IPO CONSIDERATIONS FOR AUSTRALIAN EMERGING GROWTH COMPANIES

June 2023

tdm.
GROWTH PARTNERS

TDM Core Beliefs

24 months out from IPO – critical pieces of the puzzle

Becoming ‘public market ready’ takes more time and is more intensive than every management team thinks

LT strategic plan and financial model	• A four- to five-year high-level strategic plan and accompanying long-term financial model is critical • These symbiotic pieces of work become vital to being able to scale your business effectively and will ease your transition to the public market.
Effective board in place	• It is crucial that all board members are high-impact and add value to your business. We value domain experts and generally previous and current operators add more value than investors • The chairperson must be highly engaged, with a diverse range of experiences, and most important, must be willing to act as a mentor and pillar of support to you as the founder and CEO
Team and incentive plans locked	• A well-developed executive remuneration plan is key for attracting the best people and fostering a great culture - rewards your team for the success that lies ahead is particularly important prior to IPO. • The People and Culture team must be provided with the necessary tools and mandate to make any required changes.
Scaling systems and processes	• A highly scalable operational infrastructure must be in pace prior to IPO – this usually requires an overhaul of financial, human resources and operational systems and processes.
Start behaving like a Public Co	• Establish and practice your financial reporting framework. management must develop and foster the skill of providing formal investor presentations and financial forecasts on a semi-annual basis • Practice the rhythm of not only preparing regular forecasts but also making a good habit of meeting or exceeding them. • Establish investor relations and education. Start now to raise awareness and understanding of your business among public market investors. using these opportunities to learn how to deal with a public market investor ‘Q and A’

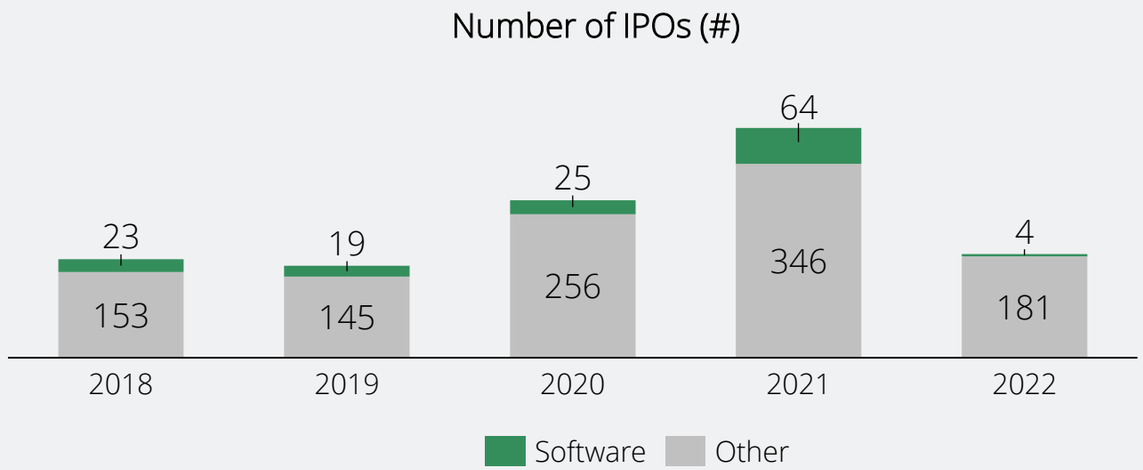
Key listing venue considerations

Strategic / Brand Value			• Likely to get a brand 'halo effect' regardless of listing venue but US listing potentially has more prestige • Employer brand implications & acquisition currency potential
Valuation			• ASX listed tech multiples in line with Nasdaq / NYSE peers • Scarcity value & broad index inclusion more likely on ASX • Potential for offshore domicile discount with US listing
Sell down & secondary transactions			• ASX is open to larger vendor selldown at IPO (30-60%) vs. the US (10-20%) • ASX a relatively easy market to raise secondary capital • Key Personnel selldowns **much** easier in US with 10b5-1 plans
Investor depth			• US has a deeper market for tech, though Australia has scarcity which can command a premium valuation • US is largest market globally
Time & Cost to IPO			• Significantly more costly and timely to prepare to IPO in the USA given rigour of SEC requirements • US listing costs are ~$15M+ (at least 2x cost of ASX IPO)
Cost to Operate as a Public Company			• Quarterly vs. semi-annual reporting • Sarbannes-Oxley requirements in US, although some flexibility for foreign issuers

IPO activity by market

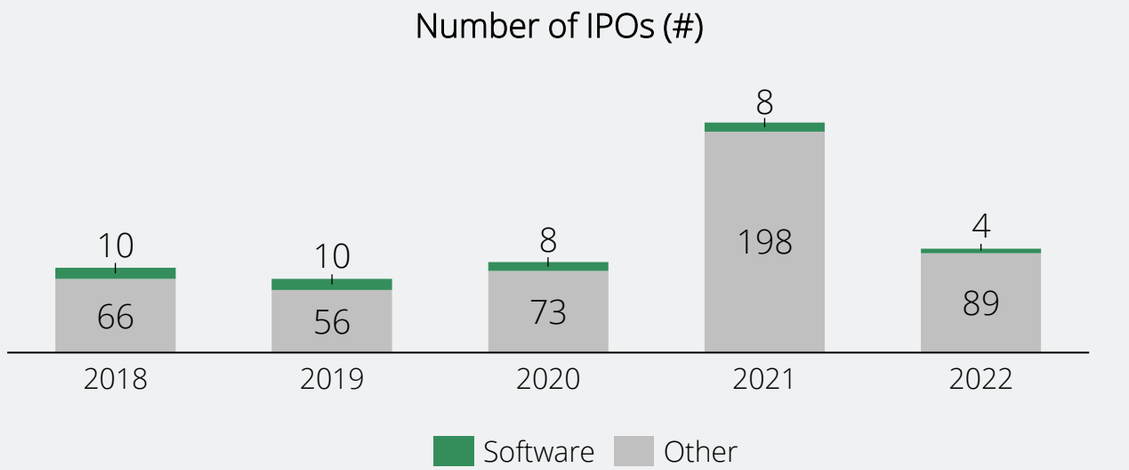
THE US MARKET HAS A LARGER NUMBER AND AVERAGE SIZE OF IPO'S EACH YEAR

US IPO Activity[1]



Total Software IPO Transaction Value ($b)				
7.2	5.3	16.6	27.4	0.1
Average Software IPO Transaction Size ($m)				
313	279	664	428	25
Software IPOs as % Total IPOs				
13%	12%	9%	16%	2%
Software IPOs as % of total IPO Transaction Value				
33%	11%	21%	29%	1%

Australia IPO Activity



0.1	0.3	0.8	0.8	n/m
10	30	100	100	n/m
13%	15%	10%	4%	4%
1%	21%	21%	10%	n/m

Source: CapitalIQ as on 17th February 2023
Note: 1. Excludes Blank Cheque / Special Purpose Acquisition Companies.

Public market statistics

RELATIVE MARKET CAPITALISATION AND COMPANY SIZE

Listed software companies[1]	442			73[2]		
Software companies with NTM revenue > $200m	348 *(~79% of subset of listed software companies above)*			23 *(~32% of subset of listed software companies above)*		
Software companies with NTM revenue growth > 30%	52 *(~15% of companies generating more than $200m revenue and ~12% of total)*			12 *(~52% of companies generating more than $200m revenue and ~16% of total)*		
Software companies with Revenue > $200m & revenue growth > 30%	33 *(~7% of listed software companies)*			4 *(~6% of listed software companies)*		
	25th Percentile	*Median*	*75th Percentile*	*25th Percentile*	*Median*	*75th Percentile*
Market Capitalisation ($m)[3]	372	1,748	5,691	100	189	831
Cash on hand ($m)[3]	110	256	732	10	26	67
Index inclusion	• Market cap threshold for **S&P500** is ~$7.6b with a median market cap of ~$32.6b • **EMCLOUD** index has a market cap threshold of $500M and required to be listed on US exchange			• Market cap threshold for **ASX200** is ~$510m with a median market cap of ~$2.6b		

Notes:
1. Market capitalisation of $50m and above
2. ASX All Tech index adjusted to exclude non software technology companies like Temple & Webster, Cettire etc.
3. Financial metrics converted into USD for comparison.

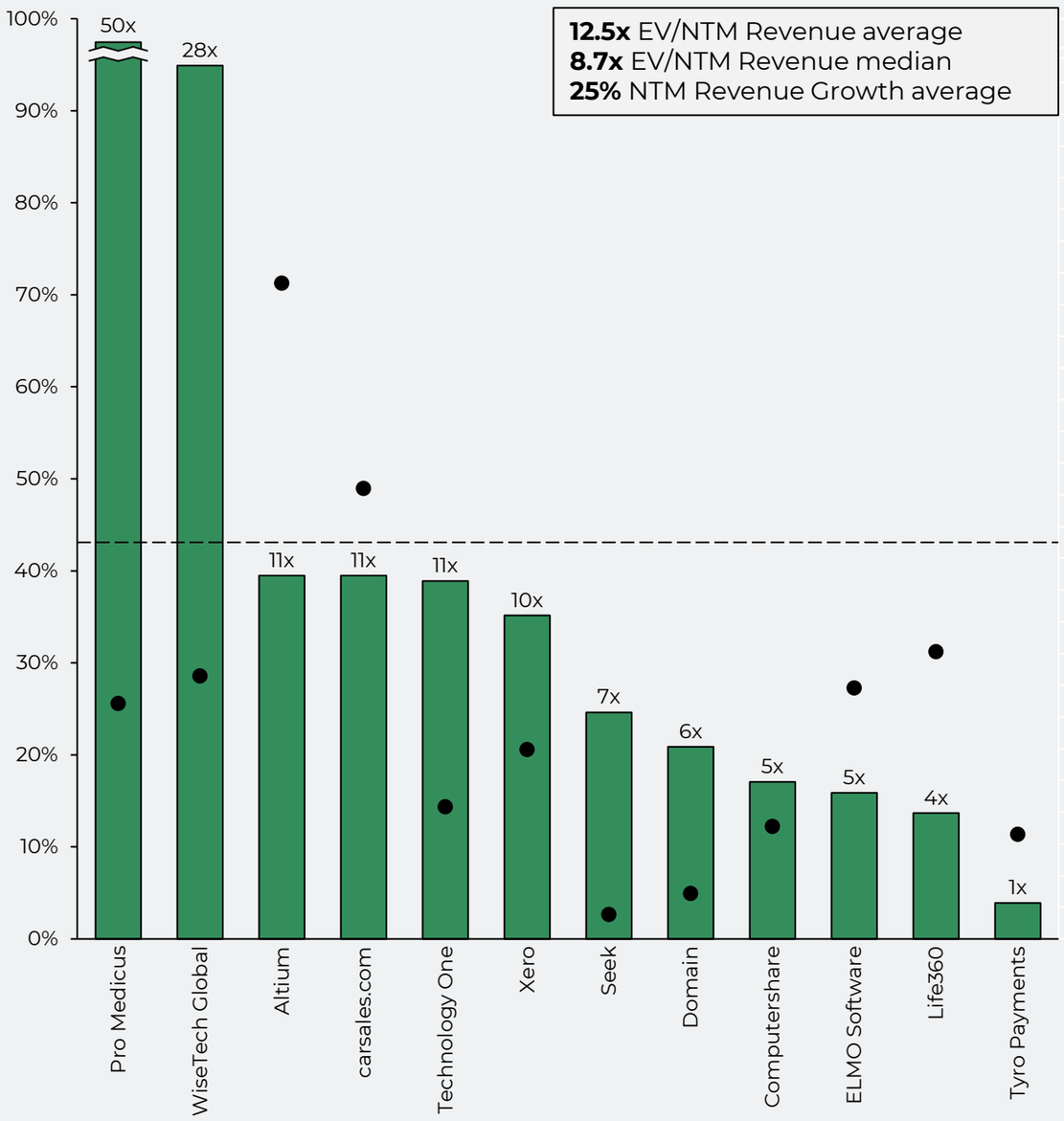
Valuation factors

Scarcity Value	• Scarcity of quality for ASX-listed tech opportunities can attract a premium valuation due to strong investor appetite (e.g. Seek, Technology One, WiseTech) • Premium valuation may be amplified for businesses seen as a 'home grown success story', especially with interest from strong Australian retail investor base (e.g. Siteminder) • ~135 software IPOs in the US in last 5 years vs.~40 in Australia
Analyst and Investor Expertise	• As the largest market globally, the US has investors and research analysts with niche focus and acute understanding of comparable tech companies. • However, it can be harder to attract attention depending on scale & metrics • Australia has 5th largest pool of pension assets & global investors make up a significant portion of ASX-listed companies share registers
Stability of Share Registry	• Turnover of the investor base can vary significantly across markets • The free float of US listed software businesses[1] turns over ~3.5x per year compared with ~0.8x per year for ASX listed software companies[1] • Ability to attract long term investors to your share registry can be important to execute strategy over years and decades
Density and valuation of peers	• Companies specializing in particular services or products may be more prevalent on certain exchanges, which can assist investors to provide more accurate valuations (e.g. SaaS on Nasdaq) • Number of ASX listed peers is small (e.g. Xero, Wisetech, Siteminder & TechOne), however, ASX has as strong record of relying on offshore comps
Participation in indices	• Inclusion in major indices can contribute to an increase in demand for the stock • Much easier to qualify for key ASX Indices (e.g. ASX 200) compared to US given relative market size & domicile

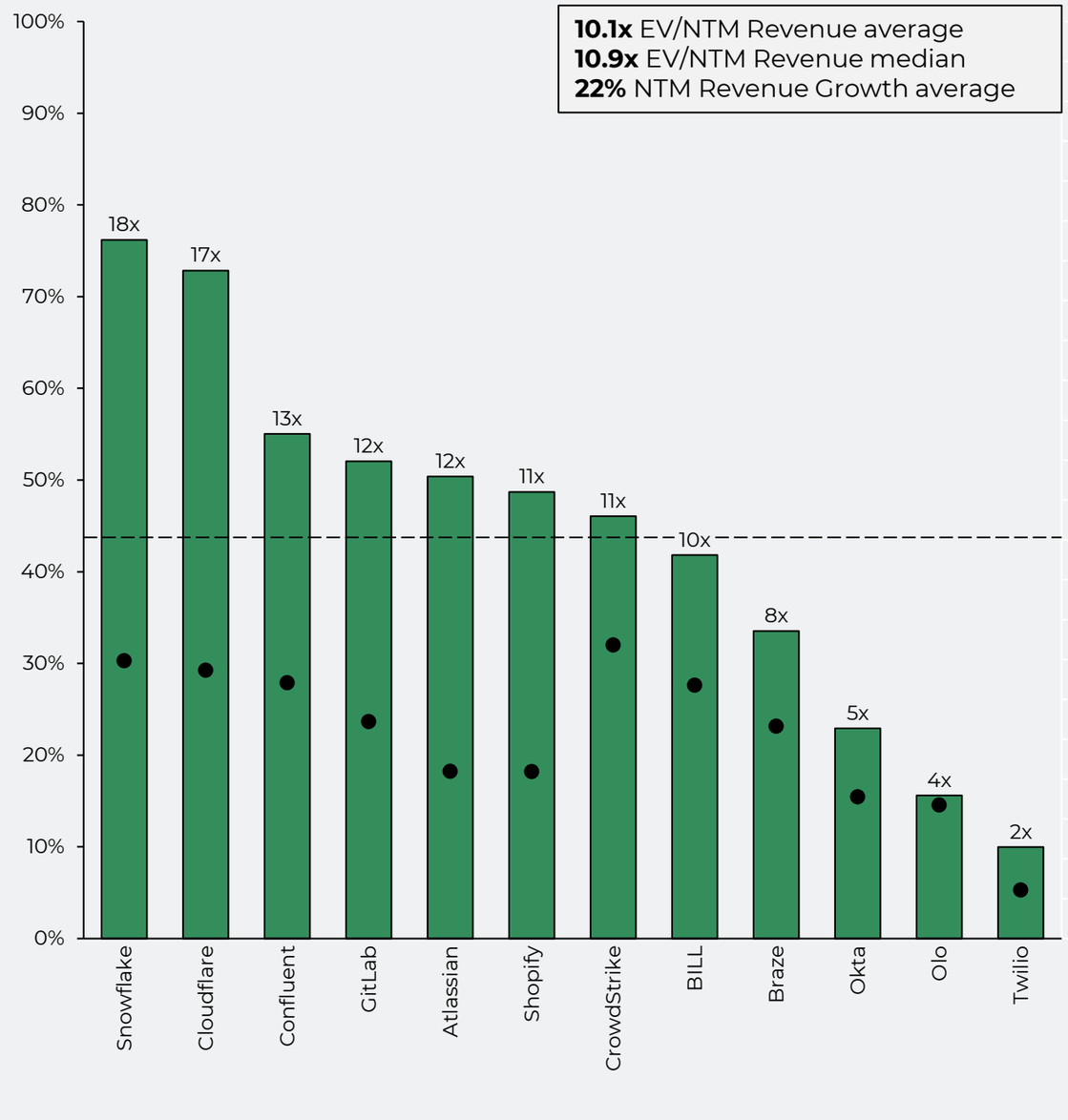
Notes:
1. Based on comparable set of companies analysed. For constituent companies refer to slide 10.

Australia vs. US listing comparable valuations

SELECT ASX TECHNOLOGY
EV/NTM REV & NTM REV GROWTH RATE (LHS)



SELECT EMCLOUD INDEX REVENUE GROWERS
EV/NTM REV & NTM REV GROWTH RATE (LHS)



Markets are efficient: listing venue has limited impact on valuation multiples

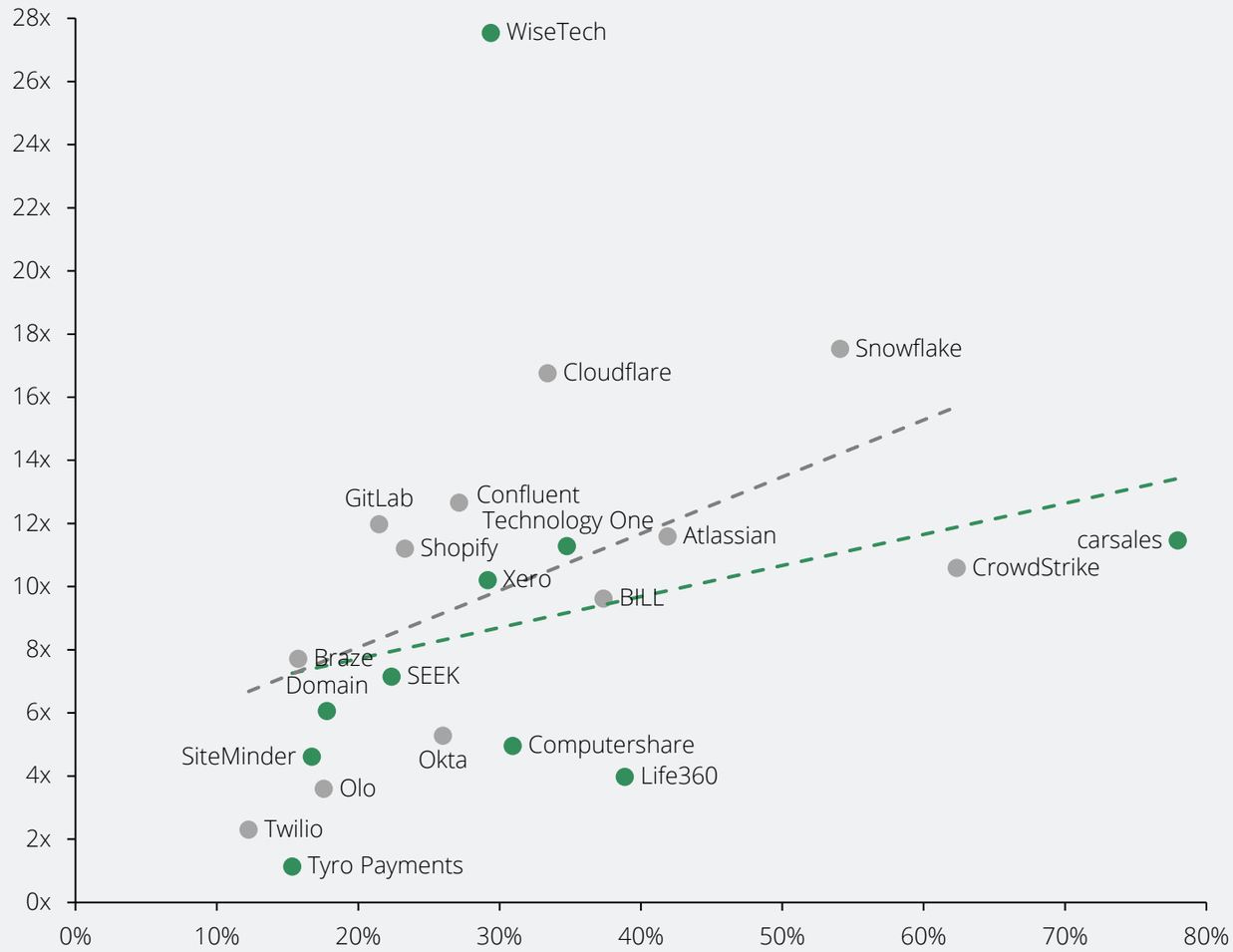
Note:
1. As of 13th June 2023.

● = NTM Revenue Growth (LHS)

Australia vs. US listing comparable valuations

EV/NTM Revenue vs NTM Revenue Growth

EV/NTM Revenue vs Rule of 40



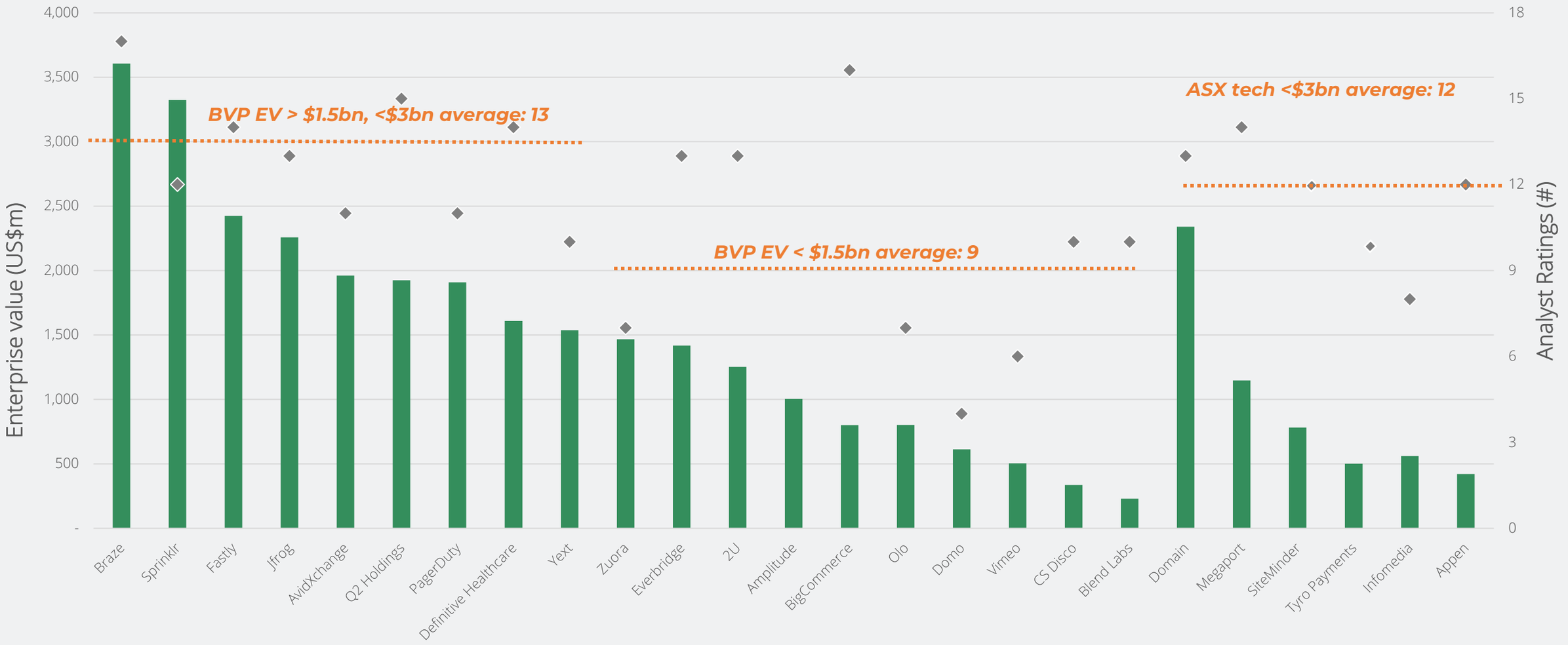
ASX Listed US Listed

Both regions are highly correlated for valuation in terms of both absolute growth and efficiency

Analyst coverage

Enterprise value to analyst coverage

- Analyst coverage for ASX-listed businesses, relative to scale, is higher
- The minimum scale required for wide coverage from Tier 1 analysts in Australia is lower, particularly given the relatively limited set of businesses in Australia



Analyst coverage for <3bn EV businesses in Australia is higher than for US technology peers

Operational considerations

A RANGE OF ADDITIONAL FACTORS NEED TO BE EVALUATED AHEAD OF AN IPO

Practical considerations	*IPO Preparation Time & Cost*	▪ Time and costs to be ready to commence IPO process can vary significantly by market, particularly in the case where corporate structure or accounting changes need to be made ▪ Cost to IPO in the USA is ~$15-20m, at least 2x more expensive than in Australia
	Management Team	▪ Composition and location of management team will be impacted by choice of listing venue. ▪ Likely need to bring in US based executives with listed company experience if planning to list in the USA
	Reporting frequency	▪ Semi-annual reporting has multiple benefits over quarterly reporting including less short termism of decisions, fewer compliance requirements and less trading volatility (e.g. share price volatility of US listed tech companies is ~40% higher compared to ASX list tech companies)
	Location	▪ Location of CEO, Board, and management team, customers and investor base are important considerations. A US listing from Australia will require frequent international travel
Regulatory & compliance environment	*Corporate structure*	▪ Need to consider governance, regulatory, accounting and tax factors in assessing both listing entity and venue. ▪ Dual class structures common in the US, not in Australia ▪ A re-domiciliation can be costly and disruptive
	Corporate governance	▪ Certain requirements are more stringent and costly in the US (e.g. Board independence & diversity requirements, D&O insurance estimated to be 5-10x more expensive for US listed companies compared to the ASX, etc)
	Audit & Controls	▪ Certain requirements are more stringent on certain exchanges or jurisdictions (e.g. Sarbanes Oxley (SOX) internal controls requirements in the US)
	Shareholder activism	▪ Risk of shareholder activism / litigation is higher in the US relative to Australia
	M&A	▪ Impact of listing venue on value of equity as an acquisition currency ▪ Vulnerability to unsolicited approaches may be impacted by listing venue & structural defenses

Listing Costs

	Nasdaq / NYSE	ASX	Difference	US to ASX difference
Underwriting costs (USD)	8.7 - 10.2 million	4.2 – 5.8 million	$6.0m	US ~ 2.0x cost of ASX
Legal expenses (USD)	2.25 million	0.49 million	$1.8m	US ~ 4.6x cost of ASX
Accounting expenses (USD)	1.75 million	0.4 million	$1.4m	US ~4.3x cost of ASX
Other offering expenses (USD) (e.g. printers, registration with regulators)	0.6 million	0.2 million	$0.4m	US ~ 3.0x cost of ASX
Stock Exchange - Initial Listing Fee (USD)	0.32 million	0.4 million	-$0.1m	ASX ~ 1.25x cost of US
Ongoing annual listing expenses (USD) (annual listing fees, additional insurance, administration and compliance costs)	2 million	1.05 million	$1.0m	US ~ 1.9x cost of US
Total (USD)	15.6 million –17.1 million *Avg 16.3 million*	6.7 million – 8.3 million *Avg 7.5 million*	$10.5m	Overall ~ 2x cheaper to list on ASX vs US

US listing is at least 2x more expensive than listing in Australia

Source: Bank of America Merrill Lynch & Baker & McKenzie. Based on A$1.0bn market cap company raising A$200M

IPO Process

IPO PROCESS IS SIMILAR BUT SEC REVIEW PROCESS EXTENDS TIMELINE FOR US LISTING

Timeline for USA listing (4-7 months)

Kick off meeting
- Law firms, lead bank & audit firm in place
- Independent market sizing & share study

First confidential filing with SEC
- Select stock exchange
- Negotiate underwriting agreement and lock ups
- Research analyst day and " beat & raise" model

First public filing with SEC
- Refine analyst model
- IR website & process
- SEC reporting tool
- Comms training

S-1 Effective & Pricing

Due diligence & prospectus drafting *(6 – 10 weeks)* → Confidential SEC Review & roadshow prep *(8 – 10 weeks)* → Public SEC Review *(4 – 6 weeks)* → Roadshow *(2 weeks)* → Listing & trading begins

Quiet Period
Test the waters (TTW) with investors
Tone down all public statements (& website cleanse)

→ Waiting Period
Continue TTW
Tightly manage comms (incl. internal)

→ Post-Pricing
Comms need to be managed

Timeline for AU listing (3-4 months)

Due diligence & prospectus drafting
Non-deal roadshow
(6 – 8 weeks)

→ Roadshow *(2 weeks)*

→ ASIC Review *(1 week*)*

→ Retail Offer Period *(3 weeks)*

→ Listing & trading begins

Kick-off Meeting
- Law firms, lead bank & audit firm in place
- Management presentation
- Market research
- Liaise with regulators
- Analyst briefing
- Convert to public company

Lodge Pathfinder
- Negotiate underwriting agreement
- Analyst marketing
- Bookbuild

Lodge prospectus with ASIC
- Finalise offshore offer docs
- ASX listing application
- Retail briefings

Offer Closes

* ASIC can extend the exposure period to up to fourteen days after lodgement

Ongoing obligations post IPO

ONGOING REPORTING & COMPLIANCE OBLIGATIONS ARE MORE ONEROUS IN THE USA

Financial Reporting	Annual	• Annual financial statements must be published within 75 days[1] • 90 days for first 10-K • Annual filings subject to SEC review	• Preliminary financial reports (Appendix 4E) must be lodged within two months • Audited financials must be lodged within three months • Annual report must be sent to shareholders within four months (and at least 21 days before AGM) • Annual meeting must be held within 5 months
	Interim	• Quarterly financial statements must be published within 40 days[1] • 45 days during first 12 months	• Half-year report (Appendix 4E) must be lodged within two months & financial report within 75 days • May be required to give quarterly cash flow and activity reports
	Continuous disclosure & significant transactions	• Significant transactions and new developments must be filed on form 8-K • Pro forma financials required within 74 days of significant transaction	• Immediately disclose to ASX any price sensitive information
Audits & Internal Controls	Auditing	• Annual statements audited under Public Company Accounting Oversight Board (PCAOB) standards • Quarterly review of statements under PCAOB	• Annual financial statements required to be audited

	Internal controls	• CEO & CFO must certify and approve financial reports on a quarterly basis (SOX Section 302 & 906)
		• CEO and CFO required to annually assess internal controls over financial reporting (ICFR) (SOX Section 404)
		  • Required from second annual report
		• Auditors attestation on the effectiveness of ICFR required from later of second annual report or when company loses ECG status
			• Required to disclose whether there is an internal audit function and if so, the role it performs
			  • If not, must disclose process for evaluating governance & risk management practices

1. Unless large accelerated filer (public float exceeding US$700 million and has filed at least one annual report), in which case 60 days for annual and 40 days for quarterly results

Corporate governance considerations

CORPORATE GOVERNANCE REQUIREMENTS FOR THE US ARE MORE STRINGENT THAN AUSTRALIA, IMPACTING PRACTICAL DECISIONS MADE TODAY

Board Composition	• Majority independent board is mandatory • No minimum size by typically 6 to 9 directors at IPO • Nasdaq requires 2 diverse board members (at least one female) & annual disclosure of diversity statistics • NYSE advocates diversity but does not have min requirements	• Majority independent board is recommended • At least three directors, at least two of which are Australian residents, with sufficient listed company, executive management and financial experience • ASX listed entities are required to publish a diversity policy (or explain why not). ASX 300 companies should target to have at least 30% of directors from each gender

Board Committees	• Fully independent audit, nominating and compensation committees
	  • IPO phase in periods
	• Audit committee must have at least 3 members including one functional expert
	  • All members must be financially literate
	• Nasdaq requires at least 2 members for the nominating and compensation committees
		• Must have an audit and remuneration committee if included in the ASX 300 Index
		• Audit committee must have three members all of whom are non-executive directors, and a majority which are independent and chaired by an independent director who is not chair of the Board
		• Other committees should have at least three members, a majority of whom are independent and be chaired by an independent director

Director Terms, Elections & Compensation	• Company may set director terms (commonly 1, 3 or 5 years) • Common to go public with a staggered board • Common for part of compensation package to be RSUs with performance hurdles	• Each director (other than a managing director) must stand for re-election every three years • A director (re-)election must occur at each AGM • Director "fee for service" - non allowance of any performance-based equity program
Corporate Governance	• Regular executive sessions required (at least twice per year by Nasdaq) • Must publish code of business conduct & ethics that meets SOX 406 and exchange requirements	• Adopt 'Corporate Governance Principles and Recommendations' published by ASX Corporate Governance Council or explain why not

Additional US Considerations: ECG Benefits

Emerging Growth Companies (EGC) have more relaxed disclosure and gun jumping regulations

EGC HAS <$1.3Bn IN ANNUAL GROSS REVENUE[1]

Benefits of an ECG during the IPO Process

- Scaled financial disclosures:
  - Two years of audited financial statements (vs. three for non-ECGs)
- Testing the waters: ECGs are allowed to meet with qualified institutional buyers and institutional accredited investors during the registration review process

IPO on-ramp benefits afforded to ECGs

- Executive Comp: Streamlined executive compensation disclosure & exemption from the shareholder advisory votes on executive compensation required by Dodd Frank
- Internal Controls: Exempt from requirement to provide auditor attestation of internal controls over financial reporting under Sarbanes-Oxley Act Section 404(b)
- Adoption of new accounting standards: May elect to defer the adoption of new or revised accounting standards until they become effective for private companies
- Public company accounting rules: Exempt from certain Public Company Accounting Oversight Board (PCAOB) rules regarding mandatory audit firm rotation, auditor discussion and analysis and the new auditor reporting standard

1. A private company qualifies as an EGC if it has <$1.235Bn in total annual gross revenue during its most recent fiscal year. A company can retain ECG status for first 5 fiscal years post listing unless its gross revenues exceed $1.235Bn, it has issued more than $1.0Bn of non-convertible debt over a three year period or it becomes a large accelerated filer (public float > $700M).

Additional US Considerations: FPI Benefits

FOREIGN PRIVATE ISSUERS (FPIs) HAVE REDUCED DISCLOSURE OBLIGATIONS

Foreign Private Issuer Criteria

- <50% US ownership (direct or indirect); and
- Any of the following:
  - Majority of directors or officers are not US citizens or residents;
  - <50% of assets in the US
  - Business not principally administered in the US

Considerations

- Senior management headquartered in the US with US public company experience mitigates investor concerns around FPI status
- Duration of eligibility of FPI status in the future
- Ability to take advantage of FPI relaxation (e.g. periodic reporting)
- Potential for foreign domicile discount (which may be bigger for certain domiciles)

Financials	• IFRS or US GAAP • Quarterlies not required for SEC Review
Executive Compensation	• Aggregated disclosure (rather than named) • Not required to provide compensation discussion and analysis
Corporate Governance	• Can comply with home country rules except for audit committee • Not required to have majority independent directors or hold regular executive sessions • Required to comply with SOX
Periodic Reporting	• 20-F annual report within 4 months of year end • Not required to file interim financials in 10-Q unless publicly released • May submit interim financial reports on 6-K but not specific requirement on content and form
Other	• Exempt from SEC proxy rules & Reg FD (fair disclosure rules) • Directors, officers & 10% holders exempt from insider reporting & short-swing liability rules

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