KPMG

SPAC IPO Readiness

Audit Insights

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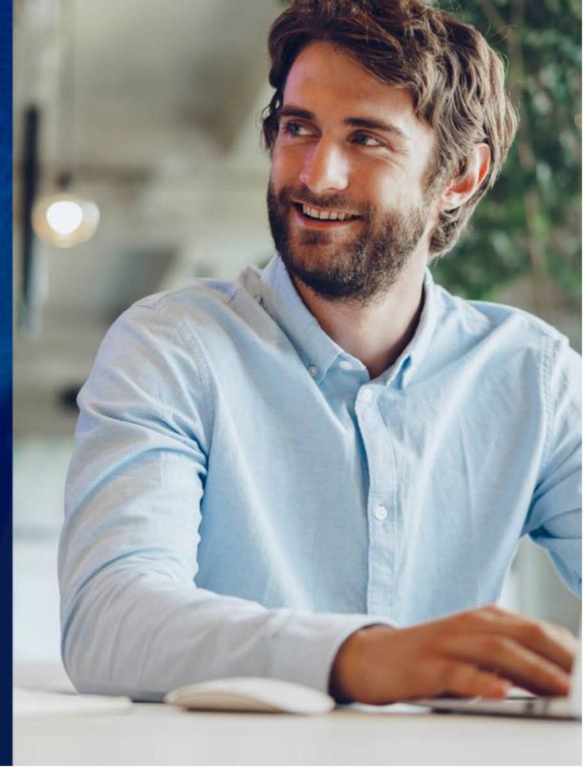

I'm going public… Now what?! SPAC IPO Readiness for Controllers and CFOs

Going public via a special purpose acquisition company (SPAC) is an increasingly attractive option for private companies for its potential expediency compared to the traditional initial public offering (IPO) process. By the end of 2020, SPACs proceedings had surged over 400% year-over-year, and that growth has increased exponentially in the first quarter of 2021. Yet for finance leaders at target companies, the process can be hugely stressful. They face pressure from their SPAC, financial advisors, and boards to bring the company into compliance with public accounting standards and reporting deadlines very quickly: the condensed window for SPACs means that you are being asked to do in three months what typically would take six months or more. For controllers and CFOs of companies across all industries who have to navigate this process, here are three things to think about:

1. Are You Ready?

SPACs have a limited, two-year window to complete the transaction, during which they often engage multiple companies in an effort to secure return for their investors. Therefore, managing items that impact timelines is critical for target company controllers.

For some, this may mean bringing on new auditors who are capable of conducting public company audits; for others, this means their current auditor needs to upgrade the audit in accordance with public company auditing standards. Most of the time, companies will not have the process or personnel in place to operate as a public company and will need to identify talents and implement relevant processes immediately—both of which take time. It is therefore crucial to come up with a public company readiness assessment plan that serves as the basis of a timeline and framework for necessary remediation measures.

2. Do You Need a New Auditor?

Private companies planning to go public via SPACs likely need a new auditor to complete the required Public Company Accounting Oversight Board (PCAOB) audit process for a number of reasons. In particular, the SPAC or financial advisor will scrutinize the public company audit, demanding target companies to seek out reputable auditors.

The PCAOB audit is necessary because the SEC requires investors in operating businesses that have newly merged with shell companies to obtain the same level of information as reporting companies that did not originate as shell companies. Therefore, the target company's annual financial statements, which will be included in the proxy statement and Super 8-K, must meet PCAOB standards.

Adding to the complexity, auditors with expertise in working with companies hoping to go public via SPACs are scarce and often have limited capacity to take on new clients due to the growing popularity of SPACs. Controllers should plan and liaise ahead of time to ensure that audits can be done on time.

3. Was Your Previous Audit Up to Public Standards?

Most companies getting ready for a SPAC IPO process would not have undergone the type of audit required for companies going public. Target companies who are able to avoid switching auditors will often need to revise, or "retrofit," their historical financial statements to be included in the proxy statement to conform with public company reporting requirements.

The retrofitting process involves much more in-depth auditing than what is normally required for a private company. It must take into account U.S. GAAP requirements specific to public business entities as well as incremental SEC Rules and Regulations—requirements that privately-held companies would not be familiar with. With few exceptions, the retrofitted financial statements must reflect up-to-date public company accounting standards and all accounting policies must be scrubbed to eliminate practical expedients that are only available to private companies.

There are, of course, many other financial and organizational implications that will accompany a SPAC transaction, including post-merger board structure, valuation and market risk, and passing the SEC review. One important consideration is how to coordinate with other entities in the SPAC ecosystem, including the SPAC, target company management, regulators, and external financial and legal counsel. An experienced project manager, either from an independent agency or within the target company, would be critical to mitigating these parties during the pre-deal period between the preparation of the preliminary proxy statement and the deal closure date.

For more information, visit the KPMG SPAC Intel Hub.

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