At the Center: Why Treasury is Critical Before, During, and After an IPO

Ringing the opening bell to mark your company's debut on a stock exchange is an exciting moment. It is the culmination of months of preparation and years of hard work to build a track record of consistent revenue and growth. The tentative recovery of investor appetite for new share sales, a handful of successful debuts in 2023 & 2024, and growing market momentum means many private companies are dusting off their IPO plans.

While the IPO process largely focuses on explaining a company's unique value and competitive edge to investors, typically with the CEO and CFO centerstage during roadshows, many of the foundational efforts begin much earlier. It is the treasury function that undertakes an important range of tasks that are critical to paving the way for a successful listing.

Fast-growing companies – especially those heading for an IPO – have a host of competing resource demands. Necessarily, there is pressure to invest in revenue-generating functions such as sales and product innovation. Operational investments – and in particular the creation or expansion of a treasury function – may end up well down the list of priorities. This could harm not just the IPO but the long-term growth trajectory of the company.

Treasury is at the heart of numerous protocols relating to governance, transparency and accountability that are necessary to meet regulatory and compliance requirements, and to build trust among prospective investors. Ultimately, by putting the right team, technology, and solutions in place early on in the growth cycle, you can not only help ensure a vital foundation for revenue growth and business expansion, but also deliver maximum value for shareholders.

Treasury Has the Answers: Lessons from the U.S. Regional Bank Crisis

Many of the basic details that investors analyze during an IPO, such as risk & controls and accounting & disclosure policies, may fall under the day-to-day responsibility of both accounting and treasury functions. While they might seem mundane, the U.S. regional bank crisis in 2023 demonstrated why such policies – and therefore treasury – are pivotal.

During the crisis, investor scrutiny of prospective IPO candidates' C-suite narrowed to a single topic: where is the company's cash held, and is it secure? One company in the market at the time gained investor confidence solely because their treasurer was able to answer this question quickly and demonstrated how its surplus cash investments were diversified. Certainly, every senior executive in the IPO market that week became familiar with the name of the employee who oversaw their cash. Treasury proved to be a rock of stability during this crisis.

The governance, transparency and accountability measures that the market, regulators and other stakeholders expect for a public company differ significantly from those of a private company. Putting processes in place to file a 10-K annually in line with Securities and Exchange Commission requirements – detailing performance, organizational structure, executive compensation and much more – often begins at least a year before a company files for IPO.

These processes need to be both robust and flawless: treasury's ability to deliver comprehensive, timely and accurate information once a company is listed is critical. A misstatement can not only move the share price but have the potential to undermine investors' long-term confidence. In other words, whether companies are meeting their compliance obligations, facing macro or market headwinds, or taking advantage of new opportunities, treasury is key.

Acting as a Revenue Generator

Treasury has traditionally been seen as a cost center, namely an unseen catalyst for revenue growth and international expansion. But it is long overdue for a rebrand as there are several ways in which treasury can serve as a revenue generator. The rise of interest rates in recent years has highlighted the importance of efficient liquidity management to a company's financial well-being. Capitalizing on the high interest rate environment can generate significant yield from excess cash; this can then be applied to not only offset bank fees but also be invested into other areas of the business. The obvious way Treasury creates an impact here is by defining and maintaining an investment policy that supports financial prudence while generating returns.

Further, companies that optimize their cash conversion cycle (CCC) by negotiating with suppliers to extend payment terms and accelerating the pace of collecting receivables from customers can improve their working capital. This is also done via payables and receivables financing tools with bank partners. As a result, companies can free up cash for operational growth or sweep funds into products such as interest-bearing demand deposit accounts, money market funds or time deposits as per their investment policy.

In addition to these immediate benefits, investors are increasingly aware of the relationship between effective working capital management and shareholder value. Research by Citi's Financial Strategy Group on MSCI ACWI Index constituents shows that companies that consistently shortened their CCC more than sector medians deliver a higher total shareholder return (TSR) and return on invested capital, ultimately enhancing a company's valuation.

For instance, CCC shorteners achieved a TSR of 143% from 2010 to 2022, with a compound annual growth rate (CAGR) of 8%. In contrast, lengtheners only managed a TSR of 44% with a CAGR of 3% during the same period.

Enlisting Bank Support

Many fast-growing companies, especially those in the technology sector, have historically had smaller treasury teams given their prioritization of resources in revenue-generating functions. Because of this, it is paramount companies invest in technology to automate processes and increase reliance on their banking partners to serve as an extension of their treasury team. While there is a plethora of bank and fintech solutions available, the company's focus should be on deploying technology that is easy-to-implement and use, thereby freeing up time for value-added activities, and ultimately delivering demonstrable benefit – both for treasury and therefore the business.

Identifying a banking partner that can provide advisory services and next generation solutions is critical. At Citi, our award winning and recently reengineered online banking platform, CitiDirect, provides visibility of all accounts, currencies and countries on a single screen, ensuring treasury can rapidly scrutinize its hedging strategy, working capital optimization, liquidity structures and cash exposure as required.

In advance of an IPO or in the years afterwards, companies may decide to implement a new ERP or expand an existing ERP across additional functions and geographies. Citi has a longstanding commitment to integrating with a wide range of leading ERP solutions, accelerating implementation and reducing the burden on a company's IT resources. The implementation of a new ERP can also be an opportune time to reassess bank account structure and policies and processes in order to reduce costs, improve visibility and control, and mitigate risk.

As the IPO market resurges, we expect treasury to be front-and-center as a key driver of preparation in advance of coming to market, an aggregator of critical data that inform insights to the business once a company is listed, and above all else, a critical function in bolstering the company's long-term growth by providing the stability that underpins operational success. This responsibility is not viewed lightly, but treasury can draw on the support of valued partners, including your banks, to triumph in this journey.

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