



Getting ready for the IPO journey



November 2016



Foreword

Executing an IPO is a long and complex process

While many new IPO candidates mistakenly believe that the path to an IPO starts with the creation of a prospectus and ends the day that the stock debuts on exchanges, nothing could be further from the truth.

In reality, the IPO process starts long before the underwriters first show up on the scene. It requires companies to be self-aware, to understand their IPO objectives and to take the difficult steps needed to meet the market expectations of a publicly-traded company.

This publication takes a closer look at the pre-IPO process and shines a spotlight on a number of key considerations for IPO candidates approaching this metamorphosis.

- How will you choose the right exchange for your company?
- How will you select the right underwriting bank to fit your company's needs?
- How will you know if you are ready for the scrutiny of public markets?
- How will you transform your organisation to become 'IPO-ready'?

Sharing our insight and experience

We believe that experience only becomes valuable when it is shared. That is why we have combined the experience and insight of experienced individuals from some of KPMG's global network of member firms to develop this guide. Within these pages, we will tell you about some of the big challenges that IPO candidates face as they get ready to embark on their journey. We will share some of our firms' well established approaches and methodologies for cutting through the complexity of IPO preparation. And we will strive to help IPO candidates take the right steps to get the most value out of their market debut.

Turning guides into road maps

While guides are often invaluable in providing tips and insights to intrepid travellers, one often has to rely on the experience of people who have travelled the road before and know – first hand – how to avoid pitfalls and take advantage of the opportunities.

Given KPMG's extensive global network of member firms, deep industry insight and experience in the capital markets, we believe we can guide IPO candidates safely along the journey.

We encourage you to contact us to find out how our professionals can help your company cut through the complexities of an IPO and help you reach your ultimate destination.

In this guide, we take a closer look at the pre-IPO process and shine a spotlight on a number of key considerations for IPO candidates approaching this transformational journey.



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Choosing the right exchange



Every journey needs a destination

One of the most important decisions an IPO candidate will make is what exchange to list their shares on. Indeed, this decision will largely determine what the IPO road map will look like and what the company needs to prepare for in order to reach its final destination.

There is no formula for selecting the right exchange. Rather, executives must consider the pros and cons of each market to determine the best path forward to achieve their unique goals.

It is not a decision to be taken lightly or based on short-term convenience. The choice of market is likely to have deep implications on organisational structure and processes and may require some heavy lifting to meet the expectations of the market.

While achieving the highest valuation for your IPO is certainly a core consideration, there are also a number of other key factors that – in our experience – must also be taken into account.



Compliance creates complexity

Some of the most important considerations facing IPO candidates relate to market regulations. At the outset, companies must understand the complex web of regulations that govern each exchange and gauge their organisation's ability to meet the compliance standards. They must consider not just the regulations as written but also the rigour with which it is implemented and enforced in each of these jurisdictions. This will often influence the choice of foreign exchanges for IPO candidates who may prefer to list in jurisdictions where the regulatory burden is less onerous or in domestic markets that they better understand.

But higher regulation and compliance requirements also offer a number of benefits to listed companies. Regulation generally has a direct impact on investor confidence, and often results in a more transparent set of rules for market participants. Stronger regulation also tends to mean higher reporting and disclosure standards, which is generally welcomed by all participants.

However, there is a general trend amongst regulators around the world towards aligning their market regulations and the related enforcement to provide a more consistent set of rules and reduce the temptation for private companies to list on less transparent or poorly regulated exchanges. As a result, the

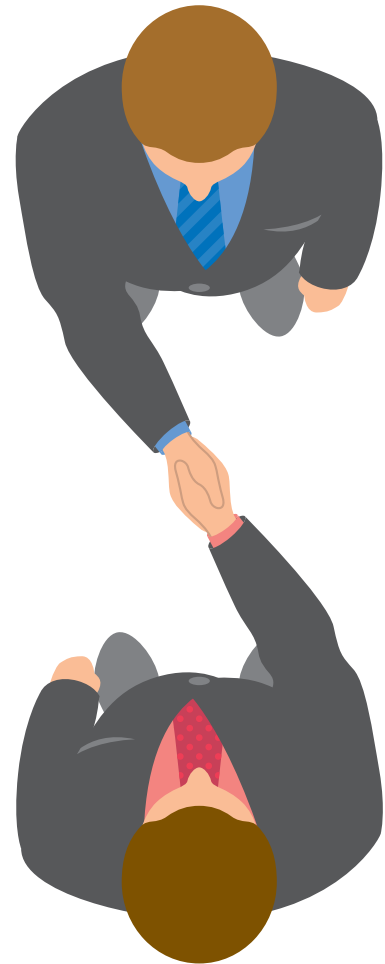
influence of regulation on the choice of market may eventually become less important for IPO candidates as markets align.

The Indian context

In India as well, regulators have been proactively working on making a number of changes to our governance standards, especially for public companies or those in the process of going public.

Some key changes include:

- Companies Act, 2013, which has raised the bar on corporate governance significantly in a number of areas, including requirements related to independent directors, composition of the board of directors and various committees of the board, investor protection, related party transactions, maintenance and reporting on internal controls, etc.
- The Securities and Exchange Board of India (SEBI) has also made changes to the Indian IPO and listing regulations to broadly align them with the requirements in Companies Act, 2013. SEBI has also paved the way for the listing of Real Estate Investment Trusts (REIT) and Infrastructure Investments Trusts in India (InvIT) by issuing relevant guidelines.



In good company

While it may seem counter-intuitive to follow your competitors, there are significant benefits of selecting an exchange that has a high concentration of your industry peers. In part, this is because markets with industry concentrations tend to benefit from highly-experienced analysts who have deep insight into the specific industry and sector. As a result, valuations generally tend to be higher in comparison to other markets where investors may not understand your business, and as a result will

often apply a discount to compensate for the perceived risk.

In the Indian context this is especially relevant for a number of new age sectors such as e-commerce, renewable energy, biotechnology, etc., where an IPO candidate may not find a sufficient number of peer companies to benchmark themselves against.

Industry concentrations also tend to encourage an 'ecosystem' of service providers (such as underwriters,

lawyers, auditors and business advisors) to develop around certain exchanges. This means that IPO candidates are more likely to find critical IPO partners with specific experience in their industry within these markets.

Gauging investor appetite

Liquidity of a capital market can have a direct impact on the initial valuation of a company. Simply put, in markets with low liquidity, investors are either not willing to or are not able to 'free up' capital to purchase new shares. In turn, this forces the initial valuation down in order to increase subscription rates. In the same way, companies which conduct their initial offering in markets with low levels of trading volume also tend to see lower initial valuations than may be expected in more active markets. As a result, the current liquidity and volume of a market must be a key consideration while choosing an exchange.

Investor appetite is also important. Some markets (like NASDAQ) tend to have a fairly high appetite for initial

offerings, whereas others may be more wary about placing bets on a new – and in their minds unproven entity. But investor appetite can also be notoriously fickle and often telescoped on to a handful of 'hot' sectors. So IPO candidates would be well-advised not to place their bets solely on what is currently hot in the market.

Those electing to list on exchanges outside of their home country will also need to be cognisant of the challenges that they may face in managing investors in foreign or distant markets. Particularly in cases where IPO candidates have no obvious or formal business links within the country in which they are listing, executives may find that

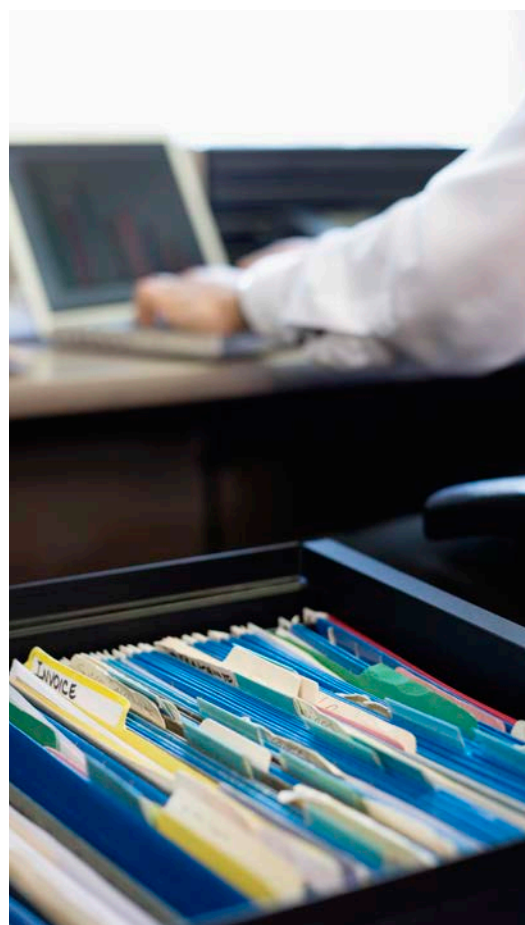
managing the day-to-day needs of investors quickly becomes a rather time-consuming and complicated requirement.

And while economic downturns (such as the one experienced in 2008-09) almost always lead to a loss of liquidity in the market – and are therefore an inadvisable time to conduct an IPO – public offerings that are conducted in the early part of economic recoveries tend to enjoy higher valuations than at other times in the economic cycle. This is generally because investors who 'sat' on their capital during a downturn, often return to the markets with large appetites for IPOs and other new investments.

15 largest stock exchanges by market capitalisation (as of October 31, 2016)

Rank	Stock exchange	Market Cap (USD Billions)
1	NYSE	18,153
2	Nasdaq - US	7,475
3	Japan Exchange Group	5,104
4	Shanghai Stock Exchange	4,100
5	Euronext	3,418
6	Shenzhen Stock Exchange	3,345
7	LSE Group	3,322
8	Hong Kong Exchanges and Clearing	3,277
9	TMX Group	1,923
10	BSE India Limited	1,711
11	Deutsche Boerse	1,692
12	National Stock Exchange of India	1,675
13	SIX Swiss Exchange	1,387
14	Korea Exchange	1,288
15	Australian Securities Exchange	1,265

Source: World Federation of Exchanges - <http://www.world-exchanges.org/home/index.php/statistics/monthly-reports>, October 31, 2016



In it for the long-term

While selecting an exchange, IPO candidates must remember that listing on a public market is a long-term strategy that has implications long after the IPO. As public companies expand, many will need to return to the market at some point or the other to conduct subsequent offerings in order to raise additional capital. This often makes long-term liquidity of a market equally as important as the short-term.

IPO candidates will therefore want to examine the historical data of various exchanges to identify long-term volume and liquidity trends for both their industry group and the wider market. And given that the global financial crisis effectively changed the market dynamics for many exchanges, candidates may want to pay particular attention to the strength of the market's recovery in recent years.

Reducing risk and securing equity

Many IPO candidates, particularly those located in emerging markets or less regulated jurisdictions, often select exchanges based on the level of protection that is afforded to investors through local regulation. By listing their companies in foreign markets, public companies are

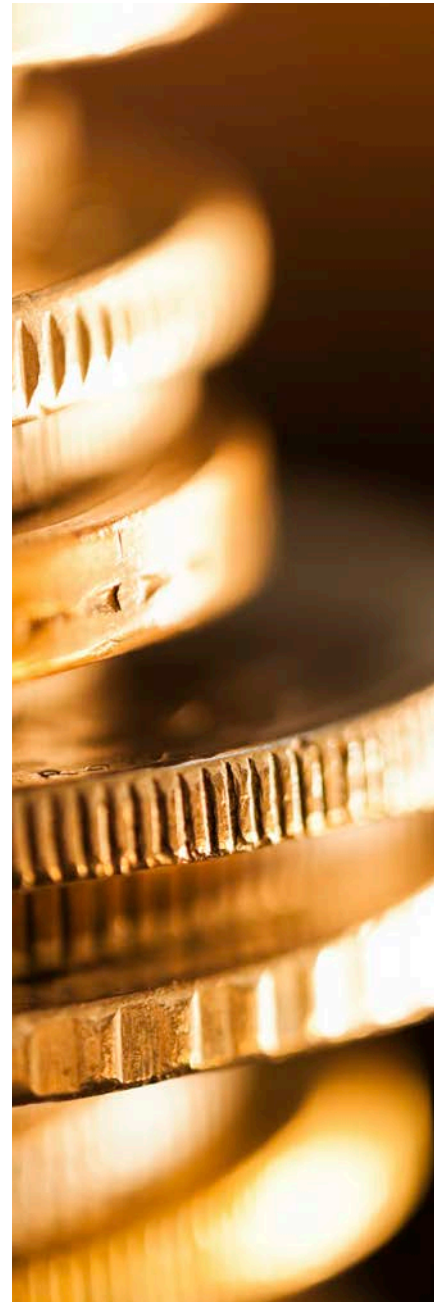
able to secure much of their equity under the legal protection of their chosen jurisdiction. As a result, many countries (particularly the Netherlands, the U.K. and the U.S.) have seen a steady stream of listings by foreign companies.

Conducting a dual listing

IPO candidates are not restricted to listing on a single exchange (though listing on more than two exchanges is generally thought to be unwise). For vast majority of companies, this often means listing on their own local exchange as well as one of the more major exchanges. In this way they are able to both build a local investor base and access equity from global investors in major markets. Many companies also choose to dual-list to widen their profile in the target markets or to build credibility as a global player.

But while dual-listing certainly delivers significant benefits, it also

adds a level of complexity and cost related to regulatory requirements and the possible need to engage two sets of underwriters and advisors. Executives must also be mindful of the demands that dual-listing puts on company officers, as investors in each market will expect to see key financial and executive officers within the market on a regular basis. Dual-listed companies are also likely to establish an Investor Relations (IR) function within each market, staffed by IR professionals who cultivate strong relationships with leading advisors and communicate with major shareholders.



When selecting an exchange, IPO candidates must remember that listing on a public market is a long-term strategy that has implications long after the IPO.

Pre-IPO readiness assessment



Is your organisation ready to meet the expectations of the market?

Investors expect IPO candidates to be 'market ready'. From systems and controls to accounting standards and governance models, everything will come under scrutiny as soon as you reach the formal IPO process. For many, a rigorous pre-IPO readiness assessment is a vital first step towards the journey ahead.

Pre-IPO readiness assessments are designed to identify the gaps between market expectations and the current reality of the organisation. It is not easy. It requires executives to root out potential weaknesses and turn a critical eye towards the status quo in order to develop a clear picture of their organisation's capabilities.

But in return, executives gain important insight into the steps that may be required to achieve a successful IPO and – with that – a detailed road map of their journey

that includes the timelines, expected costs and milestones that must be achieved along the way and that can be successfully achieved within the timeframe allotted.

While the pre-IPO readiness assessment itself rarely takes more than a few weeks to complete, many companies find that the issues that the assessment identifies often take six to twelve months to address. Therefore, pre-IPO readiness assessments should be started as early as possible.

But clearly each market is unique and expectations will vary from exchange to exchange and from industry to industry. So while the pre-IPO readiness assessment will be different for each company, there are a number of key areas that – universally – must be addressed



Financial standards

Can you meet the local accounting standards demanded by the market?

Meeting the standards: Each exchange requires listed companies to report their financial results within a pre-defined accounting framework (often International Financial Reporting Standards (IFRS), but occasionally local GAAP). In some cases, the choice of the accounting framework may also be influenced by the reporting standards used by the peer group and tracked by the relevant analyst community. And while some private companies may already follow the appropriate accounting standards, many find that the rigour and detail required by public markets far surpasses their existing capabilities. But converting to a new or more robust accounting standard is a massive project that often stretches the finance departments to their limit. It is not a project that can be left to the last minute or – worse – rushed through during the final stages of the IPO process.

SEBI has also issued a circular clarifying the applicability of the IFRS converged Indian Accounting Standards (Ind AS) to companies looking to raise capital in the Indian markets. Beginning 1 April 2017 companies looking to list will need to include at least three years of Ind AS financial statements (latest three years of the five track record period). Therefore companies looking to go public in India will need to factor in the transition to Ind AS.

Can you provide comparable metrics to your peers on key business indicators?

Integrated reporting: Pre-IPO candidates will want to scrutinise their competitors' annual reports and other public documents to gain a clear picture of the types of data that are being reported by their key competitors including key operating and financial metrics. So if, for example, your industry group tends to report on supply chain

sustainability, the market will often expect to see similar data from IPO candidates. In many cases, the equity story may also be built on the trends key operating metrics rather than the historical financial information, thereby significantly enhancing the relevance of this information.

In some cases, this may require companies to develop new processes by which they can obtain the necessary data, both for presenting the relevant metrics in the offering document and for inclusion in subsequent recurring filings post going public.

Can your financial system deliver the right information to executives to enable decision-making?

Informing the management:

Financial systems must also be adequate to deliver both up-to-date results to the company management and insightful commentary and context for non-executive directors who are generally not involved in the day-to-day operations of the company. And while there are no hard and fast rules for what must be included in management information reports, they must contain enough detail and context to enable executives

to make fact-based decisions, manage market expectations and reduce the overall business risks.

What story do you want your results to tell the market?

Positioning the numbers: IPO candidates will need to make some important judgements about how they want to position their company in the market and – as a result – how they will present their financial and integrated results. So, for example, some companies will want to position themselves as a multi-faceted and diversified organization (and therefore will present their results by market segment or business unit), while others will organise their results by geography in order to denote a multinational organisation

with exposure to multiple markets. Regardless, the decisions made here will greatly influence the way those results are prepared.

It may also require the organisation to rethink the way it collects and consolidates their reports, which, in turn, can influence internal reporting as well. For example, organisations following IFRS / US GAAP / Ind AS will require their segmental analysis closely aligned to how the business is managed.

Do you have the right historical data and is it presented using the appropriate standards?

Creating a history: Investors considering an IPO candidate will be keenly interested in comparing the company's current and expected financial results against a consistent and clear benchmark of their past results. Indeed, many markets demand at least three years of historical data; some prefer five. But these reports must be presented using appropriate accounting standards, which often mean that IPO candidates will need to reanalyse their historical data and restate their results. In cases of a complex financial history, specific proforma-financial statements need to be prepared, presenting the IPO candidate in an 'as-if' fashion. Once again, this will take time and significant effort on the part of the finance department.

And since all public company financial statements must be properly audited, the restated results will also need to be properly audited by a duly recognised auditing firm.

Understanding trends: Analysts will be keen to understand the extent to which historic results have been influenced by one off or non-recurring items. Identifying and verifying these can be surprisingly time-consuming.

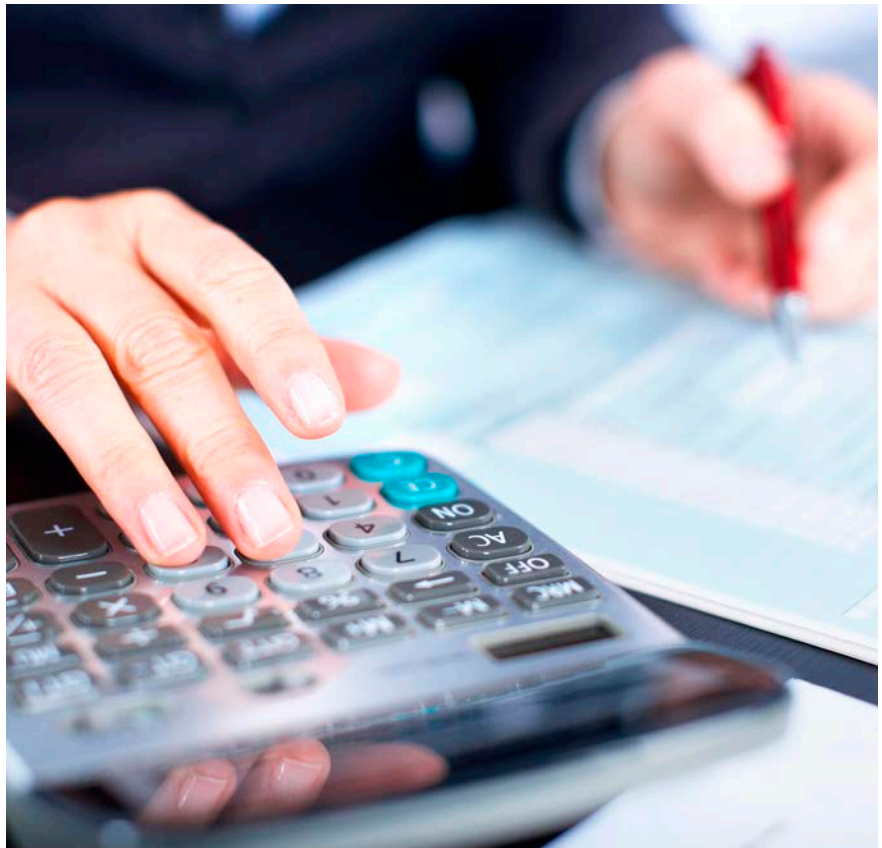
How does your equity story align to your results?

Equity story: Building a compelling equity story is a key component of the pre-IPO process. It is at this stage that executives would be wise to put careful consideration towards its development throughout the process to ensure that the story aligns with the financial reports and other key data

Are your financial systems sufficient to deliver consistent and timely reports?

Testing the systems: With all of this in mind, executives will need to thoroughly test their existing financial IT systems – both centrally and in business units. Investors will expect the financial system to not only be robust, but also capable of delivering consistent and timely information without errors.

Investor confidence can be quickly shaken by the restatement of results; hence, it is critically important that the system is able to deliver quality reports on a consistent basis.



Internal controls

Do you have adequate controls in place to meet the local regulatory requirements?

Complying with regulation: In some jurisdictions, regulations require public companies to document and monitor internal controls. Rules exist in all major markets, although the specific controls that are required vary from industry to industry (for example, the controls at a financial services company will include capital and liquidity controls). Dual listed companies will need to adopt the requirements of the more stringent of the two markets.

In India too, the Companies Act, 2013 has introduced requirements for the implementation of appropriate internal financial controls. Directors of public companies need to attest the existence and operating effectiveness

of internal controls. The companies' auditors also need to issue a separate report on internal controls.

Another aspect to be considered is the rigour of implementation and monitoring of these internal controls across jurisdictions. While the regulatory requirements might appear to be the same, the expectations from audit committee, regulators, auditors, etc. on the level of implementation may vary significantly from one jurisdiction to another.

Are your IT systems sufficient for the requirements of a public company?

Information Technology: IT systems must also be evaluated as part of the pre-IPO assessment. And while the process generally focusses on the

financial reporting systems and control environments, other considerations must also be raised. For example, does the organisation have a strong disaster recovery system in place, and are other mission critical systems sufficient to maintain business continuity?



Corporate governance

Does your board reflect the expectations of the local market?

Composition of the board: While going public often requires companies to adjust the makeup of their board, the actual composition will largely depend on the individual market. Some countries (such as Germany) expect public companies to maintain both a supervisory board and an executive one. Others (such as the U.K.) require companies to employ a single, unified board.

In India too, the Companies Act, 2013 and SEBI regulations mandate a minimum number of independent directors, the requirement to have at least one resident director, one woman director and the requisite committees depending on the defined thresholds. Those that are considering dual-listing may need to develop different board structures depending on which jurisdictions they plan to list in. As a result, many IPO candidates may find that they need to carefully consider who sits on their board and who is asked to step down. Similarly, many markets require the role of the

CEO and the Chairman of the board to be separated, which may also lead to significant organisational changes. Even where CEOs are allowed to hold the Chairman's seat, there is a growing move to separate the roles to enhance governance independence.

How will you select suitable candidates for your board?

Selecting board members: In many markets, there are no formal rules on who can become a company director (though those with criminal background and those implicated in insider trading are often banned from taking on this duty). However, it is often wise for IPO candidates to select members that either have experience with public companies, have deep insight into their business, or have a recognised reputation for their fair and considered judgement. But do not be surprised if your ideal candidate rejects the offer; being a director of a public company carries a certain level of risk and liability that may not appeal to everyone.

Is your management team structured well to meet market expectations?

Management structure: IPO candidates will want to ensure that their executive management is capable to meet market expectations and industry norms. In part, this means making sure that your executives have the right capabilities for their new responsibilities. But it also requires companies to examine the industry norms to ensure that the right functions are properly represented. For example, several oil companies see sustainability as a 'C-level' role, meaning the market will likely expect IPO candidates in this sector to appoint a Chief Sustainability Officer if they do not already have one.



Risk management

Have you documented all of your risks and their related risk mitigation plans?

Identifying the risks: Every company – private or public – faces risks. However, public companies (who have the responsibility to protect shareholder value) are subject to much more formal risk management processes than private companies. In a large number of markets, public companies are required to evaluate the major risks facing their organisation and develop an appropriate process to mitigate those risks, if possible. Many top listed companies also include a summary of their most significant risks and mitigation plans within the body of their annual reports to build investor confidence and demonstrate capability.

Do you have a process in place for communicating the risks to the board?

Communicating with the board: In a public company, the Board of Directors plays a key role in reviewing, assessing and endorsing risk registers. Therefore, it is critically important that pre-IPO candidates ensure that their documentation is sufficient for the board to be able to make informed decisions about the company's risk appetite.

Pre-IPO assessments will also review the process by which the organisation communicates changes in risk to the board.



Some investors also tend to frown on the use of non-transparent tax havens, which may also trigger an IPO candidate to move the location of their business or holding company.





Closing the gap



It is time to get your company into shape. Get ready for some heavy lifting.

Based on the results of the pre-IPO assessment, many companies should now have a clear picture of what changes will need to take place to bring their company up to the standards expected by their chosen capital market(s). The next step is to turn those requirements into an achievable plan. This will require a strong focus on change management approaches, an appreciation of what can reasonably be achieved within the given time frame and – often – some

external support to reduce disruption and augment capabilities.

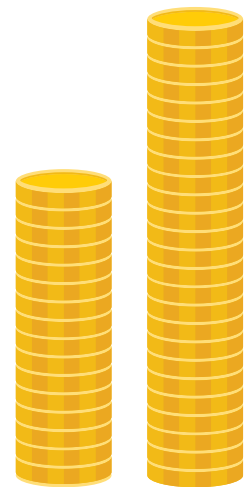
IPO candidates also need to be pragmatic; not all IPO processes are successful. Hence, companies may not want to initiate some of the more irrevocable changes until they are further along the IPO journey and more secure in their prospects. As a result, the pre-IPO period is often best characterised as a period of rigorous assessment and careful planning



Develop your plan

As we have seen in the previous chapters, there are a number of interdependent steps that must often be conducted in tandem in order to become IPO-ready. Executives planning their pre-IPO strategy will need to carefully coordinate these steps to ensure that later changes do

not jeopardise work that has come before. For example, an adjustment in the way the company positions itself may have far-reaching implications for the methods of collecting and reporting financial results which – in turn – may require different controls. Each of these interdependencies



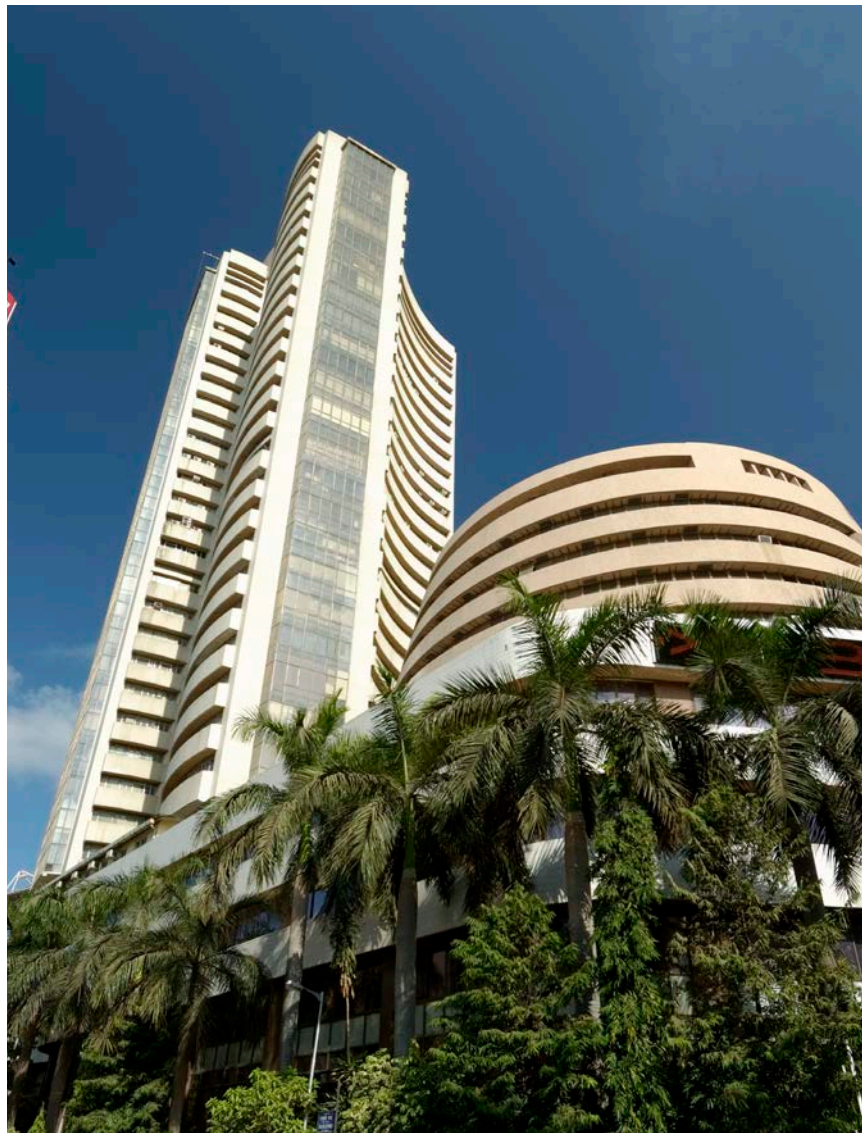
must be carefully thought out to avoid expensive and time-consuming changes later.

There are significant risks to poor or hasty planning. For one, many planners have unreasonable expectations about what their existing staff can reasonably achieve while still maintaining their day-to-day operations. Not only does this lead to high levels of attrition (at a time when the company needs all hands on deck), but may also take focus away from the core business which – in the run up to an IPO – requires even more attention than ever. In other cases, rushed changes have led to mistakes in the system, forcing newly listed companies to restate their results and thus destroy investor confidence.

IPO candidates will therefore need to work with their advisors to identify those issues that are the highest priority for the organisation and that can feasibly be completed before the IPO.

Nothing less than transformation

One of the biggest mistakes made by IPO candidates comes from viewing the IPO process as a purely financial transaction. Nothing could be further from the truth. In fact, the IPO process will fundamentally transform the business and bring wide scale change to the organisation's people, processes and technology.



Getting some help

The pre-IPO phase is often a complex stage for any company to undertake on its own, but identifying and retaining the right advisors can also be a challenge for those who are new to the process. To start with, IPO candidates should talk to their peers and existing advisors to identify an IPO advisory team that fits their needs and culture. In our experience, it is also important to select advisors with a global network, a multi-disciplinary team and a strong reputation for successfully advising IPO candidates.

And of course, companies considering taking the journey to an IPO can contact KPMG in India or any of KPMG's member firms across 155 countries. With deep experience in the IPO process, from pre-IPO readiness tests through to post-IPO strategies, KPMG professionals offer valuable and insightful advice that cuts through the complexities of the IPO process.

Ten steps to a hazard free pre-IPO journey

01

Set your destination

Know whether an IPO is the right choice for your company at this time

02

Formulate your 'equity story'

A strong equity story highlights the past success and future growth potential of an IPO candidate and helps achieve a higher valuation

03

Identify and select an IPO advisor

Make sure they have extensive experience and a holistic perspective

04

Choose the right exchange

Make sure you are listing on the most appropriate market for your company and strategy

05

Conduct a pre-IPO readiness test

Find out what systems and processes must change before you can start the formal IPO process

06

Develop a plan and timeline

Set a reasonable pace and consider bringing in experienced external support to augment your team and ensure business continuity

07

Close the gap

Create and execute a plan that brings systems and processes in line with market requirements and norms

08

Select your professional advisors

From lawyers to underwriters, these suppliers must be highly experienced with capital markets

09

Create an Investor Relations function

This will be your conduit to the investors and analysts

10

Prepare your financials

You will need to go back three to five years to achieve the requirements for most markets





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