IPO Readiness

Preparing Your Company for a Liquidity Event: Maximize Valuations and Aftermarket Performance





Table of Contents

5 How to Ensure a Successful IPO

Strategic IT Investment Is Intrinsic to a Successful IPO

6 What's Involved in IPO Readiness?

Tightening Up Key Business Processes Pre-IPO

A Deeper Dive: Assessing Internal Business Maturity Levels

 $m{files}$ How SAP Can Help

SAP Software and Services Operational Value Creation and Business Assessment Preparing for an initial public offering (IPO) requires that private companies assess the readiness of their external and internal processes. Today's investors want proof that the companies they invest in have the right systems and processes to realize their growth ambitions. This paper, presented by the SAP Value Engineering team, explores the areas of focus most likely to provide an incremental increase in valuation and outlines how SAP can help companies prepare for IPOs.



How to Ensure a Successful IPO

Thinking about taking your company public? Then be prepared to prove to investors that your business has the right systems and processes to realize its growth ambitions.

Consider the following common scenario about a private equity-owned manufacturing company with almost a thousand products serving hundreds of customers in over 50 countries worldwide. The company runs six different enterprise resource planning (ERP) systems, each containing its own set of master data. Over time, interfacing all these disparate systems becomes complex and cost prohibitive.

To address this, the company builds databases and uses spreadsheets to access and analyze data. This in turn leads to lengthy turnaround times for reports – 20 or more days to close the books each month – and a lack of confidence in data among executives and managers at all levels. Plus, processes are fragmented and inefficient, and the company pays a premium for the skills needed to maintain its outdated systems. In many ways, existing systems are a constraint to the growth of the business. Overlay the need to go public, and it's clear that the company needs to

increase operational efficiency and visibility into its business before it can stand the scrutiny of potential investors.

This situation is more common than you would think. In many cases, to address these issues, management teams choose to standardize on enterprise software from one vendor, such as SAP® Business Suite applications. For example, given the scenario above, the company could deploy a single instance of the SAP ERP application to streamline processes, gain transparency across the business, and have confidence in its enterprise data. The software would provide a single view into the business, enabled by single definitions for margins, product costs, and other key operating data and metrics. And, in most cases. the markets would reward the company's strategies to streamline business processes and boost business visibility, efficiency, and scalability.

STRATEGIC IT INVESTMENT IS INTRINSIC TO A SUCCESSFUL IPO

The success of a company's IPO is no accident. Management must proactively invest in process and IT improvements that help the company run leaner and

more effectively and improve key performance indicators (KPIs). Solid KPIs and sophisticated infrastructure inspire investor confidence in the strength and scalability of the business, leading to higher stock valuations.

Too often, however, company owners are unaware of the need to "mature" their business processes in preparation for a liquidity event. Most will spend 5%–10% of the total funds raised on preparing for an IPO, and they will focus only on external activities such as hiring investment bankers and lawyers that were never needed before. They don't recognize that their enterprise – while successful to date – lacks the scalable, efficient processes required to take the business to the next level **after** the IPO.

Companies that fail to realize this may well face very real business challenges directly related to the IPO, including one or more of the following:

- Lack of investor appetite for the IPO
- Missed IPO "windows" and market timing opportunities
- · Low IPO valuation
- Low post-IPO valuations

Executive leaders must not only commit to completing internal process improvement activities in a timely fashion, but they must also ensure that these activities deliver the expected improvements consistently.



What's Involved in IPO Readiness?

Every pre-IPO company seeks to tell a compelling story about its successes, business model, competitive position, and the state of its industry. But to set the stage for a successful IPO, the main story line must also detail how internal capabilities will support substantial growth. For these reasons, the path from private to public requires a focus on business processes inside the company.

Executive leaders must both commit to improving internal processes swiftly and ensure that those improvements deliver consistent results. Failure to do so will negatively impact returns from the IPO, lengthening the owners' timetable for achieving liquidity.

TIGHTENING UP KEY BUSINESS PROCESSES PRE-IPO

In preparing for an IPO, private companies must assess their readiness in terms of internal processes and rectify any identified weaknesses. IPO stakeholders will directly or indirectly, explicitly or implicitly, seek answers to the following five questions, all of which relate to **internal** company issues:

How much faith can we place in the ability to grow the top line? Are sales management capabilities solid, with the right systems, processes, and people in place to identify and capture opportunities?

- Does the company have good operating and financial visibility?
- Is the supply chain robust so that products can be developed, manufactured, and delivered according to world-class standards – now and in the future?
- Can the company manage risk appropriately? Are adequate governance, planning, reporting, and risk management processes in place?
- Is talent engaged and ready to take the organization to the next level? Can the company successfully hire, manage, and retain the talent needed to grow the business?

A DEEPER DIVE: ASSESSING INTERNAL BUSINESS MATURITY LEVELS

Each of the questions above is related to a general category of business processes that warrants closer analysis to determine the readiness of each functional area for the run-up to the IPO and thereafter. Taken together, answering the following questions can help company management and its private equity owners determine what needs to be fixed before beginning the IPO process.

Ensuring Revenue Growth with Effective Sales and Marketing

In assessing IPOs, investors pay particular attention to a company's growth prospects. The ability to drive top-line growth

and increase profits is the ultimate determinant of whether shareholder value will appreciate over time. Our experience shows that while marketable products and a history of strong sales are a good starting point, the true barometer of success is having ready access to information to identify new opportunities and drive smart decision making. Investors want revenue assurance – proof that your business is well positioned for continued, steady profitability – and a plan defining how an infusion of capital will take the company to the next level.

It follows that, in assessing IPO readiness, management needs to focus on these questions:

- Do we have a system in place to capture information about current and future market opportunities, or is this information fragmented across the sales force?
- Does sales leadership have the information to be able to identify areas of the highest potential and drive activity and outcomes in these areas?
- Are we able to forecast our needs in time to acquire, train, and deploy sales talent guickly?
- What are we doing to capitalize on the momentum and publicity that an IPO will bring to us to drive new sales?
- Do we have a deep understanding of our immediately addressable target market, as well as potential market adjacencies and profit pools?

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Enabling Operating and Financial Visibility

At a time when shareholders and regulators demand transparency, companies cannot afford to have silos in reporting processes. In our work with businesses across diverse industries, it's clear that successful companies have comprehensive, accurate, and timely visibility into the performance of their whole business.

In preparation for an IPO, you need to answer the following questions affirmatively – and be able to prove how and why to potential investors:

- Can we confidently say we have a single, trusted source of enterprise data for reliable financial and management reporting?
- Do we have the analytical tools we need to understand what's happening across our business and make informed decisions?
- Do we have the ability to sense opportunities and risks in the marketplace? Do we have the nimbleness to respond to those opportunities and risks?
- How do we ensure the health of working capital and cash flow?
- Can we translate our long-term strategic growth plans into measurable short-term operating plans?

Responding to Market Demand While Managing Supply Chain Risk

Volatility in demand and supply, along with complex global networks, make supply chain processes riskier than ever. Investors know that to keep a business running smoothly, management needs a way to optimize the performance of its entire supply chain. The only way to do this is to invest in technology that provides

a holistic view across supply chain processes, as well as complete visibility into supply chain data.

To assess your organization's supply chain performance and future indicators, you should ask questions such as:

- How robust is our existing supply chain?
 Is it scalable to support growth?
- Are supply risks well understood, and are risk management processes in place?
- With the current state of our supply chain, can our products be made to world-class standards now and in the future?
- Are we operating at the most effective margin structure?

Boldly Assessing Business Risks

Given the incredible volatility in markets and supply chains today, leading companies are taking a preventive, real-time approach to governance, risk, and compliance (GRC). They do this by automating risk and compliance monitoring activities, preventing risk events and compliance violations that diminish a company's brand and reputation.

Taking a hard, honest look at business risks is essential at this stage of your company's evolution – and ignoring or glossing over these risk factors will trip you up under the scrutiny of professional investors. The following questions will help you recognize whether your business has clearly established best practices for risk management or has instead taken a fragmented, reactive approach:

 As we utilize external capital to grow and become a more sophisticated operation, do we have the right governance (access controls and process controls) in place?

- Do our internal controls engender institutional investor confidence?
- Is our management team credible with external stakeholders, particularly with respect to having the pulse of the business?
- Are our reporting capabilities where they need to be to efficiently meet the needs of our investors, regulators, and other stakeholders such as the stock exchanges?
- Do we have fast and efficient closing processes in place that allow us to get a clear picture of our business results within a short time frame?
- Are we able to work with existing and potential new regulations in the markets where we have listed our offering and the markets where we operate – which are increasingly global?

Empowering Your People to Achieve Business Objectives

For most organizations, their single greatest asset is their people. That's why leading companies invest in ways to fully leverage their human capital and maximize their contribution to the success of the business. It's not just about whether you have a functioning HR department.

To assess the maturity of a company's human capital management processes, consider the following questions:

- Do we have the capabilities to hire, train, and deploy the talent we need in key functional areas to grow the business?
- What is our ability to retain and manage our existing talent?
- Do we have the right HR structure in place, given our company's growth trajectory?

How SAP Can Help

As a world leader in business process improvement and automation, SAP has worked with companies to prepare them to successfully access the public markets. By working with SAP, companies gain a solid foundation for improving performance – and therefore their valuations – over time. SAP helps companies achieve this in two ways:

- By delivering integrated software and services designed to increase business visibility, efficiency, and effectiveness
- By offering complimentary value management services

SAP SOFTWARE AND SERVICES

Through our leading software and services, SAP:

 Provides real-time insight into the business and a single version of the truth. Through business analytics and enterprise information management solutions, SAP enables companies to spot emerging trends and adapt quickly to change course, as well as to keep the pulse of the business and communicate effectively with investors and other stakeholders.

- Helps ensure strong controls and risk awareness and management.
 Automating access controls and process controls enables companies to focus on the most important aspect of risk management: operational risk. To balance risk and opportunity across
- the enterprise, SAP software helps incorporate risk and compliance into strategy, planning, and operational execution.

 Builds assurance around existing
- revenue streams and enables
 top-line growth. SAP software enables
 companies to manage the entire orderto-cash cycle and cash-to-cash cycle,
 directly tying individual customer
 information into the forecasting process. This avoids information silos and
 gives leadership the information they
 need to be able to drive activity and
 outcomes in the highest-potential
 areas. As a world leader in mobility
 solutions, SAP provides the technology
 and insight to enable business to be
 securely conducted in the field.
- Drives to best-in-class supply chains.
 A global economy means that both opportunities and challenges become more visible as a public company discloses more information. SAP software synchronizes planning, distribution, transportation, and logistics to collaborate, forecast, and operate better across the supply chain.

LEARN MORE

SAP works with companies to prepare them to successfully access the public markets and set them up to maintain improved valuations over time. For more information about value management, performance improvement, or SAP products and services, contact your SAP sales representative or visit us at www.sap.com/private_equity.

OPERATIONAL VALUE CREATION AND BUSINESS ASSESSMENT

For nearly 40 years, SAP has helped companies run better by optimizing business process performance through technology. Through its value management services, SAP helps companies to improve at a business process level. KPIs and best practices allow companies to closely monitor and tune their performance by connecting the process with their business outcomes.

In addition, the SAP value engineering team can provide comparables for thousands of KPIs, as well as support for best practices for virtually every process by industry, geography, and company size. Companies use these resources to assess current performance, identify opportunities for improvement, prioritize those opportunities, and then track them to drive continued performance improvement.

SAP empowers companies through real-time insight into the business and a single version of the truth.



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