



IPO Readiness: Getting the Most From Your IPO

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Speaker Introductions

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Today's Agenda

Today's IPO Market

Common Issues and Challenges

Helpful Tips

- Accounting and Finance Organization and Capabilities
- Governance and Internal Controls Over Financial Reporting
- IT Readiness and Strategic Considerations

Pulling It All Together

Q&A

When to go Public?

Benefits and Opportunities

- Improved financial condition
- Increased shareholder value
- Diversification of shareholder portfolios
- Estate planning advantages
- More capital to sustain growth
- Improved opportunities for future financing

Drawbacks and Continuing Obligations

- Loss of control
- Sharing your success
- Loss of privacy
- Limits on managements freedom to act by itself
- Rigorous demands for financial reporting and regulatory compliance
- Ongoing expenses
- IPO Lock-up

Be A Public Company First

- Simulate complying with as many SEC requirements as possible
- Convene the board and report quarterly results
- Draft press releases that you send to your attorneys and the board for review
- Practice forecasting earnings and comparing your actual performance for a few quarters
 - Accuracy in forecasting earnings is critical to the IPO process

Today's IPO Market

2Q Global IPO Overview

- The global IPO market was the second most active quarter of global issuance since 2007
- 124 global IPOs raise \$56 billion, up 46% year-over-year
- Global IPO returns are muted amid renewed macroeconomic concerns
- US proceeds more than double year-over-year with 46 companies raising \$12 billion
- Venture-backed deals prosper with an average return of 17%, led by Internet IPOs

Current IPO Landscape

- 203 IPO Registration Statement filed, +12.8% change from last year
- 119 IPOs priced, +21.4% change from last year
- \$31.4 billion in proceeds raised, +132.7% change from last year
- 40 Venture Capital IPOs YTD, +2.5% change from last year
- 23 Private Equity IPOs YTD, -11% change from last year
- Average 2011 IPO Market Cap: \$1.2 billion, +109.5% change from last year

War Story

■ Successful IPOs act like a public company before their IPO

- **People:** Management experience, board of directors structure, financial planning and forecast
- **Systems and internal controls:** Upgrade accounting systems and investor relations products
- **Policies and procedures:** Meeting SEC and National Exchange corporate governance standards
- **Accounting considerations:** Independence of accountant, meeting SEC and other regulatory requirements regarding financial reporting

■ Common Issues in IPOs

- Inexperienced management team
- Lack of independent directors
- Lack of appropriate/sufficient accounting and financial skills in the organization
- Being unprepared for the regulatory process (SEC filings)
- Overall market conditions



Common Issues and Challenges

Process

- The conversion from AICPA to PCAOB financials often delays the Registration Statement filing
- The close process is often manual and prone to frequent errors/adjustments
- The forecasting process is often nearly non-existent
- Disclosures are often challenging
- Adherence to formal governance processes takes time

Management

- Lack of ability to manage complex projects like the IPO process

These issues often result in a much more expensive and time-consuming process than companies expect.

Audit War Story

- \$200 million manufacturer and distributor with a CAGR of over 45% over five years
- Expected accounting fees of approximately \$100,000
- Business analysis and forecasting ability
- Limited internal resources
- Complex stock option accounting issues
- Significant related party transactions
- Timeline 36+ months



Helpful Tips

Accounting and Finance Organization and Capabilities

- Establish monthly and quarterly “cadence” early
- Reduce manual entries as much as possible
- Ensure reviews/controls are operating effectively
- Upgrade staff or invest in third-party assistance
- Common accounting issues
 - Public company disclosures
 - Segment reporting
 - Year-to-year comparables
 - Stock-based compensation (valuing and accounting for, plan update, split?)
 - Earnings per share
 - Quarterly data
 - Business combinations
 - Significance test
 - Audit history
 - Carve-out audits
 - Proforma information
 - Income taxes

Accounting and Finance War Story

- \$300M → \$500M global technology company
- 150% management turnover
- Significant accounting and skills challenges
- Two Big Four auditors
- Three material acquisitions
- System implementation
- Timeline 36+ months



Helpful Tips

Governance and Internal Controls Over Financial Reporting

Governance capability

- Tone at top
- Board/audit, compensation, disclosure committees

Internal controls adoption

- Key controls
- Segregation of duties
- “Hot line”
- Certifications

Policies and procedures documentation and training

Governance War Story

- \$250M global technology company (multiple international locations)
- Private company with lack of public company experience
- Change in auditor (to a Big Four firm)
- Converting to single ERP system
- Lack of consistent documentation throughout organization
- Goal of IPO in 18 months



Helpful Tips

IT Readiness and Strategic Considerations

Have an IT strategic plan that is aligned with company strategy

- How does IT contribute to strategic objectives?

Understand back-office systems functional requirements

- SEC reporting
- Management reporting
- Consistency, reliability, timeliness

Consider flexibility requirements

- How will the company evolve after IPO?
- How fast will the company grow?

Technology War Story

- \$600M multi-site manufacturer with international operations
- Standalone versus carve out situation will have an impact
- Disparate systems used throughout the company
- Data reliability an issue for real-time performance and analysis
- Financial reporting an issue
- Need to optimize ERP and business intelligence
- Goal for IPO – two years



Best Practice – Pulling It All Together

- Perform a comprehensive readiness assessment well before filing Registration Statement

People	Process	Technology
<ul style="list-style-type: none">• Credibility, skills, capabilities, experience	<ul style="list-style-type: none">• Forecasting• Financial reporting and disclosures• Governance and controls	<ul style="list-style-type: none">• Transaction systems• Decision support systems• Managing access and security requirements

- Begin “gap” remediation 12-24 months in advance of IPO
- Respect business operations, be realistic with project timelines

Gaps Identified

We have provided a gap assessment related to the financial, operational and information technology functions at Client. Our results and observations are broken down into four categories:

Organizational Structure

- Independence and Staffing
- Form Corporate Structure
- ERP Implementation
- Policies and Procedures
- Establish “Tone at the Top”
- Form Executive Committees

Accounting & Finance

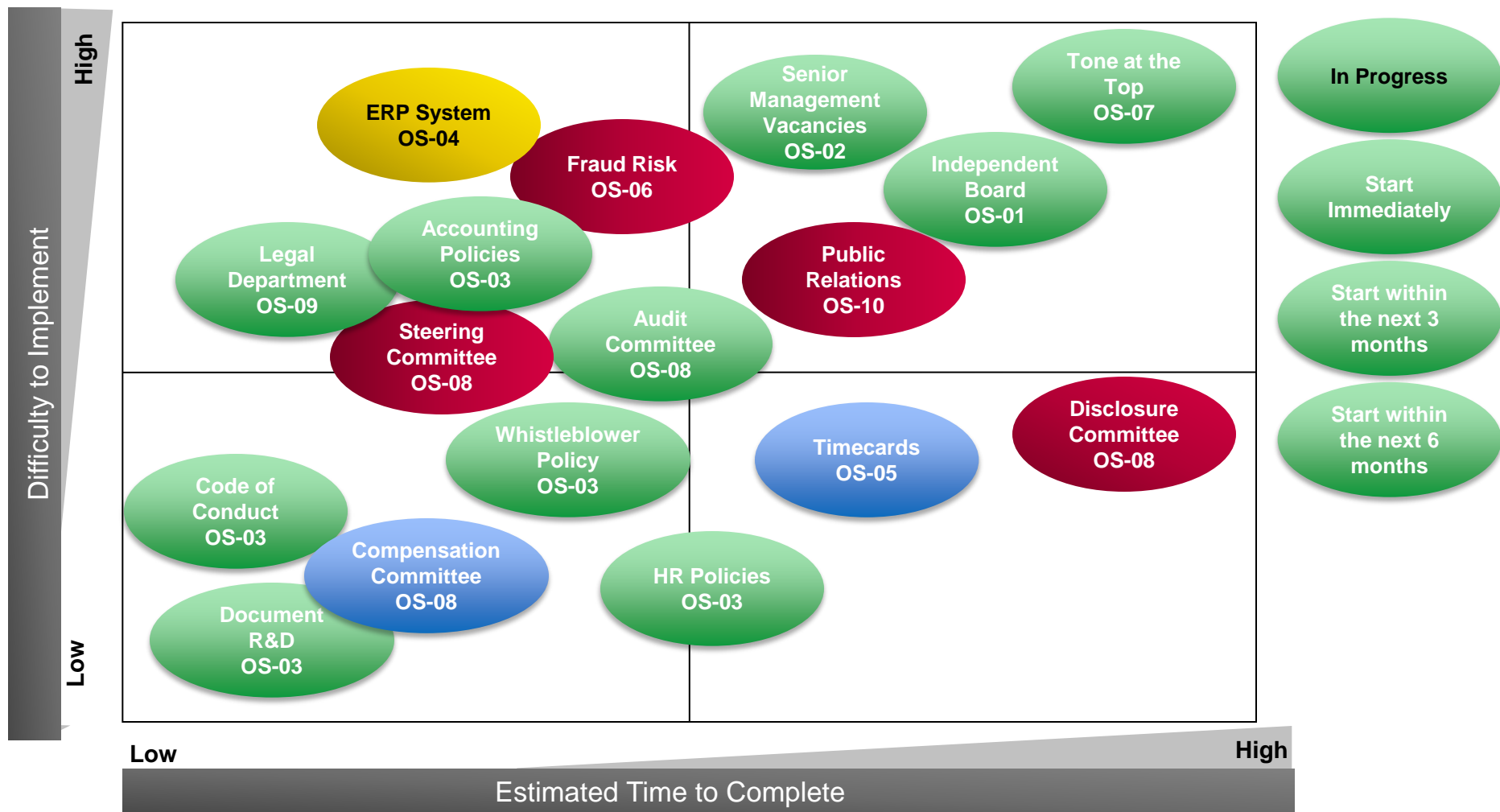
- SEC Compliance
- FCPA Compliance

Taxes

- Corporate Tax structure
- FIN 48

Intellectual Property

Pulling It All Together



Q&A