Your journey to going public in 2021:

Know what's ahead for you

June 9, 2021

Presenters

Jennifer Knecht
Partner
+1 317 706 2697
jennifer.knecht@crowe.com

Mandi Simpson
Partner
+1 404 442 1672
mandi.simpson@crowe.com

William Watts
Principal
+1 614 280 5227
william.watts@crowe.com

Agenda

1
Current IPO market trends

2
Common misconceptions about going public

3
Operational considerations

.

4
Accounting and financial reporting considerations

5
Question & Answer

Current IPO market trends

Polling Question #1

Where are you in your journey to going public?

A. Early stages of investigation to determine whether going public is the right choice for the organization
B. Those charged with governance have determined going public is the right choice for the organization and want to learn more
C. Well underway and expect to go public in 2021

Considerations for Going Public

- Does the organization have the right professional expertise and infrastructure?
- Does the organization meet the criteria of underwriters and the market?
- Does the valuation existing at the time of the proposed offering make sense?
- Is the organization prepared to meet the ongoing reporting obligations?
- Can the organization meet stock exchange listing requirements?
- Is the IPO the best way to achieve the organization’s objectives?

Special Purpose Acquisition Company (SPAC)

- SPAC is a newly formed shell company that raises proceeds in an IPO for the purpose of acquiring one or more operating businesses
  - SPAC does not have revenue or operating history
- SPAC raises capital by selling units composed of shares and warrants to investors
- Capital raised by the SPAC is held in a trust account to be used in connection with a business combination
- SPAC normally has 18 – 24 months to complete a business combination
  - If a business combination does not occur, the SPAC will liquidate, and shareholders will receive their pro rata share of the amount in the trust

Current Environment

- SPACs exploded in popularity last year
- More than 400 SPACs looking to take private entities public
- Recent SEC guidance related to SPACs

Common misconceptions about going public

SPAC versus Traditional IPO

SPAC	Traditional IPO
Completed within a defined time (usually 18 to 24 months) or if not completed, liquidation occurs, in which investors' shares are redeemed.	Driven by market conditions and organizational readiness. With no defined timing, going public can last from a few months to many years
No marketing roadshow of the private operating company occurs; the shareholder vote demonstrates marketability.	Underwriters market new shares through testing the waters and pre-trading roadshows to generate investor interest.
No underwriting or roadshow costs to market the private operating company; instead, sponsor’s promotion is an indirect cost.	Underwriters and roadshow costs are more burdensome but absorbed by offering proceeds.
Different legal reporting obligations and sometimes fewer financial reporting accommodations in the Registration Statement.	Nature and extent of financial reporting obligations varies based on circumstances.

SEC Filing Considerations

SPAC

Pre-Merger:

- S-4

De-SPAC:

- Super 8-K, resale registration statement/S-1 or S-3, S-8, Forms 3 and 4

Traditional IPO

- S-1

Emerging Growth Company (EGC)

Criteria

Criteria:

- Total gross revenue is less than $1.07 billion
- Issued less than $1 billion in non-convertible debt within the last 3 years
- Does not become a large accelerated filer (public float of greater than or equal to $700 million)

Duration: Lesser of 5 years (at issuer IPO date) or until one of the above criteria is no longer met.

Advantages

- **Less annual financial statement data (2 years of all statements, rather than 3 years for Statement of Income, Cash Flows, and Statement in Changes of Equity)**
- Scaled down executive compensation disclosures
- Adopt new or updated accounting standards using the same time frame that applies to private companies
- Defer compliance with internal control auditor attestation requirements of SOX 404(b)
- Ability to opt-in to use deferred effective dates (though decision to opt-out is irrevocable)

SEC Filing Considerations (cont.)

SPAC

Pre-Merger:

- S-4

De-SPAC:

- Super 8-K, resale registration statement/S-1 or S-3, S-8, Forms 3 and 4

Traditional IPO

- S-1

Smaller Reporting Company (SRC)

Criteria

Criteria:

- Public float: < $250 million, OR
- Revenue: Less than $100 million in annual revenue, AND
  - No public float, or public float less than $700 million

Advantages

Scaled Disclosure accommodation:

- **Less annual financial statement data (2 years of all statements, rather than 3 years for Statement of Income, Cash Flows, and Statement in Changes of Equity)**
- 101- Description of business: description of prior 3 years versus 5 years.
- 303- MD&A and 402 Executive Compensation – 2-year rather than 3-year comparison; among other accommodations
- Fewer circumstances requiring pro forma statements
- Not required: 201- Stock performance graph; 302- Supplementary Financial Data; 404- Related Party policies; 407- Corporate Governance (Audit committee financial expert and Compensation committee report); 503- No ratio of earnings or risk factors

Polling Question #2

What is your primary industry?

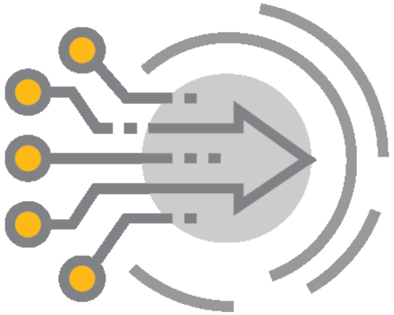
A. Technology, media, telecom
B. Construction/real estate
C. Healthcare
D. Financial services
E. Manufacturing
F. Professional services
G. Other

Operational considerations

Operational Challenges

- Professional skills and experience
  - Public company, SEC reporting
  - Deep US GAAP knowledge

- IT system capability and alignment
  - QuickBooks to controlled ERP (e.g., SAP, NetSuite, D365)
  - Level of security and access controls
  - Detailed reporting to capture disclosure requirements
  - Reporting module
  - Data integrity



Operational Challenges (cont.)

- Accounting infrastructure - policies and procedures
  - Informal or not documented
  - Delegation of authority
  - Segregation of duties

- Governance and internal controls
  - Align to industry and stock exchange requirements
  - Public company to stakeholder to auditor
  - Segregation of duties
  - IT security
  - Industry and regulatory compliance
    - SOX requirements – 302, 404, 906

Accounting and financial reporting considerations

	TYU division			FRT division		
GHT	254	550	254	274	154	415
RDW	650	320	754	273	825	154
TRG	241	450	144	364	954	174
RTG	254	650	874	657	125	274
WEF	784	145	124	752	741	759
HRT	453	784	954	241	741	345

Polling Question #3

What do you think the most challenging aspect of this process will be/has been?

A. Hiring / retaining the necessary staff
B. Accelerating adoption of new standards / unwinding private company alternatives
C. Going through the step-up audit process (from AICPA to PCAOB)
D. All of the above
E. Something else not mentioned

Accounting Considerations

Companies registering with the SEC must analyze a number of accounting matters. Here are a few common themes:

- Materiality considerations
- Share-based compensation in IPOs
- Complex financial instruments such as redeemable financial instruments, ESOP put options, or embedded derivatives
- Other topics covered in SEC Staff Accounting Bulletins (SABs)
    - Expenses of Offering
    - Changes in Capital Structure
    - Receivables from Sale of Stock
    - Accounting for Liabilities Paid by Principal Stockholders

Accounting Considerations

Public company adoption dates for new standards

Private companies are usually permitted an additional year, sometimes more, to adopt new or revised accounting standards compared to public companies. Public company adoption dates apply to financial statements included in IPO registration statements, unless the private company qualifies as an EGC, and elects to use the private company adoption date accommodation for new or revised standards.

Major Standards effective for public companies, not yet adopted by private companies
Leases – ASC 842
Credit Losses – ASC 326

Accounting Considerations

Companies going public are not able to use accounting alternatives available only to private companies (e.g., PCC alternatives).

- PCC alternatives, if used, will need to be “unwound” and re-recorded under traditional GAAP.
- Common PCC alternatives that we observe being unwound:
    - Goodwill amortization and evaluation of impairment only upon a triggering event
    - Customer-related intangible assets and noncompete agreements subsumed into goodwill
    - Election not to apply VIE guidance to legal entities under common control
    - Simplified hedge accounting approaches

Financial Reporting Considerations

Financial Statement Requirements

The financial statements included in registration statements and periodic filings must conform to SEC requirements, including having an audit performed by a firm registered with the PCAOB.

- The initial registration statement of a domestic EGC must include a minimum of two years of audited financial statements in conformity with U.S. GAAP. Domestic companies that are not either an EGC or an SRC must include three years of audited financial statements in conformity with U.S. GAAP.
- Financial statements for interim periods might also be required, depending on the timing of the registration statement.

Financial Reporting Considerations

Financial statement requirements for initial registration statements

Category of filer	Audited annual financial statement requirements	Unaudited interim financial statement requirements	Effective date deadline for filing audited financial statements	Age requirements
Non-EGC; non-SRC *(note: most SPACs will fall into this category)*	Audited balance sheet for two years; audited all other statements for three years.	Interim-period balance sheet within 135 days of effectiveness and most recent YTD interim period for CY and PY for all other statements.	Within 45 days of the fiscal year end	Interim or audited annual financial statements must be as of a date within 135 days of the effective date.
EGC	Audited financial statements for two years	Same as above	Follow SRC or non-SRC effective dates.	Follow SRC or non-SRC age requirements.
SRC	Same as EGC	Same as above	90-day rule: Within 90 days of FYE, subject to the income reporting conditions.	Interim or audited annual financial statements as of a date within 135 days of the effective date, with the exception of the 90-day rule noted in the left column.

Financial Reporting Considerations

Additional SEC Disclosure Requirements

- Impact of recently issued, not yet effective, standards
- Segment disclosures
- Earnings per share
- Income tax rate reconciliation
- Expanded fair value disclosures
- Expanded pension and postretirement plan disclosures
- Disclosure of related party transactions on the face of the applicable financial statement

In addition to incremental financial statement disclosures there are other disclosures that might appear in the registration statement but outside the financial statements (e.g., MD&A, cybersecurity, non-GAAP measures, capitalization and dilution tables, risk factors, etc.)

Other financial statements and information may also be required when certain tests of significance are triggered for specific transactions. Most common are:

- FS of significant completed or probable acquisitions,
- FS of significant equity-method investments
- Parent company only FS
- Pro forma financial information for significant acquisitions

Polling Question #4

Which of these is **not** an accounting or financial reporting matter that a company preparing to go public will need to consider?

A. Unwinding any accounting alternatives available only to private companies
B. Expanding disclosures for segment reporting and fair value
C. Accelerating adoption date of certain newly issued accounting standards with deferred effective dates for private companies.
D. None of the above

Stepping-up to a PCAOB Audit

Additional expectations when performing a step-up audit from AICPA to PCAOB standards
More stringent independence requirements – nonaudit services and relationships that may have been allowable under AICPA standards need to be reassessed under more stringent SEC independence rules.
Addition of a second partner – engagement quality reviewer
Partner rotation requirements
A/C pre-approval of non-audit services required
Reassessment of materiality – generally would expect lower materiality thresholds due to change in users of the financial statements; this will drive additional audit procedures as a result – expanded samples, potentially additional waived and/or posted audit adjustments
Additional procedures required over the aforementioned additional disclosures, changes in accounting policies and adoption of any new standards.
Inclusion of critical audit matters into the audit opinion (unless EGC)
Additional auditing of estimates and related to use of specialists
As a result of the above – increased audit costs

CAQ Alert on SPACs

CAQ CENTER FOR AUDIT QUALITY

In May, the CAQ released an alert for auditors and audit committees focused on SPAC transactions. The document provides various questions auditors and audit committees might consider to understand the “unique risks and challenges” of a SPAC transaction. Topics for A/Cs include:

- Public company readiness
- SPAC sponsor experience
- Corporate governance
- Accounting, reporting, and disclosure issues
- External auditor selection and oversight

CAQ Alert 2021-01

CAQ Alert 2021-01:

Auditor and Audit Committee Considerations Relating to Special Purposes Acquisition Company (SPAC) Initial Public Offerings and Mergers

May 3, 2021
(Updated as of May 11, 2021)

Questions?

How we can help

Using a combination of technical accounting and technology expertise, industry knowledge, and IPO experience, we can help you in every stage of your journey to go public.

- We can **assess readiness** and/or help you get the deal done if you're getting hung up
- We have a **deep bench of expertise** across accounting, tax, operation support – in addition to audit services to help you stay on track
- Learn more about our IPO readiness services

Save the date

Join us on July 28 for a webinar featuring industry updates on mergers, acquisitions, and divestitures. Check your inbox or watch our events page for more details.

Thank You

Jennifer Knecht
Partner
+1 317 706 2697
jennifer.knecht@crowe.com

Mandi Simpson
Partner
+1 404 442 1672
mandi.simpson@crowe.com

William Watts
Partner
+1 614 280 5227
william.watts@crowe.com