



TRANSACTION SERVICES

# Global Conversion Services

ADVISORY

Initial Public Offerings (IPOs), secondary offerings, divestitures, and carve-outs are complex transactions that can significantly impact a company's strategic direction. Adapting new accounting policies, developing sufficient internal controls, and complying with additional SEC reporting requirements can pose unique technical and resource challenges that will ultimately affect the success of your transaction.



## **IPOs and Secondary Offerings**

For IPOs and secondary securities offerings, companies face several challenges including:

- Quickly assembling information for SEC and other securities regulators
- Complying with SEC filing requirements for either foreign or domestic issuers
- Converting historical financial statements into U.S. GAAP and SEC reporting standards
- Developing, enhancing, and maintaining a financial reporting environment that complies with ongoing filing requirements, including enhanced reporting and internal control environment requirements under the Sarbanes-Oxley Act

## **Divestitures, including Carve-Outs**

Establishing divestiture and carve-out financial information also has unique challenges that must be considered, including:

- Preparing the historical financial statements for the carve-out entities and any pro forma adjustments
- Allocating overhead and corporate costs that were incurred by the parent and were necessary to generate historical revenue of the carve-out entity
- Converting entity-specific historical financial information into U.S. GAAP or International Financial Reporting Standards (IFRS)
- Designing and implementing new accounting policies, financial reporting procedures, and internal controls to help the new entity comply with changing rules, regulations, and laws
- Designing and implementing new period-end close procedures to meet ever-tighter reporting deadlines

Addressing these challenges requires four necessary competencies: 1) a thorough understanding of applicable accounting and regulatory requirements, 2) experience with how to approach this type of project, 3) a thorough understanding of processes and controls in the finance function, and 4) comprehensive project management skills.

Most internal financial reporting groups can provide one or two of these competencies, but managing them through the requirements of securities offerings can stretch the limits of their resources. Training staff to recognize and respond to the nuances of ongoing accounting and regulatory requirements can take a significant amount of time and effort. Many organizations have difficulty addressing the complexities associated with such a project.

#### How KPMG Can Help

KPMG's Global Conversion Services (GCS) team offers a dedicated group of professionals that is skilled in helping you meet the challenge. GCS comprises a global team, drawn from KPMG's international network of member firms, which includes more than 1,000 skilled professionals who can help you with reporting challenges.

The GCS team has a diverse network of subject matter professionals to assist you in building a financial reporting process that supports a new reporting environment, with core competencies surrounding:

- Accounting and financial reporting
  - U.S. GAAP technical knowledge
  - IFRS technical knowledge
  - SEC reporting and filing requirements
- Financial reporting processes and controls - financial integration
- Project management

In particular for U.S. securities offerings, the GCS team can help to:

- Convert entity-specific historical financial statements into U.S. GAAP
- Design and implement conforming accounting and reporting policies
- Prepare supporting information for SEC or other regulatory filings

The GCS team is part of KPMG's Transaction Services practice, which provides merger, acquisition, and divestiture support by placing a strong emphasis on stakeholder value and identifying key risks and benefits early.



As a client you benefit from:

#### Experience

KPMG has wide-ranging experience in advising enterprises on the challenges facing them during and after an IPO, securities offering, divestiture, or carve-out. We offer a proven approach, and practice-tested tools applied consistently by KPMG professionals around the world.

GCS's clients include some of the world's most sophisticated corporations from a variety of industries. We have broad experience that cover a wide range of sectors, including Financial Services, Information, Communication, Entertainment, Consumer Markets, Industrial Markets, and Pharmaceuticals & Healthcare, Energy & Natural Resources, Retail, and Automotive.

#### Tailored Approach

KPMG works closely with your resources and tailors its advisory services to your individual demands and requirements. A joint project with KPMG's GCS team can vary from:

- Comprehensive support from start to finish, including project management and preparation of all necessary working materials
- Higher level support in which the GCS team provides workshops on the basic and detailed knowledge necessary for security offerings, while the client's staff is responsible for practical implementation

Our approach is scalable, which means we can customize it to your individual requirements based on methods and procedures that have been tested and re-tested. Faster and better results support management decisions during the project and post financial integration.

#### Global Delivery

The GCS approach is applied uniformly in all KPMG locations around the world to help ensure a consistently high-quality standard to address your accounting and regulatory requirements. More than 1000 professionals around the globe have been trained in KPMG's conversion methodology, ensuring a global exchange of better practices. This gives us the ability to support the new reporting environment that may be created by an IPO, secondary offering, divestiture, or carve out project with local professionals wherever needed.

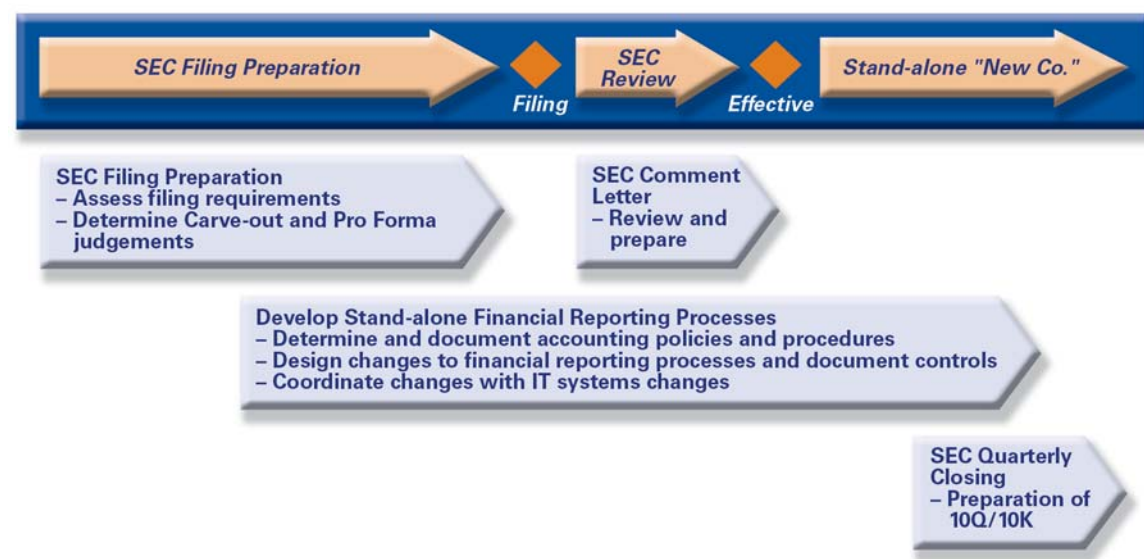


### No Need to Reinvent the Wheel

KPMG provides you with critical support helping you avoid time-consuming preparatory work. From initial analysis to final implementation strategy steps, we move quickly, exploiting the experience we have gained from many similar projects.

The following activities represent the action steps we take.

### Global Conversion Services – Methodology and Tools



Source: KPMG LLP (U.S.), 2005

#### Phase I – SEC Filing Preparation

During the SEC filing preparation phase, we will assess your filing requirements for either an IPO, secondary offering, divestiture, or carve-out financial statements. This preliminary assessment highlights regulatory and financial filing requirements for finance functions which need to be addressed early in the planning process and would also include the determination of required carve-out and pro forma requirements. At this point we would then assist in creating historical, pro forma, and selected financial data, as required.

We will analyze and document any new accounting, disclosure, and reporting requirements. We will then move on to determine the information gap between the existing accounting policies, current disclosures, and other financial information needs. This stage is designed to identify all relevant issues. Tasks can then be prioritized and the necessary work can be planned to make best use of the time and resources available.

The use of tools developed by KPMG—such as questionnaires to obtain information from subsidiaries and the gap analysis tool for complete documentation of the differences—supports the process in an effective and efficient manner.

The differences between necessary accounting and regulatory requirements and your current state can be numerous, especially when the entity will report under different accounting standards. Questions of content, display and presentation arise frequently throughout these projects. Numerous amendments, alternative transition rules and required effective dates present additional challenges. The complexity of the accounting and reporting standards requires in-depth knowledge that the GCS team can share. We address these issues quickly helping you to avoid costly missteps.

Quality decisions are a critical factor. We will outline the available options and their impact at an early stage and support management in the decision-making process. Our team of knowledgeable practitioners in U.S. GAAP and IFRS implementation can guide you to the right strategies, such as preparing the opening balance sheet, comparatives, and the external financial statements.

#### Phase II – SEC Review

After obtaining SEC comments, we will review them with you and can assist in preparation of a detailed response to the SEC. Also, we can assist in incorporating necessary changes and/or performance improvements in your new reporting environment brought out through the SEC comments.

#### Phase III – Stand-alone “New Company”

We focus on detailed analyses of accounting issues and their treatment in conformity with your new reporting environment. The differences from historic accounting policies can be numerous, especially when the entity reported under different accounting standards. Our team of knowledgeable practitioners in U.S. GAAP and IFRS can guide you to the right strategies. KPMG helps you build a financial reporting process that supports your new reporting environment for the first monthly and quarterly financial statement closes after your IPO, secondary offering, divestiture, or carve-out is completed.

We also discuss post-closing issues and challenges, suggest workarounds, and help train your personnel for operating in the new reporting environment.

#### Key Issues

- Understanding and addressing SEC filing requirements
- Introduction of new and stricter accounting policies
- Resource constraints in the financial reporting function
- Availability of audited historical financial statements of the entity
- Tighter deadlines for closing to meet SEC filing requirements
- New financial reporting processes
- Allocation of shared services and overhead costs
- Sufficiency of controls documentation

#### Key Project Outputs

- Registration and filing forms
- Historical financial statements based in the new entity’s GAAP
- Opening balance sheet
- Pro forma financial statements
- On-going financial reporting compliant with requirements for a stand-alone SEC reporting entity
- Compliant SEC filings

#### KPMG Support

- Discuss and advise on financial information for SEC filing requirements (registration statements for the new entities)
- Potential requirements for stand-alone financial information:
  - Historical carve-out financial information by business (audited) as required by regulation S-X 3-05:
  - Pro Forma statements (un-audited):
  - Selected financial data for 5 years and most recent interim period
- Key financial reporting issues to consider
  - Set ongoing boundaries among new companies
  - Allocation of financial information:
    - Shared service, overhead and income tax expenses
    - Debt used to support the operations and related interest expense
    - Litigation accruals and other loss contingencies
    - Brands, trade names, IP, software, customer lists, goodwill, other intangibles
- Support implementation of separated financial reporting processes for ongoing compliance with SEC reporting requirements
- Train company personnel for operating in the new reporting environment



### The KPMG Process

Our GCS professionals use a thorough process to help integrate your financial statements. For example, the first financial statements usually will not be generated from the ERP systems, so a reconciliation is carried out with work arounds using KPMG tools. This reduces the effort required and the risk of errors, and enables project leadership to check the status of the reconciliation in real time.

### Staff Training

Your personnel involved in the financial reporting process will receive training on the basics and on special topics wherever necessary. Standard KPMG training modules provide an important basis and keep the cost of preparing training courses to a minimum. In addition, KPMG will support your ongoing training needs.

### Executive Training

Company management and possibly other executive staff must be capable of explaining new financial statements to interested parties, including financial analysts, bankers and other interested third parties. Our customized executive training provides a sound basis to enable them to do this effectively. It may also address other business and/or management issues that may present challenges to management, including dealing with compensation and benefits, corporate governance, financing requirements and impact on existing financing arrangements, and relationships with related and third parties including vendors.

### Project Management

KPMG makes available experienced project managers, who help to ensure an appropriate level of project communication is put in place, issues are identified and resolved, deadlines are met, and any unnecessary tasks are identified and avoided. Project Management for IPO, secondary offering divestiture, and carve-out projects are characterized by:

- *Breakdown into project phases*—the project is divided into three distinct phases: 1) starting with the preparation of the SEC filing, 2) the response to the SEC review comments, and 3) setting up the stand-alone accounting and reporting for the new entity.
- *Structuring the project into manageable work-streams*—the impact of the implementation of the new policies is far-reaching. All areas affected are reflected in terms of their contents and in the project structure by corresponding work streams.

### Is That All?

Our focused approach can enable you to present your U.S. GAAP or IFRS financial statements under the tightest of deadlines on an on-going basis and also meet regulatory filing requirements for business combinations.

- The preparation of financial statements under the new accounting policies will have to be business as usual, within the deadlines, and with the necessary quality.
- You will need to ensure that any changes you have made to the accounting system do not have detrimental effects on other systems.
- IT systems and business processes will have to be tailored to your new requirements.

### Conclusion

KPMG has the expertise and capability to support you through an IPO, secondary offering, divestiture, and preparation of carve-out financial statements. The GCS team delivers a consistent and focused approach to building a financial reporting process that will support your new reporting environment.

While our resources may be extensive, you will benefit from our services regardless of the size of your securities offering.

*We look forward to helping you make your securities offering a success.*

### Contact Information

For more information on KPMG's Global Conversion Services and to see how our team's approach to securities offerings can add value to your organization, please contact:

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