Executing successful IPOs and exits
Key insights from the EY Capital Strategies Conference 2013
Company leaders are constantly seeking the best ways to raise and allocate capital to grow their business, pursue new investment opportunities, diversify risk and, sometimes, exit the business.

High-growth company executives, transaction advisors, private equity and venture capital funds recently convened at the EY Capital Strategies Conference held in New York City to share firsthand experience on how to derive the most value from both IPOs and strategic transactions. Following are key insights from the conference.

“CEOs and CFOs seeking to take their companies to the next level need to be aware of all their options and be prepared to make the right decisions to maximize the value of their organization, whether it’s through an IPO or private sale.”

Herb Engert
Americas Strategic Growth Markets Leader, EY
Evaluating your strategy

Consider goals and options early

Having a clearly defined set of objectives is critical to choosing among the many strategic alternatives including an IPO, recap, private sale, ESOP, management buyout and other options. Jim Carter, President and CEO of Ernst & Young Capital Advisors LLC, presented the following framework as a starting point:

<table>
<thead>
<tr>
<th>Financial</th>
<th>Non-financial</th>
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<tr>
<td>• Fund growth plans</td>
<td>• Protect confidentiality</td>
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<td>• Maintain benefit plans</td>
<td>• Preserve culture</td>
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<td>• Create a liquid currency</td>
<td>• Solidify #1 or #2 brand</td>
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<td>• Leverage conservatively</td>
<td>• Enhance reputation</td>
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<td>• Achieve tangible synergies</td>
<td>• Expand global footprint</td>
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<td>• Monetize intangibles</td>
<td>• Balance customer/product mix</td>
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<td><strong>Corporate</strong></td>
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<tr>
<td>• Increase tax efficiency</td>
<td>• Protect legacy in community</td>
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<td>• Speed, certainty, risk, value</td>
<td>• Transition role to successor</td>
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<td>• Cash, no stock or earnouts</td>
<td>• Find long-term partner</td>
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<td>• Reps, warranties, indemnity</td>
<td>• Go sailing, fishing, golfing ...</td>
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<td>• Health care coverage</td>
<td>• Upgrade board composition</td>
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<td>• Separate non-core assets</td>
<td>• Governance and voting control</td>
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<td><strong>Personal</strong></td>
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Craft a compelling story

Company executives need to build a strong value and growth story to achieve the best IPO or exit outcome.

“The presentation has to be succinct. How is it that by them buying you, they become a more valuable company? You have something they don’t have, whether it’s access to markets, access to technology, a sales force, something – it’s creating that in their mind that they have to have you and they’re willing to pay for it.”

Jeff Babka
CFO, Vibrant Media

“Being able to articulate growth opportunities in the near term, and also going forward, is key. Investors are willing to pay and help maximize the value of your company if you can deliver that growth story in a concise manner.”

Sumit Mukherjee
Head of Americas Equity Syndicate, Bank of America/Merrill Lynch
Prepare early
An IPO can help a company accelerate growth and become a market leader. An IPO is a journey, not a one-time event or an end game. Companies need to start preparing to go public a full 12-24 months in advance. This includes implementing corporate governance procedures, recruiting qualified non-executive board members, improving internal controls, forming an audit committee and acting like a public company.

Take advantage of the JOBS Act
The March 2012 Jumpstart Our Business Start-Ups (JOBS) Act enables Emerging Growth Companies (EGCs) to test the waters and file confidentially with the Securities and Exchange Commission during the IPO registration process. EGCs can implement the exemptions they deem appropriate, such as reporting just two years of audited financial statements. It also gives companies the opportunity to meet with potential investors before declaring plans to issue stock. Companies should consider how to take advantage of these new approaches.

“On the Audit Committee, there has to be financial expertise. I see that some companies may not have somebody who really understands capital markets, what drives value day-in and day-out with a share price, and how companies can manage expectations in the market to preserve a full valuation.”

Tim Trost
SVP and CFO, Chimerix, Inc.

“The ability to file confidentially is a terrific advantage for a company that may not be positive that it wants to go public, but doesn’t want its competitors to know about its business until it’s ready.”

Marc Jaffe
Co-chair, Global Capital Markets, Latham & Watkins LLP

“One of the things we assess very carefully two years before the company might IPO is, what CFO skills are needed? Is the current person, who is often a controller, able to step up to the CFO role or not? We also want to make sure that the President and CEO have the ability to talk to Wall Street in terms that they can understand.”

Howard Morgan
Partner, First Round Capital

“2013 is the year we’re really going to see people embracing the JOBS Act. It is bringing back a number of companies into the IPO markets that haven’t played as much in recent years, including venture capital-backed and life sciences companies.”

Jackie Kelley
Americas IPO Leader, EY
Develop a proactive investor relations strategy
A strong communication strategy is necessary to attract potential investors and sustain the market's interest in your company. Businesses must proactively communicate with the media, employees, and current and potential shareholders that they can achieve their financial targets during IPO preparation and post-IPO. Audit committee and acting like a public company.

“You better be bulletproof the first year of your IPO and make sure you absolutely hit those numbers, because nothing will be more disappointing and embarrassing (if you don’t).”

Chris Kuenne
Founder and CEO, Rosetta

“These analysts are going to cover you in perpetuity. Get to know them, seek information about what they think of the peer group, let them understand your business. You can solicit as much information out of them as they’re seeing from you.”

Don Duffy
President, ICR

“Being public adds another dimension in terms of working with investors, in terms of PR, in terms of government relations.”

Mark Volchek
CEO, Higher One Holdings, Inc.
Minimize disruptions
Sellers should prepare rigorously in order to expedite the sale process and minimize business disruptions. Unprepared sellers are often quickly seen as having weak management or a flawed business strategy.

“The longer things take to get done, the more likely something unforeseen is going to pop up, whether it’s an externality like the Fed starts to tighten, stock markets tank, or something internal to your business like you have a tech failure or a customer cancels a contract.”

Dennis Morgan
former CFO, Buddy Media

“If you’re not hitting the numbers month in and month out, you lose credibility. Then, people just discount your projections and start coming up with their own numbers.”

Shaun Mara
former Chief Financial Officer, Dean Foods Company

Support your story
Sellers need to focus on performance and back financial projections with strong data and a strong management team.

“Probably the one thing we look at the most is, do we really believe this team is going to achieve what they say they’re going to achieve, and do we want to be their partner in doing that? We’re also going to be asking, what are the underlying trends of the business? Why is pricing coming down here but going up over there? Why are the units slowing down here and speeding up over there? And why hasn’t Germany worked out but Japan has?”

Doug Grissom
Managing Director, Madison Dearborn Partners

“Diversification takes the peaks and valleys out and makes you much more attractive. Your home run years might be terrific, but you’re going to be less attractive if you’ve got peaks and valleys than if you’ve got a stable cash flow stream.”

Mary Petrovich
Operating Executive, The Carlyle Group
Understand the playing field before you negotiate
As companies prepare for sale, they need to approach the full set of potential buyers and create a sense of competitive tension.

“Two to four years before you’re thinking about exiting, you should build a network. Know two or three bankers or other advisors, how they value your business, and what could get you an extra 10% or 20% bump in the purchase price.”

Steve Potter
Senior Managing Director, Consumer Products,
Ernst & Young Capital Advisors, LLC

“Be very careful not to let diligence calls turn into negotiations if you’re not ready to have that discussion. Shut it down or use your advisors to shut it down for you.”

John Golubieski
Business Consultant and former CFO,
Fougera Pharmaceuticals Inc.

“Lay out a blueprint of what’s important to you – where costs can be saved, where there are revenue opportunities – and then make sure this gets communicated and relied on by the buyer.”

Gregory Park
Senior Managing Director, Healthcare,
Ernst & Young Capital Advisors, LLC
Conclusion

Companies are generating significant value through IPOs and private sales. Cohesive strategies and rigorous preparation are the keys to a successful deal.

“If you have the right company, right strategy, and right business model, then this is a great time. If you don’t have that, even with the strong markets, you’re not going to have a great IPO.”

Paul Carbone
CFO, Dunkin’ Brands, Inc.

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