Healthcare IPOs: Treasury's Role Before the Bell

Life Sciences companies are unique not only in how quickly they scale, but also how early they go public in their life cycle. Listing on a stock exchange is usually a momentous milestone for a business, and for months leading up to it, attention understandably turns almost exclusively to the IPO process, investor roadshows, and ringing the opening bell. What often gets overlooked is the importance of an automated, efficient treasury setup. Getting this right not only delivers a major boost for a healthcare company's operations in general, but in many cases is necessary to meet the increased expectations and scrutiny that comes with being a public entity.

Once the bell rings, expectations from investors, regulators and other key stakeholders become significantly higher, essentially overnight. However, the internal transformation needed to meet these heightened expectations cannot always happen as quickly. Ideally, a life sciences company should begin preparations up to a year before the IPO is anticipated. Key to these preparations is a review of treasury operations and the creation of a system that facilitates the strong **governance, transparency,** and **accountability** that stakeholders expect.

Governance: Laying the Foundations

All companies, public or private, have a policy that sets out the rules (or governance) for each team across the organization and how that organization functions. It is acceptable and understood that the governance structure of a private company is more fluid than that of a public one, especially for healthcare or life sciences companies that are often growing rapidly, and in a decentralized way. Once that company takes on public funding, however, it is held to a higher standard in order to protect investors, and the same fluidity is no longer tolerated. New infrastructure and processes may be required to fulfill key tasks.

Understanding the scope of the changes that need to be made before an IPO can be daunting. Many of the requirements associated with becoming a public company are prosaic but absolutely critical in order to ensure best practices. If the firm has a bank that understands the journey, they can jointly conduct a detailed survey of their treasury practices across multiple areas; answering questions early on – even the seemingly mundane ones – will have a beneficial impact at later stages. For example:

- **Encryption:** At a basic level, companies must establish security encryption protocols for payments, setting out whether they intend to encrypt connectivity to their bank or both connectivity and payment files. The bank can help the company decide what makes the most sense in its specific circumstances.
- **Authorized Signers:** Especially when a healthcare company has multiple overseas subsidiaries, it may have a variety of practices related to authorized signers. To ensure proper controls, healthcare companies should keep their signer list updated, and consider a centralized structure that leaves room for local signatories where relevant. The bank will be able to provide detailed guidance on issues such as authorized signatory requirements in various jurisdictions.

- **Investment Policy:** Raising cash is the primary objective of an IPO, but many firms fail to build a plan for how to manage that cash once it arrives, with some maintaining balances in a demand deposit account. The asset management arm at the bank can work with the company to understand its priorities and develop an investor policy statement and strategy that balances risk and return with any strategic projects such as investment in new facilities and research and development. Explore this topic further here.
- **Cash Deployment:** Proceeds from Healthcare IPOs may be used to fund subsidiaries to expand operations, conduct clinical trials, and repay debt. Separate from the investment policy for any excess balances, a healthcare company should think about how it will deploy cash for these various purposes in the most efficient way. A centralized banking operation streamlines funding at the headquarters rather than individually at each subsidiary, enabling greater visibility and control.

Some banks might be able to help their clients automatically implement their governance policies, such as the authorization process for electronic payments. Authorization at the ERP level when releasing file payments is the most common, but banks can support additional authorizations as well. FX transactions, for example, may be more sensitive than regular payments, and so Healthcare companies can have defined processes and employees to input and authorize those particular transactions. Such procedures and processes make it easier to ensure robust governance.

Transparency: The Key to Building Trust

In addition to necessitating stronger governance, accessing the capital markets requires increased financial reporting capabilities to ensure greater transparency for stakeholders. Treasury has an obligation to consolidate and report ongoing financial data relating to key trial developments. If the company cannot easily synthesize information across the organization and provide granular reporting, it should consider building the infrastructure upfront to avoid wasting time later on.

The international nature of the life sciences and healthcare sector complicates this further; companies often expand rapidly to conduct clinical trials in Asia and Europe in order to commercialize products to these key markets. Similarly, companies may launch operations in a new market to benefit from R&D credits or tax incentives in places such as Australia. If companies work with multiple providers or correspondent banks in different countries, they will need to negotiate a variety of processes, formats and reports, increasing complexity and making it harder to consolidate the necessary information.

Working with a global bank that can easily scale with the company can solve some of these problems. Consolidation provides much greater control over the data that companies receive into their ERP system, making reporting fast and accurate even as they add incremental countries. Relevant data can then be efficiently mapped for each project or drug.

Accountability: Oversight is Critical

The importance of accountability cannot be overstated: accurate reporting to Wall Street is essential. The treasury policies and procedures put in place as part of the governance structure described earlier can help with accountability and regulatory compliance, but much more is required.

For instance, companies must adhere to the target capital structure that they communicate to stakeholders. Company management will define the ideal debt/equity ratio, but it is the treasury team that takes responsibility for the actual execution of the plan and management of the day-to-day flow of cash, by repaying debt and partnering with capital markets bankers to ensure an appropriate funding structure is in place.

In terms of compliance, being publicly listed transforms the regulatory burdens placed on companies. Following an IPO, a company must be in compliance with a number of regulations, which can have significant treasury and operational implications. For example, some regulations require companies to perform audits on their bank account balances or to report their tax compliance status, FX exposure, and interest rate exposure. A company's bank should have the infrastructure to enable this.

The collation of such information, which is documented in MT940 and other message types as well as cash management statements, is significantly easier if a company works with a single bank. Similarly, a bank can provide simplified reporting of FX and interest rate exposure that can be fed into the company's ERP system, automatically populating accounting statements.

Conclusion: Preparation is Essential

An IPO is a marquee event in a healthcare company's growth trajectory, and many factors need to go right in order for it to succeed. With an IPO on the horizon, treasury preparation should not be overlooked: it is an enabler of the company's efficiency and controls after the bell rings. Because this kind of financial transformation can take time, refining a company's treasury setup should start well before the bell. Choosing the right banking partner will make it easier to establish an appropriate treasury foundation that can support an organization as it scales, from a private start-up to public company, and from the clinic to commercialization.

citi.com/commercialbank

2093029 04/22