IPO Boot Camp

Presented by

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IPO READINESS: ACCOUNTING AND ADVISORY

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www.pwc.com/us/ipo

IPO Conference
Overview of the IPO Process

Strictly Private and Confidential

November 2015

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With you today

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PwC's Role

We typically act in one of the following roles:

- Auditor
- Accounting Advisor
- IPO Advisor

Overview of the IPO process - What do we see?

- Overview of the IPO process
  - Going public
  - Being public
- JOBS Act
- Accounting and Financial Reporting Considerations
- Internal Controls & Material Weaknesses
- Successful IPO Themes and Best Practices

Overview Of the IPO Process

Overview of the IPO process

Kick off Meeting

IPO Pricing

Phase I

Pre-Kick-off/Planning

- Initial planning and preparation
- Readiness assessment

Phase II

IPO Process Execution

- "Going Public"
- Execution of the IPO process

Phase III

Post IPO/Public Company

- "Being Public"
- Application of a holistic framework to transform the company, enabling it to operate as a public company

PwC can provide advice and assist clients throughout the IPO process, from planning to execution and beyond

IPO Timeline Overview

There are many issues and judgments which need to be decided by a company prior to going public

Hire Advisors
- IPO Advisor
- Bookrunners
- Auditors
- Company counsel

Financial Statements
- 2- 3 years audited financials
- 2- 5 years selected financials
- SOX / internal financial controls

Due Diligence
- Bankers, research analysts and counsel
- Business
- Financial
- Legal
- Accounting
- Research Analyst

Financial Projections
- Develop detailed financial projections (5 years)
- Develop quarterly financial projections

SEC Review*
- SEC reviews prospectus, including financial statements
- Typically 3-4 rounds of comments for an IPO, requiring 10-12 weeks
- Update financials
- Add co-managers
- File with $ price range

Marketing and Pricing
- Investor targeting
- Management dry-run
- Salesforce presentation and teach-ins
- Roadshow (1X1s and group events)
- Bookbuilding
- Pricing and allocation
- Closing

All Hands Organization meeting

Testing the Waters

Final Valuation/$ Price Range

Pre-Organization Meeting Preparation (Up to two-years) → Filing Preparation (10-14 Weeks) → SEC Review (10-12 Weeks) → Marketing & Pricing (2 Weeks)

Corporate Structure and Re-Organization
- Suitability of current corporate organization vs. reorganization
- Tax structuring and implications
- Domicile determination

Corporate Governance / Board
- Composition of board
- Search for independent directors
- Board committees (audit, nomination and compensation)
- SOX
- Potential management changes / additions

IPO & Capital Structure
- Primary/secondary
- Use of proceeds
- Optimize capital structure and financing needs
- Dividend policy
- Eliminate preferred equity, converts

IPO Prospectus
- Key marketing document
- Underwriters provide outline / investment highlights
- Company counsel drafts prospectus

Roadshow Slides
- Equity story
- Investment thesis to guide slide presentation

Executive Compensation
- Determine compensation packages for executive management and board (including stock / options)

Total 22–28 Weeks

* SEC Review can take significantly longer

Being Public - IPO Readiness Framework

Accounting, reporting, and financial effectiveness	Financial planning and analysis	Internal controls & internal audit	Tax	Executive compensation and HR
Enterprise risk management		Treasury		Engage with investment banks
Corporate strategy and development	Governance and leadership	Legal	Media and investor relations	Wealth management planning

Technology

Project management, change management, and communications

A comprehensive IPO readiness assessment requires a thorough evaluation of all areas of the organization.

The JOBS Act

The JOBS Act was designed to spur IPO activity

- Enacted April 5, 2012 after strong bipartisan support
- Principal goal was to encourage private companies to raise capital through an initial public offering of their common equity
- The 2 main thrusts of the Act:
  - Create an "IPO on-ramp" which reduces the filing and disclosure burdens associated with undertaking an IPO, and;
  - Provide for easier and broader access to capital markets
- The Act applies to "Emerging Growth Companies" (EGC's) for up to a maximum of 5 years, which are broadly defined as:
  - < $1 billion in gross revenue;
  - < $1 billion in issues of non-convertible debt in a 3-year period, and;
  - Generally <$700 million in public float (not a large accelerated filer)

The JOBS Act

A summary of key reporting obligations under regular SEC rules and under the JOBS Act is as follows:

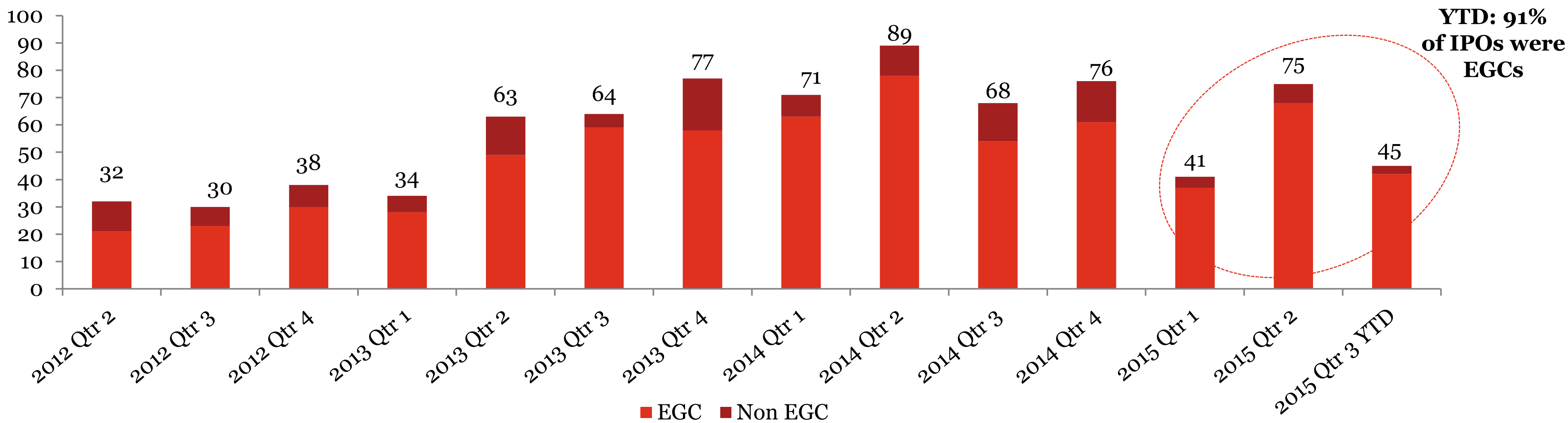
S-1 Filing Requirements

	Regular requirements	JOBS Act requirements
Annual audited financial statements of the issuer (*)	Balance sheet – 2 years Statements of operations, cash flows and shareholders' equity – **3 years**	Balance sheet – 2 years Statements of operations, cash flows and shareholders' equity – **2 years**
Separate audited financial statements of an acquired business	20% significance – 1 year 40% significance – 2 years 50% significance – **3 years**	20% significance – 1 year 40% significance – 2 years 50% significance – **2 years**
Effective date and transition of new accounting standards	A company preparing an SEC filing must apply all accounting standards **as if it had always been a public company**.	EGC may elect to apply new or revised financial accounting standards **on the same date a company that is not an issuer, is required to apply** the new or revised accounting standard, if that standard applies to non-issuers.
Selected financial information	**5 years**	**2 years**
Executive Compensation Disclosure	Shareholders' voting on "say on pay" and "golden parachute" compensation disclosure are **required**. Provide **full compensation disclosure** (e.g., compensation tables for top 5 executives for 3 years.	EGC are **exempt** from shareholders' voting on "say on pay" and "golden parachute" compensation disclosure. EGC is **allowed to follow reporting obligations of smaller reporting company** (e.g., compensation tables for top 3 executives for 2 years).
Form S-1 filing/submission	Once filed with the SEC, a company's registration statement will become public information.	EGC can **submit a registration statement** for an initial SEC review **on a confidential basis**.
SOX 404b	Auditor's attestation on internal controls over financial reporting in second 10-k filing,	Deferred for as long as the company is a n EGC, i.e., **deferred for up to 5 years.**

(*) No difference in requirements for interim financial statements. MD&A should cover the periods presented.

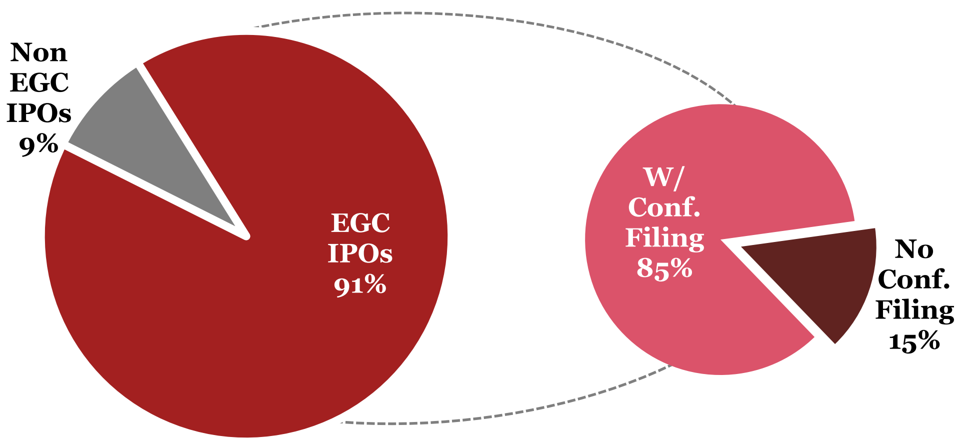
EGCs Continue to Take Advantage of JOBS Act Provisions

# of EGC IPOs by Quarter



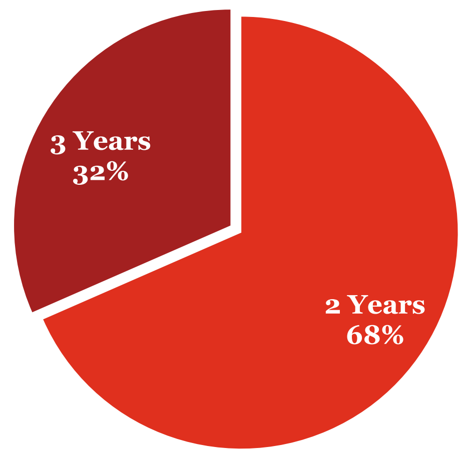
2015 YTD % of IPOs who File Confidentially

YTD 85% of EGC's were Filed Confidentially



2015 YTD Years of Audited Financial Statements

YTD: 68% of EGC IPOs disclosed 2 years of audited financial statements



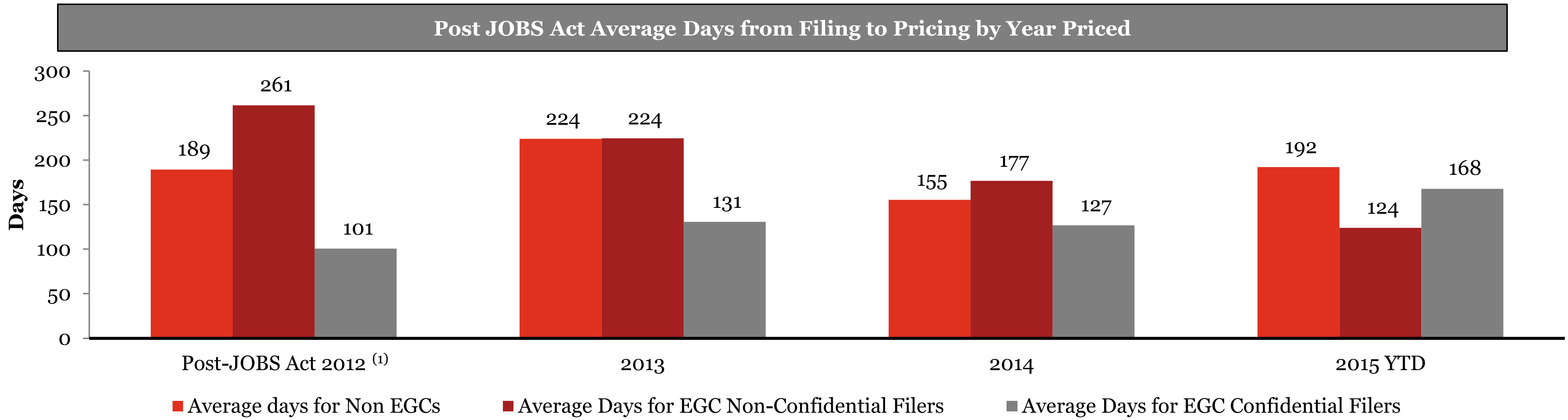
Source: SEC filings

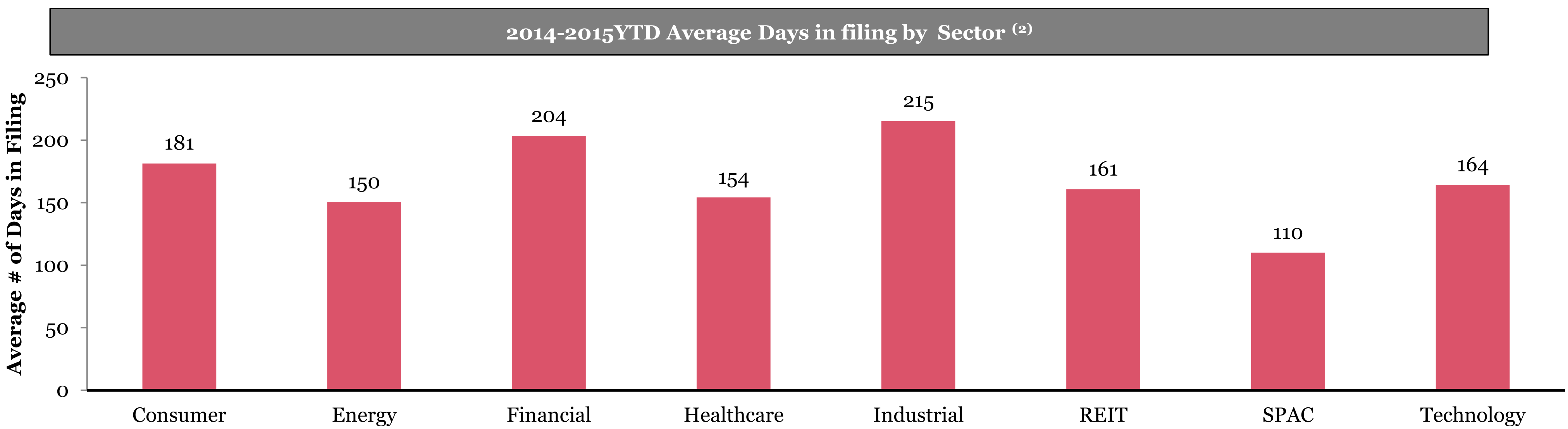
Completed IPOs from Apr 5, 2012 to September 30, 2015

JOBS Act – Key takeaways

- Most companies preparing for an IPO qualify as EGCs (>95% YTD FY15)
- YTD 2015, 85% of EGCs filed confidentially with the SEC
- Most EGCs are taking advantage of at least one provision of the JOBS Act
- YTD 2015, 78% of EGCs "opted out" of the private company timeline for the adoption of new or revised accounting standards
- Approx 85% of EGC's are taking advantage of the reduced CD&A disclosures.
- Many companies are taking advantage of the reduced audited financial statements filing requirements.
- Companies are beginning to test out some of the capital raising provisions of the JOBS Act, e.g.: testing the waters, allowing general solicitation

The JOBS Act and Sector Drive SEC Review Duration





(1)Post-JOBS Act 2012 is from April 4, 2012 – December 31, 2012
(2)Average days includes days spent in confidential filing if applicable
Source: PwC US Capital Markets Watch, IPOs by pricing date. As of 9/30/2015.

Accounting and Financial Reporting Considerations

Accounting and financial reporting

Key financial information to be included in Form S-1

- Annual and interim historical financial statements
- Summary and selected financial information
- Pro forma financial statements
- MD&A
- Executive compensation disclosures
- Capitalization
- Dilution

Accounting and financial reporting

Historical financial statements (“F pages”)

- Three years of audited historical financial statements (two years for JOBS Act filers)
- Consents may be required from predecessor auditors
- Interim financial statements, subject to auditors’ SAS 100 review
- All in compliance with US GAAP and applicable SEC guidance, specifically Article S-X disclosures (option for private company timeline for adoption of new standards for JOBS Act filers)
- Separate financial statements for acquired businesses (where applicable) to meet three-year requirements (two years for JOBS Act filers)

Accounting and financial reporting

Conversion from “private” to “public” company financial statements

- Documentation of critical and judgmental accounting policies
- Revisiting/enhancement of accounting policies in footnotes
- Incremental disclosures to comply with S-X e.g., segments, earnings per share (EPS), pro forma info for business combinations
- Preparation of documentation in anticipation of SEC comments
- Increased attention on auditor independence, requiring company to prepare its own documentation of key accounting policies

Often, the process of converting to public company financial statements is long and complex, and can reveal unexpected challenges. Allowing sufficient preparation time for this process is important. Commencement of this process as soon as an IPO becomes an optional strategy for the company is recommended.

Accounting and financial reporting

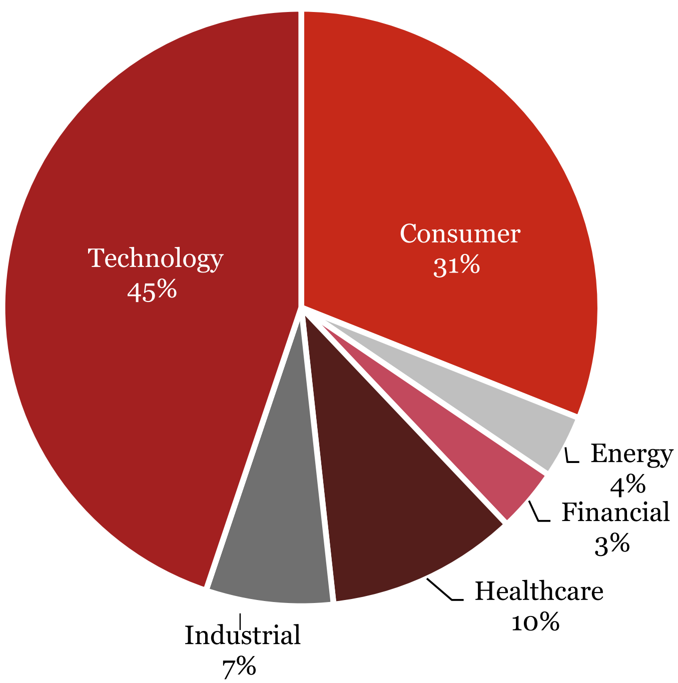
Other interim data

- For public companies, a table presenting interim data for the eight quarters making up the previous two years is required.
- Not required under SEC rules for IPOs; however, for technology companies, companies with seasonal businesses, or with recent growth, underwriters typically want to include this data in MD&A to show trends.
- If data is included, requires SAS 100 reviews from the auditor
  - Can add a significant burden to the timeline, as most pre-IPO companies have not done interim reviews historically

Quarterly Financial Disclosures

Quarterly disclosure by sector

Companies with additional quarterly disclosure[(1)] 2015YTD



Quarterly disclosures decreasing

Total companies with additional quarterly disclosure 2011-2015YTD

	2011	2012	2013	2014	2015 YTD
Companies with additional quarterly disclosure	48	52	67	74	29
Total 2011 - 9/30/2015 IPOs	134	146	238	304	161
% of Total	36%	36%	28%	24%	18%

Technology companies are most likely to disclose additional quarters

% of IPOs w/additional quarterly disclosure by Revenue[(2)] ($ millions)

Sector	<$100m	$100m-$500m	>$500m	Total
Consumer	56%	55%	35%	50%
Energy	4%	0%	12%	5%
Financial	6%	13%	33%	9%
Healthcare	7%	40%	44%	9%
Industrial	22%	50%	29%	27%
REIT	13%	0%	0%	12%
Technology	66%	67%	77%	67%
Total	25%	40%	37%	27%

An average of 27% of all U.S. IPOs since 2011, disclosed 8 quarters or more

Source: SEC Filings, Capital IQ and PwC Analysis. As of 9/30/2015.
(1)Additional quarterly disclosure refers to companies who disclosed 8 quarters or more
(2) Revenue per S&P Capital IQ based on LTM at IPO date. Includes pre-revenue companies.

Accounting and financial reporting

Summary and selected financial information

- Additional two years of financial statements (five years in total), which, however, may be unaudited (two years for JOBS Act filers)
  - Although not technically required, the underwriters may request these two years to be audited
- Predecessor/successor financial statements to meet five-year requirement (two years for JOBS Act filers)
- Often, non-GAAP financial information (e.g., EBITDA or Adjusted EBITDA) is also presented

Accounting and financial reporting

Significant acquisitions

- Rule 3-05 requires separate financial statements for each significant acquired business in the last three years:
- Significance is determined using the following tests:
  - Investment
  - Asset
  - Income
- If the business is significant at the 50%, 40%, or 20% level, then three (two years for JOBS Act filers), two, or one years of financial statements, respectively, are required. Interims are also required.
- If the business is less than 20% significant in all three tests, financial statements are not required.
- The significance tests and financial statement requirements for significant equity-method subsidiaries are similar.

Accounting and financial reporting

Significant acquisitions

- If the business acquired is not public, public company disclosures are not required.
- Topic 1-J/SAB 80:
  - In certain circumstances where there are many acquisitions, the SEC provides relief such that the registrant and its acquirees may be viewed on a pro forma basis, rather than on a historical basis of only the registrant. The goal is to obtain audited financial statements that cover 60%, 80%, and 90% of the businesses in the three-year period.
  - Businesses have to remain substantially intact after the acquisition, such that discrete financial information is available on a standalone basis.

Accounting and financial reporting

Pro forma financial statements

- Many times, the company's historical financial statements do not provide a complete picture of how the company will look after going public or indicate the expected results of operations and trends.
- For example, due to the following:
  - Acquisitions
  - Restructurings concurrent with the offering
  - Redeemable preferred stock or debt converts
  - Changes in capitalization
  - Use of proceeds
- Such changes are presented in the pro forma financial statements as if certain transactions had already occurred.
- These statements are prepared as of the most recent balance sheet date and for the most recent year and interim period.

Accounting and financial reporting

Pro forma financial statements

- The rules around pro forma adjustments that are permitted can be complex to apply.
- There is no substitute for experience around the pro forma adjustments that have been, and are likely to be, accepted by the SEC.
- The basic rules are as follows:

	Assumed date of transaction	Adjustments are directly attributable to transaction	Adjustments are factually supported	Adjustments are expected to have ongoing impact
Balance Sheet	Balance sheet date	Yes	Yes	No
Income Statement	Beginning of earliest period presented	Yes	Yes	Yes

- Adjustments that are typically not permitted include those related to synergies and post-acquisition restructuring.

Accounting and financial reporting

MD&A of financial condition and results of operations

- MD&A aims to achieve the following three principal objectives:
  - To provide a narrative of a company's financial statements that enables investors to see the company through the eyes of the management;
  - To enhance the overall financial disclosure and provide context within which financial information should be analyzed; and
  - To provide information on the quality and potential variability of a company's earnings and cash flow, so that investors can ascertain whether past performance indicates future performance.
- MD&A will focus on the three-year period (two years for JOBS Act filers) covered by the financial statements.
- Given its unique perspective of the business, top-level management should be involved early in identifying key disclosure themes and issues to be included in MD&A.

Accounting and financial reporting

MD&A of financial condition and results of operations

- MD&A should be both discussion and analysis, including identification and discussion of material financial and non-financial key performance indicators. The focus should be on why something has happened instead of merely discussing what has happened.
- Rather than simply a historical analysis, MD&A requires disclosure of prospective information that involves material events and uncertainties that will cause reported historical financial information to not necessarily be indicative of future results.
- MD&A must also assess the ability of a registrant to generate adequate cash from operations or other sources to meet its needs. Liquidity and capital resources should be addressed on both short- and long-term bases in the context of business plans, future financial commitments, and existing or expected sources of capital. Contractual obligations and off-balance sheet arrangements are separately disclosed.

Accounting and financial reporting

MD&A of financial condition and results of operations

- Disclosures of critical accounting policies and estimates supplement, but do not duplicate, the disclosure of significant accounting policies in the notes to the financial statements. Such disclosures should provide both quantitative and qualitative factors and provide greater insight into the financial condition and operating performance of the company.
- MD&A discussions are particularly critical in an IPO registration statement. The SEC staff typically review this section thoroughly and often provide numerous comments. Staff policy seems to emphasize the importance of quality disclosures in the initial filings to encourage complete subsequent MD&A presentations.

Accounting and financial reporting

Independent auditor(s) will execute the following:

- Perform audits of historical financial statements,
- Perform SAS 100 interim reviews for applicable periods,
- Provide a comfort letter on audits and SAS 100 reviews as well as other applicable financial data,
- Read the entire registration statement and provide comments to ensure that the document does not contain anything that is contradictory to the audited and reviewed financial information, and
- Give "consent" to have their names included in the filing. This inclusion can become an issue when multiple auditors are referenced in the filing, e.g., in audits of acquisitions.

Accounting and financial reporting

Typical accounting and disclosure issues	
Format of financial statements	• Evaluate the format of the financial statements, and consider options with regard to disclosures (e.g., income statement and balance sheet line items), as this is a one-time opportunity provided by an IPO. • Break out and disclosure of current assets and liabilities > 5% (e.g., other accrued liabilities). *(See S-X Rule 5-02 [20])* • For development-stage entities, provide inception-to-date information for income statement, statement of changes in equity, statement of cash flows.
Incremental accounting and disclosure requirements	• When a private company files an initial registration statement with the SEC, it must apply accounting standards, including transition provisions, as if it had always been a public company.
Accounting policy documentation and disclosure	• Revisit all key and judgmental accounting policies to ensure appropriate application of GAAP and comprehensive documentation of key decisions. • Revisit accounting policy disclosures to ensure that they are sufficient to withstand SEC scrutiny.
Estimates, judgmental areas	• A company planning an IPO should re-evaluate its critical, highly judgmental, or sensitive estimates to ensure that the accounting policies applied can withstand increased scrutiny from outsiders.

Accounting and financial reporting

Typical accounting and disclosure issues	
Reorganization	• Consider the impact of any structural changes or reorganization immediately prior to the offering.
Consolidation	• Identify and evaluate any variable interest entities for potential consolidation. • Consider accounting and disclosure for any off-balance sheet transactions.
Preferred/ convertible shares	• Evaluate all features for bifurcation of embedded derivatives. • Determine appropriate classification as liability, mezzanine equity, or permanent equity. • May require pro forma presentation for conversion features.
Share-based arrangements	• Consider historical accounting for options and other share-based payment plans. • Obtain third-party valuations to support fair value of stock as of the date of issue. • Consider potential for cheap stock issues.
EPS	• Determine equity structure for IPO. • Present historical and pro forma EPS, as appropriate.
Segment reporting	• The company will need to define, document, and draft appropriate segment disclosures, and ensure consistency with its CODM reporting package.

Accounting and financial reporting

Typical accounting and disclosure issues	
Lease accounting (lessee)	• Determine lease classification (capital versus operating).
Revenue recognition	• Most private companies have to expand their revenue disclosures when preparing an S-1. • Areas of enhanced disclosure/SEC focus include multiple element arrangements, collaborative arrangements.
Purchase accounting	• Ensure all historical acquisitions are accounted for in accordance with ASC 805. • Obtain valuations from third party for intangible and tangible asset and liabilities acquired and contingent consideration, if applicable. • Consider separate financial statement requirements per Rule 3-05 or Rule 3-09. • Consider contingencies.
Intangible assets	• Assess valuation methods, useful life assumptions, and potential impairments/ write-downs. • Evaluate prepaid royalty costs, license acquisition costs, and other items for appropriateness of capitalization and amortization method and period.

Accounting and financial reporting

Typical accounting and disclosure issues	
Deferred taxes	• Ensure accuracy of accounting for deferred tax assets (DTAs) and liabilities, including valuation allowance assumptions. • Evaluate support for DTAs and the need for any additional valuation allowance.
Financial instruments	• Account for derivative financial instruments/valuations and third-party support for estimates.
Related-party transactions/ Transactions with common control entities	• Consider changes to current related-party disclosures and audit (after evaluation of all entities in accordance with ASC 810). • Consider management loans and transactions with equity owners.
Cash flow reporting	• The cash flow classifications of a public company come under increased scrutiny from the SEC, analysts, and investors; therefore, a company should re-evaluate judgmental classifications.
Non-GAAP measures	• Consider additional metrics like EBITDA and adjusted EBITDA • Think carefully around the disclosures and descriptions of these measures

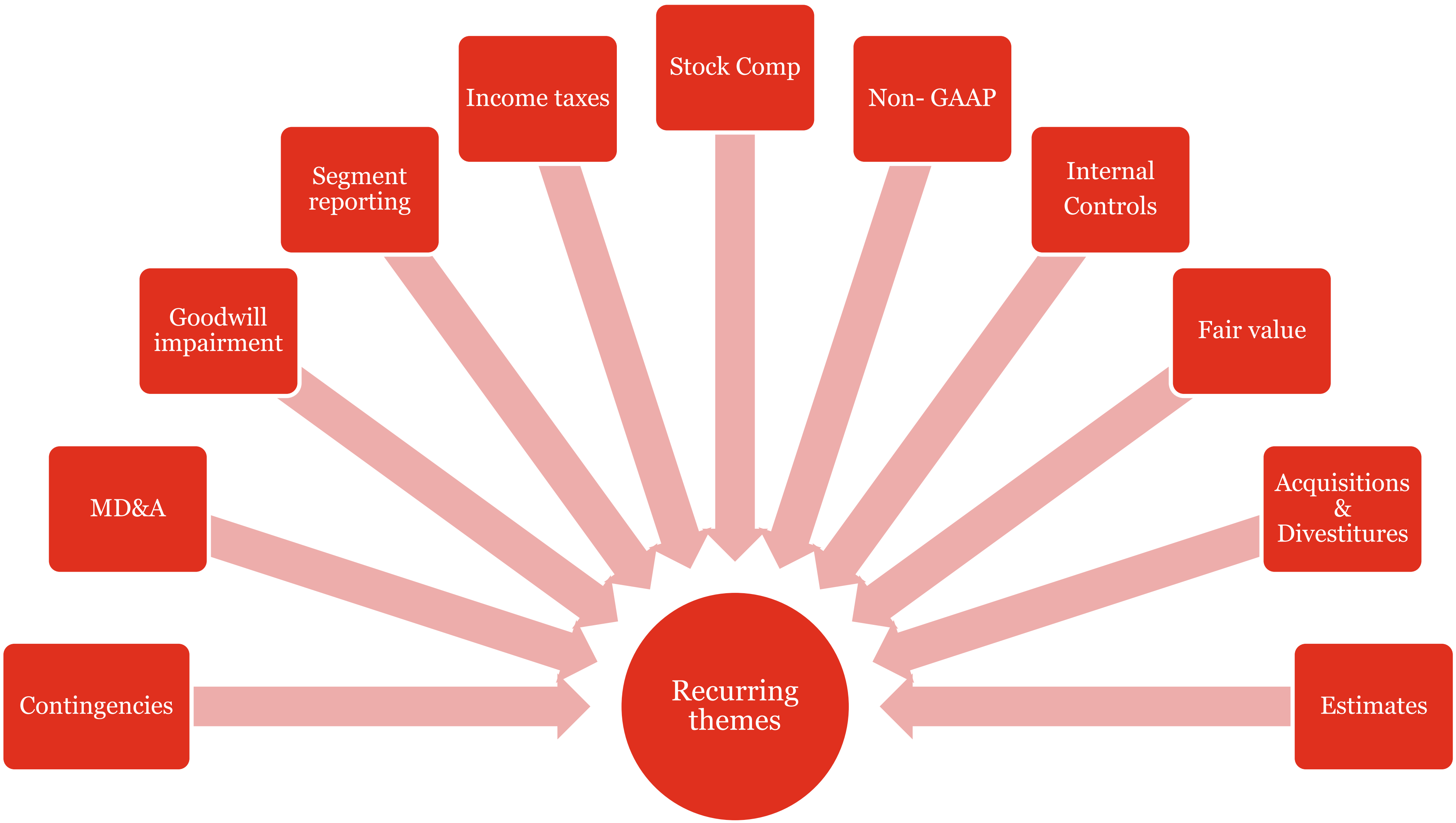
SEC Comment Process

Example SEC comment letter process (Twitter - 2013)

Area (# of comments)	1st	2nd	3rd	4th	5th	Total
Summary	4	3	-	-	-	7
Risk factors	7	3	2	-	-	12
Business and industry	19	2	-	2	-	23
MD&A	22	9	4	1	-	36
Compensation Discussion and Analysis (CD&A)	-	-	-	-	1	1
Financial statements	10	4	-	-	-	14
Pro forma financial statements	-	-	-	-	-	-
Other legal	4	1	1	-	-	6
Other financial	-	-	-	-	-	-
Total	**66**	**22**	**7**	**3**	**1**	**99**

Approximately $317 million in revenue and raised $1.8 billion in 2013.

SEC comment letter trends



Close to report reporting requirements

Post-IPO historical financial reporting requirements

- The company must file its first 10-Q (or 10-K) no later than 45 days (90 days for 10-K) after the later of the following:
  - Quarter end, or
  - Date on which the S-1 becomes effective.
- Going forward, the timing depends on accelerated filer status and public float.
- Every registrant is considered a non-accelerated filer until it has been subject to the requirements of the Exchange Act for 12 calendar months.

Post-IPO historical financial reporting deadlines

Category of filer	Form 10-K deadline	Form 10-Q deadline
Large accelerated filer ($700 million)	60 days	40 days
Accelerated filer ($75 million to $699 million)	75 days	45 days
Non-accelerated filer (less than $75 million)	90 days	45 days

Close to report common challenges

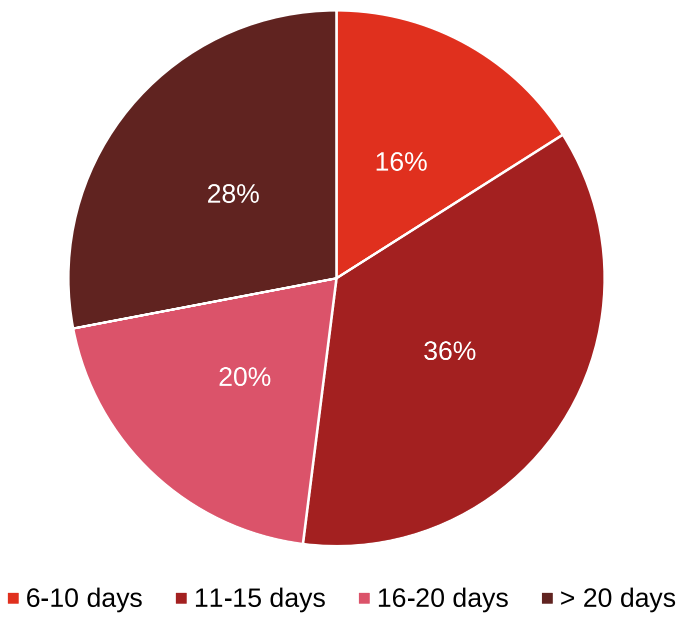
Common issues for private companies looking to be a public company

- Close cycle inadequate for public company reporting due to:
  - Timing
  - Quality
- Neither adequate nor documented policies and procedures
- Lack of a formalized process to prepare month-end results
- Manual consolidation efforts
- Late adjustments and corrections
- Informal management and external reporting activities
- Number of FTEs and inadequate skill sets within finance department
  - Lack of public company accounting requirements and reporting expertise
- Competing demands of resources for “going public” tasks and “being public” readiness

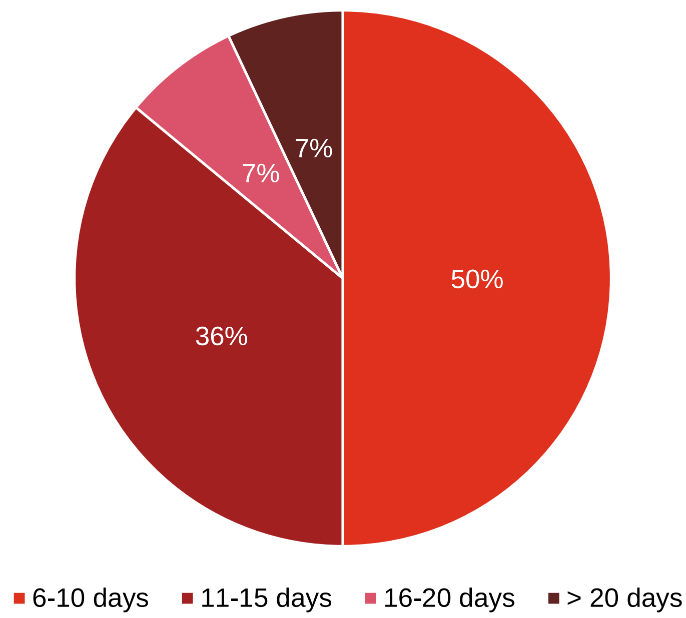
Recent IPO experience – Close timing

Most of the surveyed companies significantly reduced the days to close a quarter post-IPO.

Pre-IPO: Calendar days to close quarter



Post-IPO: Calendar days to close quarter



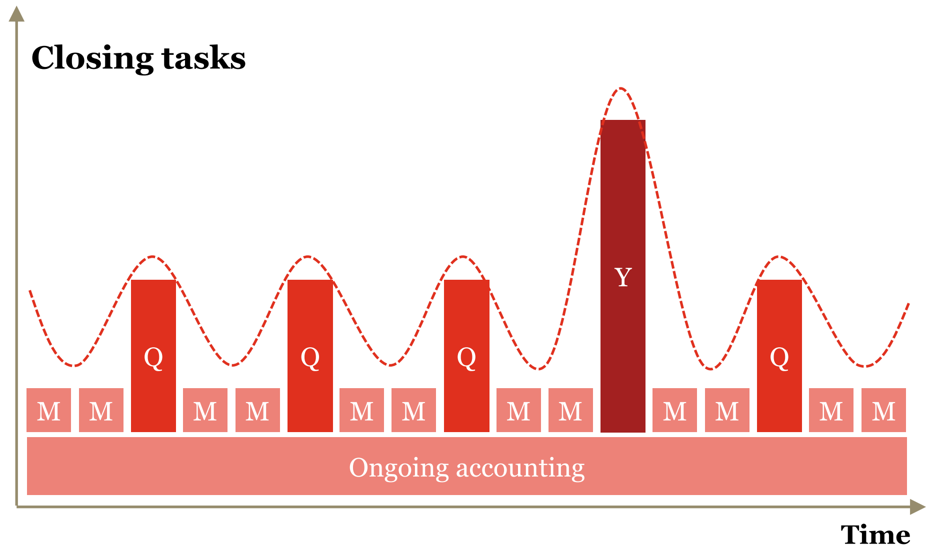
Pre-IPO, most companies took more than 10 calendar days to close a quarter.

93% improved their close timing by at least 5 calendar days post-IPO or were already closing in less than 10 calendar days.

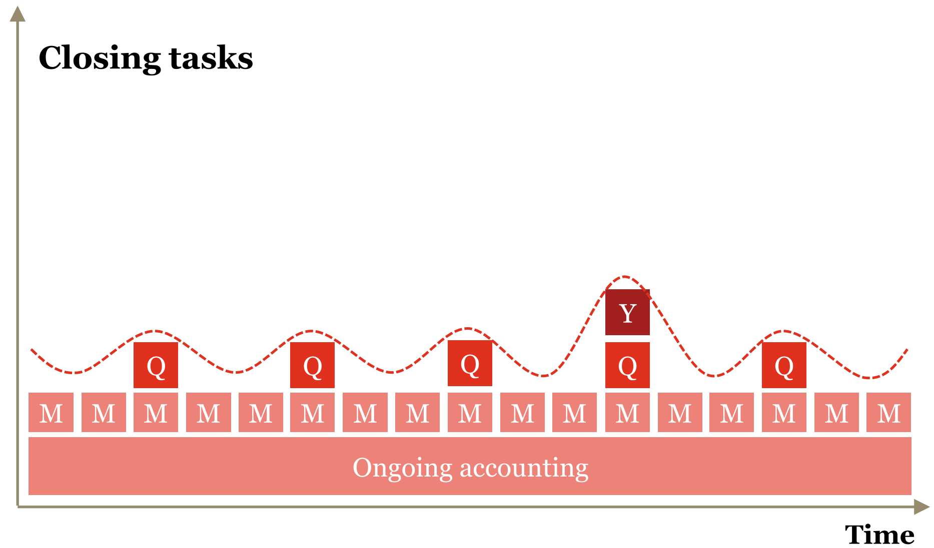
Information is based upon a survey of 25 recently public and pre-IPO companies in California across various technology sub-sectors.

A holistic approach

Repeatable cycles and proper workload distribution turn quarter and annual processes into a non-event.



Before



After

Financial close and reporting – Prevalent themes for private companies going public

Pre-close | Close | SEC Filing

4/30 | On or before 6/15

Transaction processing → **Close and consolidation** → **External reporting**

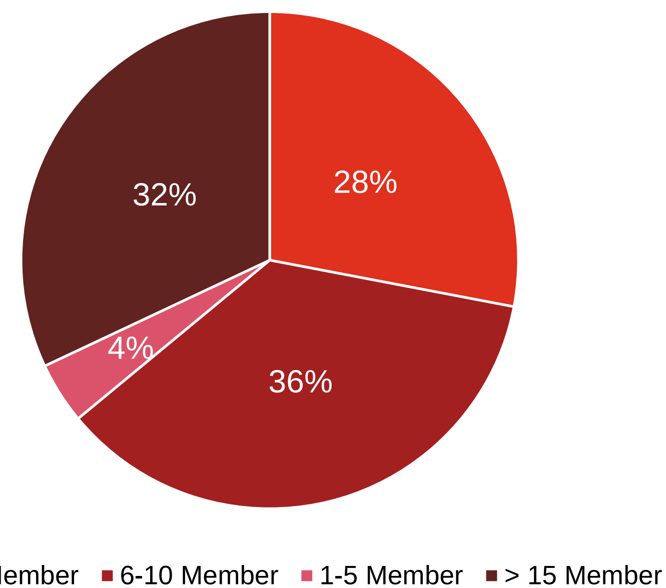
Prevalent themes

Transaction processing	Close and consolidation	External reporting
1. Status quo	**2. Adequate/Repurpose**	**3. Create**
Sub-ledger close	**Close**	**Departments**
• Materials and inventory • Payroll • Fixed assets • Cash and investments • Accounts payables • Revenue • Accounts receivables • Joint venture's equity pick-up • Intercompany cut-off • Accruals	• Close calendar • Close communication plan • Account reconciliations • General ledger close • Intercompany eliminations • Corporate allocations • Chart of Accounts Administration • Legal entities management **Consolidation** • Top-side entries • Foreign currency translation • ASC 740 (FAS 109) • Consolidation and elimination • Significant events disclosure	• IRs • SEC Reporting **Compliance and governance** • SOX certifications • Disclosure committee review • Audit committee review • XBRL reporting **Filings and disclosures** • Management disclosure and analysis • Company disclosure and analysis • Earnings release • 10-Qs, 10-Ks, and other 8-Ks

Recent IPO experience – Finance Talent Enhancements

Most of the surveyed companies have accounting teams (not including FP&A and tax functions) consisting of at least six members

Size of accounting team



Finance positions typically added within 1 year of IPO	Percentage of companies
SEC Reporting Manager	40%
FP&A	28%
Tax	24%

The current CFO has been in place for over 1 year in:

- 71% of the public companies surveyed.
- 89% of those with revenue > $150 million.

- All of those with revenue > $150 million have accounting teams more than 11 people.
- 63% of those with revenue less than $150 million have accounting teams < 11 people.
- 75% of those which have more than 15 members in the accounting team are public companies.

Internal Controls and Material Weaknesses

Governance and Compliance Timeline – Key Milestones

Timeline

Requirements

Date when registration statement is declared effective

Date of listing

At least one independent director on:
- AC;
- Nominating committee; and
- Governance committee.

90 days after registration

Majority independent directors on:
- AC

90 days after listing

Majority independent directors on:
- Nominating committee; and
- Governance committee

First quarter after filing

Section 302 filing

One year after registration

Fully independent directors on:
- AC

One year after listing

Fully-independent directors on:
- Nominating committee; and
- Governance committee

Majority independent directors on:
- Board of directors

Second 10-K filing

Section 404 compliant

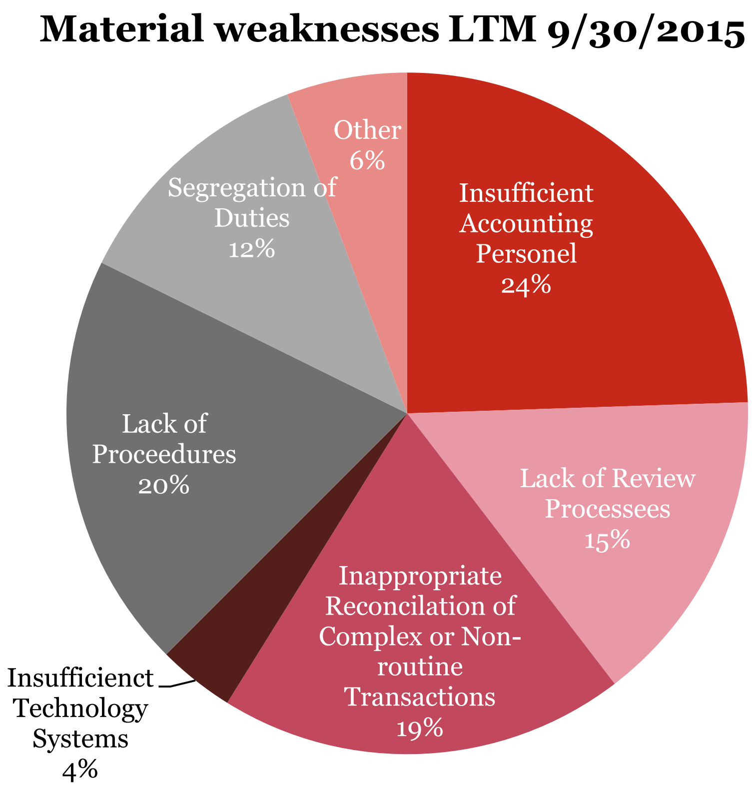
SOX Act of 2002 requirements

NYSE governance listing requirements

*Note: EGCs filing under JOBS Act are exempt from internal controls audit required by Section 404(b)

Material weaknesses disclosures

Common types of material weaknesses



Material weakness disclosures are increasing…

Total companies with material weakness disclosures since 2011

	2011	2012	2013	2014	Q1-3 2015
Total IPOs	128	137	228	293	144
% of Co's with MW	***23%***	***18%***	***23%***	***27%***	***31%***

Material weaknesses are more prevalent in smaller IPOs

% of IPOs with MW by LTM revenue at IPO ($ millions) 2011 –Q2 2015

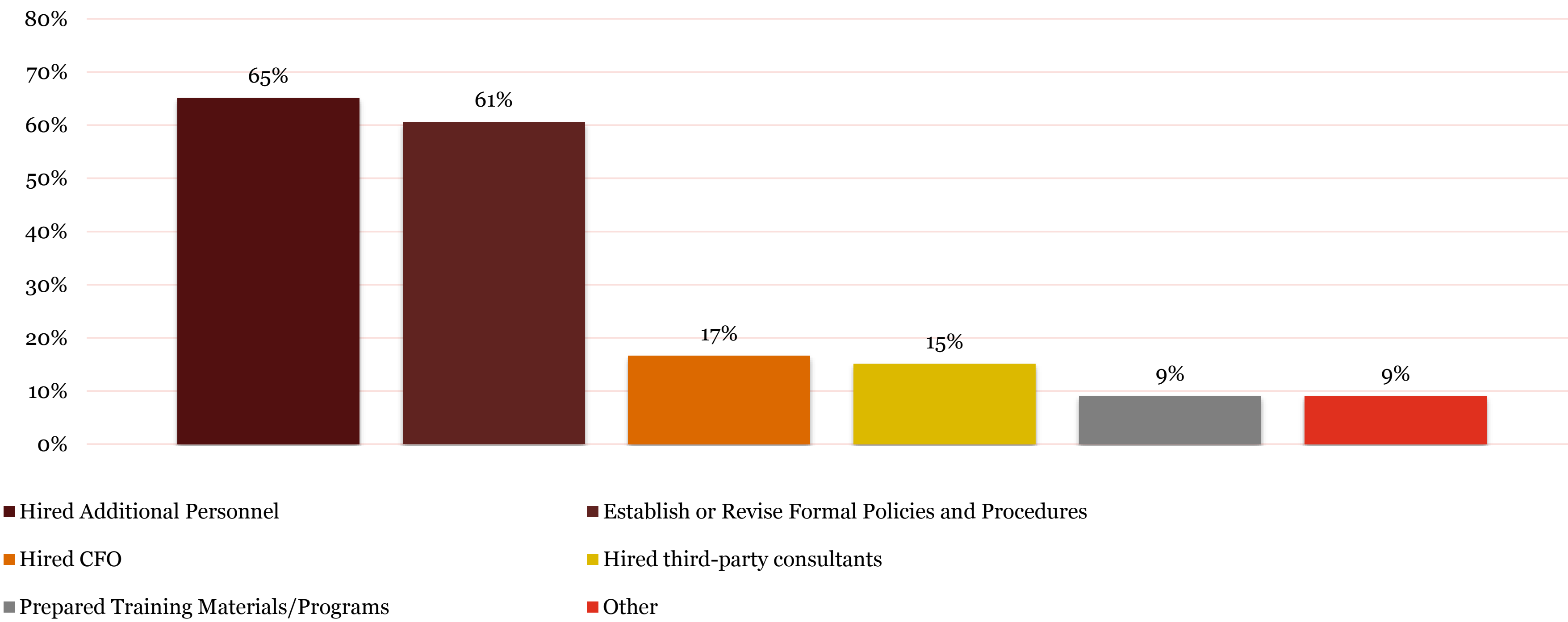
	<$500m	$500-$1,000m	>$1,000m	Total
Consumer	40%	28%	10%	29%
Energy	19%	10%	12%	17%
Finance	17%	25%	0%	15%
Healthcare	28%	20%	11%	27%
Industrial	15%	14%	22%	17%
REIT	9%	0%	33%	10%
Technology	39%	33%	10%	36%
	27%	***22%***	***13%***	***25%***

An average of 25% of all U.S. IPOs since 2011, disclosed at least one material weakness before going public

Source: SEC Filings, S&P Capital IQ, and PwC Analysis. Excludes SPAC s. Material weaknesses were taken from S-1, S-11 and F-1 filings, however annual breakouts are by pricing date to allow for year over year analysis. Data from 1/1/2011 to 9/30/2015.
Revenue per S&P Capital IQ based on LTM from most recent filing prior to IPO date. Includes pre-revenue companies.

Material weaknesses disclosures

Remediation Solutions



More than 90% of the companies that disclosed a material weakness, also included remediation language

Source: SEC Filings, S&P Capital IQ, and PwC Analysis. Excludes SPAC s. Material weaknesses were taken from S-1, S-11 and F-1 filings, however annual breakouts are by pricing date to allow for year over year analysis. Data includes disclosures from 10/1/2014 to 9/30/2015.
Revenue per S&P Capital IQ based on LTM from most recent filing prior to IPO date. Includes pre-revenue companies.

Successful IPO Themes & Best Practices

IPO Themes: Which ones are working now?

Brand Names

- Consumer brands that are recognizable to investors
- Includes popular restaurants retail & consumer products and airlines

Disruptive Business Models

- Disruptive business models with differentiated product or customer experience
- Significant entry barriers
- Generally an industry “disruptor”
- Includes fintech or retail & consumer service

High Growth

- Companies with earnings growth more than 20%
- Within the differentiated value proposition category

Dependable Cash Flow

- Stable free cash flow stories that permit for above market dividend yields or de-leveraging
- Examples include REITs and MLPs

Untested Business Models

- New sector/no public companies
- Understand industry dynamics
- Unique approach in an established industry

Timing considerations – Preparing for the best IPO opportunity

There is high option value in being ready to access the equity markets as windows of opportunity present themselves – early preparation is key

Key Decision Points

- An issuer can reassess market conditions and valuations at different phases in the preparation process as appropriate
- A SEC filing provides increased flexibility in time to launch – especially if the company is an ECG

Considerations

- Market volatility and peer valuation declines could jeopardize launch timeframe
- Company must meet key operating and financial milestones for marketing credibility

Key Considerations	PwC Assessment
1 Macro and Capital Market Conditions	• Inflows into equity funds • Attractive investment case – sooner the better to benefit from maximum investment opportunities • Positive economic performance of US will be key
2 Valuation	• Selection of the "right" comps • Timing will determine valuation multiples
3 Company Readiness	• Corporate and legal structure, financials and documentation ready for filing and launch • Management well rehearsed • Potential impact of an acquisition
4 Competing Equity Pipeline	• Sector equity pipeline • Significant equity issuance to take advantage of positive investor appetite for equity offerings • Scarcity value for high growth companies remains
5 Investor Appetite	• General interest in IPOs

Best practices for a successful IPO – Advice for CFOs

Planning, executing, and managing an IPO is a complex task for any organization, especially for its CEO and CFO. The better prepared a company is, the more efficient and less costly the process can be.

- *Perform an IPO Readiness Assessment* – An organization needs to identify "big-picture" issues early and establish a realistic timetable based on its offering's strategic objectives, specific business issues, as well as the time needed to prepare registration information and the preparation needed to operate as a public Company

- *Prepare Financial Statements* – The length of time and complexity in preparing your financial statements will require close cooperation between the Company and its auditors

- *Ensure strong IPO leadership* – Leadership needs to be able to marshal resources within the organization, be empowered to make decisions (or get immediate access to decision makers), and know when to rely on and to push back on key advisors

- *Optimize Capital Structure* – Changing the structure or key transaction dynamics during the process can cause significant delays as the legal, tax, and financial reporting implications are identified and resolved

- *Establish Project Management* – Ensure initial and robust issue identification, establish a plan, monitor progress, understand interdependencies between work streams, and encourage communication among project team members
- *Ramp up Staff Early* – There will be a lot of demand on key resources at peak times. The Company should strike the right balance between internal and external resources to ensure appropriate knowledge retention after the registration is complete, while enabling management to focus on running the business

Best practices for a successful IPO – Advice for CFOs

- *Ensure a Multi-Disciplinary Approach* – IPO preparation should include all areas within the organization (board of directors, shareholders, strategy, accounting and financial reporting, legal, treasury and risk management, tax, HR, and technology). The organization needs to appoint key advisors early (underwriters, lawyers, auditors, advisory accountants, HR consultants, and tax advisors)

- *Consider Marketing Implications* – The Company should consider the offering's marketing implications of all key decisions early and ensure their buy-in throughout the working group. It should not automatically gravitate to one market, and should consider the potential value differences, reporting and legal obligations, and risk assessment of each market and geography.

- *Prepare to Act as a Public Company* – The organization needs to commence a parallel work stream at the start of the IPO process, including the consideration of corporate governance, internal controls, compensation strategy, IR, and internal audit.

- *Understand Major Organizational Changes* – The Company needs to understand the impact of changes such as system upgrades and historical and potential acquisitions, on the IPO timing.

- *Review Financial Close Process* – The business should be ready to prepare and forecast timely and accurate financial information immediately upon launch

PwC's IPO Services

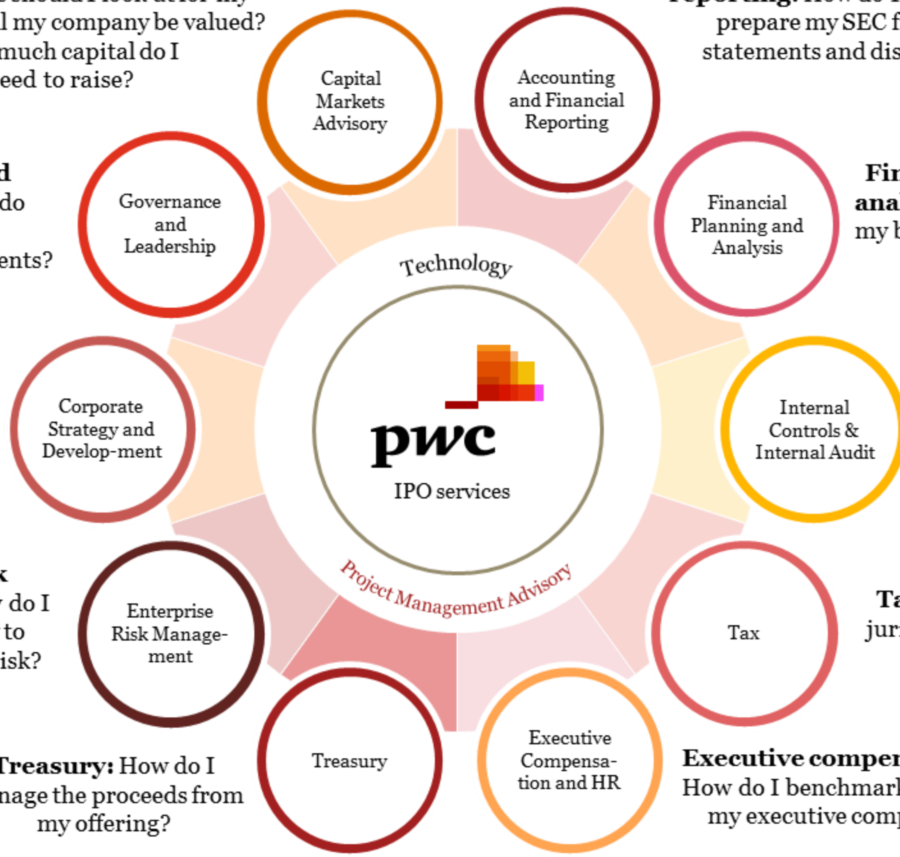
Capital Markets Advisory: What comparables should I look at for my IPO? How will my company be valued? How much capital do I need to raise?

Accounting and financial reporting: How do I develop and prepare my SEC financial statements and disclosures?

Governance and leadership: How do I meet my new governance requirements?

Financial planning and analysis: How do I improve my budgeting, planning, and analysis function?

Corporate strategy and development: How do I improve my capital structure and evaluate financing alternatives?



Internal audit and controls: How do I prepare to comply with SOX?

Enterprise risk management: How do I evaluate my ability to assess and manage risk?

Tax: How do I develop my jurisdiction and domicile tax plan?

Treasury: How do I manage the proceeds from my offering?

Executive compensation and HR: How do I benchmark, plan, and design my executive compensation plan?

Project management advisory: How can I accelerate my IPO closing process?

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