How can your finance function become IPO ready?

October 2016

The better the question. The better the answer. The better the world works.
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How can your finance function become IPO ready?
The IPO value journey

Overview

Initiating an IPO can have a profound impact on your company’s organization and requires a significant shift in focus. You should treat your IPO as one defining milestone in a complex transformation from a private to a public company, and not as an event. It should have:

► A holistic and structured approach
► A managed transformation of people, processes, systems and culture of an organization
► A process that starts long before the transaction

Thorough preparation is necessary for a smooth process. This is especially true for the finance organization, which requires the experience, depth and agility to address the demands and scrutiny of the public markets. Furthermore, the finance organization must be appropriately aligned with other critical functional areas, including internal audit, investor relations, legal, IT and human resources.
The IPO value journey
A process that starts long before the transaction

1. Planning
   - Evaluate IPO as strategic option in a readiness assessment workshop
   - Align stakeholders around IPO goals, objectives and timing
   - Set up resources and an internal IPO team
   - Review corporate and tax structure
   - Start to build capital markets internal infrastructure and establish new functions to achieve IPO readiness.

2. Readiness
   - Make IPO team selection (bank, lawyers, investor relations)
   - Formalize corporate governance framework and prepare public company policies
   - Set timetable, start due diligence and prepare offering concept and prospectus
   - Fine-tune business plan, fact book and presentation materials for analysts, the press and investors
   - Fine-tune the equity story and valuation perceptions based on investor feedback

3. Execution
   - Present offering prospectus
   - Approval by regulators and securities admission to the stock exchange
   - Press conference and launch investor road show
   - Implement book building, order book analysis and determination of the issue price and allocation
   - Listing on stock exchange with an IPO ceremony and media attention

4. Realization
   - Support active investor relations (IR) and ongoing road shows based on the IR calendar
   - Manage investor expectations through efficient forecasting and use of issue proceeds
   - Ongoing transparent external reporting
   - Awareness of disclosures such as ad hoc, directors’ dealings, corporate governance and operate general meetings

6 months ahead

2+ years ahead

Post IPO

How can your finance function become IPO ready?
How to prepare and launch an IPO internally
A holistic and structured approach

The first step is to assess the IPO readiness of the business’s organization with a holistic and structured approach. The organization of the finance function and its alignment with other key functions is a key priority.

<table>
<thead>
<tr>
<th>1. Capital markets strategy</th>
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<tbody>
<tr>
<td>► Define transaction goals (corporate finance/capital structure/liquidity)</td>
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<tr>
<td>► Execute timeline and market windows</td>
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<td>► Prepare key deliverables</td>
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<td>► Syndicate strategy and selection</td>
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<tr>
<th>2. Governance and legal</th>
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<tr>
<td>► Corporate housekeeping</td>
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<td>► Corporate governance</td>
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<td>► Corporate and disclosure policies</td>
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<td>► Diligence</td>
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<tr>
<th>3. Finance and accounting</th>
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<tr>
<td>► Structure and benchmarking</td>
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<tr>
<td>► Financial statement close process (FSCP)</td>
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<td>► Financial reporting and disclosures</td>
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<td>► Accounting policies</td>
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<td>► Forecasting, planning and analysis (FP&amp;A)</td>
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<td>► Treasury</td>
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<th>4. Taxes</th>
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<tbody>
<tr>
<td>► Company level</td>
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<td>► Shareholder level</td>
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<td>► Executive/employee level</td>
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<th>5. IT</th>
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<tr>
<td>► Scalability</td>
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<tr>
<td>► Control environment</td>
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<tr>
<td>► Security</td>
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<tr>
<td>► Continuity</td>
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<th>6. Internal audit</th>
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<tbody>
<tr>
<td>► Internal controls and SOX</td>
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<tr>
<td>► Internal audits</td>
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<tr>
<td>► Enterprise risk management</td>
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<th>7. Management and HR</th>
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<tbody>
<tr>
<td>► Leadership team</td>
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<td>► Board recruitment and onboarding</td>
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<td>► Retention, compensation and benefits</td>
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<th>8. Communications and IR</th>
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<tbody>
<tr>
<td>► Website content</td>
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<td>► Investor communications</td>
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<tr>
<td>► Guidance strategy</td>
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<tr>
<th>Program management</th>
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<tr>
<td>► Readiness timeline guidance and sequencing</td>
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<tr>
<td>► Readiness assessment and road map</td>
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<tr>
<td>► Working group coordination and work stream tracking</td>
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<tr>
<td>► Governance and risk management</td>
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<tr>
<td>► Stakeholder communications</td>
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Your IPO environment
Key considerations for the finance function

To address the financial demands of a new regulatory, marketing and strategic environment, companies that go public have a need for strong competencies in these finance areas:

► Accounting
► Financial close process
► Financial controls
► Financial reporting and disclosures
► Budgeting and forecasting
► Treasury
► Policies
► Financial systems
► Financial communications

EY can help you identify the skills mix, processes, policies and systems your finance team should prepare in order to execute and deliver on a successful IPO.
Key considerations to prepare your finance function for your IPO journey

As you develop your plan for the finance organization to embark on its IPO journey and address the challenges, you should consider the following:

<table>
<thead>
<tr>
<th>Question</th>
<th>Self-assessment</th>
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<tbody>
<tr>
<td>Does your finance team have the mix of skills required?</td>
<td>☐ Yes ☐ No</td>
</tr>
<tr>
<td>Does your finance team have relationships across your organization, e.g., with IT, human resources, legal and investor relations, to address critical pre- and post-IPO activities?</td>
<td>☐ Yes ☐ No</td>
</tr>
</tbody>
</table>
Next steps? Call to action?

► <to be specific to your client>
As the IPO leader among the Big Four, we guide the most high-growth companies through the evolution from private to public status and, ultimately, to market leadership.

Our global presence
► Multidisciplinary teams with market-specific experience, helping to facilitate both domestic and cross-border IPOs, as well as overseas listings
► Outstanding network of contacts among leading capital market intermediaries

IPO leaders’ network
► Access to a deep pool of knowledge and experience from a network of dedicated teams — helping you to anticipate the risks of capital-raising and to navigate through the challenges of operating as a public company

Proven methodologies
► Proven assessment, road mapping and implementation methodologies
► Insights and leading practices from over 30 years of experience guiding companies through the IPO process

Extensive market resources and support
► Variety of research reports and other publications in response to a rapidly changing IPO environment
► Events, workshops and briefings on IPO readiness
How we can help you on your IPO journey

To help you navigate your IPO journey, we have developed specific IPO services to be delivered by the Financial Accounting Advisory Services (FAAS) team.

These are typically:

Pre-IPO

► IPO readiness — assessment and road map development
► IPO project management advisory and road map assistance
► IPO registration preparation — drafting registration statements, financial statements and disclosures, and technical white papers
► Corporate policies and governance
► IPO advisory services in the areas of compliance, treasury and investor relations

Post-IPO

► Strategic advice for ongoing investor relations and financial communications
► Ongoing support with interim and annual filings, technical white papers, accounting change, training

The scope of some of our services and tools may be limited for an audit client and its affiliates in order to comply with applicable independence requirements. Please contact your local EY contact for further information.
Financial Accounting Advisory Services

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Appendices
IPO readiness assessment
The benefits

Save time
- Greater insight into your capital-raising options
- An IPO base case to meet your objectives and strategies and build a road map to enhanced value
- Kickoff and teaming with all relevant internal parties

Reduce cost
- Transparency and alignment on how to get IPO-ready
- Map of organizational changes to execute an IPO or other capital transactions in an integrated approach

Increase transaction certainty
- Preparation to move quickly when the IPO window opens
- Reduced risks in unpredictable IPO markets
- Effective combination of team, story, timing and the pricing

Share knowledge
- Understanding of your IPO requirements to address questions, share knowledge and train your team
- Learn global leading practices and gain market insights

Holistic and structured approach to IPO readiness
A successful transformation from private to public status
[optional] Key considerations for the CFO

► Frequently spearheads the IPO effort, coordinating internal and external resources, and the transformation of the finance function

► Translates the company’s performance into a compelling equity story pre- and post-IPO

► Prepares the finance function to meet the enhanced demands of the regulators and public markets, and is aligned to other critical functions, including HR, IT, tax, treasury, legal and others

► Helps onboard the audit committee and select the team of trusted advisors, including auditors, securities lawyers, underwriters and frequently, independent IPO advisors

► May implement the new investor relations (IR) function that is essential to deliver a consistent message to stakeholders and meet regulatory compliance and financial disclosures
How can your finance function become IPO ready?

[optional] Key considerations for the financial controller

► Organizes the finance team and broader organization to deliver financial reporting more quickly

► Should be able to deliver a fast close process to meet regulator and investor expectations

► Prepares the required financial statements in a short time period

► Is required to provide expanded disclosures for each reporting period

► Provides the technical white papers to support accounting positions

► Establishes and distributes formal, written accounting policies and procedures

► Builds a robust accounting and internal control structure that will form a strong foundation for the broader finance organization
[optional] Key considerations for the treasurer

► Faces an expanded remit across a range of activities in order to develop strategies to manage financial risks pre- and post-IPO

► Works with accounting teams in the run-up to an IPO to provide the capitalization tables for each prospectus

► Manages funds according to the use of proceeds mentioned in the prospectus and investment and growth plan of the company post-IPO

► Is aligned to support the expanded needs of other functions, such as collaboration with finance planning and analysis to support a cash-flow forecasting process

► Establishes formal, written treasury policies, procedures and controls - for example, puts controls, such as fraud prevention and debt covenant compliance in place

► Has a formal strategy in place to help management to communicate to investors how it plans to use IPO proceeds and manage cash, financing obligations and related exposure
Questions to consider for going public in the Americas

An aspiring public company must not only satisfy the regulators’ financial disclosure requirements and review processes, but should also be prepared to provide timely and accurate financial reports and forecasts, meet complex and evolving compliance obligations, consistently meet or beat street expectations and much more.

As a pre-IPO company, you should be prepared to answer the following questions:

► Have stock exchange and other regulators’ compliance requirements been addressed?
► Has a public company reporting calendar been developed with clear roles, responsibilities, timelines and supporting review and processes?
► Have “hot button” accounting and reporting issues been thoroughly considered and addressed? (These could include: requirements relating to the local regulators, non-GAAP measures included in financial reports and disclosures, XBRL implementation, acquired company and investee financials statements.)
► Has an implementation plan been designed to support robust financial close and reporting, internal controls and forecasting?
In EMEIA many stock exchanges provide access to investors and pools of liquidity. Also, many country- and regional-specific capital market rules exist that are the determining factor for pre- and post-IPO regulations.

Despite the differences in each local jurisdiction, there are some questions though that are common across all geographies, which you should consider in this environment:

► Does an IPO abroad make sense from the IPO stakeholders’ perspective?
► Which listing venue supports the company’s growth strategy?
► Which stock exchange and listing segment (main or junior) provide the right listing place?
► What are my destination-specific IPO readiness gaps?
[optional] Considerations for going public in Asia-Pacific

Listing is a complex and intensive exercise that requires a significant amount of time commitment from senior management to determine it is successful. You should consider the listing requirements of different stock exchanges as follows:

<table>
<thead>
<tr>
<th>Mainland China</th>
<th>Main board of Hong Kong Stock Exchange</th>
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<tbody>
<tr>
<td>► No material change in principal business, board of directors and management in the last three years</td>
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<tr>
<td>► No change in controlling shareholder in the last three years</td>
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<tr>
<td>► Pre-IPO share capital not less than RMB30 million, cumulative net operating cash flows of RMB50 million or cumulative revenues of RMB300 million in the last three years, and the profits for each of the last three years and accumulatively more than RMB30 million</td>
<td></td>
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<tr>
<td>► Aggregate profits of HK$50 million in the last three years (with HK$20 million in the most recent year and an aggregate of HK$30 million in the two preceding years) OR</td>
<td></td>
</tr>
<tr>
<td>► Market capitalization of at least HK$2 billion at the time of listing, revenue of at least HK$500 million for the most recent audited financial year and positive operating cash flow of at least HK$100 million in aggregate for the three preceding financial years OR</td>
<td></td>
</tr>
<tr>
<td>► Market capitalization of at least HK$4 billion at the time of listing and revenue of at least HK$500 million for the most recent audited financial year</td>
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Executing a seamless IPO

For a successful IPO or strategic transaction, you should consider the following:

- Financials
- Tax matters
- Legal issues
- Internal controls
- Risk management
- Corporate governance
- Information technology
- Performance reporting
- The equity story
- The capital markets strategy
### Case study — Client description (do not provide name)

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<thead>
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<th>Background</th>
<th>XX</th>
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<tbody>
<tr>
<td>Issues</td>
<td>XX</td>
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<tr>
<td>Scoping</td>
<td>XX</td>
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<tr>
<td>Work products and tools</td>
<td>XX</td>
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<tr>
<td>Team</td>
<td>XX</td>
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