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# The Journey from Private to Public

## How to Best Prepare to Enter Capital Markets

# Speakers



**MIKE BLANKENSHIP**

Winston & Strawn LLP  
Managing Partner  
[mblankenship@winston.com](mailto:mblankenship@winston.com)



**MOHAMMAD HASHAM**

Grant Thornton LLP  
Managing Director, Accounting  
Advisory Services  
[mohammad.hasham@us.gt.com](mailto:mohammad.hasham@us.gt.com)



**DOUG LIONBERGER**

Winston & Strawn LLP  
Partner  
[dionberger@winston.com](mailto:dionberger@winston.com)



**AHMED TANTAWY**

Grant Thornton LLP  
Partner, Risk Advisory  
[ahmed.tantawy@us.gt.com](mailto:ahmed.tantawy@us.gt.com)

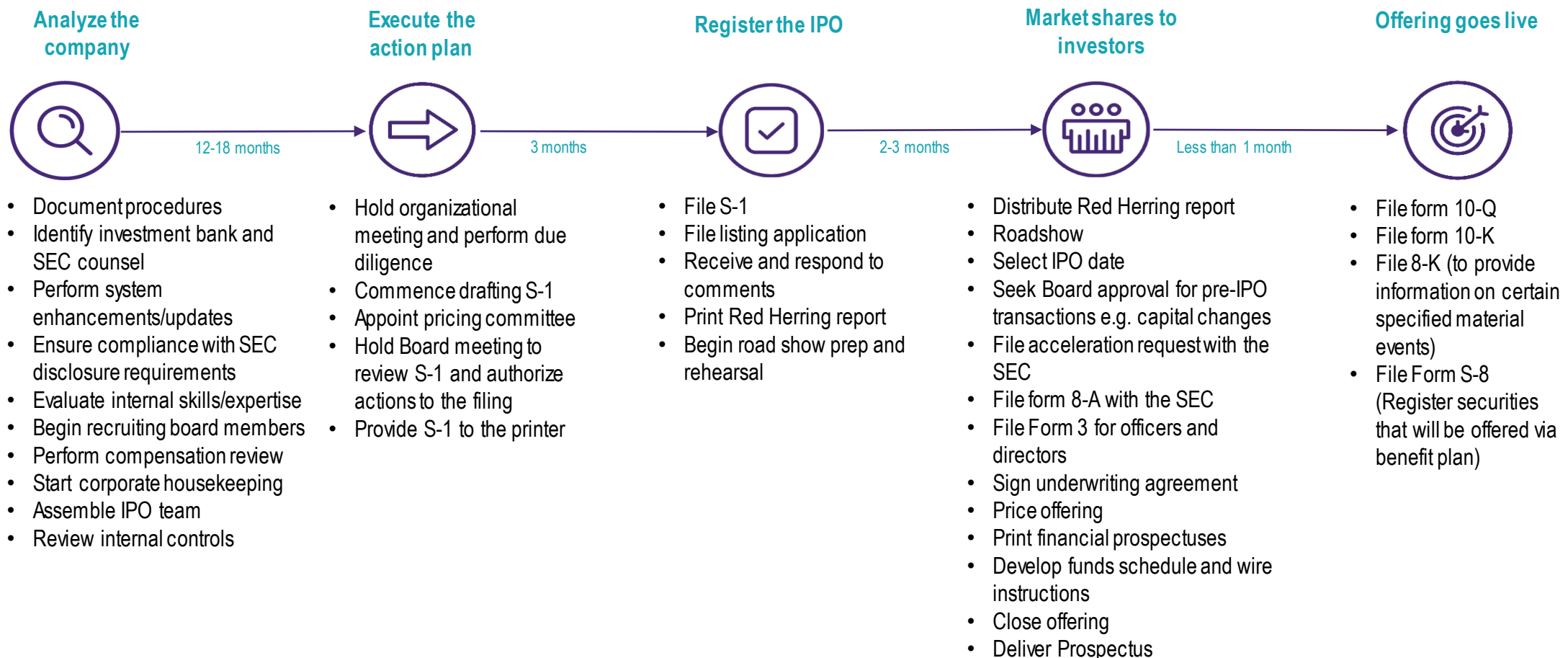
# Agenda



- IPO: The Journey Begins
- IPO Readiness Assessment
- Financial Reporting
- IT, Human Capital and Tax
- Other Considerations
- SOX Considerations
- Upcoming Webinars
- Question & Answers

# IPO: The Journey Begins

Companies planning an IPO should begin functioning as a public company well before the offering date. Grant Thornton is a leader in preparing companies for a seamless transition to listed status. We can help you navigate the process, avoid the pitfalls and make the most of your public debut.





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# IPO Readiness Assessment

# IPO Readiness Assessment

A scalable approach

## Collaboration and an Integrated Team Makes All the Difference

Meet with key influencers to obtain a deep understanding of current practices, systems, infrastructure and processes across five critical work streams



**Corporate  
Governance / SOX**



**Financial  
Reporting and U.S.  
GAAP**



**Tax**



**Human  
Capital**



**Information  
Technology**

## Strategic Plan (Building Blocks for Launch Plan)

Once you understand where critical functions are in the spectrum of readiness, you can begin to prioritize and plan how to elevate strategies, processes and practices to effective launch levels.

# IPO Readiness Assessment – Cont’d

| Function                                       | Working Session Attendees  | Meet With Management to:  |
|--|--|---|
| <p><b>1</b><br/>Corporate Governance / SOX</p> | <ul style="list-style-type: none"> <li>• CFO</li> <li>• General Counsel</li> <li>• Corporate Controller</li> <li>• Key Process Owners – operational and financial</li> </ul> | <ul style="list-style-type: none"> <li>• Assist with the identification of significant business processes and related financial controls (entity and activity level, including IT General controls) generally required by public companies (e.g., standard industry risks)</li> <li>• Determine key improvement areas and define where measured risk lies</li> </ul>  |
| <p><b>2</b><br/>Financial Reporting</p>        | <ul style="list-style-type: none"> <li>• CFO</li> <li>• Corporate Controller</li> <li>• Key accounting personnel</li> </ul>  | <ul style="list-style-type: none"> <li>• Review financial statement disclosures to determine SEC-specific accounting issues and disclosures, including quarterly reporting requirements</li> <li>• Determine proper basis of accounting to be utilized for International filers</li> <li>• Review the closing process to ensure the company will meet public company filing deadlines</li> <li>• Identify meaningful MD&amp;A trends, disclosures based on industry benchmarks and certify relevant data is available for inclusion</li> <li>• Evaluate the Company’s FP&amp;A process</li> </ul> |
| <p><b>3</b><br/>Tax</p>                        | <ul style="list-style-type: none"> <li>• CFO</li> <li>• Corporate Controller</li> <li>• Tax Director</li> </ul>  | <ul style="list-style-type: none"> <li>• Understand legal entity structure defined for newly public company and explore tax structuring alternatives</li> <li>• Discuss direct and indirect tax considerations, including tax credits, NOLs, etc.</li> <li>• Understand tax function and tax compliance risks, opportunities and reporting obligations</li> <li>• Provide an overview of industry benchmarks for tax controls (e.g., FAS109 tax provision, FIN 48 tax positions or comparable International standards, etc.)</li> </ul>   |

# IPO Readiness Assessment – Cont’d

| Function  | Working Session Attendees  | Meet With Management to:   |
|---|--|--|
| <p><b>4</b><br/><b>Human Capital</b></p>          | <ul style="list-style-type: none"> <li>• CFO</li> <li>• VP Human Resources</li> <li>• General Counsel</li> </ul>             | <ul style="list-style-type: none"> <li>• Provide an overview of industry benchmarks, including:               <ul style="list-style-type: none"> <li>– Total rewards strategy</li> <li>– Executive and director compensation trends</li> <li>– Proxy disclosure enhancements</li> <li>– Compensation philosophy for disclosure</li> </ul> </li> <li>• Provide a benchmark assessment of Company practices compared to industry practices: total rewards, executive / director compensation, equity / long-term incentives</li> <li>• Evaluate current personnel roles and responsibilities in context of public company setting and provide recommendations</li> <li>• Review any existing equity incentive plans and evaluate the appropriateness and effectiveness for a public registrant</li> </ul>  |
| <p><b>5</b><br/><b>Information Technology</b></p> | <ul style="list-style-type: none"> <li>• CFO</li> <li>• Chief Information Officer</li> <li>• Corporate Controller</li> </ul> | <ul style="list-style-type: none"> <li>• Understand and evaluate Management’s overall IT strategy and its ability to support the compliance and operational requirements to operate as a public entity and any expected growth</li> <li>• Review the Company’s inventory of IT systems and software platforms for appropriateness and functionality to support complex accounting streams and key operational workflows</li> <li>• Evaluate upgrade path to determine if it will suffice for IPO readiness and confirm with Workwise level of SOX compliance of upgraded solution</li> <li>• Evaluate compliance with security and privacy standards and regulations necessary for IPO readiness</li> <li>• Assess IT operations and processes (e.g., BC / DR, ALM, provision / de-provisioning, change management, SDLC, issue resolution) and identify gaps to requirements / expectations for publicly traded company</li> <li>• Provide a benchmark of Company practices and systems compared to industry peers</li> </ul> |





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# Financial Reporting



# Financial Reporting

## S-1 / S-4 Registration Statement / Accounting Analysis

### Key Topics

### Considerations

#### Identification of Reporting Periods and Other Reporting Items

Depending on the timing of the registration an assessment will need to be made of the following:

- Navigating reporting periods to include in the filing
- Confirming that previously reporting periods do not go stale
  - Historical year end audits need to be under PCAOB standards
  - Uplift procedures needed on previously audited annual periods that are presented in the public registration statement under PCAOB standards
- Addressing whether quarterly or other interim periods are necessary and assessing how readily available the information

The interim financial statements in the registration statement will require:

- Income Statement and Cash Flow – Period from the latest fiscal year-end to the interim balance sheet date, and for the corresponding period in the prior fiscal year.
  - Changes in Stockholders' Equity – For period from the latest fiscal year-end to the interim balance sheet date.
  - Balance Sheet – As of interim date.
- Determining significance of historical acquisitions (including 3-05 reporting)

# Financial Reporting – Cont'd

## S-1 / S-4 Registration Statement / Accounting Analysis

### Key Topics

### Considerations

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#### Accounting Policy Harmonization

Acquisitions or mergers may add new accounting areas, diverse accounting policies or differences in timing of accounting policy implementation. Challenges to tackle:

- Integrate and harmonize accounting policies across the new consolidated group
- Assessment of how to report potential differences or changes in accounting policies
- Development of global accounting policies
- Accounting Standard Updates (“ASUs”)

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#### Financial Statement Close Process (“FSCP”)

Due to frequent nature of reporting for public companies, a sustainable FSCP is required to meet public reporting demands. An assessment is necessary for the following:

- Development of policies for timing of closing, deliverables required and sign-offs necessary for corporate reporting
- Process for consolidating results for all divisions and preparation of reports for filing
- Corporate governance and SOX development
- Personnel with adequate skill-sets to perform these functions

# Financial Reporting – Cont'd

## S-1 / S-4 Registration Statement / Accounting Analysis

### Key Topics

### Considerations

#### Other Reporting Matters

Besides the basic financial statements, S-1 (and to a lower degree Reg A+) Registration statements also include matters such as:

- MD&A disclosures (Regulation S-K)
  - Key metrics and non-GAAP measures
  - Utilize disclosure checklists
- Determination of Qualification for Emerging Growth Company (“EGC”) or Small Reporting Company (“SRC”) Concepts
- Addressing SEC comments
- Consistent presentation of accounting basis utilized in filings for International filers (IFRS vs US GAAP)
- Choice of reporting currency

# Financial Reporting – Cont’d

## Staleness Deadlines

|  |  |   |
|--|--|---|
| <p><b>Large Accelerated Filers</b></p>                                 | <p>Companies with an aggregate market value held by non-affiliates (or “public float”) of at least \$700 million that have been subject to reporting requirements under Section 13(a) or 15(d) of the Exchange Act for at least 12 months and have previously filed at least one annual report under such requirements.</p>  | <ul style="list-style-type: none"> <li>▪ Mar. 1: Q3 2022 (60 days after year end)</li> <li>▪ May 9: Year-end 2022 (129 days after year end)</li> <li>▪ Aug. 7: Q1 2023 (129 days after Q1 end)</li> <li>▪ Nov. 6: Q2 2023 (129 days after Q2 end)</li> </ul>  |
| <p><b>Accelerated Filers</b></p>                                       | <p>Companies with public float of \$75 million or more, but less than \$700 million, that have been subject to reporting requirements under Section 13(a) or 15(d) of the Exchange Act for at least 12 months and have previously filed at least one annual report under such requirements, or if a company was previously a Large Accelerated Filer, \$60 million or more, but less than \$560 million.</p> | <ul style="list-style-type: none"> <li>▪ Mar. 16: Q3 2022 (75 days after year end)</li> <li>▪ May 9: Year-end 2022 (129 days after year end)</li> <li>▪ Aug. 7: Q1 2023 (129 days after Q1 end)</li> <li>▪ Nov. 6: Q2 2023 (129 days after Q2 end)</li> </ul>   |
| <p><b>Non-accelerated Filers and EGCs</b></p>                          | <p><b>Non-accelerated Filers:</b> Companies with a public float of less than \$75 million.</p> <p><b>EGCs:</b> Companies with annual gross revenues of less than \$1.235 billion during the most recently completed fiscal year.</p>   | <ul style="list-style-type: none"> <li>▪ Mar. 31: Q3 2022 (90 days after year end)</li> <li>▪ May 15*: Year-end 2022 (134 days after year end)</li> <li>▪ Aug. 14*: Q1 2023 (134 days after Q1 end)</li> <li>▪ Nov. 13*: Q2 2023 (134 days after Q2 end)</li> </ul> <p>* <i>Extension for weekend/holiday</i></p> |
| <p><b>Loss Corporations, Delinquent Filers, and Initial Filers</b></p> | <p><b>Loss Corporations:</b> Large Accelerated, Accelerated and Non-Accelerated Filers and EGCs that do not expect to report, for the most recently completed fiscal year and at least one of the two prior fiscal years, positive income (after taxes but before extraordinary items and the cumulative effect of a change in accounting principles).</p>   | <ul style="list-style-type: none"> <li>▪ Feb. 14: Q3 2022 (45 days after year end)</li> <li>▪ For Year-end 2022, Q1 2023, and Q2 2023, regular deadlines based on filer type</li> </ul>   |



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# IT, Human Capital & Tax



# Information Technology

Compliance to operate as a public entity



## Understand and Evaluate Overall IT Strategy – Overall Objectives

- Identify the inventory of IT applications, their capabilities, and current functionality in place
- Assess the existing IT infrastructure that would include data center, security, storage and network services
- Evaluate the business process controls and how they are enabled through IT applications
- Understand the IT process environment working with the Compliance team on IT controls in place
- Evaluate compliance with security and privacy standards and regulations necessary for IPO readiness
- Document gaps of current systems against expected business process controls
- Develop IT remediation plan and roadmap for implementation

# Information Technology – Cont'd

## Compliance to operate as a public entity



### Procedures

- Review existing architecture and applications systems documentation to develop a list of in scope applications that impact compliance and controls
- Meet with application system owners to review functionality and controls in place for in-scope applications
- Interview key members of the IT leadership team and document roles and responsibilities of group
- Confirm the competencies in place and identify any gaps in skills that are required for a public company
- Assess IT operations and processes and identify gaps to requirements / expectations for publicly traded company
- Develop recommendations for remediation of systems
- Build roadmap, timeline, and resources require for remediation



# Human Capital

Evaluating compensation and benefit plans as well as skills required for a public registrant



## Understand and Evaluate People Strategy

- Benchmark & Review Compensation Programs
  - Total rewards strategy
  - Executive and director compensation
  - Equity & Long Term Incentives
  - Proxy disclosure needs
  - Compensation philosophy
- Sec 162(M) Preparation – Tax deductibility of Executive Compensation
- Evaluate composition of compensation committee members and structure
- Review current functional design and skills of personnel in the context of a public company setting and provide gap analysis

# Human Capital – Cont'd

Evaluating compensation and benefit plans as well as skills required for a public registrant



## Procedures

- Review existing compensation and benefit plans and evaluate the appropriateness and effectiveness for a public registrant
- Evaluate plan design to ensure deductibility of executive compensation is maximized
- Evaluate level of risk currently present in existing compensation plans
- Evaluate functional structures and personnel to ensure quality and delivery meet demands of public company reporting & controls

# Tax

## Requirements, readiness and transition strategy



### Understand the tax technical considerations

- Understand existing tax attributes including the tax basis of the equity and assets of each existing legal entity:
  - Consider need to complete stock basis and/or earnings and profits analyses for select subsidiaries
- Assess the tax effects of alternative structures that may be used to effectuate the IPO, considering the impact of the merger:
  - Consider tax impact to current owners
  - Consider tax benefit to new owners
  - Obtain legal opinion on tax consequence of IPO
- Evaluate completeness of existing FIN 48 (or comparable International standard) tax reserves
- Evaluate controls, processes and risks associated with "above the line" taxes such as sales / use, gross receipts, franchise, escheats, payroll
- Prepare prior year, pro forma tax provisions / disclosures needed for inclusion in IPO registration statement
- Consider tax accounting impact of existing incentive based compensation arrangements and new arrangements, especially stock based compensation, focused on impact of new post Tax Reform limitations on officer's compensation and exercises related to the merger

# Tax – Cont'd

## Requirements, readiness and transition strategy



### Procedures

- Perform tax readiness assessment to validate impacts to current tax data, people, process, technology, controls and reporting:
  - **Data** – Validate IPO tax data requirements; ensure data quality, consistency and centralization
  - **People** – Determine tax personnel's new roles and responsibilities
  - **Process** – Create more agile tax processes, identify manual activities for automation
  - **Technology** – Evaluate and rationalize current tax system landscape, leverage tax systems to increase tax process automation
  - **Controls** – Address current tax control gaps, design, implement tax process and system controls (manual versus automated controls)
  - **Reporting** – Confirm new IPO tax reporting requirements, enhance speed and flexibility of reporting, increase tax data modeling and tax analytical capabilities
- Develop tax transition plan and roadmap, confirm dependencies, align with the organization's larger IPO effort



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# Other Considerations



# Other Considerations

Additional items that may need to be addressed as a part of going public



## Identifying an Investment Banker

- Key function which should typically be sorted and discussed very early in the process.
- Find a partner who has similar competencies and experiences in your industry and market cap.

## Project Management Office

- There are many different key work streams pushing towards the end goal at one time. To ensure organization and efficiency in reaching the goal, it is highly recommended to identify a Project Management Office to oversee all areas and ensure cohesiveness.

## Plan and Commence Road Show

- Have a well crafted story and vision for the CEO/CFO to present to various members of the Financial Industry to drive up interests.
- Plan for this for the 2-3 months prior to filing the Company's S-1.



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# SOX Considerations



# What is SOX?

Law enacted in 2002; **most significant** financial legislation for public companies in decades.

Enacted in response to major corporate and accounting **scandals** in the US.

Objective is to **restore confidence** in the financial markets and regain public trust.

- Required for **publicly traded** companies.
- Contains three key sections (302, 404a, and 404b)
  - **302** – CEO/CFO must certify that the company has an effective system of internal controls over financial reporting (ICFR).
  - **404(a)** – The company must establish and maintain effective ICFR environment.
  - **404(b)** – The company's external auditor must audit and opine on the adequacy of the internal control environment



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# What is required of public companies?

Establish an **environment of internal controls over financial reporting**. Typically 100-150 controls per entity including: approvals, reconciliations, reviews, and other activities performed to prevent or detect financial errors.

Independently **test those internal controls** for both design and operating effectiveness throughout the fiscal year, and address any gaps.

Respond to requests from external auditors to provide **evidence** of internal controls

## Scope

- All material **financial/accounting** cycles such as Revenue, Financial Statement Close, Capitalized Software Development, Fixed Assets, Payables, Debt, Equity, Tax, Treasury, Payroll, and any other material financial statement line item (FSLI)
- All applicable **Information Technology** systems such as the General Ledger, Payroll System, Stock/Equity systems, and all supporting infrastructure<sup>s</sup>(covering security administration, change control, backups, operations, integrations, etc.)
- All applicable **Entity Level Controls** and mapping to the COSO Framework

# Filing Status and SOX Requirements

Filer status drives its reporting requirements during both the going-public process and throughout life as a public company. Filer status should be assessed continuously during the going-public process and each fiscal year thereafter for public companies.

## Summary of reporting requirements by filer type

| Filer   | Float to enter status           | Annual revenues         | SEC Form 10-K                 | SEC Form 10-Q                    | SEC Form 8-K                             | 404(a) <sup>1</sup> | 404(b) <sup>2</sup> | IPO Considerations   |
|---|---------------------------------|-------------------------|-------------------------------|----------------------------------|--|---------------------|---------------------|--|
| Large accelerated filer                             | > \$700m                        | N/A                     | 60 days after fiscal year-end | 40 days after fiscal quarter-end | 4 business days after a triggering event | Assessment report   | Auditor report      | Not considered a large accelerated filer for first 10-K filing |
| Accelerated filer (non-SRC and EGC)                 | > \$250m but < \$700m           | \$100m or more          | 75 days after fiscal year-end | 40 days after fiscal quarter-end | 4 business days after a triggering event | Assessment report   | Auditor report      | Not considered an accelerated filer for first 10-K filing      |
| Accelerated filer (including SRC and EGC)           | > \$75m but < \$250m            | \$100m or more          | 75 days after fiscal year-end | 40 days after fiscal quarter-end | 4 business days after a triggering event | Assessment report   | Auditor report*     | Not considered an accelerated filer for first 10-K filing      |
| All other filers (non-accelerated filers, SRC, EGC) | < \$75m<br>> \$75m but < \$700m | N/A<br>Less than \$100m | 90 days after fiscal year-end | 45 days after fiscal quarter-end | 4 business days after a triggering event | Assessment report   | None                | Filing deadline remains the same                               |

\*Not required if an EGC

<sup>1</sup> SOX Section 404(a) requires management to report on the effectiveness of internal controls over financial reporting

<sup>2</sup> SOX Section 404(b) requires an auditor attestation with respect to an issuer's internal controls over financial reporting

# Key Activities for SOX Readiness

## Key Milestones

Identify and engage external advisors and create an overall SOX roadmap

Perform a SOX risk assessment including a control gap analysis

Develop SOX control documentation, RACM, Policies & Procedures, manuals and standard operating procedures (SOP's)

Evaluate the use of spreadsheets in financial processes and establish adequate controls

Evaluate processes to identify and implement process improvements and control activities

Provide training on control documentation requirements under SOX

Provide access to tools and training needed for employees

Perform risk assessment to evaluate 3<sup>rd</sup> party service providers supporting legacy financial reporting and related systems

Establish the Entity Level Controls (ELC) framework, including the following:

- Establish an internal audit function and develop comprehensive internal audit plan
- Assess access rights to financially significant application for consistency with job functions
- Formalize the Board of Directors nomination and election process and establish additional committees with defined charters and checklists

# Key Takeaways

- **Tone at the Top:** Getting buy-in from the Executive Management team, including the CEO, CFO, and CIO is essential.
- **Start Early:** A key success factor for getting a pre-IPO company through SOX compliance is starting early. While timing may vary by company size, structure, number of locations in scope, etc., it takes at least a year or more to get a company through its initial SOX compliance effort.
- **Dedicated Resources:** Most companies underestimate the number of resources required to successfully navigate through a company's first year of compliance. Based on a recent study\* covering trends in IPO material weaknesses, **lack of adequate skillset, and accounting resources** with appropriate expertise was the number one reported material weakness – **approximately 46%** of companies reported at least one material weakness.
- **Cost and Risk Factors:** Although companies are aware that the initial cost of compliance is high, most companies still underestimate this cost. While it's difficult to provide exact estimates, drivers such as number and complexity of revenue streams, number of geographical locations, level of automation, etc. can be used to develop an estimate. Companies should strive to take a risk-based approach to SOX and consider this exercise as a means to add value and improve processes while achieving an important compliance requirement.



\* Study addressed material weaknesses covering IPOs (including SPAC transactions) for U.S. companies listed on the NYSE or NASDAQ (excluded foreign private issuers) that closed between 1/1/2021 and 12/31/2021.

# Common Pitfalls & Ways to Avoid Them



While the root cause of most material weaknesses disclosed in S-1s is **lack of resources with sufficient knowledge** to analyze complex transactions for proper accounting treatment to meet reporting requirements of U.S. GAAP, other common pitfalls, amongst many others, include:

**Systems/technology/ITGC:** Often systems used by private companies are not able to scale to the requirements of public companies. Additionally, IT general controls and application controls are not properly implemented to ensure financial information is appropriately safeguarded and accurately processed.

- **Suggested measure:** The IT effort required for SOX compliance should not be underestimated. IT plays a large role within the internal control structure and will be an integral part of SOX compliance. Additionally, to the extent possible, companies should consider implementing necessary new systems prior to the IPO.

**Absence of policies and procedures and related risk mitigations** surrounding IT policies and procedures and the access to system and data.

- **Suggested measure:** Consider formalizing policies and procedures documentation. **Management ownership** of documentation and adherence to protocols is **one of the key success factors** during transition from private to being public.

**Risk assessment:** not having a sufficiently documented risk assessment process to identify and analyze risks of misstatement due to error and/or fraud, and not having sufficiently documented compliance communication and investigation policies.

- **Suggested measure:** Consider establishing a formalized process to perform risk assessment that includes identifying the financial statement accounts, business processes, and underlying IT applications that will be in-scope for SOX 404 purposes.

# Summary

A successful transition towards IPO requires that designated members of management take ownership of their role in SOX and understand the value in the controls they perform (i.e., not just a compliance exercise).

Communications from Senior management supporting the SOX effort and reemphasizing this message during strategic meetings/discussions throughout the course of the project helps in bringing a culture mind-shift.

It is important to explain that SOX is an on-going process rather than a one-time exercise.

**Embracing change:** Expect a certain degree of change in people, process and technology aspects to occur throughout the course, and structure the compliance program to factor these changes timely.

**Leveraging the technology aspect of financial reporting.** Technology not only can help you comply with SOX by implementing automated controls to mitigate risks but can generate organizational efficiencies and improve operations since they are inherently more reliable than manual controls when they are designed appropriately.



# Upcoming Winston & Strawn Webinars

- Early April – Communications before, during and after the process
- Late April – Marketing and underwriting process
- Early May – Governance and “Now that you are public”
- Mid-May – D&O Insurance and other post-public items