RIVERON

PREPARE FOR CHANGE

ASK THE EXPERTS WEBINAR

Exploring Capital Markets Options in the Energy Sector

August 15, 2019

KEY REMINDERS

- Riveron webcasts – past and upcoming
- 4 polling questions must be answered to obtain CPE
- If you have questions, feel free to ask in Q&A option in Zoom
- Webinar evaluation form & CPE certificate will be emailed to you
- On demand video is not eligible for CPE
- You will receive a follow up email including:
  - Access to this webinar recording and deck
  - The ability to join our Webinars Mailing list to receive future invites
  - Presenter contact info

PRESENTERS

James Lee *EXECUTIVE MANAGING DIRECTOR*

Years of Experience: 25+

Expert Areas: Public accounting, corporate finance, private equity and financial leadership with a strong emphasis in energy

Zac McGinnis *MANAGING DIRECTOR*

Years of Experience: 18+

Expert Areas: Capital raising assistance, carve-out and pro forma financial statements, business combination and divestiture matters, IPO readiness, GAAP change and conversions, and audit assistance

Damon Kade *MANAGING DIRECTOR*

Years of Experience: 21+

Expert Areas: Business transformations, technology program management, supply chain, back office optimization, and EBITDA lift

AGENDA

CAPITAL MARKET PATHS

IPO & SPAC DEEP DIVE

ORGANIZATIONAL READINESS

SUMMARY

Q&A

Polling Question 1

My organization's core subsector is:

A. Upstream

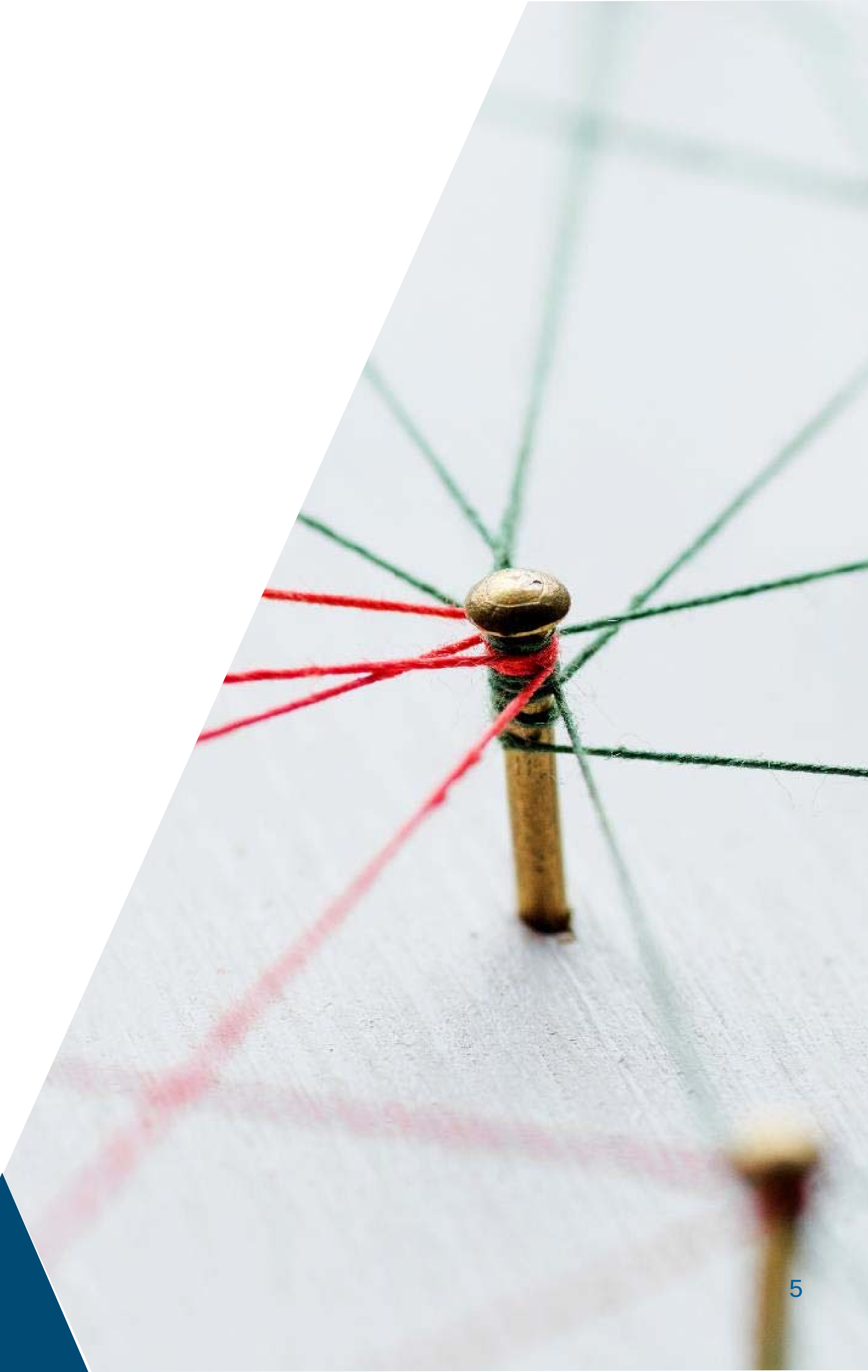
B. Midstream

C. Downstream

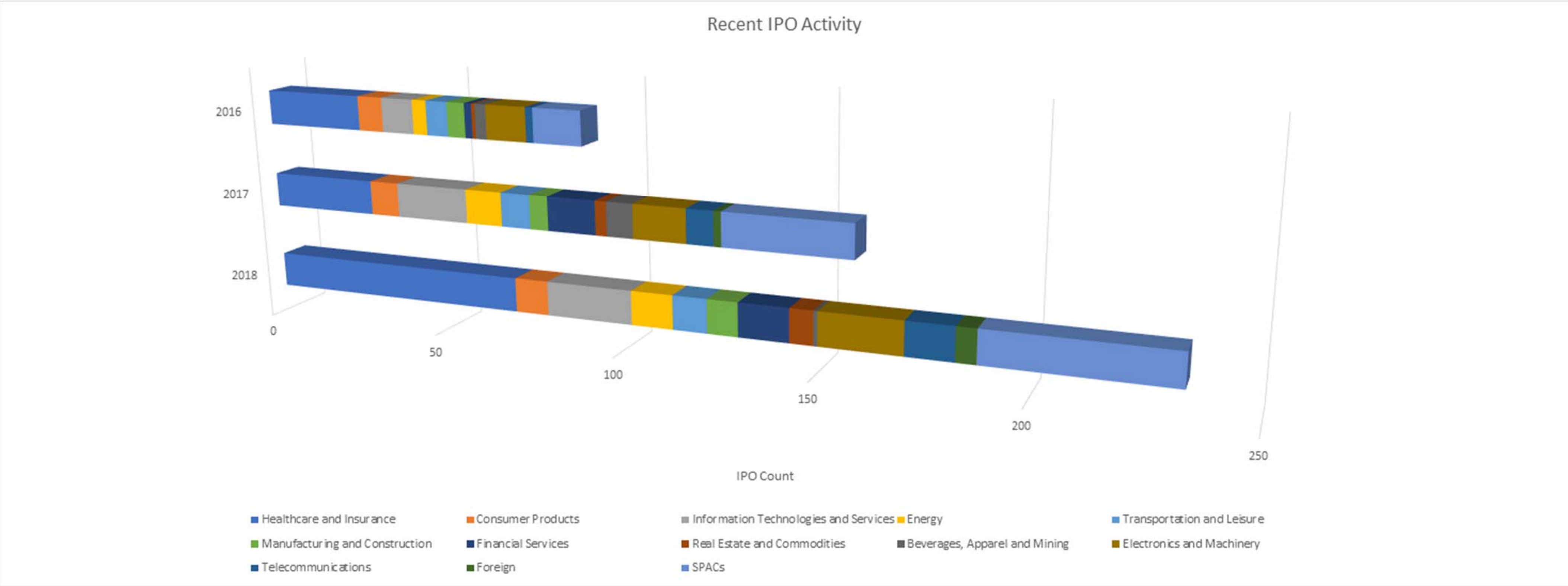
D. Services

E. Alternative

F. Other



RECENT IPO ACTIVITY



CAPITAL MARKET PATHS

	What is it?	Advantages	Disadvantages
Initial Public Offering (IPO)	Private company offers common shares for first time to public and receives proceeds; shares traded on a public exchange	▸ Access to significant liquidity for strategic decisions ▸ Greater exposure to public markets for future deals	▸ Regulatory reporting deadlines and costs ▸ Penalties for missing earnings expectations, trading volumes and financial reporting errors ▸ Public scrutiny (e.g. MLP MQDs)
144A "for life" or with registration rights	Private capital raising of equity or debt to Qualified Institutional Buyers (QIBs) "purchasers"	▸ Less compliance and reporting requirements – driven by equity or debt "purchasers", not regulators ▸ On-ramp or dry run for potential subsequent public reporting	▸ Capital is limited to QIBs ▸ Reg rights "flip" to public in defined time period (e.g. 180 days)
Special Purpose Acquisition Company (SPAC) merger	Acquisition-based capital markets event - SPAC legally acquires private operating company (Opco)	▸ Marketability determined by SPAC shareholder vote at end of transaction, not pre-trading roadshows or testing the waters ▸ More legal disclosures in Registration Statement	▸ Opco management has less control of deal timing - driven by SPAC "clock" which is typically 18-24 months ▸ Limited deal proceeds retained by surviving Registrant
Divestiture	Existing company sells a portion of their enterprise to a buyer for proceeds or public company "spins" a component into a new public company	▸ Carve-out - monetization of unlocked value or historically embedded non-core assets ▸ Spin - legacy public company investors receive share of newly public company	▸ First-time, standalone financial reporting on divested business ▸ In spin, no new proceeds received by the company
Direct public offering (DPO)	Legacy private company shareholders have option to sell ownership in public markets	▸ No underwriter fees, costly roadshow expenses, legacy investor dilution or lockup period ▸ Fewer Registration Statement components – e.g. capt'l table, use of proceeds, dilution table	▸ No proceeds received by the company ▸ Less popular and understood by energy investor community

Polling Question 2

My company is considering accessing the capital markets in the next 12 months by way of:

A. Public markets

B. Private markets

C. Divestiture

D. Corporate merger or M&A

E. None

IPO DEEP DIVE - ILLUSTRATIVE TIMELINE

Assumptions: ABC Company is EGC, Month 3 initial Form S-1 filing, Month 6 Form S-1 effectiveness

Initial Form S-1 Filing

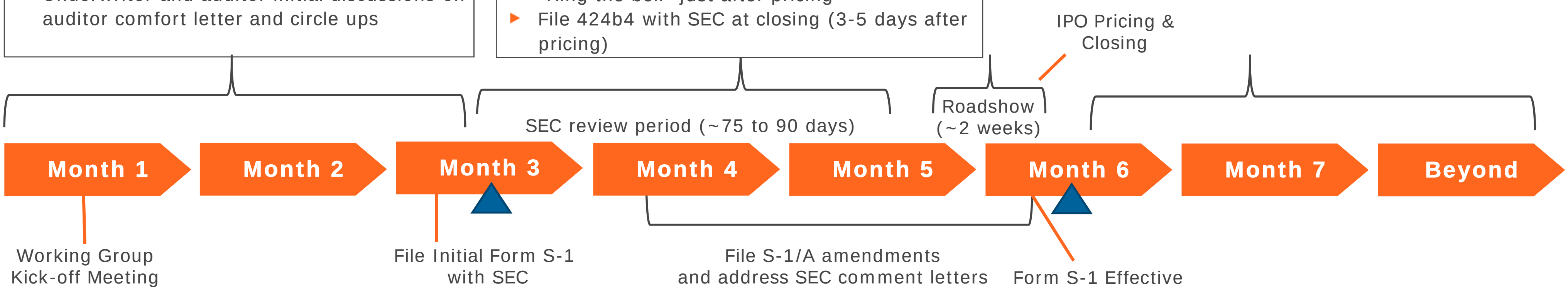
- Prepare PCAOB-audited S-X financial statements as of and for the two years ended 12/31/X2 and 12/31/X1
- Auditor to perform PCAOB audit procedures
- Develop accounting policies on complex accounting areas, such as segment reporting, goodwill impairment and reporting units, earnings per unit, executive compensation
- File SEC pre-clearance letter on basis of presentation matters, if needed
- Engage 3rd party valuation firm, where needed
- Determine any standalone financial reporting obligations, such as S-X 3-05, 3-09 or 5-04
- Prepare Management's Discussion & Analysis (MD&A) for all financial statement periods
- Prepare unaudited Article 11 pro forma financial statements as of and for the year ended 12/31/18, if applicable
- Build non-GAAP disclosures (e.g. Adjusted EBITDA) and understand deal vs SEC acceptability on "add-backs"
- Populate management comfort dataroom
- Underwriter and auditor initial discussions on auditor comfort letter and circle ups

Amended Form S-1 / A Filings

- Prepare interim S-X financial statements as of and for the period ended for the most recent period ended (three months ended March, six months ended June, or nine months ended September 20X3 and 20X2 (need to "quarterize" reporting period 20X2)
- Auditor reviews interim financial statements
- MD&A for interim financial statements
- Article 11 pro forma financial statements as of and for the period ended 20X3 and retain statement of operations for 20X2
- Update management comfort dataroom
- Auditor comfort letter drafting and "circle up" negotiations between auditor and underwriter counsel
- Management to plan for IPO roadshow, investor presentations / meetings and "testing the waters" discussions
- Make JOBS Act elections – e.g. confidential filing, new accounting standards adoption, etc.
- File S-1/A pricing supplement with SEC including final IPO price and updated pro forma financial statements (end of IPO roadshow)
- "Ring the bell" just after pricing
- File 424b4 with SEC at closing (3-5 days after pricing)

Being Public

- File initial Form 10-Q or 10-K for post-IPO reporting period, depending on timing
- SOX 302 / 906 certifications to be included in first 1934 Act filing
- Organizational readiness and finance effectiveness planning including:
  - ✓ Closing books more effectively and efficiently
  - ✓ Current state vs future state public-co organizational structure assessment
  - ✓ Investor relations, corporate governance and executive compensation planning
  - ✓ Management SOX 404(a) not applicable until 2nd Form 10-K
  - ✓ Auditor SOX 404(b) not applicable for 5 years, assuming EGC status is maintained



▲ = **Financial statement "stale" dates**

IPO DEEP DIVE: ACCOUNTING & REPORTING CONSIDERATIONS

An IPO is a complex process for many reasons. Factors that should be addressed by management early on are:

1. SEC pre-clearance letter, if needed. Some common areas are:
   1. Standalone financial reporting obligations, such as S-X 3-05, 3-09 or 5-04 financial statements
   2. Auditor PCAOB independence conflicts and resolution, possibly SEC pre-clearance
   3. Full financial statements versus carve-out financial statements versus abridged financial statements
2. Auditor PCAOB independence clearance and auditor upgrade procedures from AICPA to PCAOB standards
3. Basis of financial statement presentation, focusing on legal and tax structure, successor / predecessor determination, common control matters, etc.
4. Upgrading GAAP financial statements to S-X compliance, common differences:
   1. Segment reporting,
   2. Earnings per unit,
   3. Goodwill impairment and reporting units
5. Treatment of historical stock compensation awards – calculated value (private) vs. fair value (public) approach
6. Non-GAAP data and related disclosures as well as deal versus SEC acceptable “add backs”
7. Article 11 pro forma financial statements, where needed
8. Management’s Discussion and Analysis (MD&A) structure and preparation as well as consistency with segment reporting in financial statements
9. JOBS Act, FAST Act implications related to:
   1. Adoption of new accounting standards – ASC 606, ASC 842 and related SAB 74 disclosures
   2. Financial statement periods to be presented
   3. Confidential filings election
   4. Any years or quarters to “skip” in initial Form S-1 that will not be included in the effective Form S-1
10. Don’t underestimate the quality of the “printer” and power of live drafting sessions
11. Organizational readiness, finance effectiveness, SOX preparation, close process improvement, IT upgrades

SPAC MERGER DEEP DIVE – ILLUSTRATIVE TIMELINE

Assumptions: SPAC is legal acquirer, Opco is accounting acquirer, Opco is Predecessor, non-EGC under JOBS Act

Initial Proxy Statement / Form S-4

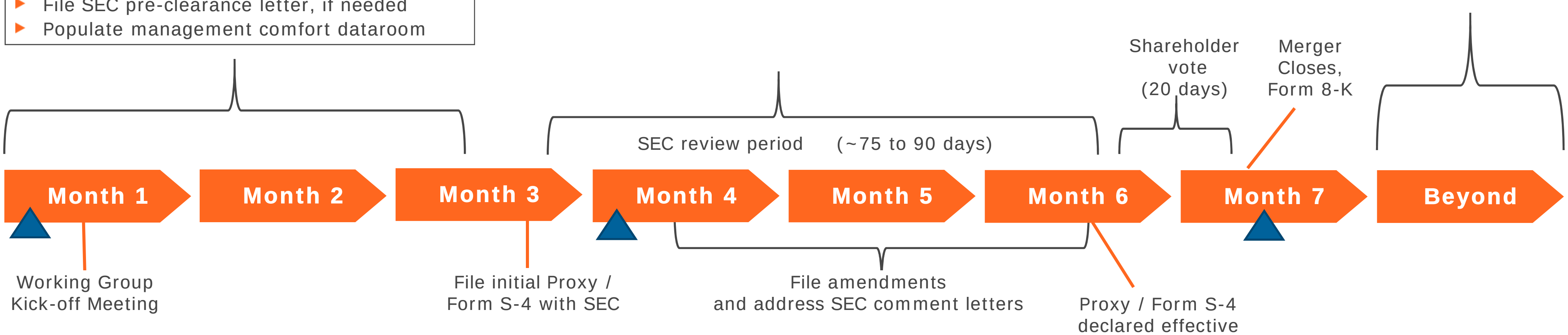
- Prepare Opco PCAOB-audited Predecessor S-X financial statements as of and for the three years ended 12/31/x8
- Auditor to perform PCAOB audit procedures on Opco
- Management to prepare unaudited selected financial data as of and for the two years ended 12/31/x5 for Opco (5 years total)
- Prepare Management's Discussion & Analysis (MD&A) for Opco for all financial statement periods
- Prepare unaudited Article 11 pro forma financial statements as of and for the year ended 12/31/x8, including unaudited comparative share data, engage valuation firm if applicable (if business combination)
- Build PIPE materials, Form 8-K and ensure consistency with Proxy / Form S-4 data
- Determine any S-X 3-05 acquiree, 3-09 investee or 5-04 parent company reporting requirements
- File SEC pre-clearance letter, if needed
- Populate management comfort dataroom

Updated Proxy Statement / Form S-4

- Update Opco interim S-X financial statements as of and for the three months ended 3/31/x9 and 3/31/x8 ("quarterize" x8)
- Auditor reviews interim financial statements
- Update Opco MD&A for interim financial statements
- Update SPAC interim financial statements
- Update Article 11 pro forma financial statements as of and for the three months ended 3/31/x9
- Update management comfort dataroom
- Note: Auditor comfort letter not required if not an underwritten transaction

Forms 8-K/A, 10-Q & 10-K Filings

- File Form 8-K within 4 business days of merger closing
- File "Super Form 8-K" with 6/30/x9 interim financial statements - establishes the "Opco" as the surviving SEC registrant
- Recasts all periods as if Opco was the SEC registrant for all periods
- Management and auditor SOX not applicable until 2nd Form 10-K
- SOX 302 / 906 certifications to be included in first 1934 Act filing – e.g. the 9/30/x9 Form 10-Q



= Financial statement "stale" dates

SPAC MERGER CONSIDERATIONS

A SPAC merger is a complex process for many reasons. Factors that should be addressed by management:

1. Auditor PCAOB independence clearance and auditor upgrade procedures from AICPA to PCAOB standards
2. SEC pre-clearance letter, if needed. Some common areas are:
    1. Basis of financial statements presentation, considering the legal merger structure
    2. Standalone audited financial statements (3-05)
3. Financial statement presentation, focusing on:
    1. Legal and tax structure (e.g. MLP, Up-C, TRA agreements, etc.)
    2. Identification of accounting acquirer and need for 3rd party valuation firm if treated as a business combination
    3. Identification of SEC Predecessor
    4. Minimum vs maximum redemption / inflection point that could change accounting acquirer determination
4. Upgrading GAAP financial statements to S-X compliance – key differences relate to segment reporting, earnings per unit (new S-X disclosures), goodwill impairment and redeemable equity security classification
5. Historical stock compensation awards – calculated value (private) vs. fair value (public) approach
6. S-X 3-05 and/or S-X 3-09 standalone audited financial statements of significant acquirees and/or investees
7. Non-GAAP data and related disclosures as well as deal versus SEC acceptable “add backs”
8. Article 11 pro forma financial statements. Areas of focus should be:
    1. Minimum vs maximum redemption scenarios and impact on accounting acquirer, sources and uses
    2. Earning per share
    3. Changes in capitalization and tax status at merger date
    4. Third-party valuation firm coordination on PPA, historical stock compensation grants, etc.
9. Management’s Discussion and Analysis (MD&A) structure and preparation and interdependencies with segments
10. PIPE reporting materials and consistency with Proxy Statement / Form S-4 financial data disclosures
11. JOBS Act, FAST Act implications related to:
    1. Adoption of new accounting standards – ASC 606, ASC 842 and related SAB 74 disclosures
    2. Financial statement periods to be presented
    3. Numbers of periods in selected and summary financial data tables
    4. Any years or quarters to “skip” in initial Proxy / Form S-4 that will not be included in the effective Proxy Statement
12. Quality “printer” selection and live drafting sessions
13. Organizational readiness, finance effectiveness, SOX preparation, close process improvement, IT upgrades

Polling Question 3

The area of my organization that is least prepared for a capital markets event is:

A. Accounting, financial reporting

B. FP&A

C. IT, systems

D. Operations

E. Other

PREPARING FOR A CAPITAL MARKETS EVENT
ORGANIZATIONAL READINESS

A comprehensive IPO readiness assessment requires a thorough evaluation of all areas of the organization

CONTROLLERSHIP	FINANCE	LEGAL	CORP. DEVELOPMENT
Accounting	Financial Planning Analysis	General Counsel	
Financial Reporting	Management Reporting	Tax	
Enterprise risk management	Treasury		
Internal audit	Investor Relations		
Internal controls			

← Technology →

← Project management, change management, and communications →

COMMON CLOSE CHALLENGES FOR IPO READINESS

DATA QUALITY

- Inconsistent use of processes across different locations, segments or people (e.g. same account capturing different operational activity in different segment, different cost allocation rules by segments)
- Duplicative or misrepresentation of data due to lack of sophistication

MANUAL PROCESSES

- Accounting policies are not documented and centralized for everyone's use
- Lack of integrated close workflow management for close calendar with defined responsibilities
- Excessive top-side adjustments and excel heavy internal report creation

SKILL-SET GAP IN PUBLIC REPORTING COMPLIANCE

- Lack of knowledge sophistication to address accounting and legal reporting requirements for public company
- Competing priorities to manage daily responsibilities with additional public company reporting requirements

BEST PRACTICES – CLOSE & CONSOLIDATION

WD -2 | WD 0 | WD 2 | WD 4 | WD 6

WD -2

FIXED ASSETS
Record all assets and depreciation amounts correctly

A/P
Setup Vendors
Imaging of all invoices

A/R
Generate all customer invoices, credit memos

PAYROLL
Accrue payroll expenses

WD 0

CASH MGMT
Process all due receipts / payments
Bank Integration

INVENTORY COSTING
Complete costing run, update standards for future months

PROJECTS
Projects Accountings

FX
FX Rates and triangulations

WD 2

GL POSTINGS
Push all Journal entries from sub-ledger into general ledger

I/C RECON.
Reconcile Open AR/AP Invoices and intercompany balances

MANUAL ADJS.
Record all manual adjustments

WD 4

CONSOLIDATIONS
Perform Consolidations → Intercompany Eliminations, Translations / Remeasurements

ACCT. RECON.
Reconcile key Balance Sheet accounts

WD 6

POST CLOSE
Post Close entries (Tax adjustments, LCM adjustments etc.)

REPORTING
External Reports Review

XBRL Preparation

Private companies with lack of sophistication in process & technology close their books on ~WD15

BEST PRACTICE CLOSE & CONSOLIDATION FUNCTION

ELIMINATIONS & CURRENCY TRANSLATIONS

- Eliminations are automated in the consolidation tool for legal, statutory and management books
- One set of elimination rules within consolidation system to support legal, statutory and management close
- Automated calculation of elimination entries for intercompany reciprocal operations, internal dividends, and investments in subsidiaries after data load
- Currency translation for actuals maintained in the consolidation system

CASH FLOW REPORTING

- Consolidation system specific cash flow accounts will be created that are not loaded through source system but automatically calculated
- True FX impact from cash flow activity can be reported
- Cash flow calculations will be processed at the time of consolidation and can be done monthly
- All manual adjustments can be stored centrally in the consolidation engine to prevent multiple data sources

TAX

- The tax close process is closely aligned with the financial close process: follow a detailed tax compliance plan, define individual responsibilities, and manage interdependencies / integration points
- Tax and Transfer Pricing adjustments are calculated and entries are automatically posted

COMMON FP&A CHALLENGES POST IPO

Unrealistic inputs driving monthly forecast accuracy

- Inefficient connection between Strategic, Financial & Operational plan leads to unrealistic forecasts that are not grounded in reality
- Lack of confidence to share the targets with external investor community
- Extensive time spent on re-building planning models to force-fit the story

Non-existence streamlined and consistent processes

- Excessive effort in areas with low value-add and higher complexity
- Lack of sufficient what-if scenarios modeling leading to exposure to market volatility & cyclicality
- Low visibility in to assumptions and risks used to develop the forecast

Absence of market leading technology for planning process

- Too many manual tasks and time spent on data capture / manipulation lending itself to lesser time available for analysis
- Spreadsheets become individual dependent and difficult to harmonize across different groups and/or teams
- Lack of effective integration with the Actuals data and approval versions for robust discussions with board and executives

BEST PRACTICES – QUARTERLY CLOSE

WD 6

POST CLOSE

Post Close entries (Tax adjustments, LCM adjustments etc.)

REPORTING

External Reports Review

XBRL Preparation

Flash Reporting

WD 10

ANALYSIS

Variance Analysis
- Current vs. Prior
- Actual vs. Budget
- Constant Currency

WD 15

10Q PREP

Disclosures and MD&A

Automated process to generate reporting for segments, geographies

WD 20

10Q PREP

Certification Questionnaire for SOX controls

Audit Committee Review

XBRL Tagging

Earnings Release

WD 28

SEC FILING

Disclosure Review Committee

SEC Filing

Leverage reporting tools to automate and standardize segment, regional, legal entity, tax and other internal and external reports

BEST PRACTICE CORPORATE FP&A FUNCTION

IMPROVE PLANING PROCESSES

- Develop an efficient planning calendar that provides guidelines for all organizations within the firm
- Build the capability to effectively link strategic plans with corporate & operations forecasts
- Utilize driver-based planning and use driver analytics to develop targets and pre-populate plans
- Develop Rolling Forecasts
- Zero Based Budgeting of G&A

OPTIMIZE PURPOSE BUILT TECHNOLOGY

- Implement a integrated technology solution that is purpose built to specific planning processes
- Provide for specific BU needs and unique requirements but standardize where possible
- Develop dashboard and other interactive reporting capability for planners and executives
- Effective training to users to enable quick turnaround and efficient plan approval process

EFFICIENT ORGANIZATION

- Automate manual processes and retain people for complex analysis
- Retain or attract FPA personnel for insightful analytics and complex processes
- Develop standardization across planning processes, review & approval cadence and COEs (Center of Excellence) for key Business Units
- Create process that can positively impact behavior and avoid complex allocations for 'gaming the system'

COMMON CHALLENGES RELATED TO HIRING "RIGHT" TALENT

- Skillset gaps related to public company & compliance reporting exist within Finance & Controllership organization related to External Reporting, FP&A, Internal Audit, Treasury etc.
- Accounting organization very focused on executing transactional accounting (e.g. AP, AR, monthly close) as opposed to analysis
- Lack of segregation of duties due to limited team members
- Additional challenges due to earnings release, tax compliance etc. poses need for additional resources

INTERNAL CONTROLS REQUIREMENTS FOR PUBLIC COMPANY

As part of going public, companies need to make sure that they are compliant to SOX 302 and 404 controls

- Quarterly certification of the adequacy and effectiveness of internal controls need to be recorded as part of Sarbanes Oxley legislation 2002.
- Management executives need to be identified to ensure completeness and enterprise wide quarterly 302 certification
- Typically someone from General Counsel is chosen for reviewing the list of reviewers / approvers, distributing the quarterly questionnaires to people and reporting results to CEO / CFO
- Leverage technology to setup reminders, escalations and notification capability and enable IT General Controls, Security Controls and other Process Controls

Public Companies need sophisticated technology to address Compliance & Controls requirement

PURPOSE BUILT FINANCE TECHNOLOGY

EXAMPLES

REPORTING

- External & Management Reporting
- Key KPIs and Interactive Reports enabled by dashboarding for Exec. Committee

Examples:
- TABLEAU
- QLIKVIEW
- ORACLE
- SAP

PURPOSE BUILT TECHNOLOGY

- EPM tools can provide better integration between Controllership & Finance orgs.
- Better linkage between strategic & operational plans

Examples:
- ORACLE CLOUD
- SAP BPC / SAC
- ANAPLAN

RECONCILIATION, ANALYTICS

- Intercompany Reconciliations
- Analytical Reporting

Examples:
- ALTERYX
- DATA WAREHOUSE
- IN-HOUSE DATA LAKES

DATA COLLECTION

- Multiple Source Systems
- Multiple instances of Chart of Accounts
- Manual Spreadsheets & BU specific plans

Examples:
- ORACLE CLOUD
- MICROSOFT DX
- NETSUITE
- SAP

KEY AREAS TECHNOLOGY CAN ENABLE “IPO READINESS”

- Enables Standardization and Rationalization across processes
- Redesign Chart of Accounts and implement ERPS and CPM softwares
- Automate Close process & controls and enable transparency in cost allocations
- Translations (ASC 830) and re-measurements can be automated and CTA / FX Gain & Loss can be calculated accurately by transaction
- Tax provisions can be enabled
- Reporting under changing Accounting policies (e.g. ASC 842 (Lease Accounting), ASC 606 (Revenue Recognition) can be enabled seamlessly
- Audit trails of data movement and segregation of duties enable compliance
- Driver based Planning integrate with ERP can enable linkage between strategic and operational view
- Enables daily operational metrics for instant decision making

Polling Question 4

In the next 6 months, I expect commodity prices to:

A. Increase

B. Decrease

C. Stay relatively constant

D. My crystal ball is broken

Q&A