SPAC insights: Public company readiness

A SPAC merger is potentially an attractive way to take your company public. It's faster and may be less costly than an IPO. But you still have to be ready to operate as a public company—making SEC filings, reporting to shareholders, etc.—from Day One. The risks of falling short are heightened in a SPAC transaction because SPACs expire after just 18-24 months, and the time to make a deal and launch the merged business will fly by. For companies selling to SPACs, this could make public company readiness even more complicated.

Public company reporting challenges

As a newly public company, it must consider and mitigate four significant risks:

1

Restatement of financial statements:

Accounting changes and errors in previously issued financial statements can be a big red flag for investors and can affect your share price, at least in the short term. It's much better to show from the start that you have the policies and procedures in place to get complex accounting transactions and financial statements right—all the time.

2

Inability to comply with Sarbanes-Oxley:

Soon after the close of a SPAC merger, the newly public entity will need to meet the Sarbanes-Oxley Act (SOX) requirements—the CEO and the CFO will need to certify that there are no material misstatements in the financial statements. If you don't get this right, not only will your company face negative publicity, but the executives could be hit with fines or even imprisonment. To avoid this, make sure the proper internal controls are in place from the get-go.

3

Weak budgeting and forecasting processes:

Investors expect you to make credible forward-looking statements in your management discussion and analysis (MD&A). This requires rigorous and accurate budget and forecasting processes. If the MD&A turns out to be off the mark, investor confidence could suffer, resulting in share price volatility.

4

Delayed SEC filings:

This is another way to undermine investor confidence. To avoid delinquent filings, make sure to upgrade your business processes and technology (see below) and address gaps in the skills of reporting personnel.

Use the entire transaction timeline

To be successful as a public company, don't wait until after the SPAC transaction to put in place people, processes and technology you will need. Don't just focus on the day-to-day demands of the transaction, but use the entire transaction timeline to your benefit. Evaluate existing capabilities, identify gaps and line up personnel who will handle, in particular:

SEC filings: Covers continuous financial reporting on Forms 10-K (annual), 10-Q (quarterly) and 8-K (ongoing);

Internal audit: Covers internal controls over financial reporting processes;

Tax: Covers tax reporting; preparation of the tax provision for financial reporting and tax compliance requirements is more complex than for a private company, plus an audit trail for every tax transaction is a must;

Financial planning & analysis: Covers corporate finance responsibilities, such as budgeting, financial modeling, and financial performance analysis; and

Investor relations: Covers continuous communications with the investor community, including with analysts.

Make sure technology is ready

From Day One, you will need the systems to support timely SEC filings, internal management reporting (which is the basis of MD&A and earnings calls), operational metrics (e.g. KPIs) and data analytics. More automation allows the finance function to be a better business partner because it can provide useful real-time reporting for other departments.

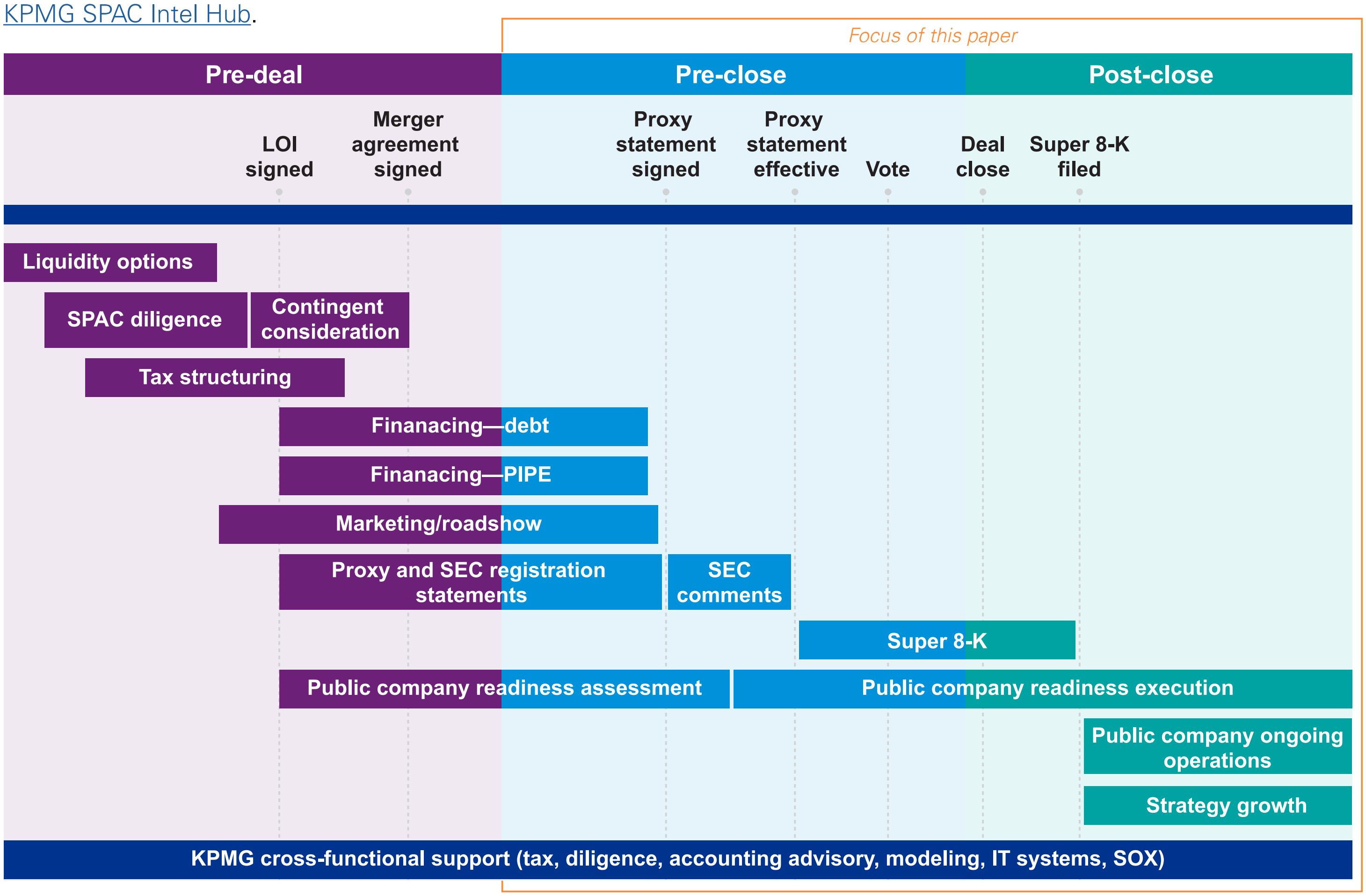
During the transaction, sellers may be reluctant to prioritize IT system since the new capacity may not be needed for many months. But it is important to remember that IT projects almost always take longer and cost more than expected. The sooner you think seriously about a future-ready design, the less you'll have to worry about later when juggling new and proliferating challenges of running a public company.

Bottom line

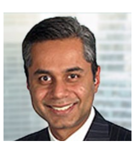
To ensure your company is ready to operate as a public company, think beyond completing the SPAC merger. Start hiring the right people, setting up first-rate processes and investing in relevant technology platforms during the transaction phase. Many sellers find that it helps to have an advisor to help think through both strategic and operational issues down the road, as well as to help put in place the structure to address them. The advisor should ideally provide a one-stop shop and serve as an experienced guiding partner who will be the go-to person at every step. Bottom line—they should help put everything in order before you begin life as a public company so that you get off on the right footing and preempt the four greatest risks.

SPAC transaction lifecycle

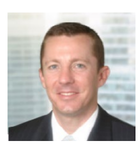
A SPAC has a typical lifespan of 18-24 months, but completing a merger with a SPAC can take as little as six months after the signing of an initial agreement. This paper focuses on the pre-close and post-close phases of public company readiness. But across the lifecycle of a SPAC transaction, many other issues will arise. For more on these, visit the KPMG SPAC Intel Hub.



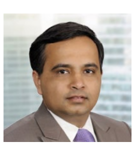
Contact us



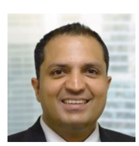
Aamir M. Husain
Partner, Advisory/Capital Markets Readiness
212-954-2060
ahusain@kpmg.com



John R. Lambert
Partner, Advisory/Capital Markets Readiness
214-316-6965
jlambert@kpmg.com



Prashanth Brindavan
Principal, Advisory/Finance Transformation
949-885-5437
pbrindavan@kpmg.com



Sarmed Malik
Partner, Advisory/Accounting Advisory Services
212-872-6746
sarmedmalik@kpmg.com

kpmg.com/socialmedia

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.