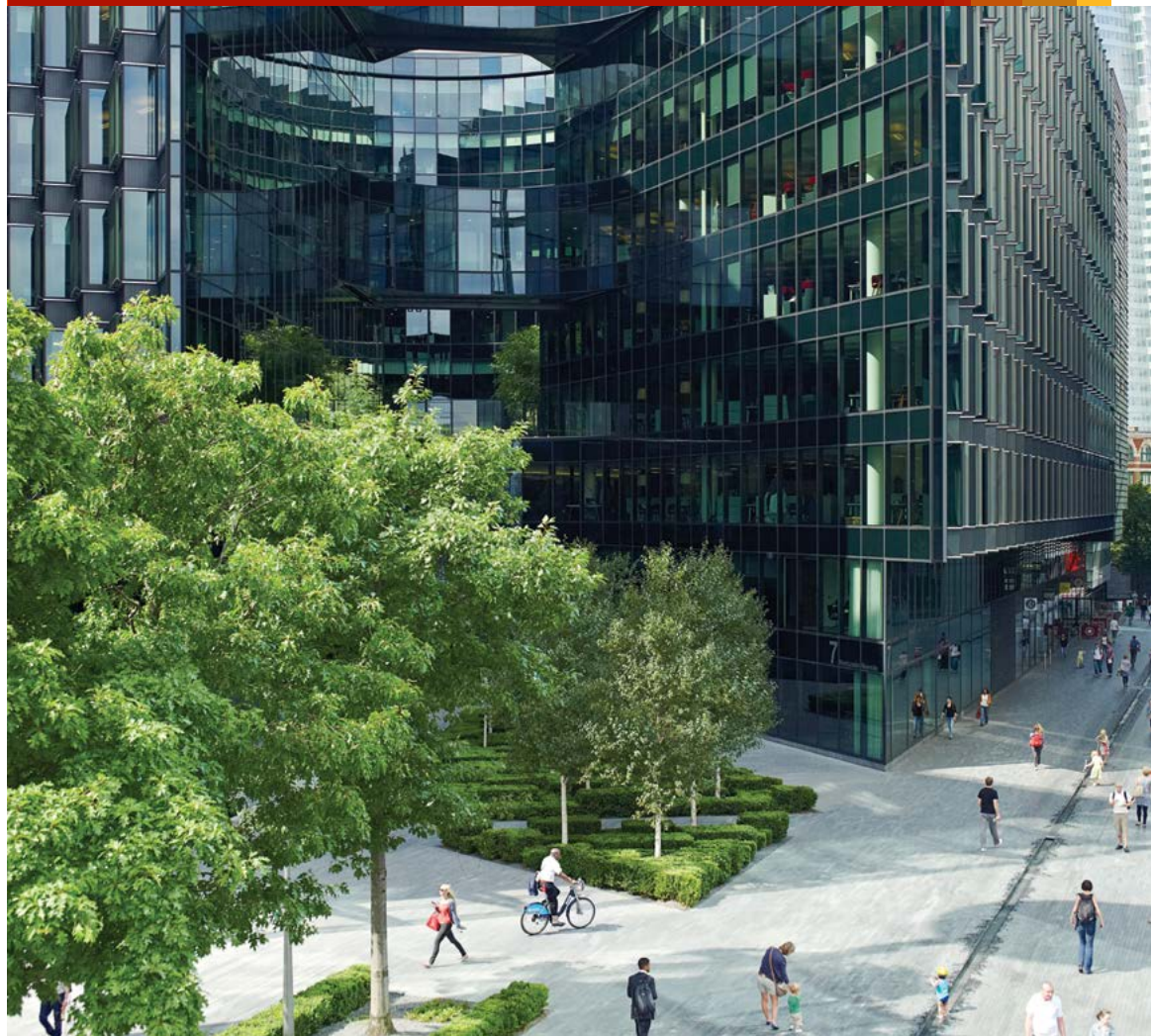


# *Considering an IPO to fuel your company's future?*

Insight into the costs of  
going public and being public

*A publication from  
PwC Deals*

*November 2017*







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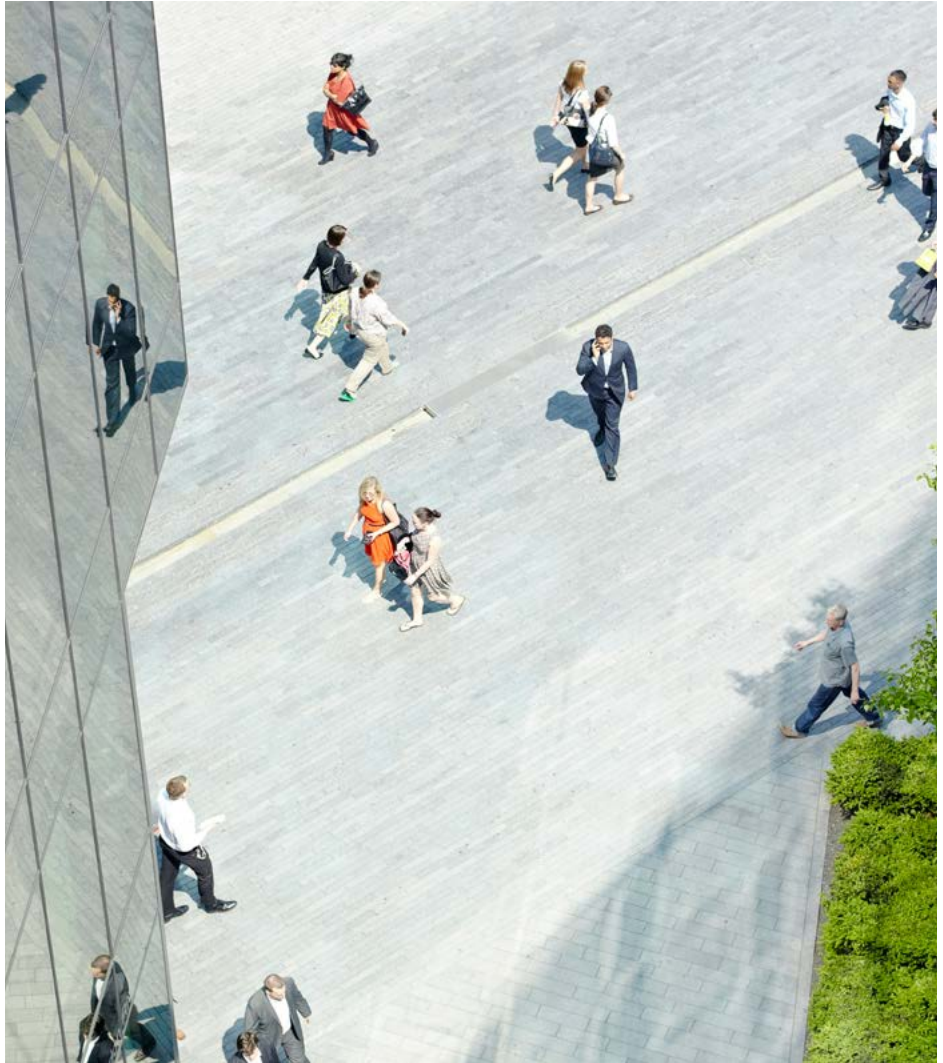


# The process and timeline for an IPO

The landscape for initial public offerings (IPOs) continues to evolve as legislation changes and market volatility and policy issues affect IPO activity. We look at the trends to help our clients be as prepared as possible when stepping into the public arena. In this updated version of PwC's Costs of an IPO publication, we focus on a full range of costs associated with an IPO. While these costs can vary based on complexity of the structure, size of the company, and dollar value of the offering, there are many costs that apply across the board.

Insight into the costs of an IPO can help a company outline an IPO to the board of directors, its employees and other stakeholders. Having a realistic expectation of the costs can help improve the budgeting process, limit surprises, and reflect a well-structured IPO timeline.

This publication can help you understand the typical costs of going and being public for companies within a range of proceeds raised in the IPO, as well as for a range of the last 12 months revenues.



*Insight into the costs of an IPO can help a company outline an IPO to the board of directors, its employees, and other stakeholders.*



<sup>1</sup>This report includes data collected from public filings coupled with the results of our in-market survey of financial executives who completed an initial public offering (IPO) on the NASDAQ or NYSE from January 1, 2015 to June 30, 2017. Last twelve months revenue was calculated using data from the 10-K or 10-Q released in the first quarter following the IPO, and was taken from S&P Capital IQ. The survey was conducted this year by Oxford Economics.

### Going and being public

When considering the costs of an IPO, you'll need to consider the process of "going" public and then the process of "being" public. This publication is separated into two main sections to highlight both of these steps:

- **Going public:** the execution of the IPO process. This includes drafting the IPO prospectus and initial registration with the SEC, preparation and audit of financial statements, and working with underwriters and other advisors to execute the transaction.

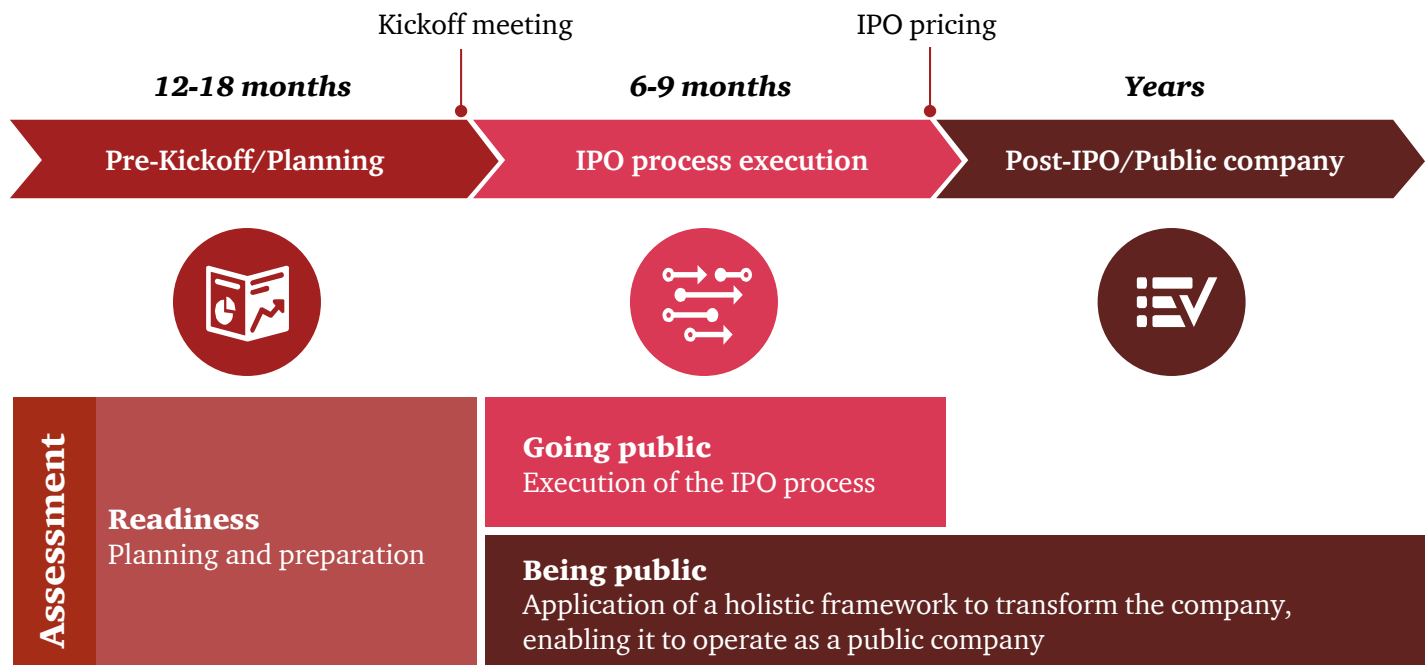
- **Being public:** the application of a holistic framework to transform the company, enabling it to operate as a public company. This includes corporate strategy, governance and leadership, internal controls, accounting and financial reporting, tax, legal, human resources (HR), media and investor relations (IR), and treasury and financial risk management.

We know from experience that companies need time to transform internally in order to become a successful public company. If you

are thinking about being public in one to two years, you are already in this timetable.

The following section highlights the timeline for going and being public. Unlike timelines that focus on the process for going public – typically starting with a kickoff meeting with bankers and lawyers – the PwC timeline is broader and spans across various facets of the business, including the upfront IPO readiness assessment.

Figure 1. Timeline of the IPO process



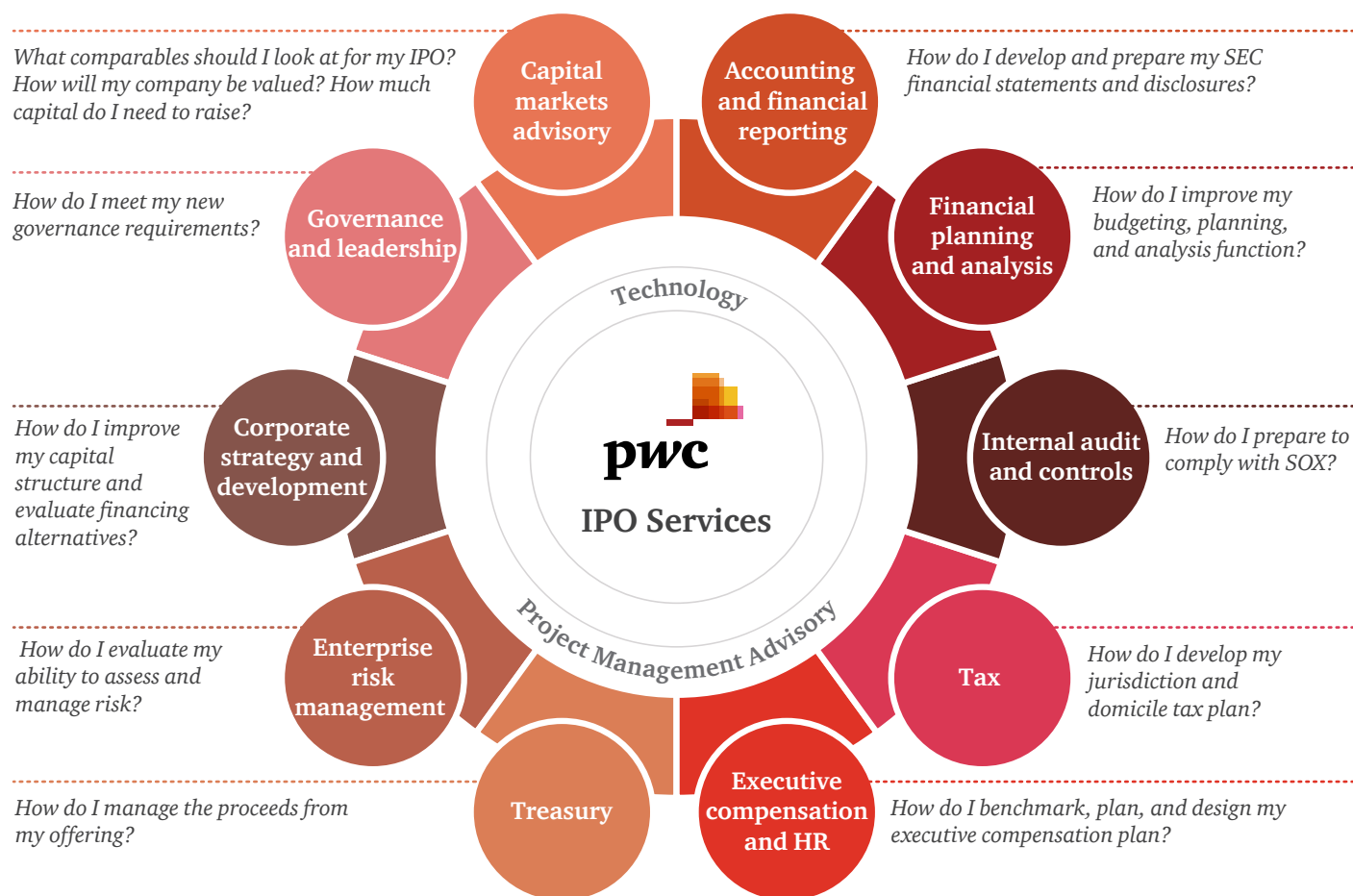
### Start with a readiness assessment

It's easy to underestimate the amount of time and capital required to bring your company up to public standards. Because of the significant effort and time needed to develop the capabilities for being public, it's a good idea to conduct a thorough readiness assessment 12 to 18 months before you begin the IPO process execution phase.

It's important to perform an assessment to determine where your company currently stands across a range of IPO-related functional areas and then properly assess and identify gaps in your company's preparedness. This critical period can afford your team the necessary time to build out your capabilities and execute a smooth transition into the public domain.

A thorough assessment will take an in-depth look at your company and the sector in which you operate and identify your company's position in the market, your equity strategy, potential issues in your going public process, and the potential challenges of operating as a public company. An IPO readiness framework helps identify specific functional areas key to a successful IPO.

**Figure 2. IPO readiness framework**



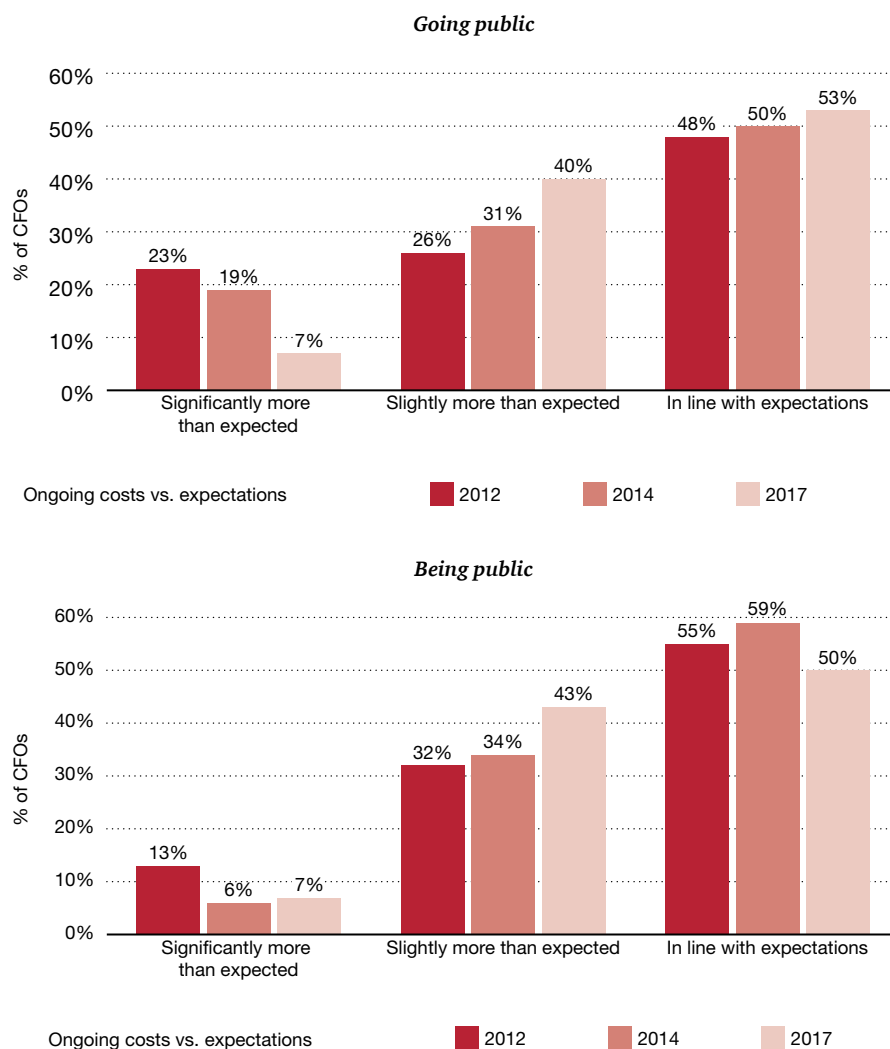
# IPO costs vs. CFO expectations

## IPO costs vs. CFO expectations

Having a realistic expectation of the costs can accelerate the budgeting process and make it more accurate, limit surprises throughout the IPO process, and provide organizations adequate time to develop an infrastructure that will support the rigors and requirements of life as a public company.

The road to becoming a public company can be long and costly. In PwC's recent survey of US firms that have gone public in the last several years, almost 83% of CFOs participating in the survey indicated that their firms spent more than \$1 million on one-time costs associated with the initial public offering. The survey also indicated that CFOs are more likely to have the one-time costs of going public in line with their expectations, but are less likely to correctly estimate the ongoing costs of being public compared to previous PwC surveys.

**Figure 3. CFO expectations of the costs of going public and being a public company**



*83% of the CFOs surveyed estimated spending more than \$1 million on one-time costs associated with the IPO.*

*Excludes underwriting fees.*

# Going public

The process of taking a company public usually takes one to two years, and the going public costs are incurred throughout that period. Many factors play a role in determining the cost of an IPO, but in all cases the costs of going public are significant.

For accounting purposes, going public costs are separated into incremental organizational costs incurred in preparing for the offering, and offering costs directly attributable to the IPO process.

**Incremental organizational costs:** these costs are expensed as incurred, and vary widely based on the complexity of the transaction, among other factors. Incremental organizational costs are non-recurring, and generally include the cost of valuation reports, tax and legal entity restructuring in anticipation of the IPO, additional audit costs, and other pre-IPO organizational tasks.

**Offering costs:** costs that are “directly attributable” to the offering of equity securities may be deferred and charged against the gross proceeds of the offering as a reduction of paid in capital. These include the underwriter discount, legal fees, accounting (external auditor, financial reporting advisor), printing, registration, exchange listing fees, Blue Sky filing fees, FINRA fees and other miscellaneous costs, such as roadshow travel costs.

**Figure 4. Summary of going public costs**

Average costs by revenue range					
Cost Category	Less than \$100m	\$100m to \$250m	\$250m to \$500m	\$500m to \$1bn	Greater than \$1bn
Accounting	0.8	1.2	1.3	1.8	1.9
Legal	1.5	1.9	2.0	3.0	3.0
Printing	0.3	0.4	0.5	0.6	0.6
Other*	0.5	0.8	0.9	1.2	1.6
Underwriting	6.9	10.4	17.4	20.2	27.5
<b>Total Avg IPO cost</b>	<b>10.1</b>	<b>14.6</b>	<b>22.1</b>	<b>26.5</b>	<b>34.3</b>

Average costs by proceeds raised					
Cost Category	\$25m to \$100m	\$100m to \$250m	\$250m to \$500m	\$500m to \$1bn	Greater than \$1bn
Accounting	0.8	1.1	1.7	1.4	2.4
Legal	1.4	2.0	2.6	3.1	3.0
Printing	0.3	0.4	0.6	0.6	0.7
Other*	0.5	0.7	1.7	1.0	2.7
Underwriting	4.3	10.3	20.5	35.6	61.4
<b>Total Avg IPO cost</b>	<b>7.3</b>	<b>14.4</b>	<b>27.0</b>	<b>41.4</b>	<b>70.3</b>

\*Other costs include costs like SEC registration, market listing fees and other miscellaneous costs

Costs were taken from SEC filings for US IPOs on major exchanges from January 2015 – September 2017. We have excluded IPOs that were best efforts, under \$25 million, special purpose acquisition companies (SPACs), dual listings or domestic market uplistings. We have also excluded Health Services IPOs due to sample size. Total IPOs reviewed: 315

Analyzing historical experience around incremental organizational costs is difficult because it is not required for companies to report these costs. However, companies must estimate and disclose offering costs that are directly attributable to the IPO in registration statements. In the above tables, these offering

costs are segmented first in terms of ranges of ranges of revenue and then in terms of proceeds raised for 315 companies that went public between January 2015 and September 2017. As expected, there is a positive correlation between offering size, company size and the level of each of these costs.



Figure 5. Summary of going public costs by industry

Average costs by revenue range					
Avg IPO cost by industry (\$mm)	Less than \$100m	\$100m to \$250m	\$250m to \$500m	\$500m to \$1bn	Greater than \$1bn
Consumer Markets	2.5	4.2	4.2	4.9	6.5
Energy, Utilities & Mining	5.0	4.6	4.5	8.4	3.2
Financial Services	3.2	3.9	3.9	8.1	10.3
Industrial Products	2.4	3.7	5.0	8.3	7.5
Pharma & Life Sciences	3.0	4.3	3.5	-	9.4
Technology, Media & Telecom	3.5	4.3	5.1	4.9	6.0
<b>Total Avg IPO cost (excludes underwriting fees)</b>	<b>3.2</b>	<b>4.2</b>	<b>4.7</b>	<b>6.3</b>	<b>6.9</b>

Average costs by proceeds raised					
Avg IPO cost by industry (\$mm)	\$25m to \$100m	\$100m to \$250m	\$250m to \$500m	\$500m to \$1bn	Greater than \$1bn
Consumer Markets	3.1	4.4	6.7	6.1	6.4
Energy, Utilities & Mining	3.4	3.6	6.4	5.5	4.4
Financial Services	2.5	4.4	5.2	-	13.4
Industrial Products	2.8	5.6	9.2	6.8	-
Pharma & Life Sciences	3.0	3.2	3.0	9.4	-
Technology, Media & Telecom	3.5	4.4	5.5	4.8	8.9
<b>Total Avg IPO cost (excludes underwriting fees)</b>	<b>3.0</b>	<b>4.1</b>	<b>6.5</b>	<b>6.1</b>	<b>8.8</b>

Total IPOs reviewed: 315

## Cost of IPO by industry

In general, IPO costs excluding the underwriting fee not to be as varied across industries as investors might think. However, financial services, industrial products and energy, utilities and mining companies have higher average IPO costs as measured by revenues. These companies tend to be larger, complex organizations, with many locations, that face additional regulatory challenges. All of this complexity tends to require more time to complete an IPO. In addition, energy, utilities and mining companies have higher legal and other fees due to the time and expense of performing due diligence at a large number of sites.

Pharma and life sciences companies are on the lower end of IPO costs as measured by revenue. These companies tend to be relatively smaller organizations with fewer employees and are typically pre-revenue, which results in less complexity around the IPO. Despite the lower average total IPO cost, pharma and life sciences' legal fees as a percentage of total costs of the IPO are the highest, primarily due to regulatory compliance and intellectual property issues.

Though there are several categories of costs that are higher or lower for specific industries, the industry your company operates in will generally not have a large impact on the total cost of your IPO.

*Financial services, industrial products and energy, utilities and mining companies have higher average IPO costs as measured by revenues.*



Figure 6. Accounting costs

Average costs by revenue range	Min (\$'000)	Max (\$'000)	Avg (\$'000)
Less than \$100m	20	2,800	796
\$100m to \$250m	70	4,000	1,208
\$250m to \$500m	185	6,882	1,332
\$500m to \$1bn	230	6,250	1,797
Greater than \$1bn	304	4,300	1,904
<b>Cost Avg</b>	<b>20</b>	<b>6,882</b>	<b>1,118</b>

Average costs by deal value range	Min (\$'000)	Max (\$'000)	Avg (\$'000)
\$25m to \$100m	20	2,800	814
\$100m to \$250m	50	3,519	1,118
\$250m to \$500m	230	6,250	1,743
\$500m to \$1bn	400	3,500	1,381
Greater than \$1bn	400	6,882	2,382
<b>Cost Avg</b>	<b>20</b>	<b>6,882</b>	<b>1,118</b>

Source: SEC Filings. Accounting costs data for 138 IPOs (2015), 82 IPOs (2016), 90 IPOs (2017 YTD)

## Accounting costs

Accounting costs increase significantly for larger companies that may face additional complexities in preparing for an IPO. They cover a wide variety of expenses and fall into two main categories: external auditor fees and financial reporting advisor fees.

### External auditor

This includes fees incurred by the independent registered public accounting firm that are directly related to the offering, such as:

- Issuance of the comfort letter
- Review of the registration statement
- Other advice related directly to the offering

### Financial reporting advisor

This includes fees incurred by financial reporting advisors that are directly related to the offering, such as:

- Preparation of pro-forma financial statements
- Advice on the financial statements
- Assistance in addressing comments from the SEC

Accounting costs increase significantly for larger companies that may face additional complexities in preparing for an IPO.



Costs not considered directly related to the offering include the costs of year-end audits, including stub-period and re-audits, as well as quarterly reviews.

Costs to convert private company financial statements to comply with Regulation S-X and valuation reports for financial reporting purpose are generally not considered directly related to the offering.

## Legal costs

Legal costs are typically the next largest expense after underwriting costs. They include fees from the securities counsel to draft the

registration statement and provide other advice directly related to the offering. Legal costs may also include the fee for the underwriters counsel to

undertake legal due diligence during the offering process and review the registration statement and prospectus.

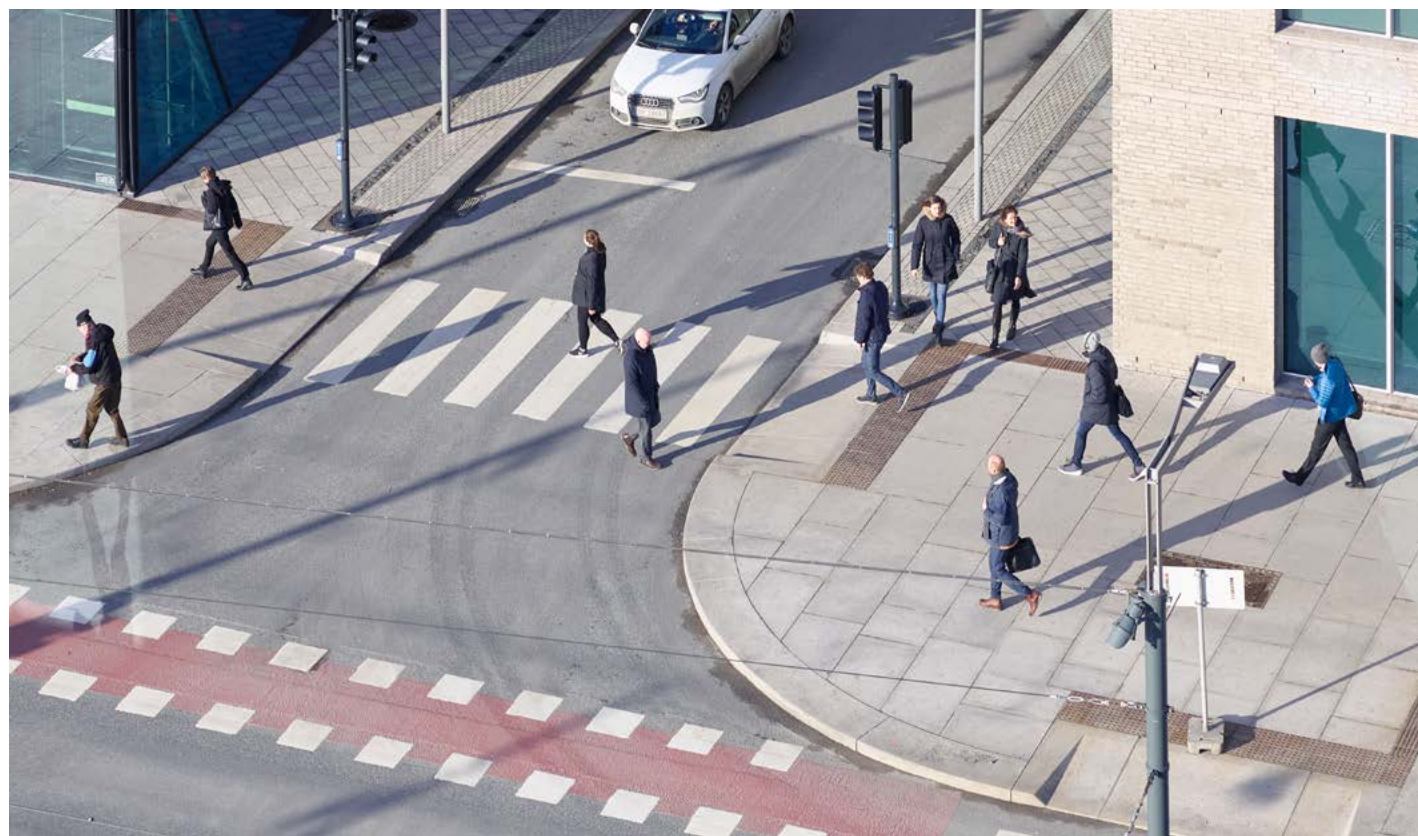
**Figure 7. Legal costs**

Average costs by revenue range	Min (\$'000)	Max (\$'000)	Avg (\$'000)
Less than \$100m	175	5,000	1,543
\$100m to \$250m	140	3,619	1,857
\$250m to \$500m	1,000	4,000	1,991
\$500m to \$1bn	1,200	9,000	3,039
Greater than \$1bn	412	5,640	2,976
<b>Cost Avg</b>	<b>140</b>	<b>9,000</b>	<b>1,911</b>

Average costs by deal value range	Min (\$'000)	Max (\$'000)	Avg (\$'000)
\$25m to \$100m	175	3,541	1,444
\$100m to \$250m	140	9,000	1,953
\$250m to \$500m	412	5,640	2,644
\$500m to \$1bn	1,800	5,000	3,097
Greater than \$1bn	1,800	5,000	3,032
<b>Cost Avg</b>	<b>140</b>	<b>9,000</b>	<b>1,911</b>

Source: SEC Filings. Accounting costs data for 138 IPOs (2015), 81 IPOs (2016), 90 IPOs (2017 YTD)





### Printing costs

Printing costs are a smaller line item, but should be factored into the going public budget. These costs include document management, SEC filing, and distribution expenses.

They are relatively costly as these tasks are associated with ensuring confidentiality of the transaction details throughout the printing process.

**Figure 8. Printing costs**

Average costs by revenue range	Min (\$'000)	Max (\$'000)	Avg (\$'000)
Less than \$100m	10	2,000	324
\$100m to \$250m	83	1,000	436
\$250m to \$500m	150	1,600	486
\$500m to \$1bn	100	1,895	567
Greater than \$1bn	200	1,600	627
<b>Cost Avg</b>	<b>10</b>	<b>2,000</b>	<b>413</b>

Average costs by deal value range	Min (\$'000)	Max (\$'000)	Avg (\$'000)
\$25m to \$100m	10	1,127	325
\$100m to \$250m	100	1,600	400
\$250m to \$500m	150	1,895	579
\$500m to \$1bn	300	2,000	639
Greater than \$1bn	350	1,490	709
<b>Cost Avg</b>	<b>10</b>	<b>2,000</b>	<b>413</b>

Source: SEC Filings. Accounting costs data for 138 IPOs (2015), 84 IPOs (2016), 92 IPOs (2017 YTD)





## Other costs

Underwriting fees account for over half the cost of going public. After that, legal and accounting fees have

the biggest impact on the bottom line. There are also a host of other costs that must be factored in to the IPO budget, including SEC Registration, Market

Listing and FINRA filing fees, Blue Sky fees, reimbursement expenses and transfer agent fees.

**Figure 9. Other costs**

Average costs by revenue range	Min (\$'000)	Max (\$'000)	Avg (\$'000)	Average costs by deal value range	Min (\$'000)	Max (\$'000)	Avg (\$'000)
Less than \$100m	25	6,032	529	\$25m to \$100m	95	2,911	450
\$100m to \$250m	63	5,065	798	\$100m to \$250m	68	5,915	655
\$250m to \$500m	104	2,758	868	\$250m to \$500m	52	6,440	1,725
\$500m to \$1bn	145	5,811	1,163	\$500m to \$1bn	438	2,287	1,018
Greater than \$1bn	170	9,996	1,639	Greater than \$1bn	617	9,996	2,700
<b>Cost Avg</b>	<b>25</b>	<b>9,996</b>	<b>789</b>	<b>Cost Avg</b>	<b>25</b>	<b>9,996</b>	<b>789</b>

Source: SEC Filings. Accounting costs data for 138 IPOs (2015), 84 IPOs (2016), 92 IPOs (2017 YTD)

### SEC registration<sup>1</sup>

- The fee is calculated by multiplying the aggregate offering amount by \$0.0001245.

### Market listing fees<sup>2</sup>

- Fees paid to the New York Stock Exchange (NYSE) or NASDAQ for stock listing services.
- While there are differences between the two primary exchanges in the US, fees are based on number of shares outstanding.
  - The NYSE charges an initial listing fee between \$150,000 and \$295,000 with an application fee of \$25,000, and an annual

fee equal to the greater of the minimum fee (\$59,500) or the fee calculated on a per share basis by multiplying the share amount by \$0.00105.

- The NASDAQ charges an entry fee between \$125,000 and \$225,000 for NASDAQ Global Select (NGS)/Global Market (NGM) with an application fee of \$25,000, and between \$55,000 and \$80,000 for NASDAQ Capital Market (NCM) with an application fee of \$5,000. Annual fees range from \$45,000 to \$155,000 on the NGS/NGM and from \$42,000 to \$75,000 on the NCM.

### FINRA filing fees<sup>3</sup>

- A fee imposed for the filing of the initial documents relating to any offering filed with FINRA pursuant to the Corporate Financing Rule equal to \$500 plus .015% of the proposed maximum aggregate offering price or the other applicable value of all securities registered on an SEC registration statement or included on any other type of offering document (where not filed with the SEC), but shall not exceed \$225,500.

1) Current fee rate as per SEC for any filings between 10/1/2017 and 9/30/2018. 2) NYSE Section 902.03 "Fees for Listed Equity Securities", NASDAQ Listing Center. 3) FINRA Section 7 "Fees for Filing Documents Pursuant to the Corporate Financing Rule. 4,5) SEC.

### Blue Sky fees<sup>4</sup>

- In addition to the federal securities laws, every state has its own set of securities laws – commonly referred to as “Blue Sky Laws” – that are designed to protect investors against fraudulent sales practices and activities.
- While these laws do vary from state to state, most state laws typically require companies making offerings of securities to register their offerings before they can be sold in a particular state, unless a specific state exemption is available.
- The laws also license brokerage firms, their brokers, and investment advisor representatives.

### Reimbursement expenses

- Reimbursement to the underwriter for incurring counsel or other fees.

### Transfer Agent fees<sup>5</sup>

- Companies that have publicly traded securities typically use transfer agents to keep track of the individuals and entities that own their stocks and bonds. Most transfer agents are banks or trust companies.



*Understanding the miscellaneous costs associated with an IPO is important when calculating the true cost.*

## Underwriting costs

Underwriting makes up the largest component of IPO costs by far. This includes fees associated with an investment bank that underwrites the stock and helps bring the company public. Based on public registration statements, on average, companies incur an underwriter fee equal to 4% to 7% of gross proceeds.

The underwriting fees are shared between the syndicate of banks, which includes active bookrunners, passive bookrunners, and co-managers. The number of banks in the syndicate depends on the size of the IPO, as a larger IPO provides a larger fee to split among underwriters. Generally, the bookrunners (2-3 active and 0-4

passive) will collectively receive 85% to 90% of the underwriting fee, while co-managers (1-4 banks) will receive 5% to 10% each.

**Figure 10. Underwriting costs**

Average costs by revenue range	Min (\$'000)	Max (\$'000)	Avg (\$'000)	Weighted avg, % of gross proceeds
Less than \$100m	1,750	60,375	6,932	6.5%
\$100m to \$250m	1,862	34,833	10,379	6.6%
\$250m to \$500m	3,703	85,000	17,374	5.0%
\$500m to \$1bn	2,926	68,646	20,154	5.5%
Greater than \$1bn	9,856	83,200	27,541	4.9%
<b>Cost Avg</b>	<b>1,750</b>	<b>85,000</b>	<b>12,071</b>	<b>5.6%</b>

Average costs by deal value range	Min (\$'000)	Max (\$'000)	Avg (\$'000)	Weighted avg, % of gross proceeds
\$25m to \$100m	1,750	6,860	4,324	6.9%
\$100m to \$250m	7,000	16,737	10,346	6.7%
\$250m to \$500m	15,079	27,600	20,454	5.8%
\$500m to \$1bn	24,106	46,200	35,624	5.4%
Greater than \$1bn	45,711	85,000	61,441	3.8%
<b>Cost Avg</b>	<b>1,750</b>	<b>85,000</b>	<b>12,071</b>	<b>5.6%</b>

Source: SEC Filings. Accounting costs data for 139 IPOs (2015), 84 IPOs (2016), 92 IPOs (2017 YTD)

*Underwriting is typically the largest IPO cost by far. On average, companies incur an underwriter fee equal to 4% - 7% of gross proceeds.*



## How much more does it cost?

In addition to the costs associated with going public—the offering and incremental organizational costs—there are significant expenses related to the process of being public. Most private companies do not have the infrastructure to operate in a public company environment, and to satisfy this new level of regulatory and reporting rigor, many companies will incur a series of one-time and recurring incremental costs associated with being a public company.

**One-time costs to convert the organization to a public company:** typically include costs to implement new financial reporting systems, initial costs to document internal controls and comply with SOX, the cost of recruiting a new board of directors, and costs to implement new employee compensation plans.

**Recurring incremental costs associated with being a public company:** includes costs such as incremental internal staffing costs, professional fees for legal and accounting advice, and incremental auditing fees.

Two-thirds of the CFOs surveyed estimated spending between \$1 million and \$1.9 million annually on the costs of being public, while one out of 10 estimated spending more than \$2 million. Nearly one-fourth of CFOs estimated spending less than \$1 million on the recurring costs of being a public company. According to PwC's 2017 costs survey, half of CFOs reported that the costs of being public were in line with

Figure 11. Annual spend on recurring incremental costs

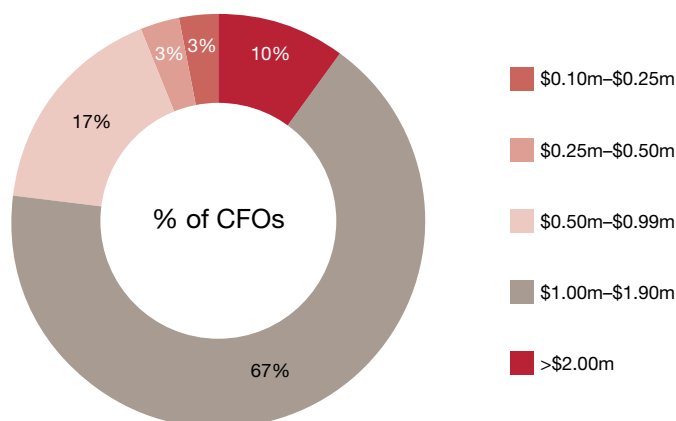
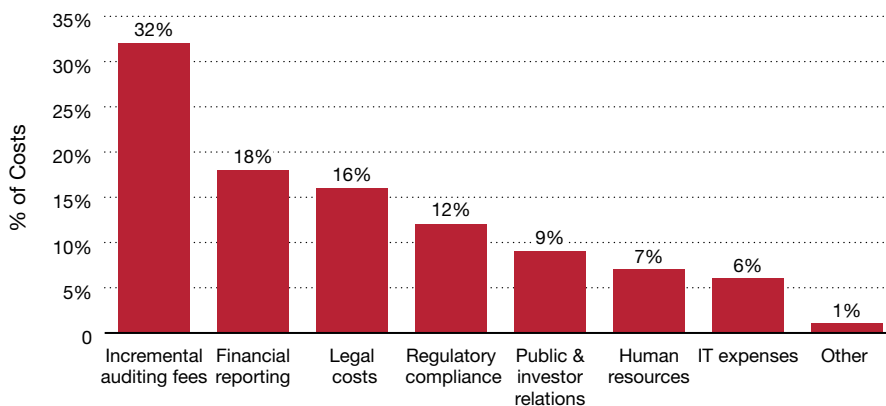


Figure 12. Average CFO estimated percentage of total “being public” costs by functional area



Source: PwC Survey conducted by Oxford Economics

expectations and half reported that these costs were more than expected.

## Where are the extra costs incurred?

When asked to allocate the percentage of their total recurring incremental costs of being public, CFOs estimated

that on average, incremental auditing fees were the largest portion of costs at 32%. Financial reporting, legal and regulatory compliance costs followed at an estimated 18%, 16% and 12% of total ongoing costs, respectively. Public and investor relations, human resources and IT expenses were each less than 10% of estimated being public costs.



## Incremental auditing fees

Public companies generally experience higher recurring audit fees than private companies, partly to satisfy additional regulatory requirements (Public Company

Accounting Oversight Board and SEC requirements). This is primarily because auditors are required to perform additional procedures related to SEC filing documentation, and when an auditor issues an opinion on a

public company's financial statements, they face additional risk. Average public company audit fees from 2014 to 2016 are listed in figure 13.

**Figure 13. Average audit fees in 2014-2016 for US public companies by revenue categorization**

US public companies <sup>1</sup> Average audit fees (in \$'000) <sup>2</sup>			
Revenue group	2014	2015	2016
\$1 to \$100m	328	342	336
\$100m to \$500m	827	908	968
\$500m to \$1b	1,391	1,407	1,466
\$1b to \$10b	3,092	3,266	3,536
> \$10b	13,568	13,844	14,076

Source: Audit Analytics

## Financial reporting

Together, financial reporting and audit fees make up half the costs of being a public company on average. These costs result from the increased reporting burden of SEC requirements for financial and ownership filings, in addition to financial reporting to the investment and analyst community.

## Legal costs

Legal costs make up approximately 15% of the cost of being public. These include costs ranging from the liability of being a public company to increased federal and state regulatory requirements and shareholder issues.

## Regulatory compliance

For 20% of CFO's surveyed, regulatory and compliance costs were a primary consideration in their decision to go public. These costs include the ongoing awareness, interpretation and compliance with regulations from the SEC, the Public Company Accounting Oversight Board (PCAOB), Sarbanes-Oxley (SOX) compliance, European Union (EU) regulators, Federal and State regulators and possibly Exchange regulators. The JOBS Act allows a deferral for full compliance with SOX, but in practice the costs are still significant both in time and money.

## Public & investor relations

Once you leave the private domain, you are accountable to your investors and to the public at large. Increased communication with shareholders, investors and other public stakeholders is a necessary expense.

## Human resources

Your human resources department will need to manage a broader range of duties that come with being a public company, including increased staff numbers, healthcare benefits and 401(k) benefits for employees. Expenses may also include costs associated with a more integrated payroll management system. Other

<sup>1</sup> Dataset excludes inactive filers, subsidiaries, trusts/funds, NAICS 525s, blank checks, non-U.S., shell companies, and de-registered entities

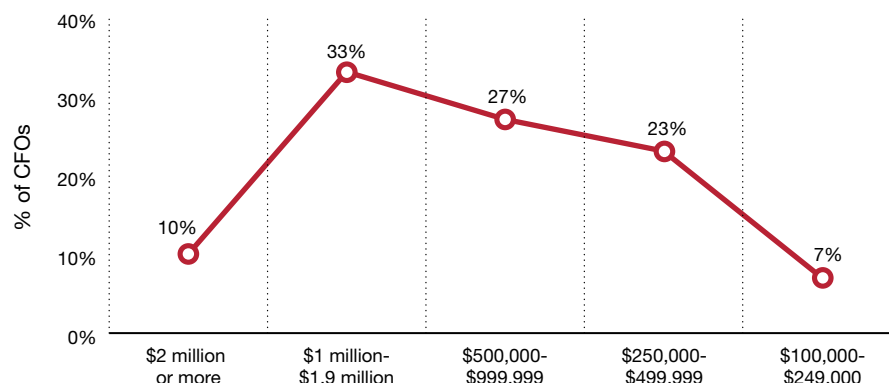
<sup>2</sup> Dataset includes companies with fee data for all three years (2014-2016) and most recent FY revenues > 0

factors include employee sponsored incentives, costs associated with the audit committee and the independence of the Board of Directors. Directors and Officers (D&O) insurance is an added cost as well.

### IT expenses

Investments in IT are common during the process of going public to demonstrate that your company is prepared for the public arena. The accelerated financial reporting requirements and increased investor relations demands of newly public companies reinforce the need for a strong technology environment. Ongoing costs should be expected for enterprise management systems for running an efficient technology infrastructure throughout the firm. In addition, customer relationship management, cybersecurity, IT general controls and IT support for organizational issues are among other functional costs that are associated with being public.

**Figure 14. Survey results on estimating how much a company spends incrementally on annual basis to comply with Sarbanes-Oxley**



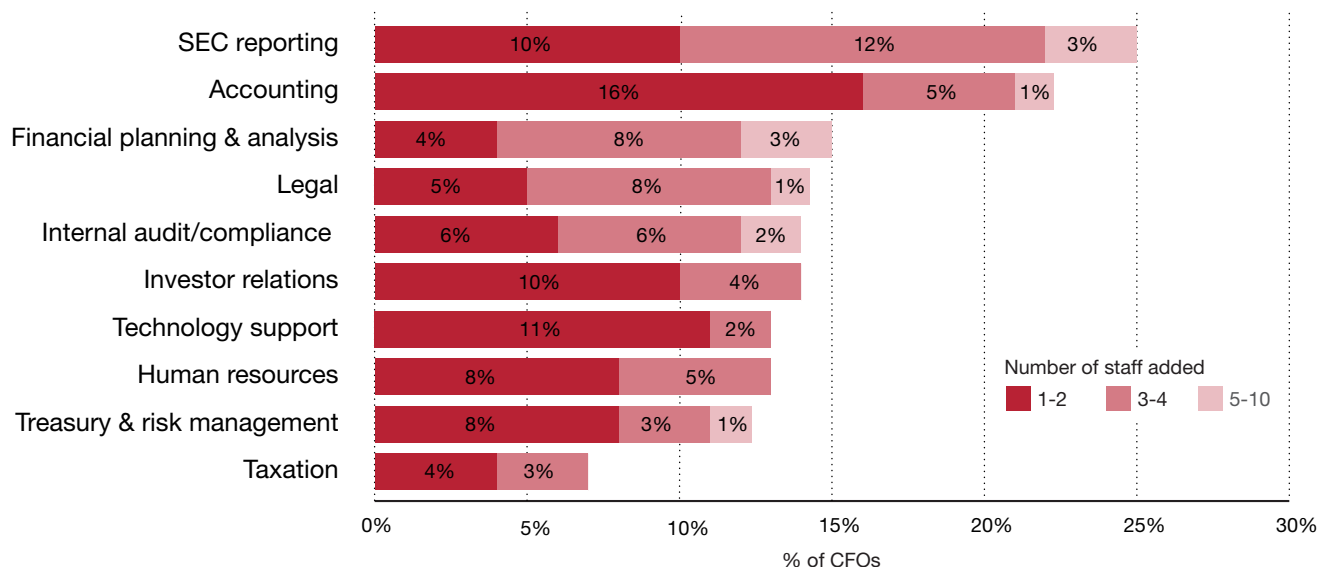
Source: PwC Survey conducted by Oxford Economics

### Increased staffing

After becoming a public company, many companies need to enhance or build out staff in several functional areas to comply with different regulatory bodies and operate more efficiently. While the actual costs incurred are highly dependent on the size and complexity of the company and

the expertise of its existing personnel, it is clear that the costs of these additional hires can add up quickly. According to PwC's survey, 37% of respondents spent more to address internal staffing needs since going public than they anticipated prior to the IPO. There is also a growing trend of companies increasing their headcount across the board since our initial survey in 2012.

**Figure 15. Number of new staff added in each functional area since going public**



Source: PwC Survey conducted by Oxford Economics

### Functional areas where companies often add staff to support being public

The following describes the most common reasons companies need to hire additional staff in each functional area.



**SEC financial reporting:** Many newly public companies need to hire a director of SEC reporting and additional accounting staff to provide financial information in compliance with SECs rules in a timely manner.



**Accounting:** Newly public companies will need to add additional staff in the accounting department to complete close cycles on the accelerated public company close timeline.



**Financial planning and analysis (budgeting and forecasting):** A well-functioning Financial Planning and Analysis (FP&A) team is important to the success of a public company. FP&A is responsible for developing realistic budgets and forecasts, and companies may need additional resources to do this successfully once public.



**Legal:** Often companies do not have in-house general counsel pre-IPO and will need to add staff in the legal department, as companies will face an increased legal burden once public.



**Internal audit:** An internal audit function will need to be established, requiring additional staff. Internal audit functions are structured as independent assurance and consulting departments that assess internal controls, mitigate key risks, ensure compliance with internal policies, support financial reporting requirements, perform tests to verify compliance with Section 404 of the Sarbanes-Oxley Act, and attest to the accuracy of financial information and operating results published in periodic reports. Given the cost and time needed to hire internal audit resources, this is sometimes outsourced initially, which may be more costly.



**Investor relations:** An internal or external resource will be required to build and manage relationships with investors, provide relevant financial information to stakeholders and better position the company in the marketplace.



**Technology support:** Companies must consider the need to increase staff in the technology function as systems and processes are documented and tested to comply with Sarbanes-Oxley requirements and as the technology infrastructure must adequately support compliance efforts.



**Human resources:** Many companies struggle with the increased human resource-related demands of being public and require additional staff. HR is responsible for items such as ensuring competitive salary ranges for employees compared to other public companies, establishing compensation policies for executives and creating new stock-based compensation and benefit plans.



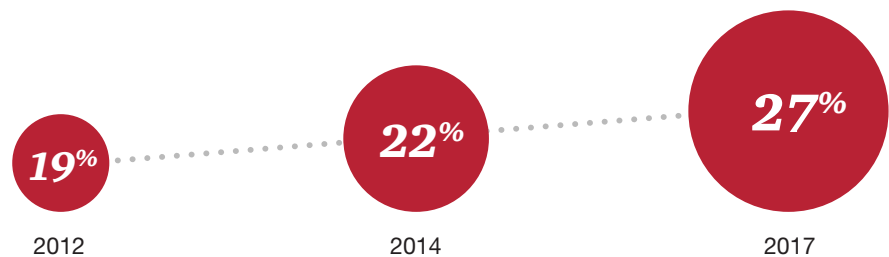
**Treasury and financial risk management:** A dedicated treasury and financial risk management group is also a requisite for a public company. Often, newly public companies struggle to adequately manage their liquidity, foreign currency exposure and derivatives used to hedge interest rates and other risks to their business.



**Taxation:** Additional staff, including a tax director, one or more tax managers and additional personnel depending on company size, will be required as there will be heightened scrutiny on the tax provision and a need to develop new tax planning strategies. Companies will need to comply with federal, state and international tax requirements and with indirect taxes (sales/use taxes, property taxes, value-added taxes).

### Engaging external advisors

Successful companies often hire external advisors to help them execute a thorough IPO readiness assessment, which creates a robust work plan for both going public and being public. It also helps an organization avoid unexpected costs associated with being underinformed and inefficient. Evidence has shown that in the US, similar to the European model of hiring external Capital Markets Advisors, the number of companies performing IPO readiness assessments has grown 42% since our initial survey in 2012. It is undoubtedly difficult to forecast costs, particularly without performing a detailed IPO readiness assessment in order to fully understand the nuances and unique complexities companies face during the IPO process. While offering costs vary, a well-prepared company is better able to anticipate and mitigate the additional expenses and time commitments that could push the IPO process off course.



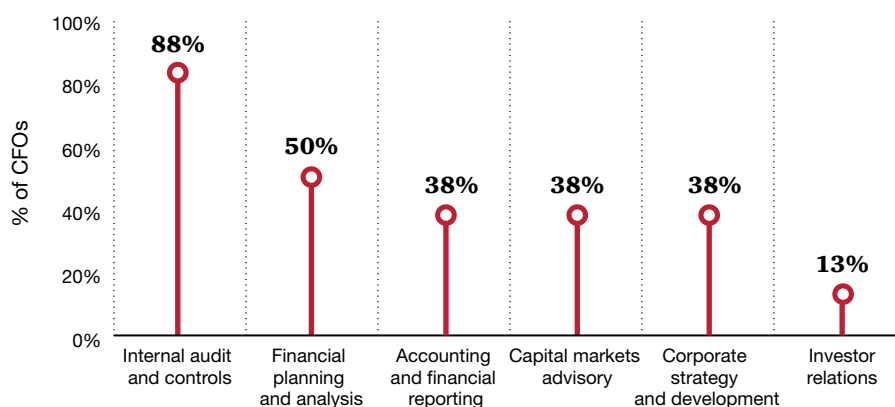
***27% of CFOs surveyed engaged a third party to help them execute an IPO readiness assessment.***

Source: PwC Survey conducted by Oxford Economics



It is also common for companies to engage external resources to provide technical expertise. External advisors can be hired to assist with the new challenges resulting from becoming a public company for a wide variety of items, from company securities counsel to compensation advisors. The most common areas in which the CFOs surveyed used external advisors to prepare to go public include: internal audit and controls, financial planning and analysis, accounting and financial reporting, capital markets advisory, corporate strategy and development and investor relations.

**Figure 16. Functional areas in which companies used external advisors to prepare to go public**



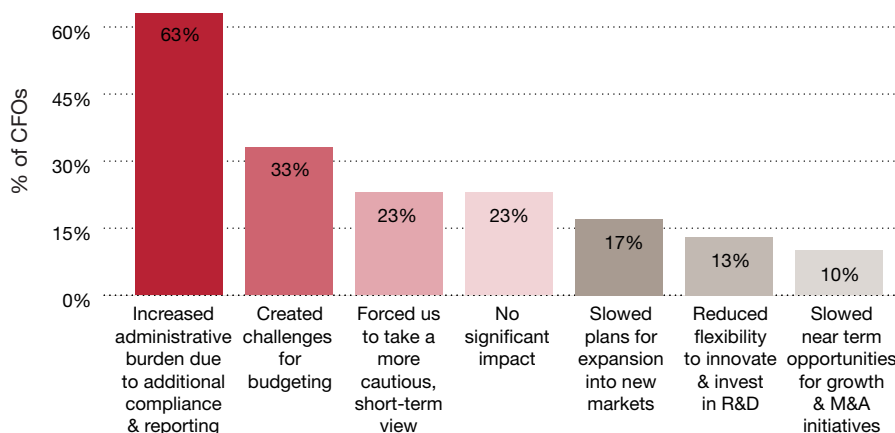
Source: PwC Survey conducted by Oxford Economics  
Only includes respondents who performed readiness assessments

## Challenges of being public

Companies may face additional challenges once becoming a public company. Many of the CFOs surveyed (63%) reported an increased administrative burden due to additional compliance and reporting requirements, while one-third of CFOs said the costs of being public created challenges for budgeting.

Almost one-fourth of CFOs surveyed said that the costs of being public had no significant impact on their company.

**Figure 17. Challenges directly related to the costs of being public**



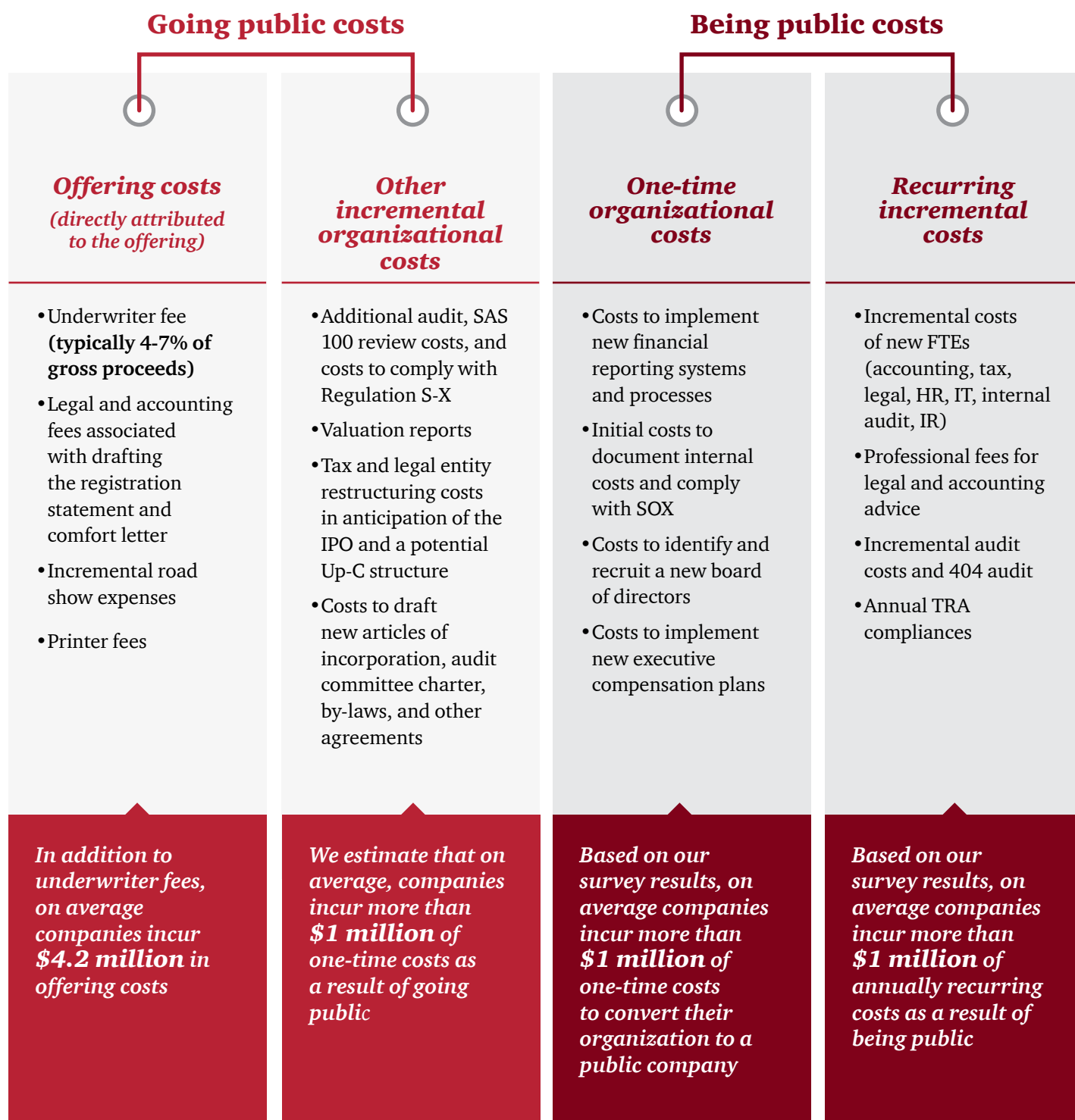
Source: PwC Survey conducted by Oxford Economics



*23% of CFOs surveyed said the costs of being public had no significant impact on their company.*

# Summary of IPO costs

Total average IPO costs depend on the size and complexity of your company, the amount of proceeds raised and how much organizational work is needed to become public company ready. IPO costs can be summarized in the following categories:





## Conclusion

*It is increasingly important in today's economic environment to be ready when the IPO window opens. An independent advisor can help to reduce surprises, improve efficiency, and reduce the time to market. This provides more time to focus on other crucial business decisions that will enhance market confidence in the company's management and brand equity.*

*Our dedicated team of professionals specializing in IPOs can advise you as you think through the additional requirements and continuing obligations in advance, and can develop an appropriate plan to help you own success at every turn. PwC's clear framework for going public and being public builds on your organization's strengths and looks beyond the complexity of the IPO itself to help make everyday execution move in step with the broader strategy.*

# Acknowledgements

For a deeper discussion about our Capital Markets offerings, please contact one of our representatives:



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