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PERSPECTIVE

The process of being public

By Sara L. Terheggen

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The process of "going public" is really about the process of "being" public. This can take anywhere from 12-24 months before the process of actually becoming a public company begins. The four stages every company will travel from private to public include:

Evaluating is about determining a company's objective and deciding if an initial public offering will satisfy such objective. This includes weighing alternatives such as a private sale of securities, bank financing or merger or sale.

Executing happens once the decision to go public is determined as the right decision and the necessary steps have been taken to become pre-IPO ready. Executing is about ensuring going public happens in the most effective and efficient manner possible. This includes identifying the right team and executing a solid plan.

Enduring is the post-IPO process. It involves managing as a public company through the new world of periodic reports, shareholder communications, stock exchange regulations and disclosure issues.

Engaging consists of understanding the company's business direction, identifying areas in the company that are not aligned and then establishing a strategy to ensure maximum success. This stage includes evaluating seven strategic layers within the company: business, structure, financial, leadership, governance, communication, and operations/infrastructure.

The engaging stage is the most critical because it establishes the foundation for a successful IPO and, more importantly, the foundation for being a successful public company. The key in this stage is evaluating the company from a broad systems perspective which involves seven strategic layers. Each layer should be evaluated, gaps determined and specific action plans put in place to address those gaps.

Engagement Stage Success

Business. Successful companies tend to outperform their peers on things like growth rate, sales performance, profitability and market share. Executives should develop a formal, comprehensive business plan with a detailed timeline covering 24-36 months pre and post IPO. The business layer lays the groundwork for all other layers because it identifies and simplifies the equity growth story and provides the basis upon which all other key company systems can be evaluated and aligned.

Structure. Companies should consider any necessary changes needed to corporate structure. This may include determining whether reincorporation in a friendlier state is necessary, assessing any changes or clean-up needed in the capital structure, and possibly executing a late stage financing to clean up the shareholder base. Many private companies finance themselves through offerings of convertible securities. Most companies will cause the conversion or exercise of outstanding convertible preferred stock, warrants and convertible debt into common shares prior to the IPO.

Financial. An IPO requires shifting from an internal to an external reporting regime. The four primary aspects of this layer include: identifying gaps in the financial team; preparing for rigorous financial periodic reporting which requires building better systems for forecasting and planning, but also improving the speed of closing books; establishing a technology backbone that supports robust financial reporting; and developing internal controls and procedures.

Leadership. Consider both internal and external leadership. Internally, this will consist of the management team, board and the IPO operating team.

• Quality of the management team is often cited as the most important nonfinancial factor considered when contemplating an investment in a company's IPO. Assess whether the current management team is the right team for a public company and replace and/or supplement as necessary.

• For the board, the critical task is to start acting like a public company board. This includes establishing the committee structure, adding independent directors, and setting up the procedures and processes to function like a public company board.

• The IPO operating team is a handful of internal key company folks who will be responsible for leading the IPO efforts.

Governance. Governance should be considered at two levels: the board and the company.

• At the board level, there will generally be three committees (audit, compensation and nominating, and corporate governance). Consider putting these committees in place early and start establishing the charters, policies and structures to govern the board and the interaction between the board and the company. The more practice the board has in "acting" like a public company board, the more successful they will be once the company goes public.

• At the company level, there are a number of policies and procedures that will need to be in place when the company goes public. These policies include: a code of ethics, insider trading, corporate governance guidelines, regulation fair disclosure compliance, disclosure controls and procedures, related party transaction, document retention and Rule 10b5-1 plans. While the external leadership team can assist with the actual development of these policies to ensure complete compliance with SEC and Exchange rules, the company will need to establish the systems and processes to execute on the new governance structure.

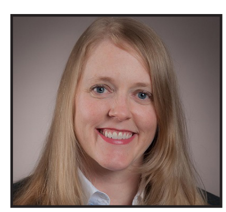
Communication. It is critical a company understands how different communication will be once they are public. The frequency and transparency of communication will increase and this can often be a huge shift for a company depending on existing culture. Prepare a corporate communication strategy and plan to ensure the best alignment possible between company actions and the messages being conveyed to stakeholders. External communications firms can be extremely helpful until and even after the internal investor relations function is established.

Operations and Infrastructure. Each piece of the company's infrastructure needs to align with the business plan to ensure maximization of strategy. Internal teams will need to be aware and be trained on added responsibilities as a result of going public. This layer involves evaluating financial systems, tax structures and policies, reporting systems, information technology systems, planning and resource allocation strategy, sales and marketing, investor relations, research and development, and supply chain.

Systems Approach Equals Optimal Execution

This systems approach to IPO readiness is ultimately about executing the right path of preparation to ensure optimal success of "being" a public company, but this approach is also a useful strategy for just building a better business. Exercising the discipline to develop a strategy and optimizing the company to execute upon it fundamentally leads to better business outcomes. Even if a company does not go public and is ultimately bought, this systems approach will also serve to enhance acquisition value. A better business is always the best way to maximize value for potential buyers or shareholders.

Sara L. Terheggen *Ph.D. is a partner in the Corporate Group of Morrison & Foerster's San Francisco and Palo Alto offices.*



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