Point of View

Initial Public Offerings in Kingdom of Saudi Arabia

December 2023

Preface

Capital markets are a vital source of finance for companies that want to expand their businesses. They facilitate connecting companies with potential investors who are interested in the company's growth and developmental prospects. The act of accessing capital markets represents a significant growth milestone for any company and consequently enhances its corporate profile.

Under the Saudi Arabia's Vision 2030 program ("the Program"), capital markets are undergoing a rapid transformation. The Program provides a strategic plan to diversify the Saudi economy thereby, reducing its dependence on oil and related products and at the same time, aims to further strengthen the role of Saudi Stock Exchange, as a Middle East and North Africa ("MENA") region financial hub.

Companies can access capital markets in a variety of ways, e.g., Initial Public Offering ("IPO"), direct listing, reverse merger, spinoff, or use of special-purpose vehicles. The purpose of this publication is to provide a guide in relation to the following matters:

- The regulatory framework that governs the IPO process in the Kingdom of Saudi Arabia ("KSA"), including the roles and responsibilities of the Capital Market Authority ("CMA"), the Saudi Stock Exchange and other relevant entities.
- The current trends and developments in the IPO market in KSA, such as the increasing number and size of IPOs and the diversification of industries which are accessing the capital markets.
- The listing options and criteria for companies that want to go public in KSA, including the main market (Tadawul) and the parallel market (Nomu), which cater to different types and sizes of companies.
- The different phases of IPO, from the initial readiness assessment to the post-listing obligations and requirements.

Given the volume of recent listings on the Saudi Stock Exchange and our conversations with companies in relation to their interest to list in KSA, the purpose of this publication is to offer our experience and insights to companies that aspire to list on the Saudi Stock Exchange through the Initial Public Offering ("IPO") method, enabling them to achieve their listing goal with poise and confidence.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to provide clarifications on our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

For Uniqus Consultech Inc.

12 December 2023

Sandip Khetan
Co-Founder & Global Head of Accounting & Reporting Consulting

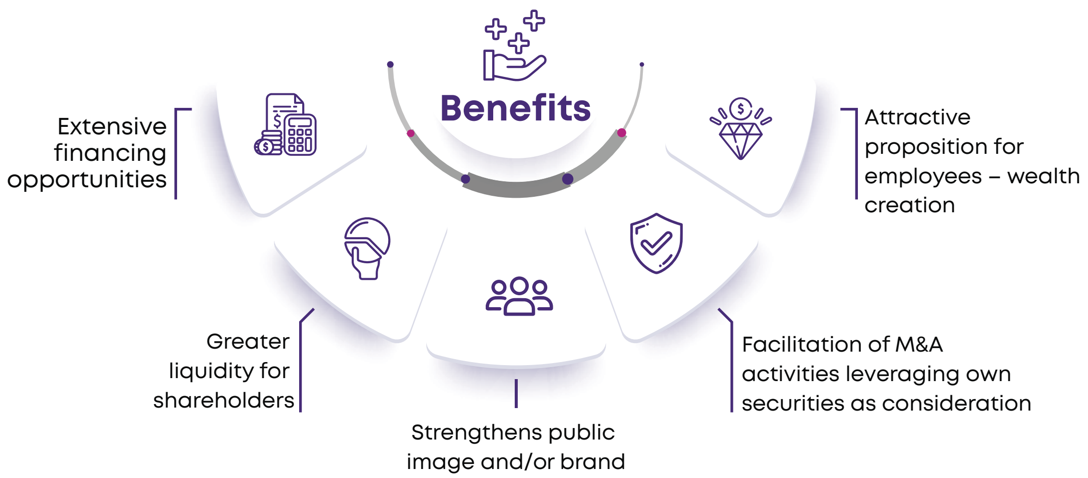
Introduction

The decision to go-public is fundamentally a transformational event with a significant and pervasive impact on the overall operations of the company. Whilst going public provides the company with access to additional capital, it also exposes the company to additional compliance obligations expected of a public company and the requirement of new skill sets that may or may not be present within the current workforce. Careful consideration of these factors will assist management in creating a suitable plan of action, thereby boosting the company's chances of successfully achieving (and maintaining) its public company status. Companies that are considering going public should first critically assess how a public listing will benefit them and thereafter evaluate all possible means by which this could be achieved. The approach selected to go public (through an IPO/ reverse merger, etc.) should best reflect the strategic rationale behind the company's decision to go-public. This publication is aimed at providing direction to companies going public using the IPO route, being the most common method to go-public.

The ‘what’ and ‘why’ of going public

Before we delve into the intricacies of an IPO, we will start with explaining the term, “IPO”. Essentially, an IPO is the process of offering the shares of a private company to the public for the first time.

Having established a basic premise of what constitutes an IPO (i.e., a means to go-public), we next consider the obvious question, why go-public? Whilst the decision to go-public brings several benefits to a company; it is not without its limitations. Therefore, management should conduct a detailed evaluation of all pertinent facts and circumstances before reaching a decision to go-public, including choosing the most suitable approach that aligns with its corporate strategy. Some of the typical benefits and limitations of going public are outlined below:

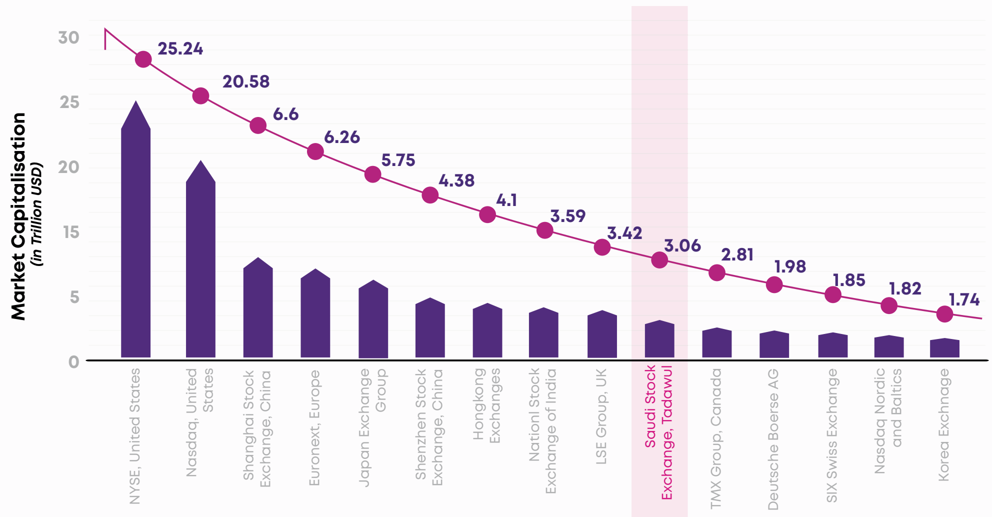


Selecting the right exchange

The decision on when and on which exchange to list your company is a long-term and important consideration in the development strategy of a company. Exchange stability, market liquidity, business opportunities, trading execution and regulatory compliance requirements are just some of the factors that should be considered in selecting the right exchange for going public. Companies can choose to list on the local exchange in their jurisdiction or elect to list on a foreign exchange of their choice. Companies selecting to list on foreign exchanges should also evaluate the impact of converting their financial statements from the locally applicable accounting standards to those applicable in the jurisdiction of the foreign exchange. For example, companies in KSA considering listing in the New York Stock Exchange should be cognisant of the impact of converting their International Financial Reporting Standards ("IFRS") and Saudi Organisation for Chartered and Professional Accountants ("SOCPA") compliant financial statements to U.S. GAAP as well as any other regulatory requirements that may be applicable to companies listing in that exchange, e.g., compliance with the Sarbanes Oxley Act.

The exchange selected for listing can not only influence valuation and liquidity, but can also provide non-financial benefits, such as enhancing the visibility, reputation and brand image of the company. Therefore, selecting the right exchange to go-public requires careful consideration of your goals and objectives, as well as the eligibility criteria and listing requirements of different exchanges.

For comparative purposes, below are the top 15 exchanges globally, based on market capitalisation as at 30 September 2023:



Name of the exchanges per Global ranking

Source: statista.com

The Saudi Stock Exchange is not just one of the top global exchanges, but also the largest and most liquid in the MENA region. Some of the benefits of listing on the Saudi Stock Exchange are:

A

KSA's Vision 2030 Program has resulted in a major economic transformation aiming to diversify the economy, boost the private sector, and attract foreign investment.

B

Listing on the Saudi Stock Exchange provides access to a thriving market in the MENA region with a large and diverse pool of investors. KSA also belongs to the G20 group and has strong economic and political ties with other countries in the Gulf Cooperation Council ("GCC").

C

KSA also provides appealing tax advantages and incentives for businesses, such as a low corporate income tax rate of 20%, no personal income tax, zero VAT on exports, and various exemptions and subsidies.

Generally, companies in KSA would prefer to list their securities on Tadawul (also referred to as the "Main Market"). However, in instances where a company does not meet the eligibility criteria for Tadawul, it may consider listing on Nomu (also referred to as "Parallel Market"), which was specifically designed to cater to the needs of companies looking to IPO in KSA but not meeting the eligibility criteria of Tadawul. A detailed comparison of the two markets has been provided in section 5 of this publication.

Given the benefits of listing in KSA as well as the flexibility of listing on Tadawul or Nomu, the Saudi Stock Exchange has attracted many IPOs over the past few years. In the last year alone (from October 2022 to October 2023), more than 45 entities have selected to IPO in KSA which collectively, amounts to SAR ~ 34bn (USD ~9bn) as outlined below:

Industries	Tadawul			Nomu			Total			Total Issue Value (USD)
	No.of Listings	Issue Value (SAR)	% gain/ (loss)	No.of List-ings	Issue Value (SAR)	% gain/ (loss)	No.of List-ings	Issue Value (SAR)	% gain/ (loss)	
Banking, Finance & Insurance	2	0.58	0%	2	0.12	(26)%	4	0.70	(13)%	0.19
Capital & Industrial Goods	1	1.42	76%	3	0.11	6%	4	1.53	23%	0.41
Commercial & Professional Services	1	0.29	75%	2	0.12	(43)%	3	0.41	(3)%	0.11
Consumer Services	4	8.28	41%	8	0.30	1%	12	8.58	14%	2.32
Health & Life Sciences	1	1.26	83%	1	0.07	10%	2	1.33	46%	0.36
Materials	1	4.95	38%	5	0.21	(38)%	6	5.17	(25)%	1.39
Media & Entertainment	2	0.70	63%	-	-	-	2	0.70	63%	0.19
Oil & Energy	3	10.61	48%	-	-	-	3	10.61	48%	2.86
Retailing	1	1.21	(93)%	1	0.01	(83)%	2	1.22	(88)%	0.33
Technology & Software services	1	0.01	25%	1	0.03	(18)%	2	0.04	4%	0.01
Transportation	2	3.63	32%	2	0.04	37%	4	3.68	34%	0.99
Real Estate	1	0.51	(10)%	2	0.09	(7) %	3	0.60	(8)%	0.16
Grand Total	**20**	**33.45**	**35%**	**27**	**1.11**	**(12)%**	**47**	**34.56**	**8%**	**9.33**

SAR and USD amounts are in billions

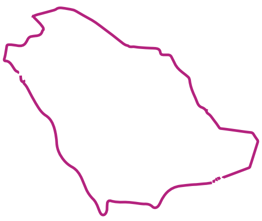
Source: www.saudiexchange.sa

1. *The above data includes listing of IPOs and Tradable rights (ETFs) but not Corporate Sukuk and Bonds.*
2. *To calculate the % gain/(loss) for each industry, the average has been considered of all the companies in that industry. E.g if there are 3 companies in an industry with a gain / (loss) of 75%, 8% & (93) % respectively, the average gain/(loss) across industry is calculated as [(75+8-93)/3], i.e. (3) %.*

Listing in the Kingdom of Saudi Arabia

As mentioned earlier, Tadawul is one of the top global exchanges and the largest and most liquid in the MENA region. It offers businesses access to a deep pool of investment capital to support companies with their growth and unlock exciting new opportunities.

The Saudi Stock Exchange also offer issuers looking to join the market for the first time, a choice of transactions depending on their needs. Issuers can choose from:



- An IPO on the Tadawul or the Nomu; or
- Issuers can also choose to undertake a Direct Listing on Nomu without an offering. This route may suit companies which have already raised capital through other means and have a diverse set of investors who are looking for the benefits of a public market quotation to trade their shares.

For the purposes of this publication, we will focus on companies selecting to go for an IPO either on the Tadawul or the Nomu. Whilst Tadawul is the main and largest market of the Saudi Stock Exchange, Nomu provides an alternative platform for smaller companies to access capital with less restrictive listing rules, lower listing fees, and shorter settlement cycle than the Tadawul. Overall, with Nomu's flexibility and lighter requirements as compared to Tadawul, it has quickly become an attractive proposition for smaller companies.

A fundamental requirement of both markets is that companies looking to IPO must be a 'Joint Stock' company. Below is a broad comparison of Tadawul and Nomu to facilitate companies in determining which market best suits their needs:

Criteria	Tadawul	Nomu
Market capitalisation	Minimum market capitalisation of SAR 300 million	Minimum market capitalisation of SAR 10 million
% of offering	At least 30% of the issued shares	At least 20% of the issued shares or floating SAR 30 million worth of shares in the market (whichever is lesser)
Number of public shareholders	At least 200 public shareholders are required	At least 50 public shareholders are required
Financial track record	The issuer must have been undertaking directly (or through a subsidiary), a main activity for at-least three financial years under the same management	The issuer is only required to have one year of operational and financial performance
Audited financial statements	The issuer must have published its audited financial statements covering at-least the previous 3 financial years, prepared in accordance with the accounting standards approved by SOCPA	The issuer must provide annual audited financial statements prepared in accordance with the accounting standards approved by SOCPA only for the previous year
Continuous obligations	Disclosure of quarterly financial statements within 30 calendar days from the end of the period and year-end financial statements within 3 months from the end of the period	Disclosure of semi-annual financial statements within 45 calendar days from the end of the period and year-end financial statements within 3 months from the end of the period

Criteria	Tadawul	Nomu
IPO Process	Companies must submit an application to the Capital Market Authority ("CMA") along with the required documents and fees CMA will review the application and issue a preliminary approval or rejection within 60 days upon which the company must publish a prospectus that discloses all relevant information about the IPO and obtain the CMA's approval	The company must submit an application to the Nomu Advisory Committee (NAC) along with the required documents and fees. Generally, the documentation requirement of NAC is less extensive as compared to CMA. NAC will review the application and issue a preliminary approval or rejection within 30 days. The company must then publish an information memorandum that discloses all relevant information about the IPO and obtain the NAC's approval
Other matters	If the issuer has undergone restructuring, 1 financial year must elapse since the date of completion of the restructuring before it will be eligible to issue any securities The senior executives of the issuer must have appropriate expertise and experience for the management of the issuers business An issuer must have on its own or with its subsidiaries, sufficient	Appointing a financial advisor is mandatory, legal advisor is optional Semi-annual reviewed financial statements Disclosure of significant/ essential information such as company's core activities, logo, authorized capital, primary contact information, end date of its fiscal year, underwriter details, etc

	working capital for 12 months immediately following the date of the publication of the prospectus The issuer must provide CMA with reviewed interim financial statements, if such statements were issued during the application period	No profitability track record is required Lock-up Period: 100% of pre-offering investor shares for one year

Source: www.saudiexchange.sa

Commencing your IPO journey

An IPO is a complex process that can take several years in planning. In fact, it would not be incorrect to say that some companies begin their IPO journey 1-2 years before officially filing an application for intention to go public with the regulator. In our view, successful public companies often start operating as a public company well before actually becoming a public company to better prepare for the next phase.

Timing plays a very important factor that can affect the success of an IPO. The timing can influence the demand, supply, pricing, and listing of the company's shares. A well-timed IPO can help the company raise more capital, achieve a higher valuation, and create a positive impression among investors. Therefore, companies should try to launch the IPO when the market is favorable or when the demand for the company's products or services is high. This can help attract more investors and achieve a higher valuation for the company. Conversely, if the market is unfavorable or when the industry is facing challenges, the IPO may face difficulties in raising capital and may have to lower its price or postpone its launch altogether.

The company should also try to launch an IPO when the company has strong financial results and growth prospects. This can help showcase the company's potential and justify its valuation. The market may be right, with liquidity abound, but your company may not be. The reverse could also very well be true. In our view, a company being 'internally' ready is equally important to the external factors noted earlier.

The IPO process can be categorized into the following phases:

Phase 1 – Pre IPO | Phase 2 – IPO Execution | Phase 3 – Post IPO

The pre-IPO phase is a transformational stage when the private company has decided to go public and thus needs to set up the groundwork for becoming public. It needs to assess its readiness in all the areas. It is imperative that at this stage, companies identify and select comparable companies for benchmarking purposes. The key here is to start early to ensure that the company gets enough time and resources to address any gaps identified and/or make the required improvements.

This phase is also commonly referred to as the "IPO Readiness Assessment". Under this phase, a detailed evaluation of various factors is required to determine the company's readiness for the IPO process. Some of the common factors that would be applicable to most companies include the following:

01 Accounting and regulatory reporting

The company must ensure that its financial statements are audited, and all accounting and disclosure related issues have been addressed. A key enabler of achieving this is having an efficient close to report cycle focusing on first time accuracy rather than speed alone.

Some of the common issues faced by companies in relation to reporting matters include the use of non-GAAP measures, recognition of revenue, liability vs equity classification, business combinations and consolidation.

02 Legal structure, ESG & Taxation

The company should review its existing corporate structure to ensure that it is tax efficient, compliant with the regulations of the chosen market and aligned with the business strategy and vision. If not, the company may need to restructure its existing entities, subsidiaries, or associates to create a cohesive and coherent group.

Environmental, Social and Governance (ESG) factors are becoming increasingly important for investors and other stakeholders who are increasingly evaluating the performance of a company through a sustainability lens (in addition to the normal financial metrics). Consequently, the company should also assess its ESG risks and opportunities, disclose its ESG policies and practices as well as integrate ESG into their strategy and operations.

03 Enterprise Risk Management, Corporate Governance & Internal Controls

Corporate governance and internal controls are very important considerations during the IPO process as well as operating as a public company. This is because these factors influence quality, transparency and accountability of the company's management and operations. They also have a positive influence on the trust and confidence of investors, regulators, and other stakeholders. The company should also have a robust ERM framework that covers all the aspects of its business, such as strategy, operations, finance, compliance, governance and reputation which is aligned with the company's vision, mission, goals, and values.

04 Treasury

The company should comply with the regulatory and legal requirements of the CMA and the applicable Saudi Stock Exchange (Tadawul/ Nomu) regarding the treasury aspects of the IPO and optimize its capital structure. The Company should have a clear and realistic cash flow forecast and working capital requirements and also assess all its financial risks such as currency, interest rate, credit and commodity risks to implement any required hedging strategies.

05 Investor relations

Investor relations ("IR") is a key function for any company that plans to go public or has already done so. IR involves communicating with current and potential investors, analysts, regulators, and media about the company's performance, strategy, value proposition, and outlook. IR can help a company attract and retain investors, enhance its reputation, and increase its market valuation.

In addition to the above, some other important factors that a company should also consider include but are not limited to: Financial planning and analysis, Executive compensation, Human resources, Technology and Internal Audit.

Overall, there is no 'one size fits all' approach and therefore, IPO readiness assessments are often be-spoke to each company based on their own facts and circumstances.

Phase 1 – Pre IPO | **Phase 2 – IPO Execution** | Phase 3 – Post IPO

The execution phase involves achieving goals that should enhance the initial valuation of the company. This is the stage where expectations collide with reality and the IPO may even fail, if not carefully handled.

The key is to operate as if the company is already public, thus making the transition simpler. A significant part of a company's IPO execution journey is to ensure transparency in its financial statements with proper, timely disclosures and this aspect applies to companies across all sectors, irrespective of size or business model. The expectation from the market regulator when companies file their draft documents is that of completeness.

Even a great idea can fail without proper execution and the execution of an idea requires strategic planning. Consequently, the following must be done to ensure a successful IPO:

- Prepare and stick to the detailed plans and timelines.
- Hire the right advisors to support the company throughout their IPO journey.
- Complete all the necessary due diligence.
- Prepare the required reporting documents and comply with all the listing requirements and norms of the chosen exchange.
- Present company's vision, strategy, growth prospects, competitive advantages, and financial performance to the potential investors.
- Finalize the terms of the initial public offering such as the price band, allotment date, allotment size, etc. and hit the road.
- File all the required documents with the regulators within the prescribed timelines.

Phase 1 – Pre IPO | Phase 2 – IPO Execution | **Phase 3 – Post IPO**

The post-IPO stage is the period after a company has completed its initial public offering and its shares are listed and traded on a stock exchange. This stage can be challenging for a company as it faces increased scrutiny and expectations from the public market.

Becoming public is just the start of another chapter in the company's journey. Once public, some of the things that the company should focus on include (but are not limited to):

- Delivering what was promised to maintain and build investor confidence.
- Communicating regularly, material information both positive and negative.
- Preparing a detailed reporting calendar to facilitate compliance with the ongoing financial and reporting obligations.
- Building the required accounting systems, internal controls and hiring auditors to ensure that the financial statements are prepared, audited, and filed per the regulatory timelines.
- Ensuring there is no trading action on any material non-public information.

With the right professional support, the entity should prepare itself to operate smoothly in this stage because it is this stage that the company will remain in for the longest period.

Uniqus' point of view

IPOs are time-consuming, expensive, and challenging. Achieving a successful IPO requires organisational collaboration across multiple workstreams and working collectively to prepare the company to operate as a public entity. Furthermore, the months before an IPO are a whirlwind of activity. Consequently, it might not be feasible for companies to manage the IPO process themselves without impacting their core business and therefore, the use of trusted advisors who understand the complexities of the IPO process cannot be overemphasised.

Our team at Uniqus has supported multiple clients across geographies with their respective IPO journeys and some common themes emerge in relation to what contributes to the success of an IPO:

A

Going public is a significant shift for any company, and it demands the coordination of all its business units to pursue a common goal. Each business unit has a specific role and responsibility in the process, such as preparing the financial statements, ensuring compliance with legal and tax rules, developing the governance structure, crafting the company's story, selecting the underwriters and analysts, providing input on the valuation, engaging with potential investors, and getting ready for the roadshow and the transition to being a public company. Therefore, it is critical that the business units come together with a shared vision and work as a cohesive team.

B

To prepare for a successful IPO, the company should plan ahead and take the necessary steps to improve its readiness and attractiveness to prospective investors. This could involve starting the planning process around 12-24 months before the expected IPO date and conducting a thorough assessment of the current situation of the company including, an assessment of whether new skills are required within the workforce to cope with the deliverables of a public company. This will facilitate the identification of any gaps or weaknesses that may affect its valuation and developing a detailed action plan to address them. Any action plan formed should include specific tasks, timelines, and responsibilities for each workstream, and should aim to enhance the company's potential and appeal to the investors.

Whilst the industry performance and global outlook influence the appetite for IPOs, timing also plays an important factor that can affect the success of an IPO. A well-timed IPO can help the company raise more capital, achieve a higher valuation, and create a positive impression among investors. The company should launch the IPO when both internal and market conditions are favourable, i.e., there is high demand for its products or services, strong financial results, and growth prospects. It is equally important to ensure that the company is ready internally, to operate as a public company as well.

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