

A WORD FROM DELOITTE

Charting a path to an IPO: A strong finance function is vital

While the initial public offering (IPO) market remains relatively quiet, there are still opportunities for young companies to grow through acquisition and by attracting further rounds of venture capital (VC). In such an environment, however, young companies need to have their financial function in tiptop shape. Heather Gates, who has been deeply involved in all aspects of startups and venture capital for over 30 years, has a vantage point into the matter that few get to enjoy. Read further to benefit from Heather's insights and from the deep bench of experience upon which she and her Deloitte team can draw.

The lay of the land: Bright spots and other opportunities

Let's start with some basics. One thing is certain: Exits via IPOs in the United States have fallen considerably off their highs of 2021—from over 1,000 that year to a mere 154 in 2023.^{1,2} While the IPO market is still pretty quiet, we're seeing an uptick in acquisition activity. Why? First, with valuations down, 2024 may see a clearing out of pipeline excesses. Second, organic growth remains challenging, so acquisitions are one way of growing. My gut instinct says 2024 could be the year of mergers & acquisitions (M&A) and 2025 that of IPOs. And brisk M&A activity typically precedes an IPO surge, keeping in mind that some exits are awaiting a lowering of the currently high interest rates. Yet, the biggest damper on IPOs may be the turmoil of the upcoming election.

Looking at 2023, generative artificial intelligence (GenAI) was the biggest bright spot for venture-backed startups. But I think there may be a slight pullback for two reasons: first, lack of a robust regulatory framework for AI; and second, a discrepancy between the high level of funding of some companies and their lack of maturity in the marketplace. Still, unlike the early internet, GenAI doesn't appear to have sucked the money out of the room. There's a lot happening in blockchain, fintech, and digital assets. And they seem to have a strong future.

Two sectors not to overlook? Cyber and cleantech & energy. Every day we read about phishing episodes, cyberattacks, and stolen identities. With emerging AI technologies, cyber may well be even more important. In regard to cleantech & energy, climate and mass migrations worldwide are likely to be on the agenda for governments and companies alike. This is especially true given the recently approved Securities and Exchange Commission's (SEC) climate disclosure rules.³ But no matter your industry, it always pays to have your house in order when the IPO opportunity comes knocking.

Where's your finance function headed?

Banking failures in the past year have prompted many startup boards to rethink their strategies. In the past, they would deposit 100% of the VC funds in a bank as collateral in return for a venture debt loan to expand their working capital. Now, boards may want to mitigate risk by



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depositing less in single banks. That could mean new cash management issues and an even more strategic role for the finance function.

Unfortunately, too often companies might build that function haphazardly. A clear road map for the finance function could be useful for when the business grows or has to downsize. Then there's another question: Do I hire more finance professionals, or do I rely on an intelligent automation (IA)—the broader umbrella under which AI lives—program to supercharge my existing team?

To me, the IA route seems to be shaped by three factors: the challenge of talent

1: "The Current IPO Market: Factors in Its Decline and Reversing the Trend," Forbes, Giri Devanur, February 1, 2023.

2: "The Best Performing US IPOs of 2023," Marcus Lu, Visual Capitalist, February 1, 2024.

3: "SEC Approves Rule Requiring Some Companies to Report Greenhouse Gas Emissions. Legal Challenges Loom," Associated Press, Suman Naishadham, March 6, 2024.

acquisition and retention; deploying that talent to achieve a strategic value add; and wrangling and harmonizing disparate data. Unless you can do that, IA potentially won't deliver its full value. Of course, you need to have the right risk and fraud prevention measures and procedures in place before onboarding IA systems. In building their function, however modest in size, CFOs could benefit from a balancing of traditional financial responsibilities with strategic leadership and technological advances.

Does IA make sense for your finance function?

Depending on a number of factors, IA costs no more annually than one qualified financial professional. The difference is this: With IA, you can scale up and grow without adding headcount, something that may appeal to VC investors.

But there are also several practical issues to weigh. You would need to define the anticipated value and return on investment (ROI), notably how IA will likely affect revenue, cost savings, and customer/employee satisfaction. And don't overlook any possible changes to your risk profile or issues of integrating with your data systems. Once that's done, you will probably need to prepare for necessary change management, identify any ethical issues, and then choose a vendor. There's no denying it's a serious and complex process.

A variety of options for IA

There's no one-size-fits-all solution for IA. There's a variety of value-add processes available—from robotic process automation (RPA) that mimics human actions and can undertake data entry, invoice processing, and other rules-based procedures, to workflow automation that can streamline end-to-end processes by automating approvals, notifications, and

task assignments. I've already touched on GenAI with its machine learning, natural language processing, and predictive analytics that enable data-driven decision making and process optimization. But GenAI can also supercharge other tasks—such as intelligent document processing that extracts, classifies, and validates information and data from PDFs and Word docs, among other things. Then there's cognitive automation that combines GenAI and human-like reasoning to address a number of complex tasks. And let's not neglect chatbots and virtual assistants to handle employee inquiries and streamline communications within the finance function itself. So how do you select your path forward? If you're uncertain, I'd suggest starting with process mining. It uses GenAI to help analyze your existing processes to identify inefficiencies, bottlenecks, and areas for improvement.

IA elevates the finance function

In using AI to enhance the quality of your data and information, you need first to determine the correct inputs and outputs by asking yourself, "Do we have the right variables in play?" Achieving the desired quality data and overall outcomes typically requires understanding exactly which processes you are automating, the requisite data needed, and the attending data security and compliance issues.

But here's the main takeaway: IA can help elevate the finance function by freeing up quality time. Time to focus on larger strategic business or technical accounting issues; to follow up on unexpected results; to engage in more thorough and thoughtful forecasting. And time to take a long-term perspective on the business, often free from the pressure of meeting an immediate deadline.

Finally, there are two other important points: One is that IA can help attract

the necessary top financial talent. That's because a prospective employee can see that routine tasks are automated and that they have the opportunity to use their skills to the greatest effect. The other is VC funding. For more mature enterprises, an automated finance function often speaks volumes to VCs about efficiency, controls, and effective management. To help achieve sustained growth as a startup, the name of the game is funding. Consider Deloitte's recently launched [Smart Finance for Growth Companies](#). This turnkey program combines UiPath's leading GenAI-powered automation software and Deloitte's extensive experience guiding growth companies and implementing technology transformations. Interested in learning more? [Contact my team today](#).

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