Journey to Becoming a Public Company
Is Your Enterprise Prepared to Go Public?

December 2021
Session Agenda

1. Two Roads to a Public Company Listing
2. Financial Readiness and Reporting
3. Governance Controls and Compliance
Two Roads to a Public Company Listing
## Going Public

### Capital Market Considerations

**Financial Story**
- Financial statements accurately reflect business
- Reliable financial reporting systems
- Key members of management and finance teams in place
- Predictability of earnings and meeting forecasts

**IPO Timing**
- Assess the market conditions. If valuations are falling, consider waiting if your Company can sustain holding off until the markets approve.

**Listing Exchange**
- NYSE – stricter quantitative requirements such as earnings and cap tests
- Each exchange has its own corporate governance requirements

**Regulatory Compliance**
- SEC financial statement and disclosure requirements
- Sarbanes-Oxley
- JOBS Act

### Going Public Advantages

- Obtain capital to grow business
- Liquidity for investors
- Prestige
- Retire debt / strengthen balance sheet

### Going Public Disadvantages

- Ongoing legal compliance obligations
- High expenses associated with being public
- Disclosure obligations
- Dilution / loss of control of current stockholder interest
- Management distraction during IPO process
Issues & Challenges to Going Public

Financial Reporting
Enhancing and producing SEC & US GAAP compliant historical financial statements and disclosures are more resource and time consuming than private firms are accustomed.

Accounting Standards
Applying new standards for the first time for a privately held enterprise may significantly change the company’s financial position and business results. This may require changes to the enterprise model and existing business contracts.

Corporate Governance Standards
Public companies must have appropriate governance structure in place, i.e. audit committee, ethics code, AML, OFAC, FCPA, policies governing 3rd parties, etc.

Ongoing Public Obligations
Continued requirements to comply with the company’s public financial reporting and typically having limited talent resources or lacking public company experience may result in issues to satisfy the new public obligations.

Compliance with SOX
SOX documentation may have significant or material weaknesses in control environment. This may require putting initial control and procedures workarounds to meet disclosures and certifications under SOX.

Business Processes Evolution
Workarounds will be deployed during the public readiness groundwork phase that will often create inefficient processes and lack adequate quality controls. Executing a business diagnostic will become key to driving process evolution improvement and automation to reduce the cost of doing business.

3rd Line of Defense
Listed companies need to maintain an internal audit function to provide management and audit committee with ongoing evaluations of the enterprise’s risk management processes and system of internal control.

Systems Fitness
Applying SEC & US GAAP accounting rules may require significant information/data that existing systems are not able to provide.
# The IPO or SPAC Journey

<table>
<thead>
<tr>
<th>IPO</th>
<th>SPAC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company looking for money</strong></td>
<td><strong>Money looking for a Company</strong></td>
</tr>
<tr>
<td>Private company raises capital by offering shares to the public market</td>
<td>SPAC is a shell company created from investor capital. SPAC undergoes an IPO to raise capital with the intent of acquiring or merging with an existing private operating company</td>
</tr>
<tr>
<td>Average 12 – 18 months to go public – driven by organizational readiness</td>
<td>Private company could become public within a few months upon entering a merger process with a SPAC – average 3 – 6 months</td>
</tr>
<tr>
<td>Underwriters, along with Company’s executive management, undergo a roadshow to pitch investors and generate interest in the stock</td>
<td>No roadshow to generate interest with public exchanges. Targeted roadshows to raise additional capital from PIPE (private investment in public equity)</td>
</tr>
<tr>
<td>Price dependent on market conditions</td>
<td>Upfront price discovery as Company value is negotiated with the SPAC</td>
</tr>
<tr>
<td>Heavy underwriter and roadshow costs to market the Company but absorbed by offering proceeds</td>
<td>No heavy underwriter and roadshow costs to market</td>
</tr>
</tbody>
</table>
IPO Lifespan and Key Activities

IPO Planning
12-24 months prior to IPO

IPO Readiness Assessment and Initial Planning

IPO Preparation
6-12 months prior to IPO

Build the External IPO Team

IPO Fact Book

Equity Story and Valuation

IPO Timetable and Due Diligence

IPO Execution
6 months prior to IPO

IPO Program Management

Financial Readiness & Reporting

Controls & Compliance

Processes, Operations & Infrastructure

Post-IPO Value Generation

Initial Public Offering

Equity Story and Valuation

Financial Readiness & Reporting

Controls & Compliance

Processes, Operations & Infrastructure

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Post-IPO Value Generation

Initial Public Offering
SPAC Lifespan and Key Activities

**SPAC Target Search & Negotiation Phase**
- Private Company Target Search
- Negotiation and Transaction Agreement Execution
- Target Public Company Readiness Assessment
- Target Identified

**De-SPAC Process (Reverse Merger)**
- SPAC Program Management
- Financial Readiness & Reporting
- Controls & Compliance
- Transaction Announced
- Transaction Closed

**Post-Listing Value Generation**
- Public Listing

**SPAC Activities**
- Private Company Activities
## SPAC Key Challenges

Companies planning to IPO spend 18-24 months to prepare for the transition from private to public; however, companies merging with a SPAC have taken as little as a few months after signing to become public.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Consideration</th>
<th>Readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diligence Readiness</td>
<td>Finance, IT, Corporate Governance, Internal Controls, Legal and Organizational areas will be evaluated during the SPAC’s review of its acquisition candidate.</td>
<td>Rapid assessment and simultaneous execution is necessary to identify and address gaps in preparation for accelerated public readiness timelines.</td>
</tr>
<tr>
<td>Legal &amp; Regulatory Compliance</td>
<td>Private companies merging with a SPAC must meet SOX requirements soon after the close of the SPAC merger. A SPAC is not afforded the typical one-year grace period for internal control compliance.</td>
<td>Engage a SOX readiness team at the onset of electing SPAC process to identify and remediate compliance issues.</td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>Significant financial reporting requirements are needed leading up to the S-4 and Super 8-K filings.</td>
<td>Engage dedicated team(s) to being preparing annual and interim financial statements, proforma financial, MD&amp;A and market risk disclosures, and other non-financial required information.</td>
</tr>
</tbody>
</table>
Additional Considerations

Other key processes should also be addressed in preparation for closing the acquisition and becoming a public company.

- **Tax Structure**: Legal and equity restructuring decisions need to be made as they impact tax status.
- **SEC Filings**: Team needs to be ready to file 10-Q, 10-K and 8-K’s on a timely basis.
- **Governance**: Structure board of directors and related committees to meet NYSE or Nasdaq governance requirements.
- **IT**: Can current IT system support financial reporting processes, is it scalable for growth, does it have appropriate governance infrastructure?
- **Equity and Comp**: Executive compensation and benefit programs need to be examined and adjusted for impact on accounting and financial reporting.
- **Organization**: Evaluate company’s organization and assess current team’s capabilities to support a public company.
Polling Question #1

Being a public company comes with more compliance regulations?

A. True
B. False
Financial Readiness & Reporting
## Key Financial Statement / Reporting Requirements

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Traditional IPO</th>
<th>SPAC Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration Statement</td>
<td>Form S-1</td>
<td>Form S-4(*)</td>
</tr>
<tr>
<td>Financial Statement</td>
<td></td>
<td></td>
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<tr>
<td>• Financial statements of the entity and any acquired businesses, if required by Rule 3-05</td>
<td></td>
<td></td>
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<tr>
<td>• Audited in accordance with PCAOB audit standards</td>
<td></td>
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<tr>
<td>• EGCs – 2 years; Non-EGCs – 3 years</td>
<td></td>
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<tr>
<td>• Unaudited interim statements, if required**</td>
<td></td>
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</tr>
<tr>
<td>• Management’s discussion and analysis (MD&amp;A) of the entity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Financial statements of the SPAC, Target(s) and any acquired businesses, if required by Rule 3-05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Audited in accordance with PCAOB audit standards</td>
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<td></td>
</tr>
<tr>
<td>• Unaudited interim statements, if required**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Unaudited pro forma financial information reflecting the proposed acquisition and any other material transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Management’s discussion and analysis (MD&amp;A) of the SPAC and target(s)</td>
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</tbody>
</table>

*A joint registration and proxy statement (joint statement) on Form S-4 if it intends to register new securities as part of the transaction.

**Financial statements must be as of a date no earlier than 134 days before the date of the filing.
# Key Financial Statement / Reporting Requirements

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<tr>
<th>Requirements</th>
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<th>SPAC Merger</th>
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</thead>
<tbody>
<tr>
<td>Private vs. Public Accounting Standards</td>
<td>• Must comply with Reg. S-X and US GAAP requirements of a public business entity</td>
<td>Same as Traditional IPO</td>
</tr>
<tr>
<td></td>
<td>• Income taxes</td>
<td></td>
</tr>
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<td></td>
<td>• Related party transactions</td>
<td></td>
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<tr>
<td></td>
<td>• Segment reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Earnings per share</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Redeemable preferred stock</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Any private company alternatives must be unwound; Adoption of new accounting standards</td>
<td></td>
</tr>
<tr>
<td>Determining the Accounting Acquirer</td>
<td>• N/A</td>
<td>• All Cash – SPAC is generally the accounting acquirer</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Equity, or mix, requires further evaluation and may be complex</td>
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<tr>
<td></td>
<td></td>
<td>• Why does it matter?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• If SPAC, then business combination</td>
</tr>
<tr>
<td></td>
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<td>• If Target, reverse capitalization</td>
</tr>
</tbody>
</table>
Polling Question #2

What are the two approaches to going public that we are discussing?

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>A.</td>
<td>Traditional IPO</td>
</tr>
<tr>
<td>B.</td>
<td>SPAC</td>
</tr>
<tr>
<td>C.</td>
<td>Both A &amp; B</td>
</tr>
<tr>
<td>D.</td>
<td>Only A</td>
</tr>
</tbody>
</table>
Typical Technical Accounting Issues

- Revenue Recognition
- Segment Reporting
- Earnings per Share
- Impairment Matters
- Capital Structure – Convertible Notes and Preferred Stock
- Equity Comp incl. “Cheap Stock”
- Income Taxes
- Lease Accounting

Key to minimizing delays in the SEC comment phase is focusing on the accounting items early.
Companies should formulate a very detailed tax IPO plan that considers tax oversight, financial reporting, registration statements, corporate governance, tax systems, tax controls, and tax technical matters.

Tax leadership should be actively involved as a company considers an IPO or public transaction. Before the Form S-1 registrations are filed with the SEC, companies have a lot of very detailed processes and documentation that needs to be prepared in order to standup a public company.

**1 – Tax Department Assessment**

<table>
<thead>
<tr>
<th>Basics</th>
<th>Tax Department Planning</th>
<th>2 - IPO Tax Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review Pre-IPO Structuring &amp; Current Tax Attributes</td>
<td>Financial reporting of income taxes – financial statement preparation</td>
<td>Required Filings and Reporting</td>
</tr>
<tr>
<td>Tax department participation in initial and ongoing SEC filings</td>
<td>Internal controls &amp; Sarbanes-Oxley (SOX) compliance</td>
<td>Preparation of S-1</td>
</tr>
<tr>
<td>Availability &amp; Accuracy of income tax related information</td>
<td>Tax department resources</td>
<td>File S-1 and amendments responsive to SEC comments</td>
</tr>
<tr>
<td>Income tax-related disclosure requirements</td>
<td>Recommend Improvements</td>
<td>Regular periodic SEC filings</td>
</tr>
</tbody>
</table>

**Tax Department Management and Tax Provision Reporting**
Recent SEC Considerations

**SPAC Warrants**
Accounting for SPAC Warrants
- Liability v. Equity
- Re-Statements
- Exchange Non-Compliance Notices

**Safe Harbor**
Forward Looking Statements
- SPAC Target Company Projections
- US House Committee on Financial Services draft legislation

**Reminder**
SEC Staff Review of Registration Statements
- SEC Staff issued reminder that they will not review substantially incomplete registration statements
Polling Question #3

What are two complex accounting matters that must be addressed as part of becoming a public company?

A. Segment reporting in accordance with ASC 280
B. Earnings per share in accordance with ASC 260
C. A and B
D. Neither A and B
Governance Controls and Compliance
What is SOX and Why is it Important?

- **SOX, Sarbanes Oxley Act 2002** is a federal law that set new or enhanced standards for all US public company’s board of directors, management and public accounting firms.

- **Section 302** – Quarterly certification by CEO and CFO regarding Disclosure Controls and Procedures (effective first Q after IPO)

- **Section 404** - Annual certification by CEO and CFO regarding the effectiveness of Internal Controls over Financial Reporting (ICFR). All annual financial reports must include an Internal Control Report stating that:
  - Management is responsible for an "adequate" internal control structure
  - An assessment by management of the effectiveness of the control structure.
  - Any shortcomings in these controls must also be reported.
  - 404b: Registered external auditors must attest to the accuracy of the company management assertion that internal accounting controls are in place, operational and effective.

- The **Public Company Accounting Oversight Board (PCAOB)** is responsible for regulating public accounting firms and setting auditing standards for ICFR.

- **Non-compliance is a risk to public perception, analyst ratings / stock price and officer liability and the penalties are real**: False certification may lead to fines and/or imprisonment.
Major SOX Provisions

- Auditor Independence
- Corporate Responsibility
- Disclosure Certifications: Sections 302, 404 and 906
  - Financial Controls – Accounting Ownership
  - Entity Level Controls – Everyone’s Ownership
    - Whistleblower Compliance
    - Spending Authority
    - Performance Accountability

SOX is required by law and there are penalties, including jail time, for fraudulent financial reporting.

Reporting a material weakness in internal control may cause the company’s stock price to drop.

The Public Company Accounting Oversight Board (PCAOB) is responsible for regulating public accounting firms and setting auditing standards for Internal Controls over Financial Reporting (ICFR).
Relevant SOX Provisions of the Act

Section 302

- CEO / CFO certifications
- Establish and maintain disclosures, controls and procedures, and evaluate these controls
- Timing – First quarterly filing after the IPO

Section 404

- 404a – Annual assessment by Company’s management of the effectiveness of internal controls over financial reporting
- 404b – Independent attestation (audit) of internal controls over financial reporting from external auditor. This is required when the company reached a market cap of over $1b, as of the annual measurement date.
In order to prepare for public company certifications (302 and 906) which are required as of the first public filing after the IPO, companies should begin the process to develop and document controls over financial reporting. Typically, this includes performing a risk assessment, and designing, developing and implementing internal controls. The following are key steps within a typical SOX readiness and documentation design initiative:

### 1 - READINESS AND RISK ASSESSMENT

**Planning**
- Risk Assessment and Process Scope
- Planning Memo
  - Materiality
  - IT Scope
  - Sample Sizes
- Project Timeline
- Training

**Control Assessment**
- Evaluate and Document ELC Design
- Evaluate Process Level Control Design (talkthroughs)
- Evaluate Controls in accordance COSO 2013
- Recommend Improvements

### 2 - DESIGN EFFECTIVENESS

**Document Design**
- Process Documentation (Narratives; Risk Control Matrices, Walkthroughs)
- Identify Anti-Fraud Controls

**Project Management and Status Reporting**
Controls and Compliance Timeline

The timeline for compliance aligns with post-IPO quarterly and annual filings

- **Pre-IPO:** Controls & Compliance Readiness
- **Post-IPO:** Controls & Compliance Readiness, Certification Audit: Test of Design, Test of Effectiveness
- **IPO Plan / Prep / Execute**
- **IPO**
- **Value Generation**
- **Recurring Annual Audit Cycle**
- **1st 10Q:** SOX 302/906 Certifications
- **Recurring Quarterly 302/906 Certifications**
- **2nd 10K:** 1st SOX 404 Assessment(s)
- **Recurring Annual 404 Assessments**
In a SPAC-driven merger, the date of the SPAC IPO may set the compliance timeline. Depending on the timing of the SPAC IPO, the "post merger" readiness window can vary significantly.

<table>
<thead>
<tr>
<th>SPAC Scenario</th>
<th>SPAC IPO Date</th>
<th>Merger Date</th>
<th>1st Quarter after Merger</th>
<th>1st YE after Merger</th>
<th>2nd YE after Merger</th>
<th>Time between Merger and 1st quarterly certifications</th>
<th>Time between Merger and 1st 404 Assessment(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>1/15/2021</td>
<td>7/15/2021</td>
<td>9/30/2021</td>
<td>12/31/2021</td>
<td>12/31/2022</td>
<td>77</td>
<td>534</td>
</tr>
<tr>
<td>12/31/yyyy Year-end SPAC IPO sets compliance timeline: &quot;early&quot; completion of merger</td>
<td>12/31/2021</td>
<td>7/15/2021</td>
<td>9/30/2021</td>
<td>12/31/2021</td>
<td>12/31/2022</td>
<td>77</td>
<td>534</td>
</tr>
<tr>
<td>12/31/yyyy Year-end SPAC IPO sets compliance timeline: &quot;late&quot; completion of merger</td>
<td>11/15/2020</td>
<td>9/15/2021</td>
<td>9/30/2021</td>
<td>12/31/2021</td>
<td>12/31/2022</td>
<td>15</td>
<td>107</td>
</tr>
<tr>
<td>Traditional IPO Scenario</td>
<td>IPO Date</td>
<td>Merger Date</td>
<td>1st Quarter after IPO</td>
<td>1st YE after IPO</td>
<td>2nd YE after IPO</td>
<td>Time between IPO and 1st quarterly certifications</td>
<td>Time between IPO and 1st 404 Assessment(s)</td>
</tr>
<tr>
<td>Traditional IPO</td>
<td>11/15/2020</td>
<td>n/a</td>
<td>12/31/2020</td>
<td>12/31/2020</td>
<td>12/31/2021</td>
<td>46</td>
<td>411</td>
</tr>
<tr>
<td>12/31/yyyy Year-end</td>
<td>11/15/2020</td>
<td>n/a</td>
<td>12/31/2020</td>
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Polling Question #4

<table>
<thead>
<tr>
<th>A. CEO</th>
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<tr>
<td>B. CFO</td>
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<td>C. Only the CEO</td>
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<tr>
<td>D. A and B</td>
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Questions?