Going Public: The U.S. Journey for Latin American Companies

A key to success for an IPO in the U.S. for Latin American companies is finding the right advisor.

The IPO journey does not need to be taken alone—finding the right advisor with local insight and expertise to lend a helping hand is a next step towards success.

The IPO journey

Similar to many other companies around the world Latin American (LATAM) companies view a U.S. initial public offering (IPO) as a crowning achievement—a tangible sign of success that can reward investors and shareholders alike and lay the groundwork for the next stage of growth. Going public has several clear advantages—it strengthens the capital base, increases brand awareness and prestige, and attracts new and better talent—all in hopes of raising capital to expand and maximize shareholder value. Today—after years of continued foreign and domestic investment and strong performance—many LATAM companies are wellpositioned to make the IPO leap. However, the road to a successful IPO is not an easy one. Launching a successful IPO comes with a range of pressures, challenges, and regulatory requirements. These can include cultural differences, difficulties in hiring local resources with U.S. Securities and Exchange Commission (SEC) expertise, finance transformation needed to accelerate the close process, or establishment of an investor relations team.

An appropriate and thorough IPO Readiness Assessment Diagnostic comprising different areas of the organization is critical for a successful IPO, and should include all aspects of the organization: equity story, financial reporting and close processes, external audit, taxes, internal controls, human resources, and investor relations function, says Patricia Alonso de la Fuente, a principal with KPMG in the US Accounting Advisory Services practice who works regularly with LATAM companies and U.S. investors.

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> Patricia Alonso de la Fuente
> KPMG in the US

"Inadequate financial systems and reporting capabilities are the biggest road block to virtually every IPO undertaken by LATAM companies in the U.S.," says Patricia Alonso de la Fuente. "These very successful companies have expanded and often have many legal entities operating in countries with varying currencies and local reporting requirements. Yet, these same companies still consolidate their financial results in spreadsheets or other antiquated systems."

The spreadsheet approach to consolidation gives rise to many challenges: miscalculations, version control, inaccuracies of data, and lengthy accounting and reporting closing cycles that can lead to lack of investor confidence and heightened regulatory scrutiny. Investing in new software technology may not be the best near-term solution.

Aside from the lengthy implementation process and before new software technology can be successfully deployed, soon-to-be public companies need to acquire a deep understanding of the accounting and financial reporting requirements imposed by the SEC and the accounting and governance expertise required to meet auditing standards set by the PCAOB.

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Finding the right IPO readiness advisor

For most LATAM companies, transforming their accounting and financial reporting policies and back-office processes will likely require the guidance of third-party professionals with in-depth knowledge of the IPO readiness journey to help pave the path forward towards a successful IPO and to be able to stand up as a public company subsequent to the initial registration. The ideal advisor should be ready and willing to work shoulder-to-shoulder with the company to implement new accounting and reporting applications and reshape back-office processes to take advantage of them. When identifying the right advisor to work with, ensure they have:

A proven track record of assisting companies within your industry on successful IPOs in the U.S.

The complexities of building accounting and financial reporting capabilities fit for operating as a public company—and the criticality of getting it right—argue strongly for working with an advisor that has delivered strong results for other public companies.

Local experience and insight—backed by U.S. capital markets expertise.

The right advisor needs a team that has the know-how to work with critical U.S. IPO stakeholders—regulators, attorneys, third-party auditors, tax advisors, investment banks and stock exchanges in the U.S. and, at the same time, has worked with clients based in LATAM. Some third-party professionals do not bring the combination of U.S. capital markets experience with knowledge and expertise of the nuances of local business customs and culture—and may not even speak the local language. When overhauling processes and implementing new technologies, a visceral understanding of local business practices and culture is invaluable.

Deep technical expertise in SEC, accounting and auditing matters.

Few things put off investors—and drag down stock valuations—like a warning from the SEC or an accounting firm that a company's financial statements are incomplete, unreliable, or do not conform to U.S. standards. Companies preparing to go public need the right advisor that can ensure the financial statements are ready day one as a public company and that the company is capable of maintaining sustained, timely and accurate reporting on an ongoing basis.

Access to technology that can accelerate the path to compliance.

A company managing their underlying financial data and operations within spreadsheets or antiquated systems is not a winning formula for an accelerated reporting process that is required of a public company. The right advisor should be able to guide a company on choosing and implementing the software technology that best suits the need for a more streamlined, automated, and cloud-based accounting and financial reporting process and also offers proprietary technology tools of their own that can smooth and speed-up the IPO journey.

The KPMG difference

KPMG in the US is a leader in performing IPO readiness assessments and preparing companies, both in the U.S. and LATAM, for IPOs. KPMG professionals can serve as a liaison between attorneys and investment banks, trains companies to manage and operate in a new reporting environment and guides them in creating historical and pro-forma financial results and other financial reports conforming to SEC filing requirements.

KPMG in the US a variety of technology enablers that play a critical role in the successful execution of an IPO transaction.

One technology enabler, KPMG Aggregation and Reporting Tool (KART), allows KPMG professionals to redesign a company's existing accounting systems platform. With its built-in controls, this financial data aggregation tool extracts from multiple, incompatible data sources to transform the aggregated corporate ledger into a more consistent and reliable single source of data. Another enabler, KPMG Financial Reporting Harmony (Harmony), is a cloud-based financial reporting and compliance tool that extracts data from multiple sources, including KART, enterprise resource planning (ERP) systems, financial consolidation platforms, data warehouses, and customer relationship management software. Harmony allows for the creation and maintenance of financial statements and supplementary reports needed to stage an IPO, including both audit-ready financial statements and the robust Management Discussion and Analysis (MD&A) reports that must be included in registration statements, quarterly and annual filings, amongst others, with the SEC.

Finally, KPMG in the US provides their clients with a valuable mix of U.S. and LATAM experience and expertise. A typical IPO readiness team at KPMG will pair professionals who have accounting and regulatory expertise in the U.S. with professionals across the network in LATAM who have deep experience in the client's own country and an intimate understanding of the local language and business culture.

Potential Benefits beyond IPO readiness

Not yet ready for an IPO? For fast-rising companies that may not be contemplating an IPO anytime soon, upgrading financial accounting, reporting, and governance capabilities now can make sense. It can put your company in position to act quickly if an opening for an IPO were to arise, and in the meantime, can improve the ability to perform and maintain timely and accurate budgeting, forecasting, and tax planning, all of which are critical to smart growth. It also can facilitate securing other types of financing moving forward, whether that means new private equity or venture capital investments, mezzanine financing or even bank loans.

To SPAC or not to SPAC

Over the past two years, a significant number of companies sidestepped the traditional IPO process by merging with a Special Purpose Acquisition Company (SPAC).

SPACs are shell companies that raise capital through their own IPOs, in the expectation that they will later acquire an existing operating company.

A key attraction of going public via a SPAC is the speed with which deals can be completed. On the other hand, an accelerated SPAC timetable also can leave the operating company with even less time to develop modern accounting and financial reporting capabilities. Recently, SPACs have begun to fall out of favor on Wall Street as many have seen their share prices fall substantially.

Furthermore, the SEC is in the process of aligning the regulatory requirements of the SPAC merger (often referred to as the 'DeSPAC transaction') with that of an IPO, which is likely to remove some of the benefits of the current SPAC path to going public. That said, SPACs may still make sense in some circumstances.

KPMG professionals can help companies decide whether a SPAC merger is a good fit for them.

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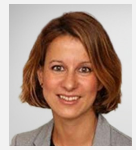

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DASD-2022-8088