule-based event handling framework. Whether the business conducts sales transactions that consist of products or services, or both, and, whether these transactions occur at a single point in time or across different milestones, NetSuite's revenue recognition solution will help you schedule, calculate and present revenue on your financial statements accurately.

Integrated planning, budgeting and forecasting. Oracle NetSuite Planning and Budgeting Cloud Services (PBCS) enables quick adoption of world-class financial planning and budgeting across lines of businesses, with flexible and customizable deployment options. Oracle NetSuite PBCS facilitates both company-wide and departmental financial planning with modeling capabilities, approval workflows and reporting within one collaborative scalable solution. Oracle NetSuite PBCS uses a powerful calculation engine which can accommodate a wide range of business logic with fast in-memory aggregation and instant financial planning analysis and reporting.

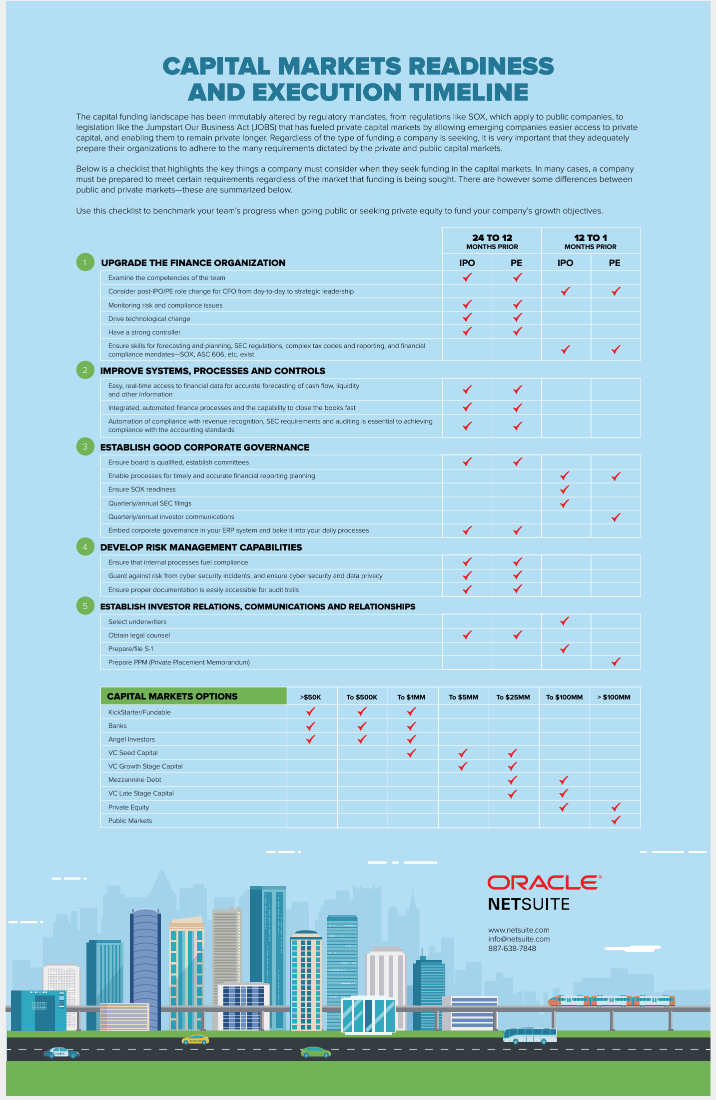
Be prepared for what's next. Learn more about how NetSuite is empowering some of the world's most innovative companies operating in the capital markets.

> "When investors and bankers ask about our financial system, we tell them we run NetSuite and move on to the next question."
>
> **Eric Sailsbery,** VP of Finance, Workfront

CAPITAL MARKETS READINESS AND EXECUTION TIMELINE

The capital funding landscape has been immutably altered by regulatory mandates, from regulations like SOX, which apply to public companies, to legislation like the Jumpstart Our Business Act (JOBS) that has fueled private capital markets by allowing emerging companies easier access to private capital, and enabling them to remain private longer. Regardless of the type of funding a company is seeking, it is very important that they adequately prepare their organizations to adhere to the many requirements dictated by the private and public capital markets.

Here's a checklist that highlights the key things a company must consider when they seek funding in the capital markets. Use this to benchmark your team's progress when going public or seeking private equity to fund your company's growth objectives.



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Below is a checklist that highlights the key things a company must consider when they seek funding in the capital markets. In many cases, a company must be prepared to meet certain requirements regardless of the market that funding is being sought. There are however some differences between public and private markets—these are summarized below.

Use this checklist to benchmark your team's progress when going public or seeking private equity to fund your company's growth objectives.

	24 TO 12 MONTHS PRIOR		12 TO 1 MONTHS PRIOR	
	IPO	PE	IPO	PE
1 UPGRADE THE FINANCE ORGANIZATION				
Examine the competencies of the team	✓	✓		
Consider post-IPO/PE role change for CFO from day-to-day to strategic leadership			✓	✓
Monitoring risk and compliance issues	✓	✓		
Drive technological change	✓	✓		
Have a strong controller	✓	✓		
Ensure skills for forecasting and planning, SEC regulations, complex tax codes and reporting, and financial compliance mandates—SOX, ASC 606, etc. exist			✓	✓
2 IMPROVE SYSTEMS, PROCESSES AND CONTROLS				
Easy, real-time access to financial data for accurate forecasting of cash flow, liquidity and other information	✓	✓		
Integrated, automated finance processes and the capability to close the books fast	✓	✓		
Automation of compliance with revenue recognition, SEC requirements and auditing is essential to achieving compliance with the accounting standards	✓	✓		
3 ESTABLISH GOOD CORPORATE GOVERNANCE				
Ensure board is qualified, establish committees	✓	✓		
Enable processes for timely and accurate financial reporting planning			✓	✓
Ensure SOX readiness			✓	
Quarterly/annual SEC filings			✓	
Quarterly/annual investor communications				✓
Embed corporate governance in your ERP system and bake it into your daily processes	✓	✓		
4 DEVELOP RISK MANAGEMENT CAPABILITIES				
Ensure that internal processes fuel compliance	✓	✓		
Guard against risk from cyber security incidents, and ensure cyber security and data privacy	✓	✓		
Ensure proper documentation is easily accessible for audit trails	✓	✓		
5 ESTABLISH INVESTOR RELATIONS, COMMUNICATIONS AND RELATIONSHIPS				
Select underwriters			✓	
Obtain legal counsel	✓	✓		
Prepare/file S-1			✓	
Prepare PPM (Private Placement Memorandum)				✓

CAPITAL MARKETS OPTIONS	>$50K	To $500K	To $1MM	To $5MM	To $25MM	To $100MM	> $100MM
KickStarter/Fundable	✓	✓	✓				
Banks	✓	✓	✓				
Angel Investors	✓	✓	✓				
VC Seed Capital			✓	✓	✓		
VC Growth Stage Capital				✓	✓		
Mezzannine Debt					✓	✓	
VC Late Stage Capital					✓	✓	
Private Equity						✓	✓
Public Markets							✓

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Checklist: Capital Markets and Readiness Execution Timeline

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