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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

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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

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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

	IPO	SPAC
	Company looking for money	Money looking for a Company
Structure	Private company raises capital by offering shares to the public market	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
Speed	Average 12 – 18 months to go public – driven by organizational readiness	Private company could become public within a few months upon entering a merger process with a SPAC – average 3 – 6 months
Marketing	Underwriters, along with Company's executive management, undergo a roadshow to pitch investors and generate interest in the stock	No roadshow to generate interest with public exchanges. Targeted roadshows to raise additional capital from PIPE (private investment in public equity)
Pricing	Price dependent on market conditions	Upfront price discovery as Company value is negotiated with the SPAC
Cost	Heavy underwriter and roadshow costs to market the Company but absorbed by offering proceeds	No heavy underwriter and roadshow costs to market

IPO Lifespan and Key Activities

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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

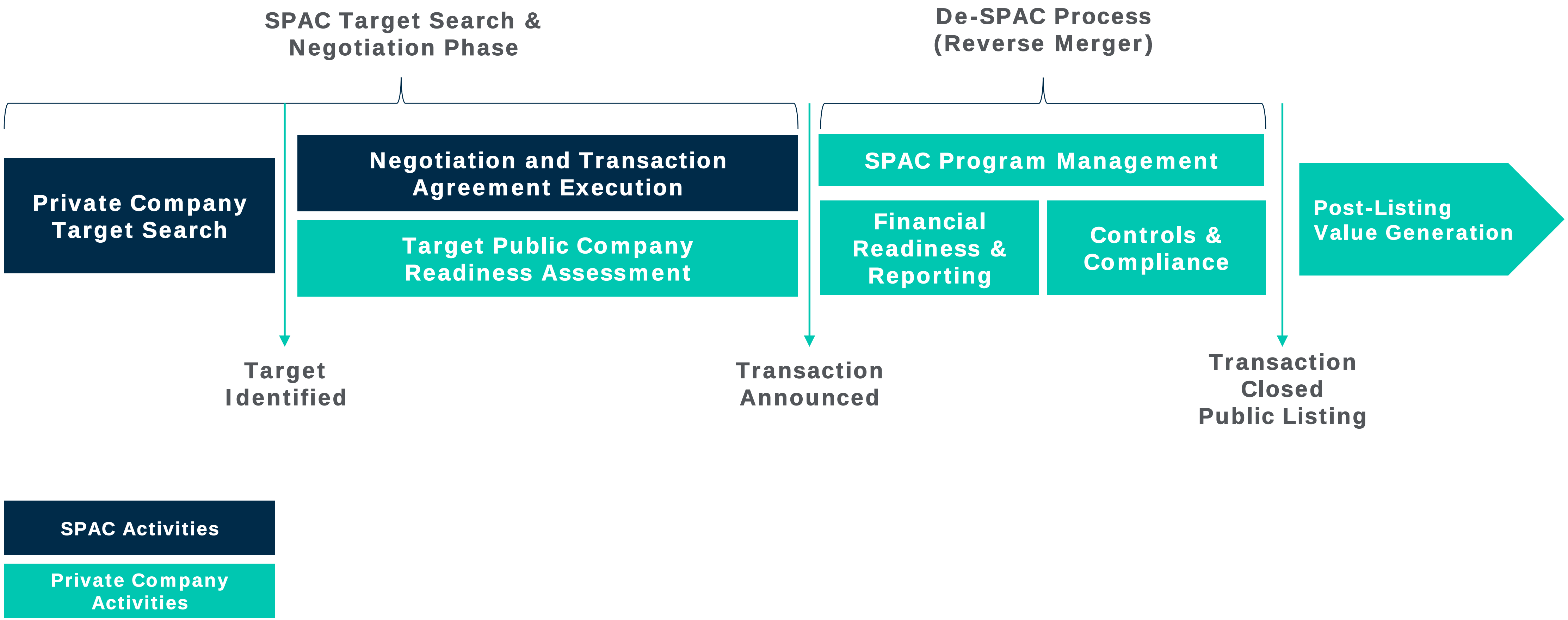
IPO Execution
6 months prior to IPO

- IPO Program Management
- Financial Readiness & Reporting
- Controls & Compliance
- Processes, Operations & Infrastructure

Initial Public Offering

- Post-IPO Value Generation

SPAC Lifespan and Key Activities



SPAC Key Challenges

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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.

Challenges	Consideration	Readiness
Diligence Readiness	Finance, IT, Corporate Governance, Internal Controls, Legal and Organizational areas will be evaluated during the SPAC's review of its acquisition candidate.	Rapid assessment and simultaneous execution is necessary to identify and address gaps in preparation for accelerated public readiness timelines.
Legal & Regulatory Compliance	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.	Engage a SOX readiness team at the onset of electing SPAC process to identify and remediate compliance issues.
Financial Reporting	Significant financial reporting requirements are needed leading up to the S-4 and Super 8-K filings.	Engage dedicated team(s) to being preparing annual and interim financial statements, proforma financial, MD&A and market risk disclosures, and other non-financial required information

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
IT	Can current IT system support financial reporting processes, is it scalable for growth, does it have appropriate governance infrastructure
SEC Filings	Team needs to be ready to file 10-Q, 10-K and 8-K's on a timely basis.
Equity and Comp	Executive compensation and benefit programs need to be examined and adjusted for impact on accounting and financial reporting.
Governance	Structure board of directors and related committees to meet NYSE or Nasdaq governance requirements
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

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Financial Readiness & Reporting

Key Financial Statement / Reporting Requirements

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

*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

Requirements	Traditional IPO	SPAC Merger

Private vs. Public Accounting Standards	• Must comply with Reg. S-X and US GAAP requirements of a public business entity
	  • Income taxes
	  • Related party transactions
	  • Segment reporting
	  • Earnings per share
	  • Redeemable preferred stock
	• Any private company alternatives must be unwound; Adoption of new accounting standards
		Same as Traditional IPO

Determining the Accounting Acquirer	• N/A	• All Cash – SPAC is generally the accounting acquirer
		• Equity, or mix, requires further evaluation and may be complex
		• Why does it matter?
		  • If SPAC, then business combination
		  • If Target, reverse capitalization

Polling Question #2

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

A. Traditional IPO
B. SPAC
C. Both A & B
D. Only A

Typical Technical Accounting Issues

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- 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.

Tax Considerations

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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 be prepared in order to standup a a public company.

1 – Tax Department Assessment

Basics

- Review Pre-IPO Structuring & Current Tax Attributes
- Tax department participation in initial and ongoing SEC filings
- Availability & Accuracy of income tax related information
- Income tax-related disclosure requirements

Tax Department Planning

- Financial reporting of income taxes – financial statement preparation
- Internal controls & Sarbanes-Oxley (SOX) compliance
- Tax department resources
- Recommend Improvements

2 - IPO Tax Documentation

Required Filings and Reporting

- Preparation of S-1
- File S-1 and amendments responsive to SEC comments
- Regular periodic SEC filings

Tax Department Management and Tax Provision Reporting

Recent SEC Considerations

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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

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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.**

Sarbanes-Oxley Act of 2002

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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.

SOX Readiness

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

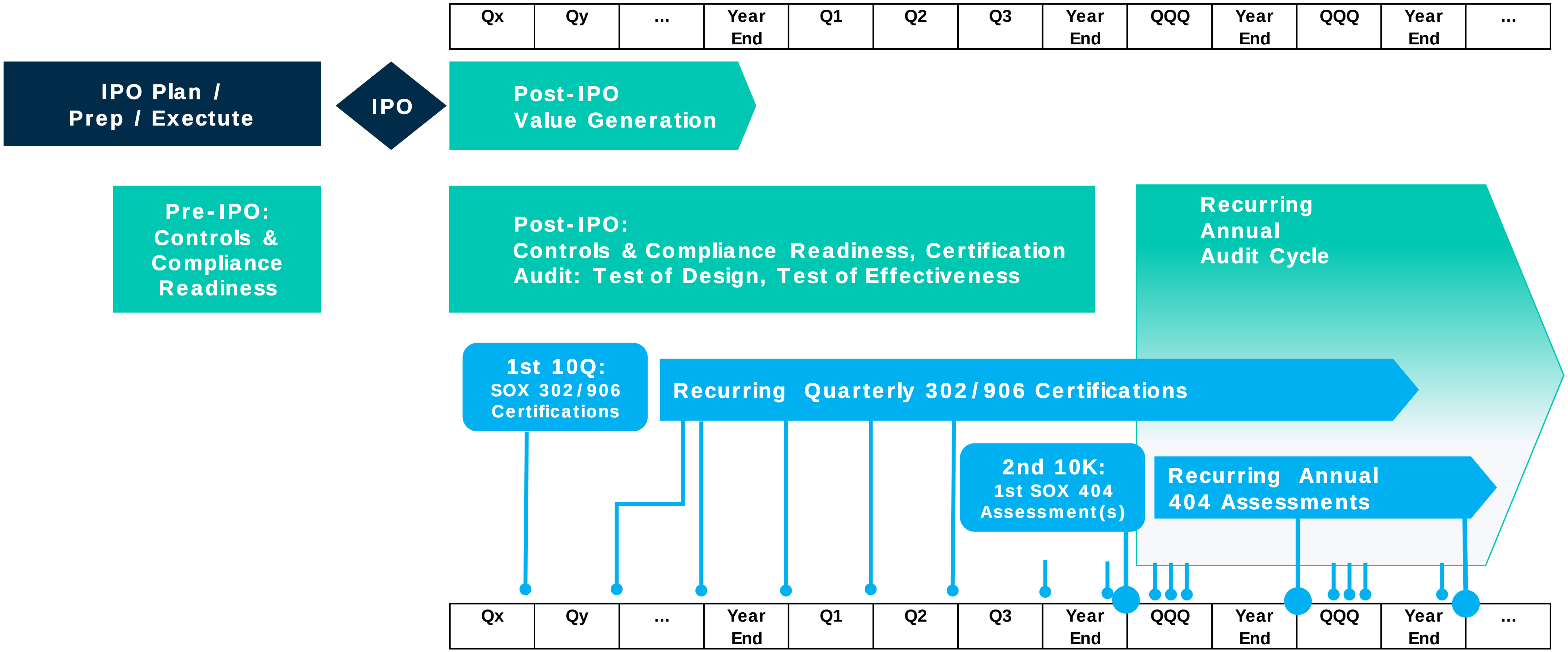
Document Design

- 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



SPAC Considerations: Controls and Compliance

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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 very significantly.

SPAC Scenario	SPAC IPO Date	Merger Date	1st Quarter after Merger	1st YE after Merger	2nd YE after Merger	Time between Merger and 1st quarterly certifications	Time between Merger and 1st 404 Assessment(s)
Scenario 1 12/31/yyyy Year-end SPAC IPO sets compliance timeline: "early" completion of merger	1/15/2021	7/15/2021	9/30/2021	12/31/2021	12/31/2022	77	534
Scenario 2 12/31/yyyy Year-end SPAC IPO sets compliance timeline: "late" completion of merger	11/15/2020	9/15/2021	9/30/2021	12/31/2021	12/31/2022	15	107
Traditional IPO Scenario	**IPO Date**	**Merger Date**	**1st Quarter after IPO**	**1st YE after IPO**	**2nd YE after IPO**	**Time between IPO and 1st quarterly certifications**	**Time between IPO and 1st 404 Assessment(s)**
Traditional IPO 12/31/yyyy Year-end	11/15/2020	n/a	12/31/2020	12/31/2020	12/31/2021	46	411

Polling Question #4

Who must provide quarterly certifications regarding Disclosure Controls and Procedures under Section 302 of Sarbanes-Oxley?

A. CEO
B. CFO
C. Only the CEO
D. A and B

Questions?

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