Embarking on the IPO Journey

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The reasons for pursuing a public offering are as varied and unique as your company. You may be interested in raising capital to fuel additional growth and investment, creating currency for acquisitions, attracting and retaining talent, providing liquidity for shareholders, increasing your company’s visibility and credibility in the marketplace, or exploring other potential benefits.

Whatever your reasons for embarking on the initial public offering (IPO) journey, becoming a public company—or starting the process—introduces a range of potential execution, regulatory, and business challenges that must be addressed successfully.

Completing the IPO process requires a trusted advisor that can help you navigate efficiently through the journey and avoid potential roadblocks. You need experienced help not only with the offering, but also in addressing the opportunities and challenges you’ll face after the IPO.

Because it’s not just about going public—it’s about being public.

Beyond a Financial Transaction

Many successful IPOs share a common foundation that combines effective planning with a strong commitment to sound accounting policies and internal controls, effective core business processes, and unwavering corporate governance.

Companies interested in going public must be able to demonstrate that they’re up to the challenges. Before the offering, potential investors, regulators, underwriters, and business partners will look for evidence that your firm is “public-company ready” by examining audited historic financial statements, financial forecasts, your management team, your corporate governance structure (including a robust board and audit committee), and other factors.

Companies preparing for an IPO must demonstrate strong:

- Financial reporting – Public companies must be able to disclose financial results and significant events efficiently while maintaining accuracy and integrity, and to discuss those results with the investment community. To support these needs, companies need strong financial reporting processes, as well as systems for internal forecasting and strategic planning.

- Corporate governance – Investors want to know that a company’s structure, directors and officers, procedures, and internal controls are effective in meeting regulatory requirements and managing risk. Similarly, they want counsel that the company’s systems and processes are supporting the company’s operational, management, and compliance goals.

- Tax planning – Tax strategies can have significant effects on a company’s net income and cash flow. Before the IPO, the tax structure needs to be optimized and historical tax positions reviewed to avoid potential adverse tax implications associated with the offering, while a post-IPO company needs to prepare for tax compliance and reporting across multiple jurisdictions.

Upgrading a company’s management and financial processes and systems to support the rigors of life as a public company can produce improvements that deliver value long after the offering. Even if a company decides to pursue other strategic alternatives, such as a strategic sale or other transaction, preparing for an IPO can be the foundation of a significant business transformation effort.
Complex Challenges
Companies considering an IPO must deal with a number of challenges, including:

- Preparing an accurate registration statement and offering prospectus with proper disclosure of material facts.
- Addressing risk factors and forward-looking statements in the registration statement, prospectus, and Management’s Discussion and Analysis.
- Honoring significant restrictions on publicity during the IPO process. Discussing the offer prematurely or other inappropriate communications may lead to delays or enforcement actions.
- Disclosing detailed information about the company and its financial performance, including corporate strategy, financial results, executive compensation, pending litigation, and other required data.
- Preparing and disclosing measures and key performance indicators (KPIs) such as earnings before interest, taxes, depreciation, and amortization; free cash flow; number of customers; and other financial measures.
- Budgeting for direct and indirect IPO expenses including the underwriter’s discount, regulatory filing and exchange listing fees, legal and accounting costs, printer fees, road show expenses, and other costs.
- Planning for post-IPO costs such as Sarbanes-Oxley compliance, financial disclosures, director fees, directors and officers insurance, and other expenses.
- Recruiting independent directors, meeting listing exchange requirements for director independence, creating a blend of company management and independent directors, and determining director compensation.
- Addressing Securities and Exchange Commission (SEC) comments after the SEC staff’s legal and accounting reviews of the registration statement. The SEC may request revisions, support for declarations within the statement, or additional information.
- Allocating offering shares among interested parties, including family and friends, customers, vendors, and other potential investors.
- Assessing and, if necessary, updating your corporate and capital structure, revisiting accounting records in preparation for audit process, third-party agreements, and other potential issues.
What We Offer
KPMG provides a full range of services to support your public offering. We help you identify information, process, and control enhancements, and we work with you throughout the offering process to help you build a sustainable approach to your needs as a public company.

IPO Readiness Assessment
We start with an IPO readiness assessment to identify your company’s challenges and gaps. We provide actionable recommendations after the gap analysis that prioritize your needs, and we develop a time line and apply a project management approach to the roadmap for the IPO process.

We help you gather relevant information and support the preparation of historical and pro forma financial statements, as well as selected financial data in compliance with SEC filing requirements. We also help with researching and drafting documentation to support your positions.

We help you develop controls, enhance the reporting process, implement policies and procedures, and improve systems for the demands of the new environment. We’ll help you identify and prioritize “need to have” improvements required for the offering, as well as “nice to have” initiatives and leading practices that can be addressed as they align with your budget and internal resources.

Our team is experienced in helping with your coordination and project oversight, including defining tasks and assigning responsibilities, identifying and resolving issues, and tracking milestones so you can gauge your progress toward the registration goal.

Our team is equipped to help with your response to SEC comment letters, and we have experience working with your other partners in the IPO process, including investment bankers, attorneys, and printers.

KPMG offers extensive experience helping companies in a variety of industries make the transition to a public company. In addition to understanding the offering process and the challenges common to IPO-stage companies, we offer insights into specific issues or regulatory concerns that may apply to your industry.

We provide training to your accounting personnel to prepare them for the requirements of the new reporting environment, and transfer knowledge so the new reporting processes quickly become business as usual.

KPMG can help in such areas as:

• Performing external audits on financial statements required for SEC registration
• Enhancing your quarterly and annual reporting processes to meet stringent regulatory and capital markets deadlines and requirements regarding financial results and statements, risk factors, corporate governance, and other details
• Accelerating the preparation of financial results and other significant news or events within regulatory deadlines and communicating those results to shareholders and the investment community
• Establishing management reporting and corporate governance processes and procedures
• Developing scalable business processes and implementing enabling technologies
• Addressing audit committee requirements for publicly held companies
• Developing internal controls and meeting other requirements of Sarbanes-Oxley section 404
• Creating a project management function to address the requirements of the IPO process
• Dealing with accounting, tax, and other regulatory compliance issues
• Assisting with financial modeling and forecasting to provide investor guidance
• Addressing your internal audit requirements.
Here’s a detailed look at selected capabilities:

**Systems and Process Improvements**
Frequently, companies planning IPOs are maturing businesses enjoying rapid growth, and any dramatic increase in business transactions can present its own challenges to an organization’s operations.

Developing the infrastructure to support the company’s growth and success, for instance, often includes:

- Designing scalable operational and financial management processes including budgeting, forecasting, and identifying KPI’s
- Implementing monitoring and process-level internal controls
- Developing internal and external financial reporting practices
- Automating process activities around an enterprise resource planning (ERP) system and other enabling technologies, with the appropriate access and change controls
- Introducing additional management protocols while preserving a culture of innovation.

KPMG’s advisory professionals can play a key role in helping your company address these and other systems and process issues. We can help design KPIs and processes to support financial cycles, including order-to-cash, budgets, forecasts, procure-to-pay, inventory management, safeguarding of assets, and record-to-report.

In addition, we can provide advice on implementing major system installations including project management, data conversion, access and security, segregation of duties, and application control sets.

**Audit and Financial Reporting**
The key financial reporting challenges for IPO-stage companies include:

- Preparing financial statements and obtaining audits to meet milestones developed with investment bankers for initial SEC filings
- Auditing financial statements of significant acquisitions
- Providing support required for financial data included in the prospectus that will be subject to a comfort letter issued by the external auditors
- Updating financial statements and obtaining reviews for additional interim periods that occur prior to the pricing and closing of the offering
- Meeting ongoing reporting deadlines for annual and periodic reports.

As an auditor of small and large public companies, KPMG understands what it takes to meet your company’s IPO challenges. We have an extensive network of SEC reviewing partners deployed throughout our local practices who are supported by a national office.

This combination of resources helps us provide high-quality audits and valuable insight into emerging regulatory and accounting developments that can affect companies subject to public company reporting requirements.

Our advantages also extend to companies working with other external auditors. For example, our advisory teams are able to access KPMG’s financial reporting knowledge base to assist companies with complex SEC reporting requirements. These teams provide support to the financial management of an IPO-stage company through:

- Assisting with preparation of financial statements in accordance with U.S. GAAP, International Financial Reporting Standards (IFRS), and Regulation S-X
- Assisting in responding to SEC comments and questions.
**Corporate Governance**

Companies making the transition from private to public must ensure their boards and audit committees meet the regulatory requirements associated with the public listing. They must also ensure members possess the fundamental skills for effective oversight.

To meet the new requirements for independence and financial expertise, companies often must change the makeup and functions of these bodies. Among the steps many pre-IPO companies take are:

- Recruiting independent directors and audit committee members with financial expertise
- Implementing an effective audit committee charter that exceeds the requirements of the relevant stock exchange
- Assessing the capabilities of the finance department to meet the rigorous reporting requirements of a public company
- Upgrading control activities, systems, processes, and accounting staff to support growth and manage risk
- Establishing disclosure controls, fair disclosure practices, insider trading policies, a whistleblower communication process, and meeting other regulatory and legal compliance mandates
- Conducting a proactive fraud and regulatory risk assessment process to help the board identify and mitigate risk.

**Internal Controls and Sarbanes-Oxley Compliance**

The level of investor confidence in the reliability of financial disclosures can be a key factor in your company’s success in the capital markets. To promote investor confidence, a public company’s control systems must comply with regulatory requirements, such as quarterly certifications by executives (Sarbanes-Oxley sections 302 and 906) and reports on the effectiveness of internal control over financial reporting (Sarbanes-Oxley section 404).

Complying with Sarbanes-Oxley section 404 requires a significant investment over several months to move through a project plan that includes a number of phases, such as:

- Assessing financial statement and fraud risks
- Evaluating the control environment, entity-level controls, and general IT controls
- Defining significant locations and business units
- Documenting processes involving major classes of transactions
- Identifying significant risk points and key mitigating controls
- Providing a preliminary assessment of the effectiveness of the design and operation of key controls
- Remediating missing and ineffective controls
- Demonstrating consideration of regulatory risks
- Conducting final tests that support an assertion of effective internal controls over financial reporting.

KPMG’s substantial experience auditing and advising on internal controls over financial reporting can help. We can provide insight into an effective and efficient Sarbanes-Oxley section 404 compliance process with valuable benchmarks on the number of key controls by process, an understanding of the benefits to be gained by standardizing controls, and knowledge of the different approaches to testing controls.

**Tax Governance and Planning**

Tax strategies can have long-term effects on a company’s net income and cash flow, and need to be aligned with your corporate strategies and objectives. An effective tax strategy includes establishing a tax function (internal or external) to handle tax accounting, reporting, compliance, and planning issues within a public company’s quarterly or annual close cycle.

Management must also be prepared to understand the company’s tax risks and opportunities, including issues related to operating in multiple tax jurisdictions, potential tax effects of stock options, tax incentives, and transactional taxes.

Before a public offering, management needs to consider the appropriate tax structure for its immediate and long-term business needs. Certain types of entity restructuring, for instance, may be more cost effective if completed before your company goes public. Similarly, the company needs to consider the tax implications of the IPO transaction.

Other typical issues, such as limitations on net operating loss carryovers due to ownership changes, must be analyzed to give full value to shareholders. ERP system setup should take into consideration tax reporting, compliance, and planning requirements to achieve efficiency and accuracy.

KPMG can provide assistance with addressing many of these tax governance issues.
Global Operations
Many companies already operate internationally by the time they decide to go public. Often these “mini-multinationals” have headquarters in the United States but significant operations—such as sales offices, product development sites, manufacturing plants, and back-office functions—in other countries.

As a result, you may need to address tax, financial management, business risks, management reporting, and corporate governance issues in a cost-efficient manner across several countries. Some companies also may have the majority of their personnel located overseas, but desire to go public on the U.S. markets.

KPMG is well positioned to serve companies globally. KPMG member firms can serve companies across borders and work comprehensively to help them prepare for U.S. public offerings.

Knowledge Transfer
Preparing for the IPO transaction often requires an investment in time and effort by the registrant, but that investment can pay considerable dividends in increasing the effectiveness (and cost effectiveness) of your company’s reporting processes and overall operations as a public company.

KPMG professionals can work alongside and coach your team on a real-time basis to thoroughly integrate the improved processes into your daily operations so they become “business as usual.”
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