Going From Public to Private – The Oracle® E-Business Suite Challenges

Presented by:

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EBS Answers
Virtual Conference

Webinar Mechanics

- Submit text questions in the chat log.
- Q&A addressed at the end of the session. Answers will be posted within two weeks on our new LinkedIn Group, EBS Answers: http://www.linkedin.com/groups/EBS-Answers-4683349/about
- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.
- A recording of today's event will be available for 90 days for conference registrants.

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Learning Objectives

Objective 1: Understand the EBS implications when going from public to private, and how to address the challenges.

Objective 2: Learn about regulatory reporting requirements when undergoing a public-to-private process.

Objective 3: Discover how to make effective changes in EBS that allow for a smooth transition.

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eprentise®: Transformation Software for E-Business Suite

Company Overview: Incorporated 2007, Helene Abrams, CEO

eprentise Can…

- Consolidate Multiple EBS Instances
- Change Underlying Structures and Configurations
  - Chart of Accounts, Other Flexfields
  - Merge or Split Ledgers or Sets of Books, Operating Units, Legal Entities, Inventory Organizations
  - Calendars, Currency, Costing Methods
  - Asset Revaluation, Inventory Valuation
- Separate Data

…So Our Customers Can:

- Reduce Operating Costs and Increase Efficiencies
  - Shared Services
  - Data Centers
- Adapt to Change
  - Align with New Business Initiatives
  - Mergers, Acquisitions, Divestitures
- Avoid a Reimplementation
- Reduce Complexity and Control Risk
- Improve Business Continuity, Service Quality and Compliance
- Streamline Operations with Visibility to All Parts of the Business
- Establish Data Quality Standards and a Single Source of Truth

Finished But Not Done®

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Agenda

- Introduction
- Defining Going from Public to Private
- What Needs to be Addressed First in Oracle EBS?
  - Calendar Changes
  - Fixed Assets Changes
  - Purchase Accounting Entries
- Regulatory Reporting Requirements for Public to Private
- Approaches to Public to Private Calendar Changes
- Approaches to Public to Private Fixed Assets Changes
- Conclusion

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Defining Going From Public to Private

- When a public company is eligible to deregister a class of its equity securities, either because those securities are no longer widely held or because they are delisted from an exchange, this is known as "going private."
  - U.S. SECURITIES AND EXCHANGE COMMISSION
  - Private Investors
  - Private Equity
- Reasons for Going Private

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Going from public to private is considered for US GAAP and IFRS purposes a change in ownership

- US GAAP
  - Accounting Standards Codification (ASC) 805
- International Financial Reporting Standards
  - IFRS 3

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Poll Question

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Objective 1

- Understand the EBS implications when going from public to private, and how to address the challenges.

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So you are going private. What are the "big rocks" that need to be addressed first in Oracle EBS?

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What Needs to Be Addressed First?

- What Needs to be Addressed First in Oracle EBS?
  - Calendar Changes
  - Fixed Assets Changes
  - Acquisition Accounting Entries

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Calendar Changes

- A new year begins on the transaction date (date of privatization)
  - Short year for the public company ending the day before the transaction
  - Stub year for the private company beginning the date of transaction

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Example of a Privatization Calendar Change

- Acme Corp. is being taken private as of July 1. Acme's standard accounting calendar is calendar month with a December 31 year end. The existing calendar must be bifurcated into a short year of January 1 to June 30, and then a stub year (also a short year) of July 1 to December 31st.

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Example of a Privatization Calendar Change, cont.

- Acme Corp Calendar (General Ledger)
- Public

PERIOD_SET_NAME	PRD_NAME	ST_DATE	ED_DATE	PERIOD_YEAR	PERIOD_NUM
<ACME> Calendar	'Adj-15'	'31-DEC-15'	'31-DEC-15'	2015	13
<ACME> Calendar	'Dec-15'	'01-DEC-15'	'31-DEC-15'	2015	12
<ACME> Calendar	'Nov-15'	'01-NOV-15'	'30-NOV-15'	2015	11
<ACME> Calendar	'Oct-15'	'01-OCT-15'	'31-OCT-15'	2015	10
<ACME> Calendar	'Sep-15'	'01-SEP-15'	'30-SEP-15'	2015	9
<ACME> Calendar	'Aug-15'	'01-AUG-15'	'31-AUG-15'	2015	8
<ACME> Calendar	'Jul-15'	'01-JUL-15'	'31-JUL-15'	2015	7
<ACME> Calendar	'Jun-15'	'01-JUN-15'	'30-JUN-15'	2015	6
<ACME> Calendar	'May-15'	'01-MAY-15'	'31-MAY-15'	2015	5
<ACME> Calendar	'Apr-15'	'01-APR-15'	'30-APR-15'	2015	4
<ACME> Calendar	'Mar-15'	'01-MAR-15'	'31-MAR-15'	2015	3
<ACME> Calendar	'Feb-15'	'01-FEB-15'	'28-FEB-15'	2015	2
<ACME> Calendar	'Jan-15'	'01-JAN-15'	'31-JAN-15'	2015	1

- General ledger calendar used for all ledgers
- January to December calendar month, calendar year
- One adjusting period

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Example of a Privatization Calendar Change, cont.

- Acme Corp Calendar (General Ledger)
- Private

PERIOD_SET_NAME	PRD_NAME	ST_DATE	ED_DATE	PERIOD_YEAR	PERIOD_NUM
<ACME> Calendar	'Adj-15'	'31-DEC-15'	'31-DEC-15'	Stub 2015	13
<ACME> Calendar	'Dec-15'	'01-DEC-15'	'31-DEC-15'	Stub 2015	12
<ACME> Calendar	'Nov-15'	'01-NOV-15'	'30-NOV-15'	Stub 2015	11
<ACME> Calendar	'Oct-15'	'01-OCT-15'	'31-OCT-15'	Stub 2015	10
<ACME> Calendar	'Sep-15'	'01-SEP-15'	'30-SEP-15'	Stub 2015	9
<ACME> Calendar	'Aug-15'	'01-AUG-15'	'31-AUG-15'	Stub 2015	8
<ACME> Calendar	'Jul-15'	'01-JUL-15'	'31-JUL-15'	Stub 2015	7
<ACME> Calendar	'Jun-15'	'01-JUN-15'	'30-JUN-15'	Short 2015	6
<ACME> Calendar	'May-15'	'01-MAY-15'	'31-MAY-15'	Short 2015	5
<ACME> Calendar	'Apr-15'	'01-APR-15'	'30-APR-15'	Short 2015	4
<ACME> Calendar	'Mar-15'	'01-MAR-15'	'31-MAR-15'	Short 2015	3
<ACME> Calendar	'Feb-15'	'01-FEB-15'	'28-FEB-15'	Short 2015	2
<ACME> Calendar	'Jan-15'	'01-JAN-15'	'31-JAN-15'	Short 2015	1

Transaction date of July 1

- Short year 2015 ends June 30
- Stub year 2015 begins July 1

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Viewing Calendar Set-ups in EBS

- Accounting Calendar definition can be viewed / setup on the Oracle e-Business Suite forms (with proper responsibility having the related menu with form function associated)
  - (From Vision Test Instance)
    Responsibility: General Ledger, Vision Operations (USA)
    Navigation: Setup > Financials > Calendars > Types –For Period Types

  - The complicating factor is that EBS will not accommodate two end-of-years during the same calendar or fiscal year.

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Fixed Asset Changes

- As outlined by ASC 805 (aka FASB 141(R)) and IFRS 3, a company undergoing a privatization must "recognize the assets acquired [and] the liabilities assumed at the acquisition date, measured at their fair values as of that date."

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Fixed Asset Changes, cont.

All Fixed Assets Must Be Revalued (treated as newly acquired as of the privatization date)

- All fixed assets must be restated to fair value at date of acquisition
- All accumulated depreciation must be zeroed out up to the privatization
- Depreciation is restarted as if it were a newly acquired asset (which for GAAP and IFRS purposes, it is.)

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Fixed Asset Changes, cont.

For the thousands (or tens of thousands) of fixed assets in the FA Books, all must be revalued. The exception is immaterial assets.

For Immaterial Fixed Assets

- May use book value if the difference between book and fair value is not material to the financial reporting
- Date placed in service must still be changed
- Depreciation must still restart

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Objective 2

- Learn about regulatory reporting requirements when undergoing a public-to-private process.

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Public to Private Reporting Requirements

- We are private now, does that mean we no longer have regulatory reporting requirements?

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Public to Private Reporting Requirements, cont.

- The new, private company may have reduced requirements, but for most companies, due to reporting requirements of their new owners and any minority stakeholders, codified accounting pronouncements continue to be required.

- Additionally, although outside of the scope of this presentation- there are still tax and other regulatory reporting requirement (i.e. FERC, FCC, etc.)

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Public to Private Reporting Requirements, cont.

- US GAAP
  - Accounting Standards Codification (ASC) 805
- International Financial Reporting Standards
  - IFRS 3

- At a high level, many of the changes to both fixed assets and calendars are being driven by acquisition accounting.

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Public to Private Reporting Requirements, cont.

The new, private company may have reduced requirements…..but for most companies, due to reporting requirements of their new owners and any minority stakeholders, codified accounting pronouncements continue to be required.

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Public to Private Reporting Requirements, cont.

In the past, companies had quite a lot of latitude in how a change in ownership was booked.

- Pooling Methods (no longer allowed)
- Piecemeal purchase/acquisition cost allocation (precluded by ASC 805 and IFRS 3)

Under the current rules and regulations, unless the difference would be immaterial to the financial statements as a whole, all assets (including fixed assets) and liabilities must be revalued.

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Public to Private Reporting Requirements, cont.

Acme Corp
as of July 1, 20##

Assets	
Cash	25,000,000
Accounts Receivable	36,000,000
Other Current Assets	15,000,000
Fixed Assets	
Fixed Assets Cost	42,000,000
Accumulated Depreciation	(18,000,000)
Total Fixed Assets	24,000,000
Other Assets	8,000,000
Total Assets	**108,000,000**
Liabilities	
Accounts Payable	18,000,000
Other Current Liabilities	12,000,000
Long Term Debt	42,000,000
Other Liabilities	7,000,000
Total Liabilities	**79,000,000**
Owners' Equity	**29,000,000**
Total Liabilities and Owners' Equity	**108,000,000**

Acquistion Accounting Adjustments

Assets	
Cash (No Change)	25,000,000
Accounts Receivable	36,000,000
Other Current Assets at Fair Value	16,000,000
Fixed Assets	
Fixed Assets Cost (at Fair Value)	64,000,000
Accumulated Depreciation	-
Total Fixed Assets	64,000,000
Other Assets at Fair Value	10,000,000
Goodwill	19,000,000
Total Assets	**160,000,000**
Liabilities	
Accounts Payable	18,000,000
Other Current Liabilities	12,000,000
Long Term Debt	38,000,000
Other Liabilities	8,000,000
Total Liabilities	**76,000,000**
Owners' Equity (What the new owners paid)	**84,000,000**
Total Liabilities and Owners' Equity	**160,000,000**

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Objective 3

- Discover how to make effective changes in EBS that allow for a smooth transition.

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Making Effective Privatization Related Changes in EBS

- Calendar Changes
  - Short Year, Stub Year
  - Aligning FA, Project, and Other Calendars
  - Possible Fiscal Year Changes
- Fixed Asset Change
  - Fixed Assets Revaluation
- Acquisition Accounting

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Making Effective Privatization Related Changes in EBS, cont.

- Calendar Changes
  - Approach 1
    - Creating a new calendar and new ledgers and manually migrating transactional and balance information- which may result in a reimplementation
  - Approach 2
    - Using journal entries to work around or correct and reverse the differences during the split year.
  - Approach 3
    - Use software to change your calendar

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Making Effective Privatization Related Changes in EBS, cont.

- Fixed Asset Changes
  - Approach 1
    - Create new FA Books and reload all fixed assets
  - Approach 2
    - Use software to revalue your fixed assets

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Making Effective Privatization Related Changes in EBS, cont.

- Acquisition Accounting

After making the "big rock" changes, the final piece is making the numerous adjusting journal entries to restate all assets and liabilities (other minority interests) to fair value. The final piece of the adjustment to make things balance, is good will. These entries will be made with journal entries directly to the general ledger (EBS ledgers).

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Conclusion

With careful planning companies going from public to private may continue operations with minimal disruption, addressing the transfer of ownership under US GAAP and IFRS within Oracle E-Business Suite specifically as it relates to calendar and fixed assets changes that need to occur.

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