coupa | Business Spend Management

IPO Readiness Checklist

5 actions for greater financial resilience before taking a company public

UNITED BY THE POWER OF SPEND

Stress test financial processes ahead of a public listing

During a period of volatile market conditions like those seen in 2022, delaying an initial public offering (IPO) is probably a wise decision. However, delaying an IPO does not mean delaying preparation for an IPO: Companies who decide to push back their planned listing for any reason should take advantage of this time to get their financial processes in order.

Our 2022 global survey of 562 finance decision-makers at organizations with revenues of $250 million to $1 billion and beyond investigated the financial readiness of companies looking to IPO. The findings reveal that nearly 80% of fast-growing businesses have delayed or are planning to delay their IPO, with the majority postponing it by between 6-18 months.

Coupa works with a large number of organizations that use our cloud-based Business Spend Management (BSM) platform to prepare and manage their financial data before, during, and after an IPO. The last mile to an IPO can be the most critical period, as the company needs to meet all regulatory compliance and auditing checks required for listing on the stock markets, as well as withstand increased scrutiny from investors and financial institutions.

But how does a company know when it is ready to IPO? We have created a five-point IPO readiness checklist based on our years of experience in helping businesses all over the world prepare for an IPO, including Uber, Slack and Farfetch. Each of the actions of the checklist are explained in greater detail.

Even if a company is delaying their IPO, now is the time to get its financial house in order, prepare for compliance, and begin behaving like a public company sooner. This undertaking can take longer than most realize, so it is in the company's interest to start earlier rather than later.

The IPO readiness checklist

Before your company plans to IPO:

- **Establish robust and scalable financial processes:** Do you have matured and automated systems in place that can support your company's growth?
- **Mitigate risks that could impact business continuity:** Are you able to identify and mitigate risks that could set back the IPO or result in reputational harm?
- **Establish a trusted IPO team:** Do you have an experienced set of people in place who can guide and shepherd the company through an IPO?
- **Establish clear financial controls that hinder fraud and misuse while protecting future shareholders:** Are you able to identify suspicious activities and prevent fraud?
- **Ensure your financial processes are compliant with audits, regulations and due diligence:** Are you ready to meet the demands of quarterly reporting and satisfy any regulatory requirements for your market, such as the US Sarbanes–Oxley Act?

A note on methodology:

Coupa's IPO readiness survey was conducted among 562 finance decision makers within organizations with revenues of $250 million to $1 billion and beyond. Company sizes are 250 employees and larger. The sample size includes 100 respondents in each of the UK, France, and Germany plus 250 in the US.

Establish robust and scalable financial processes

Publicly listed companies are held to an exacting standard of accountability regarding their financial discipline. Companies on the road to an IPO will need to implement financial processes that can withstand this increased scrutiny from underwriters, regulators, analysts and others; not having these processes in place could lead to expensive delays.

Based on our survey, 17% of companies stated that a lack of robust financial controls was their main reason for planning to delay an IPO, while 26% said one of their biggest financial concerns heading into an IPO was that their current financial processes are not robust and scalable enough to support their growth ambitions. The systems and processes that work for a small, private company may not meet the demands of a growing, public company.

UIPath needed more robust fiduciary controls to show investors that money was being spent wisely and that spending was auditable and in compliance.

> *"We look at it as two acts. Act One of the company has been focused on growth. But you can't get to the next stage if you don't think about efficiency."*
>
> *— **Daniel Dines**, CEO, UiPath*

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Increase visibility into the company's financial position

Finance teams need full visibility and control over their company's spend and cash to proactively navigate disruption and empower executives to quickly make informed decisions.

Doing this requires finance teams to have a single source of truth regarding their cash position and spend. But this information is often spread out across multiple silos and systems or is unavailable in real time. If data is spread across different silos, it takes longer to gather the data creating blind spots on its financial position, preventing leaders from swiftly making data-driven decisions.

Coupa found that 51% of businesses do not have full access to real-time spend and financial data, whether group-wide or third-party data, while 6% admitted they don't have access to any of these data in real-time.

Similarly, 42% of survey respondents admitted that it can take them multiple days to identify cash on hand, as the process to do so requires them to gather data from several departments and systems. For instance, 75% of respondents say they need to log into multiple systems, with a third (29%) admitting they need to log into more than four different systems. Worse still, 3% admit they are unable to accurately identify their cash position in a reasonable timeframe. This process for gathering data is inefficient and a waste of finance professionals' time.

Without robust processes or a highly effective system for managing all of their business spend and liquidity – including procure-to-pay, working capital, treasury and payments – companies are at risk from "surprise" purchases or unexpected spend that could adversely affect the organization's financials.

Implementing such a system prior to an IPO will be essential, as finance teams will need to be able to demonstrate the business has sufficient cash reserves to reach breakeven or will soon be generating enough cash to fund operations, and will need to provide auditable financial records from previous years.

Eliminate manual processing to support scaling business growth

Manual tasks in the finance department can consume significant amounts of time, preventing skilled individuals from applying their abilities to higher value tasks.

Manual processes, such as invoicing, payments, and reconciliations, do not scale as a company grows. Trying to do so as the business scales will lead to bottlenecks that delay critical tasks and decisions. Our survey revealed that many companies are still reliant on manual work. 42% of businesses, for example, still use Excel spreadsheets to manage their financial processes.

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An overreliance on manual process, spreadsheets, and a hands-on approach to managing data are signs of a financially immature organization. Coupa's financial maturity framework identifies the stages of a company's typical development, beginning with a foundational stage in which financial management practices are manual. As the company matures and replaces manual work with digitized, automated processes that can handle procurement, invoicing, payments and more, it eventually reaches a strategic stage, where it can anticipate adversity and disruption early on, as well as identify opportunities faster.

Manual tasks are slow, time consuming, and prone to errors. Replacing these manual processes is critical to establishing robust and scalable financial processes.

Scale for international growth

Finally, a BSM platform can assist a company that wants to achieve international or market growth – a crucial consideration for any company approaching an IPO, as investors may expect to see plans for international expansion.

Expanding into markets overseas will require compliance with local financial and payment regulations. Operating and accessing capital in new markets may require the company to establish new local entities.

Our survey found that only 20% of companies felt they could quickly and easily expand into new markets. Similarly, 14% of those surveyed felt unsure whether they could comply with local finance and payment regulations in the markets they are planning to expand into, with 12% admitting they are currently unable to comply with those rules.

It is critical for a company to select a technology platform that has country-specific compliance built into it and empowers the business to easily open new bank accounts in the territories they want to enter, enabling them to set up new entities quickly. Coupa's BSM platform stays on top of regulatory compliance, ensuring that customers' invoices and payments are compliant in each of their markets.

By breaking down silos, Coupa's solution provides robust, scalable financial processes allowing manual and time-consuming tasks to be digitized and automated, freeing finance professionals to focus on strategic initiatives such as international expansion.

KEY TASKS:

- Adopt tools that increase visibility into spend and cash
- Embrace automation and digitization of financial processes to reduce/eliminate manual processing
- Select technology platform that will scale with growth

NEXT PRIORITY:

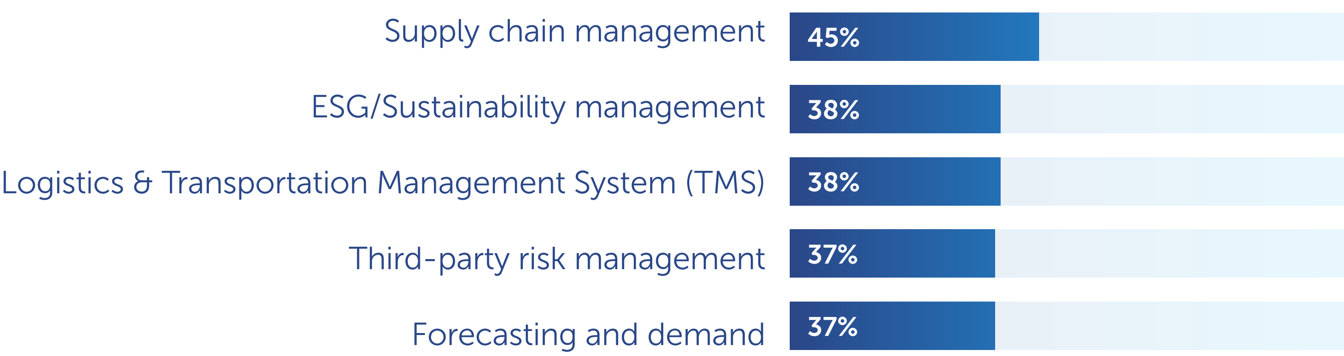
Mitigate the financial and operational risks facing the company

Mitigate risks that could impact business continuity

Companies must avoid risks that might cause them financial harm or result in negative press, which could set back the public listing. Finance teams should initially concentrate on risks such as internal spend, ESG, external markets, and third-party fraud.

As obvious as risk management may seem, 45% of the companies in our survey admitted that their current risk management processes and controls were not yet mature enough to mitigate potential financial risks.

What technology solutions are companies using to help mitigate risks that hinder growth?



Mitigating ESG risks

Today, both consumers and investors are paying increased attention to the environmental, social and governance (ESG) metrics of the companies they buy from and invest in.

Supply chains are a significant area of ESG risk, and governments around the world are gradually implementing legislation similar to Germany's Supply Chain Due Diligence Act that will require companies to vet supply chains for partners who may be causing environmental damage or abusing human rights.

If a company is found to have ethical malpractice in its supply chain, whether from a direct partner or a lower-tier supplier, this could cause significant reputational damage. To protect the brand, companies must proactively and digitally monitor their supplier base to steer towards ESG-compliant suppliers and away from bad behavior.

Despite the connection between ESG and supply chain risks, it was worrying to see in our survey that 63% of companies still have not fully implemented supply chain risk management and process controls, with 8% admitting that they have yet to begin this journey and 3% stating that they have no plans to implement these controls at all.

Similarly, disruption to supply chains can materially impact a company's revenues and increase costs, but our survey found that 62% of businesses do not have full capabilities to predict supply chain liabilities or run demand modeling to evaluate risk scenarios.

Implement risk management controls to deal with third-party fraud risk

Third-party vendors can commit fraud in several ways, from submitting duplicate invoices to over-billing. This can contribute to spend leakage, which harms a company's financial situation. Our survey revealed that 57% of companies still have not fully completed their third-party fraud and risk management processes and controls.

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In some cases, third parties may be working with people inside an organization to commit fraud, so a first step to dealing with third-party risk is to establish an approval chain process to trace and establish accountability within finance teams. This chain will include spend thresholds and time-stamped approvals that cannot be altered, helping avoid corporate fraud.

The next step is to adopt tools and processes that can tackle third-party fraud. Manually trying to spot and identify duplicate invoices is incredibly challenging, but artificial intelligence (AI) can do this quickly and at scale. Automated invoice matching and spend detection can ensure that an invoice was sent by a company your organization is genuinely working with.

Coupa customers can minimize fraud by using AI-powered Spend Guard to monitor transactions and intercept suspicious payments. Our BSM platform also offers unified third-party risk management, which helps identify vendors and suppliers who may constitute a threat based on the type of risk, such as suppliers who interact with confidential customer or employee information, or vendors who have been convicted for bribery or employing child labor.

Managing external market forces

External market factors such as foreign exchange rates, fluctuating interest rates, and commodity prices can materially impact a company's financial performance. Finance leaders must attempt to mitigate the volatility risks posed by these market forces by implementing hedging programs and strategies for managing their foreign currency reserves, as well as their exposure to commodity prices and interest rates.

Another issue to consider is liquidity. How quickly can a company liquidate its assets or access debt if it needs to raise cash?

Companies which have invested in a BSM solution will have a clear advantage here. By creating a single source of truth, an organization has full visibility into its cash flows, so decision-makers can tell when they might need to raise capital or if there is sufficient cash-in-hand already to finance operations.

This visibility also must extend to in-flight spend, helping finance teams maintain strong control over all spending and avoid any surprise payments that could jeopardize earnings predictability or impact budgets. For instance, finance teams could explore delaying or accelerating payments to optimize cash flow and working capital positions.

The power of community intelligence

Smart risk management recognizes that none of us is as smart as all of us. This simple idea underpins Coupa's concept of Community.ai.

By sharing anonymized spend data, Coupa customers benefit from discovering deeper insights that drive more informed decision making and help reduce risk, increase efficiency, and be more profitable.

Data sharing among the business community means that information on risky suppliers or third-party vendors can be collected and distributed at scale, and data can get into the hands of decision-makers more quickly. For instance, companies can drive savings with more competitive bidding, pre-negotiated group sourcing programs, and by maximizing corporate card reward programs.

Coupa's community-based approach to data sharing and harnessing the power of spend has been proven previously by helping companies share diversity, equity, and inclusion data on suppliers to ensure supply chain diversification. This approach has created one of the largest databases of diverse suppliers and empowered companies to make progress on their DEI commitments.

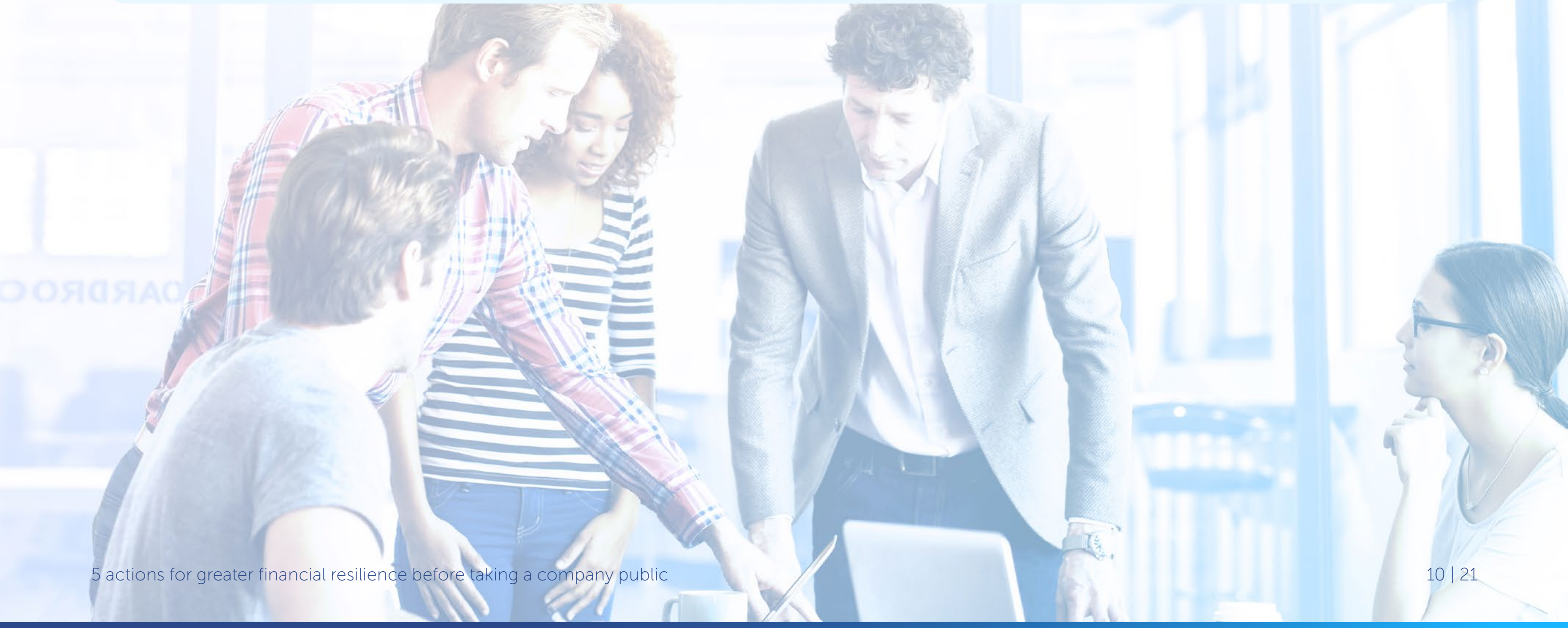
Similarly, companies that want to manage supply chain risk could use insights from Community.ai to get leading indicators of supplier performance issues and assess the ESG risks of their suppliers through AI-powered automations that provide in-context, actionable prescriptions.

KEY TASKS:

- Put in place risk management processes and controls to manage third-party fraud
- Adopt tools to avoid working with high risk vendors and supplier
- Implement hedging strategies to deal with external market factors and use a BSM platform to manage liquidity

NEXT PRIORITY:

Decide who will shepherd the company through the final stages of the IPO



Establish a trusted IPO team

Senior leaders should consider who can coordinate multiple departments, manage resources and, most importantly, make the key decisions that will shape the IPO.

Members of the IPO team should come from across the business, but finance will need to play a significant role in making these calls, especially regarding their feasibility. Having experienced finance professionals on the team is critical to supporting and guiding the company through the IPO process and beyond: 70% of companies surveyed are still in the process of building their financial team to support their growth.

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Given the scale of the IPO process, strong project management skills will be essential, as well as tools to ensure the members of the team can communicate and collaborate effectively. Our study asked what technology solutions are in use to help enable a dedicated IPO team. 59% of companies said they were using project management tools, 54% were using secure collaboration and communications platforms, and 53% were using task management applications.

The team will also need a clear governance structure, along with the authority and accountability to make decisions regarding the IPO. The team will be responsible for making decisions on things such as:

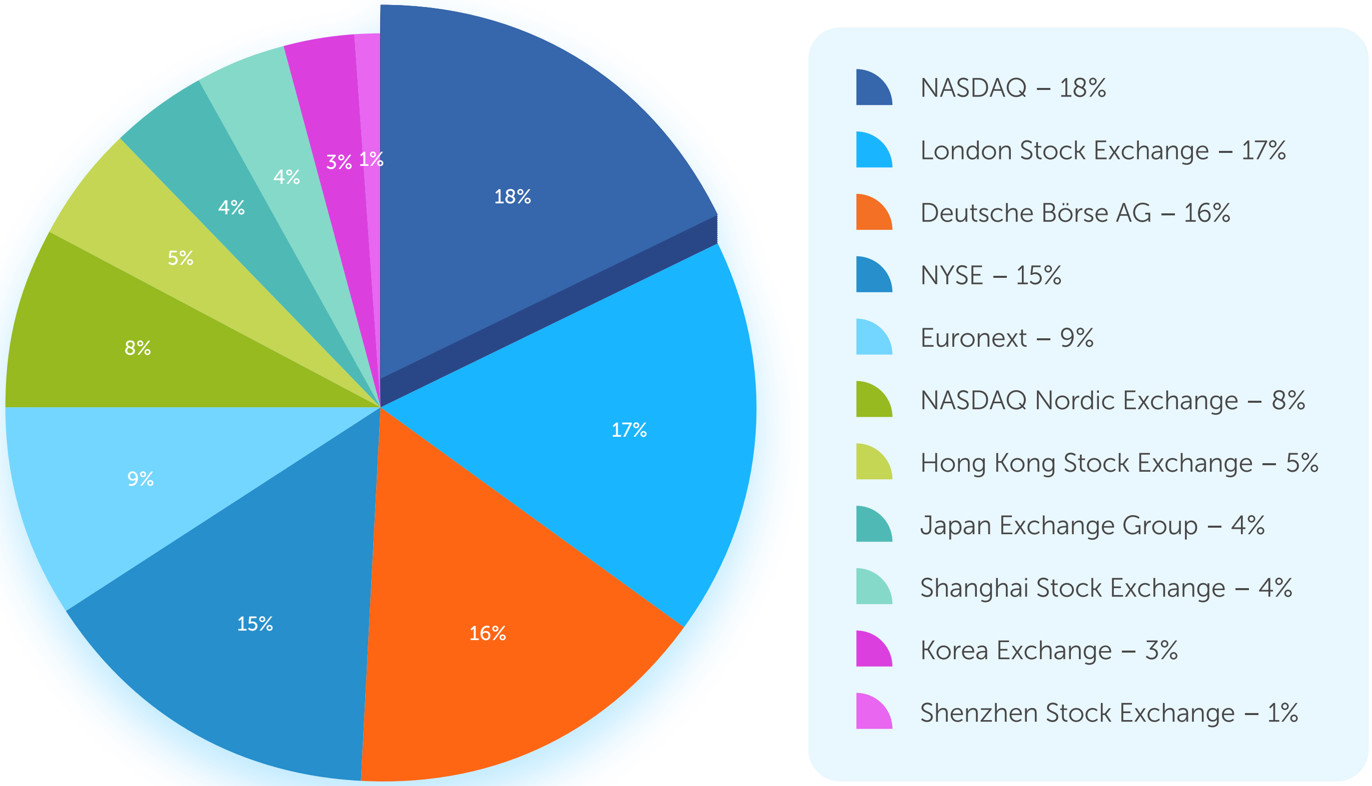
- *Which stock market to list on*
- *Whether to list directly as a public company or through a Special purpose acquisition company (SPAC)*
- *Whether the company qualifies as an EGC (Early Growth Company)*
- *When to file the S1 initial registration form with the SEC (U.S. Securities and Exchange Commission)*
- *Which investment bank, law firm, financial printer, and underwriter to work with*
- *How to protect shareholders' interests*
- *Investor roadshow plans*

Let's look at some of these decisions in more detail.

Which stock market to list on?

Choosing a stock market to list on is not necessarily straightforward. While businesses tend to list on their home country's exchange, this is not always the case. For instance, out of the UK companies surveyed who expected to IPO in the future, only half (53%) stated that they intended to list on the London Stock Exchange.

There are often strong reasons to choose to list on a market overseas, such as greater access to capital, easier listing rules and requirements, or a more mature and diverse investor ecosystem, but be aware that it might also incur additional significant costs.



Is your company an Early Growth Company?

If the company plans to list in the US, the IPO team will need to assess whether it qualifies as an Early Growth Company (EGC). 64% of companies surveyed said they had dedicated decision makers responsible for overseeing their EGC status.

A pre-IPO company will qualify as an EGC if it has generated less than $1.07 billion of gross revenue during its most recent full fiscal year and it has not issued more than $1 billion in non-convertible debt over the previous three years.

Qualifying as an EGC comes with significant benefits, including being required to share less financial information in the IPO registration statement and make fewer disclosures in annual reports. An EGC can also communicate with qualified institutional investors before publicly filing its registration statement, thus letting the company "test the waters" for investor interest ahead of an IPO.

How to protect shareholders' interests?

During the IPO process, investors will expect to see a strong level of governance within the company. A dedicated IPO team can assist with implementing extra governance:

- **Ensure a majority of board members who come from outside of the business.** These independent non-executive directors (INEDs) will be responsible for representing the interests of shareholders by holding the company's management to account. A company on the road to an IPO may also need to appoint a chairman.
- **Search for the right individuals to join the boards as INEDs.** This is critical and will take some time to get right. Members of the IPO team and the company's executives could look for suitable individuals within their own professional networks.
- **Establish a code of ethics for senior financial officers.** This is a key requirement in some public listing regulations such as the Sarbanes-Oxley Act in the US.

Combined, these elements will reassure potential investors that the company will act in their interests. A board of experienced INEDs can also offer advice and guidance to the business.

Implementing extra governance may be difficult, but it is also rewarding. Beyond reassuring IPO investors that their capital will be safe with a reputable company, it can help attract and retain talented recruits who will be encouraged to know they are joining a well-managed organization.

KEY TASKS:

- Establish a team to manage key aspects of the IPO progress
- Adopt project management tools to help the IPO team operate efficiently
- Put strong governance in place to protect shareholders' interests

NEXT PRIORITY:

Implement processes that will protect shareholders' financial returns

Establish clear financial controls that hinder fraud and misuse while protecting future shareholders

The [2022 PwC survey on global economic crime and fraud] found that, among organizations experiencing the most disruptive incidents, almost 70% of attacks were committed by external perpetrators or collusion between external and internal actors.

These attacks can seriously impact a company's financials and harm shareholder returns. Incidents of fraud could cause reputational damage and may depress the eventual share price. Finance teams must seek to minimize and prevent fraud before and after the company becomes publicly listed by putting in place controls that will hinder perpetrators as much as possible.

Unfortunately, 67% of businesses surveyed say they are "not ready" yet to protect stakeholders from potential financial fraud risks. Nearly two-fifths (39%) estimate that they will need between 6-24 months to have these protections in place.

Needing up to two years to implement such protections underlines why firms must start their IPO preparations well ahead of time, to ensure prospective investors are safeguarded and avoid the risks of fraud revelations derailing a public listing.

Guarding against external fraud

Minimizing fraud by external perpetrators begins when employees can identify suspicious spend activities including sourcing, expenses, and supplier invoices. However, doing this manually is challenging for finance teams, especially for businesses that might be processing huge numbers of invoices and payments at any one time.

What technology solutions are companies using to establish clear financial controls that hinder embezzlement and protect future shareholders?

58% Procure-to-Pay or Business Spend Management system

57% Enterprise Resource Planning (ERP) system

38% Excel spreadsheet

The first step to solving this problem is to digitize invoices, expense reports and payments, as well as reconciliation. Digitized processes allow companies to deploy automated tools that are more likely to catch instances of fraud.

For instance, Coupa's BSM platform offers automated invoice matching and fraudulent spending detection. This ensures that a company only receives legitimate invoices from suppliers with existing relationships. AI detects duplicated invoices that can lead to spend leakage, while Community.ai helps identify risky suppliers who may have committed fraud elsewhere.

To reduce fraud, companies should consider mandating all invoices are matched prior to approval. Automation and AI shrink the time and effort needed for invoice matching, but when surveyed, more than a quarter (27%) of respondents said that while they have this capability, they do not require all invoices to be matched. Meanwhile, 10% said they did not have this capability at all, though are planning to integrate it.

Preventing malpractice by internal perpetrators

What about internal security, especially for staff who may have the most opportunity to commit fraud while overseeing and approving spend? Setting up clear governance and controls are essential to deter potential rule breakers or bad actors. In fact, our survey found that 66% of companies believe their corporate governance policies and controls need improvement.

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Establishing approval chains will create lines of accountability, allowing finance teams to trace suspicious spend or illegitimate payments. Part of this approval chain will need to include setting spending thresholds, so that individual employees can only self-approve a certain amount of spend, such as up to $10,000. Larger amounts will need approval from a senior employee or even an executive.

Along with spend thresholds, companies need controls in place to prevent rogue employees from re-accessing and editing supplier payment details, which is a significant source of fraud risk. One solution is Coupa's Open Business Network, which can mitigate this risk by enabling suppliers to self-enroll and input their own payment information. The Open Business Network simplifies supplier collaboration while providing speed, transparency, and flexibility.

User roles must also be limited in a way that no single individual has overreaching authority to approve spend transactions. This ensures oversight and accountability.

When surveyed, two-thirds (66%) of companies felt that their financial controls, including spending thresholds and approval chains, needed to be stronger. For instance, 62% did not rate their ability to limit user roles as "excellent," indicating significant room for improvement.

Coupa's BSM platform has compliance built into its code, ensuring that user roles and spend thresholds can easily be created and limited. It also offers tools that enable systematic security checks to make sure that payment details are correct and ensure no fake beneficiaries have been added.

KEY TASKS:

- Install financial and corporate governance policies
- Establish clear lines of accountability
- Secure the right capabilities for defense against fraud

NEXT PRIORITY:

Prepare to comply with greater regulatory and auditing scrutiny

Ensure financial processes are compliant with audits, regulations and due diligence

Companies on the road to an IPO must comply with key regulatory requirements before they are able to list on a public exchange. These vary from market to market, but many countries, including the UK, are exploring reforming their regulations to more closely model the standards set by the Sarbanes-Oxley (SOX) Act, which sets out the rules and expectations regarding financial reports and auditing standards for companies intending to list in the US.

Our survey found that 60% of companies planning to IPO are not fully confident they can comply with all relevant regional legislations around financial fraud or meet statutory auditing requirements.

Prepare to produce past financial records

A core requirement in many markets is for companies to produce financial records for at least the past two or three years of a company's existence. However, a majority (62%) of businesses revealed that they are not fully confident they can produce this financial information.

Publicly listed companies are also expected to publish fully audited financial results every quarter, as well as for ad-hoc requests from regulators. But according to our survey, 60% of businesses are not fully confident they can achieve this on a quarterly basis, while nearly two thirds (65%) are not sure they can produce financial information in a timely manner for ad-hoc requests.

Beginning in late 2023, new UK legislation will require UK-listed public companies to comply with SOX controls.

Begin to work with auditors

Auditors and underwriters have the potential to make or break an IPO. Despite the company paying the auditing firm, the latter can delay or halt the IPO entirely if they find that the company's financial records are not in order, as fixing the issue could take months. One mistake can cost millions in fees and labor hours to correct.

The SOX Act also requires companies to hire independent auditors to review their accounting practices and stipulates minimal interaction between auditors and the employees of the business. This can make the process even harder and more time consuming.

As such, finance teams need to make the auditor's job as streamlined and seamless as possible. They need to keep their financial statements and ledgers of approvals accurate and organized in a way that is easy for someone from outside of the company to understand.

The easiest solution: provide auditors with the same level of access, controls, and permissions as the company's finance employees, should they need it. This could potentially save the company significant costs by reducing the time needed to complete the audit.

In effect, businesses need to be able to hand over "the keys to the castle" of their financial records. Nearly two thirds (63%) of businesses in our survey revealed they are not fully confident they could provide auditors with this level of access.

63% of businesses are not fully confident they could provide auditors with finance employee level access

Using a P2P or BSM system can help streamline this process, as most platforms have the option to establish an auditor user role.

Coupa's BSM platform enables customers to create a login for third-party auditors, providing them with easy access to the company's financial accounting balance sheets and controls for the last two years, but with limited interaction to avoid corruption.

Coupa also keeps a constant track of global financial regulations to help ensure customers are compliant. With a cloud-based approach, the rules that power Coupa's compliance engine are always kept up-to-date, empowering customers to go global and operate within the rules of any market.

Coupa's compliant workflows also provide transparency with increased control, making audits easy and reducing risk. Getting these steps right will reassure prospective investors when the company reaches its IPO.

KEY TASKS:

- Identify which regional regulations the company will need to comply with
- Make financial systems easily accessible to auditors and meet regulatory requirements
- Ensure the company can quickly and accurately produce financial reports on a quarterly and ad-hoc basis

NEXT PRIORITY:

Complete the IPO readiness checklist to see if the organization is ready to list on the markets

If there's one thing I have learned from taking several companies public, it's that it's never too early to start preparing your processes, putting in place the systems, and hiring the right people to create scalable solutions. A top priority should be ridding yourself of manual processes which tire teams out contributing to burnout and provide limited control.

Investors care about controls, and that's why we implemented and use Coupa. I've used it throughout my career, and we're using it now at Thumbtack. Coupa also empowers us with savings, greater visibility into our spend, and automates what were once manual or non-existing processes. It enables us to focus on our core mission and grow the business, without worrying about the accounting noise in the background.

— ***Josh Waldron,*** *Vice President Corporate Controller, Thumbtack*

Thumbtack

Conclusion

In preparing to IPO, a company will have multiple workstreams and concerns to manage across its organization. Establishing new processes and governance structures will be challenging, and the IPO date might seem so far off in the future that it will be tempting to wait before doing the more significant undertakings. But it is always better to start sooner rather than later. Some customers that used Coupa's platform to IPO said they wished they had started sooner when it came to making their preparations.

A common theme among all these actions is having robust technological tools to help implement these processes more easily. Making an investment in the right BSM platform will unlock many benefits and capabilities, from automation that will save finance teams from low-value manual work to focus on strategic tasks, to automated checks that can help fight fraud and prevent the need for making disclosures to the public markets.

Having a dedicated BSM solution, like the one provided by Coupa, is foundational to a successful IPO because it enables scalable financial processes, full visibility into spend and cash, and offers controls to ensure compliance with relevant regulations in any market. Coupa's BSM platform also helps companies succeed beyond whether or not they IPO, by helping them to scale and offering valuable business insights from AI-driven community intelligence.

To find out more about how Coupa's BSM platform can assist midsized and fast-growth businesses on the road to IPO, visit coupa.com/IPO-readiness

About Coupa

Coupa is the cloud-based Business Spend Management (BSM) platform that unifies processes across supply chain, procurement, and finance functions. Coupa empowers organizations around the world to maximize value and operationalize purpose through their business spend.

Coupa's community of 2,500+ customers use the platform to maximize the value of more than trillions of dollars of direct and indirect spend to date.

For more information, visit coupa.com.

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