KPMG

Accessing the capital markets

What options are available?

Whether your company is looking to raise capital to support its plans for organic growth, to pursue future acquisitions or to enhance wealth and liquidity for its current owners, it is important to clearly define your company's capital raise strategy and to carefully evaluate the options that are available to you. Factors such as your company's objectives, market conditions, and investor demands will impact the strategy and how you go about maximizing shareholder value.

Capital can be raised in public or private markets in a number of ways, such as:

Equity markets – common and preferred stock issuances

Debt markets – senior, mezzanine, and junior debt issuances

What options are available for going public in Canada?

In Canada, companies can go public by listing on the senior equity market, the Toronto Stock Exchange (TSX). Alternatively, companies can list on the TSX Venture Exchange (TSXV), which provides emerging companies with access to public equity capital, however, the minimum listing requirements are tailored to a company's industrial sector, stage of development, financial performance, and operational resources. Also, the prospectus requirements for the TSXV are less than those for the TSX.

There are four ways to take your company public in Canada:

Initial Public Offering (IPO):

This is the traditional method and involves filing a prospectus with the securities commission followed by an application for a public listing.

Reverse Takeover (RTO):

This involves a 'reverse-merger' of a company that is already listed. This business combination process is commonly referred to as a SPAC/de-SPAC transaction. The company resulting from the RTO must meet the original listing requirements of the exchange.

Capital Pool Company (CPC) Program:

This program is operated by the TSXV. It serves as a corporate finance vehicle that provides companies with an opportunity to obtain financing earlier in their development compared with what might be possible through a normal IPO.

Specifically, the program permits a newly created CPC that has no assets other than cash and has not commenced commercial operations to conduct an IPO and list on the TSXV (i.e. Phase 1). Within a perion of 24 months, the CPC utilizes the funds that it raised in Phase 1 to identify, evaluate, and announce assets and companies for acquisition (i.e. the Qualifying Transaction, Phase 2). Thereafter, the CPC lists on the TSXV as a tier 1 or tier 2 company.

Direct listing:

A company that is already listed on another exchange may list directly on TSX or TSXV if it is able to meet the listing requirements of these exchanges. The company may be eligible for certain exemptions from regulatory and reporting requirements if it is listed on an exchange recognized by TSX and with similar listing requirements.

Going public in the United States

As in Canada, the US securities marketplace comprises exchanges and over-the-counter (OTC) markets. The largest stock exchanges are the New York Stock Exchange (NYSE) and the NASDAQ.

The process for going public is generally similar to the process in Canada, however, there are additional costs associated with public company regulatory and compliance requirements and more extensive and complex accounting, auditing, and reporting standards for listed companies in the US.

However, the *JOBS Act* provides companies with a transition period or “on-ramp” to the public market. The IPO on-ramp provisions reduce the number of disclosure, corporate governance and other regulatory requirements for issuers that are an “emerging growth company” (EGC). The on-ramp provisions also offer an EGC with a number of incentives during and after the process of going public. These include confidential submission and review of the registration statement, reduced financial statement audit and disclosure requirements, and exemption from attestation of the operating effectiveness of internal controls by a public accounting firm.

A company that is listed on a US exchange but is incorporated outside of the US (and subject to additional criteria being met),
is considered to be a “foreign private issuer”. A company that is a foreign private issuer is allowed a number of key benefits that are not available to domestic US issuers. These benefits include:

US domestic companies must file financial statements prepared in accordance with US GAAP with the SEC. However, the financial statements of a foreign private issuer may be prepared using US GAAP, IFRS or other local GAAP. Note that although no reconciliation to US GAAP is required for financial statements prepared in accordance with IFRS, a reconciliation is required if they are prepared in accordance with other local GAAP.

A registration statement is allowed to contain financial information that is of an earlier date than that allowed for domestic US issuers i.e. financial information goes ‘stale’ more slowly.

Domestic US issuers that are not EGC must file registration statements publicly. However, certain foreign private issuers that are registering for the first time with the SEC may submit draft registration statements on a confidential basis to SEC staff.

Quarterly reporting is not required. Also, foreign private issuers are not required to use Form 8-K for Current Reports.

Private Placements

Instead of going public, a company might consider seeking capital from a number of private financing sources, such as angel investors, private equity and venture capitalists, government agencies, financial institutions, and banks.

KPMG can help guide you to access the capital markets

KPMG in Canada's Capital Markets Advisory team provides a full range of services* to assist with your public offering or alternative strategies. We provide assistance in all aspects of capital markets readiness including financial reporting, human resources, IT readiness, internal controls, governance, and tax.

We perform a comprehensive IPO readiness assessment to identify your needs and any gaps and provide actionable recommendations to support the IPO process efficiently and cost-effectively.

KPMG can help you address the cross-functional implications of structural changes that may arise through the registration process and new requirements for internal controls, human resources, corporate governance, tax, and financial reporting.

We will guide you throughout the offering process to implement the necessary requirements to build a sustainable approach to meet the needs of a public company.

Our specialized team is well-positioned to serve companies globally and brings a wealth of experience preparing businesses like yours to go public. KPMG member firms can serve companies across borders and work comprehensively to help them prepare for Canadian public offerings and can also assist Canadian firms interested in listing on international exchanges.

To learn more about how we can help you to access the capital markets, contact one of our KPMG in Canada IPO Advisory professionals.

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