EY's guide to going public
Are you ready? We are.
For fast-growing private companies seeking to raise capital, an IPO can be a superior route to funding growth. While challenging markets will come and go, it's the companies that are fully prepared that will best be able to leverage the windows of IPO opportunity whenever they open.

For over two decades, EY has worked with top companies considering their options for funding for growth, including a public listing. We also frequently undertake extensive research to identify critical IPO success factors. Year after year, we have found that companies with successful IPOs:

- Approach the IPO as a transformational process rather than just a financing event or as the endgame
- Begin to act and operate as public companies at least one year in advance of the IPO
- Outperform the competition on key performance measures before, during and after the IPO

We surveyed over 300 institutional investors around the world to determine how uncertain markets in 2009 might have affected their IPO portfolio decision-making. This report incorporates these investor insights, while examining in-depth the 10 steps toward IPO readiness, alternative capital raising options, and current public listing challenges.

We hope this report will help you to begin what we call the IPO value journey, well prepared to transform your private company into a successful public company that continually delivers value to its shareholders.

Maria Pinelli
Global IPO Leader, EY
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Prepare early

- Begin the IPO readiness process early enough so that your pre-listed company acts and operates like a public company at least a year before the IPO
- Commit substantial resources to the IPO process and build the quality management team, robust financial and business infrastructure, corporate governance and investor relations strategy that will attract the right investors
- Don’t underestimate the amount of time the IPO journey will take, or the level of scrutiny and accountability faced by a public company

Evaluate capital-raising options

- Consider a “multi-track approach” and the expanding number of capital-raising strategies – including a strategic sale to a trade or financial buyer, joint venture, private placement or a foreign listing
- Pursue pre-IPO transactions to achieve maximum value – especially debt financing and refinancing, corporate reorganization, private placements or business alliances

Address investors’ current concerns

- Recognize the need for enhanced corporate governance – especially recruiting qualified non-executive board members, improved internal controls, and forming a qualified audit committee
- Fine-tune your internal business operations – especially working capital management, regulatory risk and rationalizing the business structure
- Deal with current accounting challenges – especially asset valuation impairment, consolidated subsidiary financial statement issues and revenue recognition

Outperform competitors on key benchmarks

- Investors base an average of 60% of their IPO investment decisions on financial factors especially: debt to equity ratios, EPS growth, sales growth, ROE, profitability and EBITDA growth
- Investors base an average of 40% of their IPO investment decisions on non-financial factors especially: quality of management, corporate strategy and execution, brand strength and operational effectiveness, and corporate governance
- Be able to articulate a compelling equity story backed up by a strong track record of growth which sets you apart from your peers while maximizing value for owners

Focus on being a public company (not just on going public)
When the IPO window of opportunity opens, winning companies are ready

While not all businesses are suited to life in the public eye, for many fast-growing private companies, an IPO can raise the capital needed to accelerate growth and achieve market leadership. An IPO is the first sale of a company’s shares to the public and the listing of the shares on a stock exchange. It allows a company to raise capital in order to build its business by creating and selling new shares.

**How a successful listing can help your company:**
- Unlock access to financing to complete a strategic acquisition
- Create opportunities to expand your business into new markets
- Provide an exit opportunity for your private equity or other investors
- Improve perceptions of your business and brand with customers, suppliers and employees

This executive summary describes the top 10 IPO readiness steps for a pre-listed company. It also discusses the results of our 2009 survey of institutional investors regarding the impact of the uncertain markets on their evaluations of new offerings.

**Our decades of experience and research show that companies with successful IPOs consistently:**
- Approach the IPO as a transformational process rather than the endgame or just a financing event
- Begin to act and operate as public companies at least one year in advance of the IPO
- Outperform the competition on key performance measures, before, during and after the IPO

The IPO process should be a structured and managed transformation of the people, processes and culture of an organization. At EY, we refer to this process as the IPO value journey. Although the IPO event itself generally lasts 90 to 120 days, the value journey begins at least a year or two before the IPO and continues well beyond it. Thus, while an IPO should be a key turning point in the life of your company, market leaders don’t treat an IPO as simply a one-time financial transaction. Rather, they recognize the IPO event itself as just one defining milestone in a complex transformation from a private to a public company.

Even when the financial climate is not ideal for raising funding, it could be a good time to be planning for an IPO or any other deal. While waiting for markets to settle, executives may embark upon the IPO value journey. Those companies that undergo an effective IPO readiness transformation during uncertain times will be best-positioned to take advantage of improved equity market conditions.

**Are you and your company prepared to deliver?** In the life-changing journey from the private realm to the public markets, you will face numerous leadership challenges. It is up to the CEO and senior executives to strike the right balance between executing the IPO transaction and managing the day-to-day operations of the company. Rather than just asking if the markets are ready for you, the key question that you will need to ask when entering the public markets is, “Are we prepared to deliver?”

**Chart 1 | The IPO value journey**

<table>
<thead>
<tr>
<th>IPO – Planning</th>
<th>IPO – Execution</th>
<th>IPO – Realization</th>
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<tbody>
<tr>
<td>1. Preparing for the IPO value journey</td>
<td>4. Building the right management and advisory teams</td>
<td>9. Attracting the right investors and analysts</td>
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<tr>
<td>2. Keeping your options open</td>
<td>5. Building your business and financial processes and infrastructure</td>
<td>7. Managing investor relations and communications</td>
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<tr>
<td>10. Delivering on your promises</td>
<td>9. Attracting the right investors and analysts</td>
<td>10. Delivering on your promises</td>
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</tbody>
</table>
The EY Global IPO Center of Excellence powerfully showcases the EY difference. It is a virtual hub that pools our global IPO knowledge, experience and resources in one place for the first time.

These include our interactive online tool – *IPO insights: facts and figures*; information on where to list and raising capital; webcasts, videos and thought leadership on overcoming the challenges throughout the IPO journey. The Center allows you instant access to the strength of EY’s global IPO network.

Visit the Center at [ey.com/ipocenter](http://ey.com/ipocenter) today and make sure you are ready for the IPO journey.
Part one

IPO planning phase

12 to 24 months before IPO

Market leaders make thorough planning an important first step in their IPO value journey.
Preparing for the IPO journey

Advance preparation and planning are critical. Lack of adequate preparation and poor market timing can jeopardize an IPO.

Are you sure an IPO is the right strategy?
Going public is not for everyone. The potential pitfalls are numerous and the stakes are high. You must evaluate the benefits and disadvantages of an IPO in the context of shareholder and corporate objectives. (See page 7 for pros and cons of an IPO.)

Determine the feasibility of an IPO given your company's fundamentals including:
- Business model and management capability
- Growth potential and market size
- Financial track record
- Valuation and comparative value
- Shareholders' objectives
- Current stage of development in company life cycle
- Prospects and position within industry
- Investor base and analyst coverage

Have you developed a long-term business plan and timeline?
With input from key stakeholders, your executives need to create a formal, comprehensive business plan and detailed timeline regarding the operational, financial and strategic initiatives necessary for the company to go public. The business strategy needs to be long-term, covering 24-36 months before the IPO and 24-36 months after the IPO. Such a business plan should provide a clear road map for the company which may then be communicated to stakeholders. It should be implemented early enough for the changes to take root in the organization.

Do you have a strong equity growth story?
Especially in today's uncertain markets, IPO candidates must tell a compelling story. Investors will scrutinize your company and its bottom-line performance much more closely than before. Investors seek companies with business models that performed well in the downturn, a solid track record, an actionable plan to sustain growth and that are well able to service their interest and debt. You must also consider whether there is an appetite within the investment community for your equity story in your particular sector. The bottom-line is: your IPO valuation will be driven by market conditions and investor confidence in your company.

Your IPO proceeds should fund growth. Market leaders usually go public to enable their growth potential and use proceeds to fund acquisitions or organic growth. In uncertain times, investors will demand even greater detail and explanation about your use of funds in your prospectus and road show. Investors typically prefer to invest in companies using proceeds to grow the new company, who will put the money back into the business to expand, funding R&D, marketing and capital expenditures.

Have you benchmarked your company's performance to ensure competitiveness?
Market leaders have usually been way ahead of their competitors and comparable companies in practically every aspect of their performance before the IPO. Your business fundamentals need to be strong and sustainable. Thus, you will need to benchmark your performance to demonstrate your competitiveness with your industry peer group.

Successful IPOs tend to outperform their peers before going public on:
- Growth rate
- Sales performance
- Profitability
- Market share

However, the most successful IPOs often share similar characteristics:
- Relatively large in size and well established
- Focused on an outstanding product or service
- Credible management team
- Sustainable outstanding business model
- Strong brand
- Streamlined cost structure
- Industry with high entry barriers
- Innovative and with first-mover advantage

Has your organization begun acting like a public company?
Successful IPO companies need to prepare more thoroughly now. Due to increased investor scrutiny, the level of preparation and execution required prior to IPO will be much higher. As companies seek first-mover advantage to secure the limited funds available, you must balance your need for capital with the lower valuations available. (Please see page 7 for details on how to act like a public company.)
## Going public

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>• Greater access to funds since company can return to public</td>
<td>• Highly distracting and time consuming due to need for periodic</td>
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<tr>
<td>markets for additional capital and access alternative financing</td>
<td>reporting and investor relations</td>
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<tr>
<td>on favorable terms from private investors as well</td>
<td>• High costs due to initial and ongoing expenses, including payments</td>
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<tr>
<td>• Provides a more liquid and diversified share capital base and a</td>
<td>to external advisors for regulatory compliance and maintaining a</td>
</tr>
<tr>
<td>liquid currency for acquisitions</td>
<td>listing</td>
</tr>
<tr>
<td>• Enhances prestige, brand image, public profile and credibility</td>
<td>• Limits on management’s freedom to act including need for</td>
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<tr>
<td>• Facilitates future acquisitions of other businesses, which may be</td>
<td>approval of board or shareholders on many major matters</td>
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<td>paid for at least partially in a public company’s shares</td>
<td>• Potential loss of control and privacy since there is a need to reveal highly sensitive information in public reports</td>
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<td>• Achieves higher valuations than private enterprises since greater</td>
<td>• Shareholders’ expectations can create pressure on management to perform</td>
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<tr>
<td>disclosure of information reduces uncertainty around performance</td>
<td>• Difficulty in recruiting good non-executive directors for board</td>
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<td>and increases value</td>
<td>• Limited window of opportunity of access to IPO markets so compromise on price may be necessary</td>
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<tr>
<td>• Provides a potential exit strategy and liquidity for investors,</td>
<td>• Corporate governance requirements include business process improvements and non-executive directors’ oversight</td>
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<tr>
<td>owners and (or) shareholders</td>
<td></td>
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<tr>
<td>• Attracts, retains and rewards valued employees through share</td>
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<td>option plans</td>
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<tr>
<td>• Enhances benchmarking operations against other public companies</td>
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<td>from same industry</td>
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<tr>
<td>• Retains future upside potential in business</td>
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<tr>
<td>• Opportunity for reducing debt or refinancing</td>
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## How to act like a public company before an IPO

<table>
<thead>
<tr>
<th>Equity story</th>
<th>Financial results</th>
<th>Accounts and information systems</th>
<th>Internal controls</th>
<th>Management team</th>
<th>Corporate governance</th>
<th>Investor relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>A compelling equity story aligned across organization, sound</td>
<td>Strong operating performance,</td>
<td>Timely and reliable financial information available,</td>
<td>Accounting and financial control team ensures accurate</td>
<td>In place for at least one year, with a</td>
<td>A strong independent board formed early on, with a clear and</td>
<td>An expert to drive effective communications strategy, manage</td>
</tr>
<tr>
<td>business track record, predictable growth trajectory and clear</td>
<td>balance sheet and positive cash</td>
<td>appropriate IT and budgetary system in place with concise</td>
<td>financial results, puts controls in place and provides</td>
<td>proven track record and the experience</td>
<td>transparent shareholder and corporate structure</td>
<td>public spotlight and send effective messages to investors and</td>
</tr>
<tr>
<td>understanding of how IPO proceeds will be used to fund growth</td>
<td>flow over several quarters, and several years of strong, steady</td>
<td>management information readily available on monthly and</td>
<td>certification</td>
<td>and expertise to undertake an IPO event and operate a public company</td>
<td></td>
<td>analysts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>growth and rising profits</td>
<td>basis</td>
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<td></td>
</tr>
</tbody>
</table>

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**Equity story**
- A compelling equity story aligned across organization, sound business track record, predictable growth trajectory and clear understanding of how IPO proceeds will be used to fund growth

**Financial results**
- Strong operating performance, balance sheet and positive cash flow over several quarters, and several years of strong, steady growth and rising profits

**Accounts and information systems**
- Timely and reliable financial information available, appropriate IT and budgetary system in place with concise management information readily available on monthly and quarterly basis

**Internal controls**
- Accounting and financial control team ensures accurate financial results, puts controls in place and provides certification

**Management team**
- In place for at least one year, with a proven track record and the experience and expertise to undertake an IPO event and operate a public company

**Corporate governance**
- A strong independent board formed early on, with a clear and transparent shareholder and corporate structure

**Investor relations**
- An expert to drive effective communications strategy, manage public spotlight and send effective messages to investors and analysts
Our survey results show that investors are wary of highly leveraged companies with high debt-to-equity ratios. During the period of market uncertainty in which they were surveyed, investors ranked debt-to-equity ratio as the most important financial factor. (In striking contrast, the debt-to-equity ratio was only the ninth-most important financial factor in our 2008 institutional investor survey.) All of this is particularly relevant for private equity-backed companies, which tend to be highly leveraged. Given current investor scrutiny, the resolution of debt financing and leverage levels must now be addressed at the same time as the equity funding proposition for IPOs.

Earnings per share (EPS) growth drives share prices and has historically been the key measure for investors, though as noted above, the financial crisis in 2009 has caused investors to also focus on debt-to-equity ratios.

Sales growth includes the growth that comes from a company’s existing businesses (organic growth) and from acquiring new businesses (takeovers, acquisitions or mergers). Investors are focusing on the potential for significant growth, which translates into bottom-line performance.

Return on Equity (ROE) shows potential investors what they might hope to receive as a return. It usually indicates the company’s efficiency or how much profit it generates in comparison to its book value (the amount invested by business owners or total stockholders’ equity). The higher the perceived risk by an investor, the higher the return they will require to invest and hence the lower the equity valuation.

While it would be preferable for a company to have a strong track record of profitability growth, our survey shows that it is not necessarily a prerequisite. Many institutional investors say they will participate in an IPO provided there is a visible path to profitability with strong growth and positive cash flow.

EBITDA measures earnings before financing and tax costs and non-cash charges. Where there is a divergence between reported EBITDA and cash generated, investors will want to understand the reasons. For companies that require significant investment (such as many technology companies), the cash burn rate is an important ratio.

*Source: Global IPO Institutional Investor survey, 2009
Do you know the critical IPO success factors for institutional investors?

You need to view your IPO from your institutional investor’s perspective. Institutional investors drive stock prices, with the highly sophisticated institutional investor market typically receiving 70-80% of IPO stock allocations. It includes mutual funds, hedge funds, banks, insurance companies, pension funds, money management funds, larger corporate issuers and other corporate finance intermediaries.

Investors give about a 60/40% weighting to financial/ non-financial metrics. When making buy or sell decisions for their portfolios, investors weight financial metrics about 60% in determining the attractiveness of the company’s valuation and how the IPO is priced (which is typically at a 10% to 15% discount relative to its peer group of comparable companies). At the same time, investors say they give non-financial measures a weighting of approximately 40% – even in their evaluations of the largest, mature companies. (See Charts 2 and 3 for the key IPO success factors, both financial and non-financial, from the perspective of institutional investors.)

*Source: Global Institutional Investor survey, 2009*
Keeping your options open

While an IPO may be your favored approach to raising capital, it’s important to evaluate all possible transactions that could serve as stepping stones or attractive alternatives to a public listing.

Have you evaluated other attractive alternatives to an IPO?

Many companies that pursue IPOs do not go public, at least not initially.

Your alternatives may include any combination of the following:

› Sale to a strategic buyer through the M&A market
› Sale to a private equity firm
› Private placement, often as a pre-IPO step
› Joint ventures and strategic alliances
› Refinancing to release funds for partial exit

Given the range of potential alternative transactions, you need to have a clear idea of what’s involved, how long the process will take, what it’s likely to cost and whether two or more routes need to be run in parallel.

Keep your options open through a multi-track approach.

Increasingly, businesses are taking a “dual- or triple-track” approach where they pursue a trade sale or other funding source and prepare for a possible IPO at the same time. The multi-track approach allows you to keep your options open during the preparation process. This can be especially beneficial in case the IPO window shuts on you during this often lengthy process. Thus, successful companies typically have a Plan B and often a Plan C (for example, simultaneously pursuing an IPO, a trade sale and debt refinancing).

Since there is considerable overlap in the preparation required for the various routes, a dual- or triple-track can be executed without doubling or tripling your costs. By diversifying your approach, your company can significantly increase its strategic options and negotiating leverage while reducing execution risk.

Investors expect companies to be properly funded, which can mean reducing or refinancing debt:

› Decreasing future funding costs by getting better borrowing terms
› Arranging extra debt to fund new projects
› Negotiating more advantageous covenants
› Restructuring debt

Thus, pre-IPO companies may need to reduce debt levels or refinance their debt prior to going public. Indeed, debt financing or refinancing was chosen by 70% of institutional investors as the type of pre-IPO activity that creates the most value for pre-listed companies. (Please see Chart 4 on page 15 for pre-IPO transactions which most enhance IPO value.)

Have you considered a strategic sale to a trade or financial buyer?

The relative attractions of a strategic sale will vary, especially depending on whether it is a trade or financial buyer. A sale to a trade acquirer or financial buyer (e.g. PE) is often considered as an alternative to an IPO – depending on the objectives of existing stakeholders and management and the attributes of the business. For instance, a PE buyer can provide an alternative for growth companies that may not be operationally ready to access the public capital markets. Not all companies will be attractive to financial buyers and the population of potential trade acquirers may be restricted for some. A detailed evaluation of the suitability and viability of M&A, as an alternative to IPO, should always form part of the process of determining whether to pursue an IPO.

What do buyers/investors focus on in a prospect?

› Sales and revenue trending
› Underlying cost base
› Working capital management
› Business plan strength

Who is likely to buy the business? Understanding the needs of the buyer is crucial for a successful divestment process. While all buyers are concerned about key value drivers such as market share, competition, growth potential, the stability of cash flows, the cost base and the quality of underlying assets – different purchasers have different strategic concerns.

<table>
<thead>
<tr>
<th>Type of investor</th>
<th>Key strategic sale concern</th>
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<tbody>
<tr>
<td>PE</td>
<td>Whether the investment will meet their financial criteria in terms of internal rate of return and other measures of asset quality</td>
</tr>
<tr>
<td>Trade</td>
<td>The fit between the assets and existing operations, and how quickly and easily the business will be integrated</td>
</tr>
<tr>
<td>Funding bank</td>
<td>The security of the investment</td>
</tr>
</tbody>
</table>

The appropriate exit strategy will differ significantly based on the likely buyer, yet should contain contingency plans should a different type of buyer emerge during the divestment process.
Have you considered a private placement?
A private placement is money invested, usually by institutional investors (in the form of stocks and sometimes bonds). It is called a private placement because the stock is offered to a few private investors instead of the public at large. Typically, a private placement is appropriate for a small company looking to fund growth and expansion. It often involves commitment can be an excellent prelude or alternative to going public. It is an especially effective tool for raising second- and third-round capital.

A private placement can be a quick and low-cost source of capital. In most cases, the purpose of a private placement is to raise a limited amount of capital in a relatively short time at a relatively low cost. Often an IPO may not be a good option for a young company without the financial track record or reputation to attract the general investing public to its stock. Furthermore, as a privately negotiated transaction, private placements can be designed to meet the specific needs of your company. (Please refer to the table above of private placement pros and cons.)

Consider your M&A valuation versus likely IPO stock price. You will need to evaluate what your company would be worth if you were to sell it to a strategic or financial buyer and what your stock price would be worth in an IPO. You will also need to research comparable transactions and public company valuations in the sector in which your company operates.

In uncertain times, market leaders seek acquisitions. M&A activity is gradually returning to healthier levels, and multinational companies are expected to make a greater number of strategic acquisitions. Investors who have cash but have not yet deployed it are picking through their choices of possible targets. Top companies are considering smaller acquisitions and looking to integrate past acquisitions while divesting any non-core businesses. Although the ranks of potential acquirers were thinned by economic instability, M&A is expected to increasingly be used as a vehicle for accessing innovation, in addition to growth.

Preparing for an IPO can help the strategic sale process. Gearing up for an IPO and preparing for a successful exit to a trade or financial buyer involve many of the same preparation activities. There is very high correlation in relation to the value drivers for both. A company that is properly prepared for IPO should be better placed in relation to other transaction alternatives. Your business will have been taken through a similar process with all the rigors of a public offering such as the right management structures and strong corporate governance.

### Private placement

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>* Maintain control without the constraints of taking company public</td>
<td>* Restricted access to public market resources</td>
</tr>
<tr>
<td>* Quicker and easier method for capital-raising than an IPO, with no registration statements and simpler documentation and disclosure required</td>
<td>* Lack of market visibility</td>
</tr>
<tr>
<td>* Lower cost than raising money through an IPO</td>
<td>* Possibly conflicting business cultures of shareholders and investors</td>
</tr>
<tr>
<td>* Issuer determines conditions of the placement</td>
<td>* Potential investor participation in the day-to-day management</td>
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<tr>
<td>* A marker for the future value of the company at time of an IPO</td>
<td></td>
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<tr>
<td>* Cash flow reserved for investment in the business</td>
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<tr>
<td>* Builds investor base</td>
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<tr>
<td>* More flexibility in amount and type of financing with choices among equity and debt capital</td>
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</table>
Joint venture/strategic alliance

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Relatively low cost with less capital committed than in a full</td>
<td>• Potentially incompatible corporate cultures between partners</td>
</tr>
<tr>
<td>acquisition</td>
<td>• Risk of unrealistic expectations or ill-defined objectives</td>
</tr>
<tr>
<td>• Maintains some control</td>
<td>• Consistent oversight of other partner needed</td>
</tr>
<tr>
<td>• Shared risks and rewards</td>
<td>• Potential risk – legal, financial and reputational – due to joint</td>
</tr>
<tr>
<td>• A bridge to a sale or IPO</td>
<td>and several liability with partner</td>
</tr>
<tr>
<td>• Integrates products and customers</td>
<td>• More sophistication demanded from partners</td>
</tr>
<tr>
<td>• Builds credibility and knowledge to expand into key markets,</td>
<td>• Slower decision-making</td>
</tr>
<tr>
<td>develop new products and improve productivity</td>
<td>• Special considerations for licensing, distribution and supply,</td>
</tr>
<tr>
<td>• Can help expand business, access new technology or cut costs</td>
<td>manufacturing, employee and other relationship agreements</td>
</tr>
<tr>
<td>• Entry to strategic markets and geographies in a risk-managed way</td>
<td></td>
</tr>
<tr>
<td>while establishing strong local partnerships and new sales</td>
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<tr>
<td>channels</td>
<td></td>
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<tr>
<td>• Greater transparency of operations</td>
<td></td>
</tr>
<tr>
<td>• May offer transition toward divestiture or facilitate</td>
<td></td>
</tr>
<tr>
<td>streamlining of corporate portfolios</td>
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</table>

Have you considered a joint venture (and other strategic alliances)?

Market leaders often look to forge new partnerships during an uncertain economy, to drive innovation and knowledge acquisition. Partnerships and joint ventures are expected to increase, providing companies with operational efficiencies, access to knowledge and minimal costs. In our recent survey, 29% of businesses stated that they were likely to enter into a JV or strategic partnership in the next 12 months.

JVs and partnerships are expected to increase in number.

In the JV, businesses create a partnership (to share profits, markets, assets, intellectual property, etc.) and form a separate legal entity. In contrast to a merger, there is no ownership transfer in the JV. On the other hand, in a strategic partnership or alliance, typically a smaller company collaborates with a larger, financially stronger company.

JVs can be a low-cost way to penetrate new markets.

JVs and strategic alliances can provide an ideal vehicle for establishing strong local business partnerships and entering strategic markets and geographies. A JV or alliance can help companies to expand business, access technology or cut costs. At the same time, less capital is usually committed than in a full acquisition. A successful JV also may be a transitional step toward divestiture or facilitate the streamlining of corporate portfolios. Be sure your JV is supported by quantifiable milestones and compatible goals between the partners in order to foster realistic expectations. In our experience, alliances that fail usually lack these vital ingredients. (Please refer to the table above of joint venture/strategic alliance pros and cons.)

Have you chosen the right stock exchange and listing option?

The best stock exchange will be the one that most effectively enhances the attractiveness of the company’s stock to investors. After a company goes public, the exchange should also continue to meet a business’ needs.

Factors to consider when choosing an exchange:

• Access to institutional investors
• Stock market liquidity
• Brand building in local market
• Valuation
• Listing requirements
• Future financing options
• Cost

More than 90% list on their domestic stock exchanges, although they may sell shares abroad simultaneously. Smaller, younger companies tend to list on their home countries’ junior stock exchanges, while the larger, more established companies will prefer a main market listing. An issuer may sell its shares just to domestic investors (usually the route for smaller offerings) or else choose an international offering.

A larger company may seek foreign listing for a higher valuation, to maximize IPO proceeds or to broaden its investor base. This is especially true for larger companies with small domestic markets which seek more than US$1 billion in funding. However, a major deterrent to a foreign listing is that a company must comply with the policies of the foreign stock exchange, which may be more stringent than those at home.
Typically, an issuer who contemplates accessing international investors must consider the following advantages and disadvantages to a foreign listing. (See page 14 for foreign exchange listings pros and cons.)

Many leading companies in the world list on foreign stock exchanges indirectly, through Global Depositary Receipts (GDRs) which facilitate foreign exchange listings. A GDR enables the issuing company to issue and trade shares and to raise capital in many markets abroad (as opposed to just its home market). A company deposits a large number of its shares with a bank located in the foreign country where it seeks an indirect listing. The bank then issues receipts or a GDR against these shares, which are sold to the citizens of the foreign country.

GDRs are negotiable certificates, issued by depositary banks, which represent ownership of a given number of a company’s shares. GDRs can be listed and traded independently from the underlying shares but are essentially a claim to a predefined number of shares of that company.

GDRs trade like ordinary stocks, with prices that fluctuate depending on supply and demand. As a result, issuers enjoy the advantage of being able to access a broader shareholder base, increased liquidity outside the home market and greater ability to raise capital abroad. The benefit for local investors is that they do not have to go through the expense and difficulty of buying shares through the issuer’s home stock exchange. Furthermore, all share prices and dividends are denominated in the investor’s local currency. (Please see the table below describing GDRs and ordinary shares.)
Facilitate growth, such as expanding into new markets

Strengthen the business

Increase company revenues

Offer scale to the listing

Provide a platform for operations, management and financial reporting

Increase credibility with market analysts and investors

Have you evaluated which pre-IPO transactions could enhance an offering’s value?

Your company’s overall transaction strategy should be made up of much more than the IPO itself. Most companies undertake pre-IPO strategic transactions which are powerful tools for accelerating the development of your business. In challenging market conditions, it is more difficult to obtain pre-IPO transactions and to close the deal. Nonetheless, most successful companies typically do undertake transactions in advance of the IPO. In a recent executive survey, 90% of global executives stated that their pre-IPO (and post-IPO) transactions contributed to their shareholder values. (Please see page 15 for pre-IPO transactions which could enhance offering value.)

The possible benefits of pre-IPO transactions:

Facilitate growth, such as expanding into new markets

Strengthen the business

Increase company revenues

Offer scale to the listing

Provide a platform for operations, management and financial reporting

Increase credibility with market analysts and investors

During uncertain times, market leaders re-evaluate their business models and try to optimize their market reach. They prioritize seizing transaction opportunities – particularly targeting weakened competitors. They seek transactions that will expand their geographic reach and help to secure new customers and service lines. At the same time, winning companies do not pursue growth for its own sake, but maintain a focus on strategic value.

Foreign exchange listings

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Greater liquidity of some foreign markets</td>
<td>• Higher cost and complexity of preparing an IPO for multiple markets</td>
</tr>
<tr>
<td>• Access to a broader shareholder base (which may increase demand and maximize value of IPO)</td>
<td>• Possibly more stringent regulations and increased disclosure requirements</td>
</tr>
<tr>
<td>• Improve proceeds of the IPO</td>
<td>• Flowback or return of shares to domestic market since institutional investors may not hold offshore shares for the long term</td>
</tr>
<tr>
<td>• Potentially higher valuation, since international investors may value shares higher than domestic investors</td>
<td></td>
</tr>
<tr>
<td>• Shares are useful in M&amp;A activity (high-profile companies can use the shares as currency for acquisitions)</td>
<td></td>
</tr>
<tr>
<td>• Specialization in particular sectors (e.g. NASDAQ for technology or London for mining and energy)</td>
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</tbody>
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Public listing vs. GDR

<table>
<thead>
<tr>
<th>Public listing</th>
<th>GDR</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Shares are offered to private and (or) institutional investors and are usually underwritten</td>
<td>• Gains access to large pools of capital abroad</td>
</tr>
<tr>
<td>• Shares can be listed on main exchanges or junior markets</td>
<td>• Allows exposure to new group of investors which potentially increases demand for its shares and raises share price</td>
</tr>
<tr>
<td>• Greater liquidity</td>
<td>• Increases issuer’s visibility by increased analyst and press coverage</td>
</tr>
<tr>
<td>• Listing process is usually more onerous and expensive than GDRs</td>
<td>• Cheaper than a full listing</td>
</tr>
<tr>
<td>• Can be used as acquisition currency or in staff incentive schemes</td>
<td>• Excluded from major indices</td>
</tr>
<tr>
<td>• Companies need to apply the exchange’s corporate governance standards</td>
<td>• Less rigorous corporate governance requirements than a public listing</td>
</tr>
<tr>
<td>• Accounts need to be in IFRS or US GAAP equivalent</td>
<td>• Inability to participate in rights issues</td>
</tr>
</tbody>
</table>

Source: EY Top 10 IPO readiness challenges – a measures that matter global study, 2008
Pre-IPO companies need to reduce debt levels and refinance expensive debt financing prior to the IPO event. Debt financing or refinancing was chosen by 70% of institutional investors as the type of pre-IPO corporate activity that creates the most value for pre-listed companies going forward. This is because investors are mostly avoiding companies with high leverage. Prior to the economic downturn, raising debt finance was relatively easy and inexpensive. Nowadays, debt financing has become costly and hard to obtain. Most debt is only available with much higher margins and fees, tighter covenants and more onerous due diligence requirements.

Be sure the corporate structure is focused on your core business. Our survey shows that 68% of institutional investors believe corporate re-organization to segregate a business line would create value before an IPO. A major motivation in pursuing a corporate re-organization seems to be to engineer a business that the market and investors can readily understand. Indeed, a streamlined, more simplistic company structure can allow executives to present investors with a clearer, more focused business model. Ever since the economic downturn, many companies are facing some level of financial or operational stress. Pre-IPO companies may need to financially or operationally restructure their businesses to secure market position through a disciplined divestiture process.

Equity financing can help build critical mass before the IPO event. According to our survey results, 66% of institutional investors would have pursued an equity financing without a liquidity event (selling shares). With the limits in debt financing options post-downturn, many market leaders have stated they would have raised additional equity to finance the business and to provide some liquidity for shareholders in advance of the IPO. This means getting money into the shareholders’ pockets early on, before the company goes public, so that IPO proceeds will be used mainly to grow the company. It can also allow some shareholders to exit the business in advance of the IPO.

A successful business alliance or M&A can help you achieve critical mass and also supports your growth story. If a company can demonstrate that a successful joint venture partnership or acquisition has already been completed and integrated, it adds credibility to a company’s growth plans. Investors may be more sceptical of IPO candidates that have not demonstrated successful pre-IPO transactions where an acquisition strategy forms part of the post-IPO growth story.

*Source: Global IPO Institutional Investor survey, 2009*
Timing the market

Have you started early and taken time to prepare?

Let’s suppose you have decided that the best way to raise capital for the company is to go public. You must take the time you need to enter the IPO arena when you are truly ready. The well-prepared company that has addressed all the potential issues will be able to move swiftly when market conditions are right. (See Chart 5 on page 17 for suggested timing of preparations as recommended by executives.)

Timing is crucial. If timed correctly, you may price your IPO at a time that not only provides your company with an optimal valuation but will provide your IPO investors with the greatest upside in their investment in the months and years after the IPO. You will need to examine the specific markets you operate in, how comparable companies are doing and whether investors are receptive to new issuances in your sector. Many factors influence the market — political developments, interest rates, inflation, economic forecasts, etc. Underwriters can help to track these changes to anticipate when investors are likely to be receptive to new offerings.

Timing of an IPO can strongly impact stock performance. The most common mistake of newly public companies is to hurry into their IPO value journeys just months before their IPOs, and before their companies are ready. The frequent rush to go public is due to a pre-listed company’s immediate need for capital, pressure from its advisors or board, or the desire to capitalize on a limited window of opportunity. Unfortunately, such companies are often the same companies whose stock prices decline soon after the IPO, if they even successfully IPO at all.

Thus, bad timing of an IPO can severely affect a company’s stock price. Shares may have to be offered at a lower price per share in order to attract investors. Even offerings that sell enthusiastically at the time of the IPO can fail in the aftermarket, especially if subsequent operating results fall short of expectations. The most obvious risk is that the offering will not be completed and the costs incurred will have been for nothing.

Do you have an alternative financing strategy to execute without an IPO?

It is difficult to guarantee that equity market conditions will be right once the preparation is complete. As discussed earlier, to help ensure that the right option is available at the crucial moment, many businesses are now considering a triple-track process, which include PE, re-financing and IPO. You need to do what is right for you and your business.

If needed capital is available from private sources at a reasonable cost, you may want to delay going public. If the capital markets are volatile with falling valuations and you can afford to wait, you may elect to hold off until they improve. It is imperative you have the flexibility to execute alternate financing strategies, in case the IPO does not happen or needs to be delayed. In the meantime, if funds raised from other sources can be used to increase the company’s growth potential, the value of the company may rise.
Detailed timeline for IPO value journey

<table>
<thead>
<tr>
<th>12 months before IPO</th>
<th>6-12 months before IPO</th>
<th>6-24 weeks before IPO</th>
<th>1-6 weeks before IPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop robust business plan</td>
<td>Finalize preparation of historical financial information</td>
<td>Finalize timetable</td>
<td>Begin formal marketing</td>
</tr>
<tr>
<td>Establish internal team</td>
<td>Commence initial due diligence</td>
<td>Begin financial and legal due diligence</td>
<td>Price and allocate the offering</td>
</tr>
<tr>
<td>Appoint external advisors</td>
<td>Make necessary changes to executive board and begin recruiting additional board members</td>
<td>Consider adequacy of working capital and use of proceeds</td>
<td>Register prospectus/admission document</td>
</tr>
<tr>
<td>Adopt leading-practice governance and reporting processes</td>
<td>Start building financial model and business plan</td>
<td>Produce draft prospectus and other documents</td>
<td>Have underwriter perform marketing of securities (“book building”)</td>
</tr>
<tr>
<td>Make all efforts to help ensure compliance with laws and regulations</td>
<td>Meet with stock exchange representatives</td>
<td>Do initial review of pricing issues</td>
<td>Admission to stock exchange is granted and trading commences</td>
</tr>
<tr>
<td>Complete strategic initiatives and pre-IPO transactions (e.g. acquisitions)</td>
<td>Consider investor relations strategy and equity story</td>
<td>Review public relations presentations</td>
<td></td>
</tr>
<tr>
<td>Begin preparation of historical financial information</td>
<td>Implement financial reporting procedures</td>
<td>Begin initial marketing</td>
<td></td>
</tr>
<tr>
<td>Establish financial reporting procedures</td>
<td>Discuss transaction with the relevant stock exchange</td>
<td>Commission expert reports if required</td>
<td></td>
</tr>
<tr>
<td>Review management information systems and operational and compliance controls</td>
<td>Agree draft timetable</td>
<td>Appoint non-executive directors</td>
<td></td>
</tr>
<tr>
<td>Consider ownership and tax issues</td>
<td></td>
<td>Eliminate deal breakers and resolve any potential litigation or due diligence issues</td>
<td></td>
</tr>
<tr>
<td>Consider nationality of holding company</td>
<td></td>
<td>Comply with all reporting requirements</td>
<td></td>
</tr>
</tbody>
</table>

*Source: EY’s Top 10 IPO readiness challenges – a measures that matter global study, 2008*
Part two

IPO execution phase

1 to 12 months before IPO

IPO readiness involves the acceptance and implementation of change – not just by executive management, but throughout every aspect of the business and corporate culture.
Building the right management and advisory team

People are what make or break great companies. Investors often say they back the people not the plan. Your management team must be in place before the IPO. Your top managers must be able to work together well and have the experience, skills and incentives to undertake the IPO transaction and effectively operate a public company. As your voices of experience, your external advisors should be highly skilled professionals with extensive IPO credentials, contacts and industry experience.

Is your management team experienced, with an IPO track record?

Building a powerful team starts at the top. You need to have the right executive team with experience in IPOs and appropriate incentives functioning well before the IPO. For the vast majority (90%) of institutional investors in our survey, quality of management was the single most important non-financial factor when evaluating a new offering. (Please see Chart on page 9.)

Provide good incentives for senior management. Market leaders look at innovative ways to recruit and reward their key senior talent with compensation. Management incentives include performance-based compensation structures, share options, greater transparency and employee involvement. Such high-level incentives and shared ownership by management creates the motivation that often leads to strong performance.

Remuneration is an area of increasing complexity and an on-going regulatory challenge. Executive remuneration attracts high-profile attention from executives, shareholders and the media, creating significant business risk. Remuneration cannot be considered once the deal is done. At the same time, an IPO presents significant opportunities to deliver remuneration in ways that are not generally available to private companies. Equity can form a key component of remuneration for executives and can be used to promote the company’s brand among employees.

The CEO will likely be focused on investor relations in a public company. The investment community will look to the CEO to articulate and execute the company’s vision and business strategy, and translate strategy into financial results for the investor audience. Although both the CEO and CFO will need to co-navigate the pre-IPO process, the CEO often becomes the primary liaison with the aftermarket. Therefore, your executive team and managers must be well equipped to oversee the day-to-day operations of the company.

Have you chosen the right external advisory team with IPO and public company experience?

On the journey of transformation into a public company, success depends a great deal on a coordinated team effort by the internal management and the advisory team. Following economic uncertainty, it is more important than ever to build a quality advisory team. Begin to assemble your advisory team well in advance of your public launch. (See page 20 for roles and responsibilities of external advisory team.) Professional, experienced advisors will be able to carefully prime your business, introduce you to the right investors, help you sell your story and most significantly, put a value on your business that reflects its position and potential. Get this right and the IPO will still be hard work – but a cohesive team will yield optimal results.
## Your IPO external advisory team and its key responsibilities

<table>
<thead>
<tr>
<th>Underwriter</th>
<th>Reporting accountant*</th>
<th>Independent auditor*</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Develop the key “equity story” and selling messages for the IPO</td>
<td>• Produce a specific set of reports based on an audit of a company’s financial statements and internal controls</td>
<td></td>
</tr>
<tr>
<td>• Structure the offer</td>
<td>• Lend credibility to offering</td>
<td>• Fulfill regulators’ requirements for independent audit of historical financial statements – usually three years’ worth, prepared according to local GAAP or IFRS</td>
</tr>
<tr>
<td>• Conduct IPO due diligence process</td>
<td>• Help evaluate the advantages and disadvantages of going public and if appropriate, explore alternative routes to monetization</td>
<td></td>
</tr>
<tr>
<td>• Devise and manage the IPO marketing campaign, including the road show</td>
<td>• Provide guidance in preparation of final disclosure package for the company prospectus</td>
<td></td>
</tr>
<tr>
<td>• Manage the retail and institutional investor offers and pricing process</td>
<td>• Facilitate the registration process to help avoid costly delays</td>
<td>• Produce long-form report, the traditional due diligence document looking into various aspects of the business which provides reassurance that your company is fit to go public</td>
</tr>
<tr>
<td>• Help to ensure a strong and stable market for shares, to review share-trading performance and assist with broader investor marketing</td>
<td>• Analyze the IPO’s tax implications, a step vital to clarifying the tax positions of both the business and the individual shareholders and directors.</td>
<td></td>
</tr>
<tr>
<td>• Help post-IPO with the secondary offerings and beyond, for the long-term, which will make or break share price performance</td>
<td>• Evaluate financial forecasting to ensure that your forecasting is accurate and robust enough to withstand increased scrutiny and help reassure the market that you are in complete control of the business</td>
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</table>

<table>
<thead>
<tr>
<th>Legal counsel</th>
<th>Public and investor relations professional</th>
<th>Other advisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Prepare, file and complete listing application</td>
<td>• Build strategy and guide communications with stakeholders, including media</td>
<td>• An insurance broker to assist in identifying, calibrating and managing risk through prudent corporate governance</td>
</tr>
<tr>
<td>• Provide guidance on the risks and regulation of the IPO transaction, including publicity and disclosure</td>
<td>• Sustain the market’s interest in the company</td>
<td>• Advisors for internal audit, tax and compensation structuring and transaction management and strategy</td>
</tr>
<tr>
<td>• Provide guidance on the roles of the key regulatory players, and exchange listing and securities rules</td>
<td>• Communicate with shareholders and the public</td>
<td>• Advisors in areas such as information systems, business process improvement, printing and personal financial planning</td>
</tr>
<tr>
<td>• Help ensure that everything is checked and verified and no issues will expose the business to claims after the IPO</td>
<td>• Attract a pipeline of new investors and sell-side research coverage</td>
<td></td>
</tr>
<tr>
<td>• Address the key legal areas of:</td>
<td>• Manage regulatory and liability risk</td>
<td></td>
</tr>
<tr>
<td>• Material contracts (e.g. with suppliers and customers)</td>
<td>• Educate the public about the company’s position in the industry</td>
<td></td>
</tr>
<tr>
<td>• Litigation (pending, threatened or existing) or potential disputes</td>
<td>• Provide update of forecasts</td>
<td></td>
</tr>
<tr>
<td>• Intellectual property and information systems rights/ownership/control</td>
<td>• Identify any key business issues that could impact the company</td>
<td></td>
</tr>
<tr>
<td>• Regulatory issues (licenses/consents)</td>
<td>• Maintain compliance with applicable disclosure regulators.</td>
<td></td>
</tr>
<tr>
<td>• Third-party consents (e.g. banks, shareholders)</td>
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</table>

* This describes the typical responsibilities of a reporting accountant and independent auditor in the UK. Auditing requirements differ from market to market with the minimum requirement usually being three years unqualified audit reports in accordance with recognized GAAP.
Building your business and financial processes and infrastructure

The infrastructure and systems of a publicly traded company are very different from those of a typical private company and must be able to withstand the rigors and scrutiny of public status. (Please refer to Chart 6 on page 22 for current accounting and financial reporting issues.)

Have you constructed a strong infrastructure for accurate financial forecasting?

You must define and implement, well in advance, the infrastructure of people, systems, policies and procedures that will enable the production of quarterly and annual reports in compliance with regulations. A robust infrastructure can facilitate regulatory compliance, protect against risk exposure and provide guidance to meet or beat market expectations.

Currently, compliance of the infrastructure with local and foreign regulations is a significant task, as a company may need to change from its local accounting standard to IFRS standards (depending on the listing exchange’s requirements). However, as more countries around the world require IFRS for listed companies, differences between local and foreign regulations will diminish.

How to improve your infrastructure:

- Improve budgeting and forecasting capabilities
- Put financial statements in order
- Prepare to comply with local securities laws
- Address potential IPO accounting and financial reporting issues
- Develop appropriate corporate, capital and management structures
- Properly document transactions with owners and management

Have you assessed financial, accounting, tax, operational and IT processes, systems and controls?

Timely financial reporting and effective internal controls become vital in a public company. These systems, processes and controls must be able to support your new life as a public company and help you establish the needed transparency within your organization.

The commitment begins once you’ve prepared and filed your initial listing application. On a continuing basis, you will be required to file quarterly and annual reports. The timeline for the financial statement close process is significantly condensed. Your schedule must allow for internal analysis and increased levels of communication with internal stakeholders and external advisors prior to the filings.

Extensive testing of internal control systems has become a way of life for public companies. This can be attributed to heightened regulatory compliance requirements in many countries. An effective risk-taking culture can only thrive within a solid framework of cost-effective internal controls. Market leaders are developing methodologies for preventing and detecting fraud. They are also anticipating the increased risks created by increased regulation (e.g. tax or climate change) and broadening the scope of their risk management practices to include new areas, such as third-party and counterparty risk.

An IPO is a tax minefield for the unwary. It involves significant restructuring of an organization’s legal, financial and commercial activities. This, combined with a need to undertake extensive tax due diligence on listing to identify any exposure (both past and future), means that the road to IPO can be a taxing challenge.

The existing shareholders of an organization looking to go public view the process as a natural expansion and growth in activities. They are therefore amazed by myriad taxation implications, risks and, in some cases, opportunities that can arise throughout the process. Unfortunately, the tax implications can not only alter the structure of the IPO, but can often change the way in which commercial transactions are approached.

Effective tax structures and reporting are key, especially with the rise in demand for transparency worldwide. You will need to establish or outsource a tax function and infrastructure appropriate for public company status. Your corporate structure should:

- Minimize your company’s effective tax rate
- Establish a tax-efficient structure and assess local incentives
- Develop and improve your procedures to review tax issues
- Manage tax risk and controversies

Increased regulatory pressure, transparency requirements and globalization are adding to the strain on already-tight resource pools. Typically, tax compliance requires approximately 50% of a tax department’s time. Historically, many reported material weaknesses have been tax related. As a result of these converging factors, corporate leaders are redefining the role of the tax function.

Adaptable IT systems facilitate financial analysis and reporting. It will be critical to helping your public company capture, organize and assess relevant business information quickly and easily thus enabling swift financial analysis and reporting. Your management should assess whether the current IT environment and infrastructure are aligned with the company’s business objectives. Because high-growth companies are in constant flux, your information systems must support a work environment of adaptability, innovation and collaboration.
According to our survey, **asset valuation impairment** is the biggest issue institutional investors are grappling with, particularly in certain industries. Valuing businesses and their underlying assets has become much more difficult. Economic uncertainty has directly affected valuation assumptions such as growth and discount rates, making accurate forecasting of cash flows challenging. In addition, the decline in transactions and the lack of comparable transactions information has increased the complexity of performing valuations and determining fair value. The past two years have seen an increased level of impairments reported. Many companies have seen their goodwill and assets fall in value and may need to take a charge against earnings.

Users of financial statements will be more inquisitive, demanding greater transparency in and explanation of the assumptions management makes about a company’s future. They will refer to multiple sources of information to validate the assumptions and sensitivity analysis behind asset valuations. Companies should be prepared for increased scrutiny and rigorously present realistic and consistent information. With prolonged uncertainty, impairments will remain a focus for all participants in global capital markets.

**Making sense of consolidated subsidiary financial statement issues** is also a challenge for investors. Business combinations are growing in importance in capital markets, but investors have experienced difficulty in accurately assessing business combinations. Comparing financial statements is especially difficult when acquirers are accounting for acquisitions in different ways. The IASB and FASB have undertaken a joint project whose objective is to develop a single accounting standard. Thanks largely to changes made to US GAAP, such a unified approach would ensure that the accounting for business combinations is the same whether an entity is applying IFRS or US GAAP.

**Revenue recognition** can be highly subjective. When terms of payment become more complex, the decision of when revenue should be recognized becomes more complicated and subject to interpretation. When companies try to protect their results, they may be recognizing revenue earlier, taking advantage of the subjectivity of revenue recognition. The US in particular has a substantial body of literature on revenue recognition that can, on occasion, prove useful when there is no IFRS guidance available. Historically this was particularly relevant for IFRS-reporting companies registered with the US SEC, who wished to avoid as far as possible having IFRS/US GAAP differences. This is now less significant as reconciliation to US GAAP is no longer required. However, such differences are sometimes unavoidable, and it is not always the case that a revenue recognition policy under US GAAP is acceptable under IFRS, and vice versa.

**Related-parties transactions**, which are business deals between related parties, become quite significant when a private company goes public. Regulations exist which must be followed, including that all companies report such related-party transactions. Most related-party transactions are perfectly legal. However, due to the potential conflict of interest that may exist between two related parties (leading potentially to the parties benefitting to the detriment of shareholders), these transactions will bring scrutiny and will require transparency. IFRS requires disclosure of all related party transactions and the terms under which they have been conducted. Those entities that have considerable related party transactions should re-evaluate the basis for the transactions and the terms under which they are conducted. To the extent they are not on arm’s length terms, the impact on the financial results should be considered and the terms renegotiated ahead of any IPO taking place. Therefore, ensure that your related party transactions are conducted on arm’s length terms since IFRS disclosures may become more extensive.

*Source: Global IPO Institutional Investor survey, 2009*
Establishing corporate structure and governance

With greater scrutiny and liability for public company directors, substantial time and effort is required to identify, appoint and groom a qualified board of independent directors. You will need to adopt leading practice corporate governance principles and reporting policies that protect your shareholders’ interests.

**Have you created the corporate governance policies that inspire shareholder confidence?**

The media and general public placed partial blame for the 2009 financial crisis on poor corporate governance. Many believe that boards failed to understand and manage risk and incentives appropriately. With the charges of fraud and market manipulation that arose out of the financial downturn, investors are placing a premium on corporate governance and high stock exchange standards.

Corporate governance reform is now at the top of agendas for investors, regulators and boards. Boards are reflecting on how to be more involved with governance and create greater audit committee oversight of the risk management processes. Now more than ever, a strong corporate governance function, including attractive qualified independent board members and the transparency of related-party transactions, is critical.

**Have you recruited and assembled your entire board of directors?**

Investors expect that your board will have a balance of executive and non-executive directors (NEDs) with sufficient knowledge of the business. Take time to build a public company board with a good mix of skills, including industry contacts, technical knowledge, business development, marketing, strategic planning, acquisition integration and financial expertise.

Start recruiting your board early, especially NEDs. The leading companies will usually have the right boards in place before the IPO. The typical board candidate search process is quite similar to recruiting a CEO or other C-level executive. However, for many companies, there are often last-minute, frantic searches for independent board members. In some countries, there is a veritable war for boardroom talent since the pool of good potential directors is often so limited.

Therefore, NEDs should be sought as much in advance as possible – six months ahead of the IPO event is realistic timing. A NED with experience of an IPO, who understands the process and who is able to challenge board debate (and not just rubber stamp management actions), can be a great asset in the lead-up to an IPO.

**How directors can improve board performance:**

- Have loyalty to shareholders, not management
- Challenge management to simplify and explain the business
- Serve as ambassadors and promoters of the business
- Carefully evaluate executive remuneration plans
- Improve audit committee oversight of risk management

**Have you adopted leading practice corporate governance oversight, policies and procedures?**

Top companies adopt the appropriate corporate governance practices that will protect shareholder interests. This will involve working with your legal counsel on all corporate governance matters, including efficient pre- and post-IPO legal structures and compliance with exchange-listing and other regulatory requirements.

**Are you and your board focusing on risk management?**

Your newly-public company will need a full suite of board-approved risk management and control policies.

Investors are increasing their scrutiny of risk and will pay a premium for strong risk management, while companies are focusing more on risk assessment and response. This is a result of increased regulatory and investor scrutiny and increased business activity in the emerging markets. In the downturn, businesses of all sizes were hit by risks that were completely off their radars. Now, shareholders expect transparency, open communication and effective global risk management.

Risk management oversight in many companies is inadequate for identifying new risks. Companies need a comprehensive process and structure to identify and manage risks. In its oversight capacity, the board bears ultimate responsibility for developing the risk management framework, which allows a company to manage risk prudently, yet allows for growth.

**Key success factors in managing risk include:**

- Assignment of risk ownership
- Internal risk communications
- Understanding of enterprise-wide risk

Although enterprise risk management is still in its early stages for most pre-listed companies today, the larger public companies are looking beyond internal controls around financial reporting to address the broader enterprise and external risks.
Recruiting qualified independent board members is a huge challenge these days. In the past, corporate scandals have arisen when a board of directors became too friendly with the executive team. Often, the bigger and more complex a company becomes, the more difficult it becomes for a non-executive director (NED) to have a complete grasp of the business. It is often challenging to find a NED who is independent, with the right skills and knowledge or background.

Enhancing internal controls can help you meet changing accounting, tax, legal and procedural requirements. Historically, the top two reported internal-control deficiencies contributing to a material weakness were related to: competency and training of accounting resources and inadequate accounting documentation, policy or procedures. Dealing with such significant accounting issues (e.g. valuations and revenue recognition) early is a critical success factor to an IPO.

Forming a qualified audit committee is challenging, since the directors need to have financial literacy, with at least one of the NEDs qualifying as a financial expert. As the audit committee provides the financial oversight of the business, typically audit committees examine the annual and quarterly financial reports and review the financial reporting and budgeting process. They will therefore be expected to understand complex accounting issues.

Under public scrutiny, companies must create a sensible management compensation structure. The compensation structure should maximize the company’s profitability while rewarding high-quality managers for reaching goals. To be fair to shareholders, this may mean a compensation and bonus structure that is far less than the remuneration received when the company was private. At the same time, you want a remuneration structure that provides adequate incentive for management to drive the business forward. Once the IPO is effective and the company has publically traded stock, an employee stock option plan can be a highly attractive part of the company’s executive compensation package.

Implementing board meeting and reporting processes is a necessary formality. Your company needs to set board meeting guidelines and establish a protocol. For instance, certain issues and decisions should be reserved as the domain only of the board and not of any other part of the business. This needs to be circulated and agreed upon by both management and board members.

*Source: EY’s Top 10 IPO readiness challenges – a measures that matter global study, 2008
Managing investor relations and communications

Frequent and transparent communications with stakeholders regarding your company’s performance will be key to success as a public company. A strong investor relations function will help you sustain the market’s interest in your company, communicate with your shareholders and the public, attract a pipeline of new investors and manage risk.

Your team will need an investor relations professional who has the ability to work well with your bankers and is familiar with your industry sector and potential investors. He or she will help to build your strategy and guide communications to stakeholders and the media. (Please refer to the table on page 20 for key responsibilities of investor relations professionals.) Your underwriter, lead bank and investor relations professionals will help you to market the IPO.

Have you prepared a corporate communication strategy and plan?

Communicating the right messages about your business is always important, but it is particularly crucial when you are moving into the public arena. You need to maintain close relationships with your financial backers. Private companies are often unaware of the level of accountability and scrutiny faced when going public. They often underestimate the time and skill needed to court a new pipeline of public investors and to maintain aftermarket support. When newly public, you acquire a new range of stakeholders that will demand much greater transparency in your business.

Do you keep investors informed with regular communications of your equity story?

Overall, the company’s investment messaging should define the core value proposition for investors and answer the question, “Why invest now?” When your public company acquires a group of shareholders, you need to keep them informed of corporate developments in a variety of disclosure vehicles, including annual and quarterly reports, proxy statements, press releases, direct mailings and shareholders’ meetings. Shareholders, analysts and the financial press will critically evaluate your management’s performance and focus attention on the company’s share price.

The IPO marketing process:

<table>
<thead>
<tr>
<th>1. Premarketing</th>
<th>2. Road show ~ formal marketing</th>
<th>3. Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td>◆ Developing and fine-tuning the equity or investment story</td>
<td>◆ Publishing the preliminary prospectus</td>
<td>◆ Setting the price</td>
</tr>
<tr>
<td>◆ Preparing and distributing research reports about company (although regulations may limit communications in the pre-filing period)</td>
<td>◆ Presenting management road show, including one-on-one meetings with prospective investors</td>
<td>◆ Allocating shares to long-term investors</td>
</tr>
<tr>
<td>◆ Targeting investors and educating them about transaction prior to road show</td>
<td>◆ “Book-building” to determine investor interest in company’s shares</td>
<td>◆ Stabilizing share prices during first days of trading to facilitate distribution of shares (with most IPOs trending about 10% to 15% above the issue price)</td>
</tr>
</tbody>
</table>
Delivering an effective road show

You will need to deliver a persuasive message about your business’ compelling equity growth story and your management team’s credibility. Your road show is your opportunity to convince potential investors to invest in your offering. You must be fully prepared to sell the investment merits of your company’s story.

**Do you convey a compelling equity story in your road show?**

Overall, investors are looking for businesses with growth potential that translates into cash generation and bottom-line performance. Investors will not be interested in businesses that are going public for balance sheet repair, or to pay down debt.

**Completion of a high-quality road show is a critical event in the IPO process, and possibly the most exhausting for management.** Every firm approaching an IPO is competing in a crowded marketplace for institutional investors’ attention and money. In order to maximize the company’s selling price, you need to stimulate interest in your company. As our survey results demonstrate, the quality of the road show is a vital non-financial measure. Institutional investors will rarely visit the companies they invest in, preferring instead to rely on information presented at the road show meetings and other sources. The road show will likely be the only time a company’s senior management actually communicates directly with potential investors.

**Underwriters take senior management on a whirlwind tour.** The road show consists of numerous intensive meetings in many cities over a one- to two-week period. Your management must introduce the company to key investment audiences, including the underwriting sales forces and prospective institutional investors.

Your slide presentation and “elevator pitch” needs to convince investors to buy your IPO shares for their portfolios. Your company must sell its investment merits during the road show. You will need an organized, 25-minute slide presentation and comprehensive selling points.

When drafting the presentation, you must keep two audiences in mind: the sales desk of your chosen broker and the institutional investors you meet on your road show. You will also need three to five key messages for an elevator pitch when you have only a few minutes to convey your investment story.

**Is your business plan and messaging clear, consistent, sustainable and supportable?**

Understand and build strong rapport with your stakeholder audience. Your underwriters and investor relations counsel should provide background information of your audience and its investment criteria.
The IPO value journey

Part three

IPO realization phase

1 to 24 months post-IPO
The last stage of the IPO value journey begins after shares are priced and allocated to institutional investors. Now, aftermarket trading and the “real work” of being a public company begins.
Attracting the right investors and analysts

As a newly public company, your management must now be accountable to possibly hundreds or even thousands of investors, after having been responsible to just a few investors when private. Through ongoing dialogue, conference attendance and non-deal marketing visits, you should be prepared to cultivate an open channel of outreach to potential investors and for targeting sell-side analyst coverage from a broad universe of firms.

**Do you have a plan to cultivate relationships with research and sell-side analysts?**

Market leaders try to attract equity research analyst coverage and to establish an ongoing dialogue through carefully crafted messages to the targeted investors and analysts.

Get to know your analysts. Assess their knowledge of your company, your industry and the breadth of their coverage and help them understand your business. Your underwriting team will provide market-making and aftermarket trading departments are separated and insulated from one another.

The decoupling of investment banking from sell-side research makes it even more of a challenge for smaller-cap companies seeking analyst coverage. Thus, the sell-side will be instrumental in helping present your story to the investment community.

The public markets are an unforgiving place. Management must strive for accuracy in projections and forecasts so that targets are hit – quarter after quarter. For a public company, a single negative news item that is not well managed by the investor relations function can have a significant impact on a stock price. As always, you need to learn to manage expectations of shareholders and analysts.

**Do you have a strategic plan for managing your aftermarket ownership mix?**

At first, many newly public companies enjoy high share prices fuelled in part by investors' interest in IPOs and by the press coverage for such companies. However, unless the market's interest in the company is carefully maintained after the IPO, the initial euphoria will quickly fade. The trading volume and value of the company's shares will also decline.

You must have an aftermarket strategy. Once the IPO is over, the process of retelling and fine-tuning the company's equity story begins. You must develop a proactive investor relations strategy that will attract the optimal ownership mix and long-term pipeline in the aftermarket. Successful executives target the type of investor that will maximize liquidity and valuation.
Delivering on your promises

Once your company goes public, the real work of running a newly public company begins. You must meet or beat the expectations that you set. (Please see Chart 8 on page 30 for the institutional investor perspective on top internal business issues.)

**Have you prepared a long-term plan for growth and shareholder value?**

Market leaders deliver the post-IPO shareholder value promised to stakeholders by demonstrating operational excellence. This means executing on your business plan, meeting financial targets consistently and attracting the right investors. Your company needs to deliver on your promises for growth, shareholder value and share price appreciation.

**Current market leaders are driving new discipline** into their organizations in areas that, in less challenging times, may have been allowed to slip. The downturn has forced businesses to look hard at driving operational efficiency, improved cash flow and greater liquidity. Define the parameters management uses to track the business; this will give your investors and analysts a blueprint to follow. It will allow you to dictate the metrics by which external stakeholders will measure your company’s performance.

Are you using the proceeds of your IPO to fund growth?

Growth is the key driver for market leaders. Investors prefer companies that will use IPO proceeds to accelerate growth. As our survey results show, investors seek out companies that plan to use the IPO capital to accelerate growth, whether through expanding operations, moving into new geographic markets, acquiring other companies, developing new products and services, enhancing marketing and branding or upgrading technology and infrastructure. By contrast, investors are wary of investing in companies where members of the management team are “cashing out” by selling more than 30% of their shares or where IPO proceeds are used only to pay off company debt.

**Do you have a long-term plan for managing post-IPO risk and regulatory compliance?**

(See the table below for a basic approach to addressing areas of risk post-IPO.)

<table>
<thead>
<tr>
<th>Areas of risk post-IPO:</th>
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<tbody>
<tr>
<td><strong>Risk</strong></td>
</tr>
<tr>
<td>1. Financial</td>
</tr>
<tr>
<td>2. Strategic</td>
</tr>
<tr>
<td>3. Compliance</td>
</tr>
<tr>
<td>4. Operational</td>
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</tbody>
</table>
An effective **working capital management** strategy can help companies release much-needed cash in uncertain times, when “cash is still king.” The economic downturn led to declining revenue, major currency and commodity price fluctuations and a severe restriction of access to new funds. As a result, the ability to manage working capital – the lifeblood of a company – and promoting a “cash culture” have become crucial. Your company will require a disciplined working capital management program to access liquidity, manage cash more tightly, improve cash flow forecasting, release cash and control costs.

**Regulatory and compliance risk** is a current strategic challenge driven by escalating regulatory burdens in many markets and industries. As companies extend their value chains abroad, numerous compliance risk challenges have also arisen. Your company needs to revitalize the way you manage risk, identify the full risk complexity of the market and develop a strong control framework for your business.

As a result of financial or operational stress, some companies may need to financially or operationally **rationalize their business structure** to maintain their market positions in the current environment. Boards are more actively seeking to establish a tighter grip on their core businesses. Many are closely monitoring the performance of subsidiaries so that underperforming assets can be identified for divestment. Restructuring also allows some companies seeking to dispose of non-performing assets to better focus on their core businesses. Such restructuring initiatives are targeted to improve performance and increase cash flow and liquidity.

**Timely financial reporting procedures** allow public companies to achieve accurate forecasts each quarter and consistently meet targets. While a private company may endure negative publicity without major repercussions, a public company’s stock price will suffer unless it can file its periodic financial statements, accurately and on-time, quarterly and annually, without fail.

*Note: % represents the percentage of investors that chose the particular issue as one of their top three concerns.*

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*Source: Global Institutional Investor survey, 2009*
Life as a public company: renew and recreate

Are you ready for the ongoing challenge to re-evaluate, renew and recreate your business, post-IPO?

The IPO value journey is a recurring series of challenges for executives. Market outperformers continue to accelerate the business, all the while building the infrastructure and management practices that a mature public company requires. You may need to return periodically to the beginning of the cycle and recreate strategies and processes.

What will your equity story be a year after the IPO? Will it be as compelling as it was before you went public? Companies are often well supported until the IPO, and then once they are public, things get complicated. Companies need to be well prepared for what follows.

How to be a public company

- Manage capital raised to execute strategic initiatives and transactions
- Re-evaluate the management team
- Create and execute a strong communication plan
- Ensure transparency with no surprises
- Manage risk across the entire organization

Focus on being a public company (not just on going public). Throughout the IPO value journey, senior management’s focus should be not only on going public but also on being public. Although IPO readiness can lead to a successful IPO outcome, all of the best financial engineering will not create business prosperity – only proper planning and adherence to strong operational execution will forge the path to long-term success.

The transformation from a private company to a public enterprise is a life-changing process for any organization and it will continue long after the actual IPO transaction. The IPO may be the most important transaction in a company’s life to date, but it’s often just one more milestone along the road to market leadership.
Appendix

In our 2009 study, EY and the US-based market research group of *Institutional Investor* magazine conducted an independent online survey of a total of 305 institutional investors from around the world regarding how they evaluate new equity offerings.

**By region**

- Europe, 31%
- USA, 28%
- Latin America, 18%
- Asia, 21%
- Other, 2%

**By type of institution**

- Hedge fund, 27%
- Mutual fund, 33%
- Insurance, 5%
- Bank, 12%
- Independent investment advisor, 11%
- Pension fund, 6%
- Broker affiliate, 6%
- Sovereign wealth fund, 0.3%
- Private equity, 1%
- Proprietary trading desk, 2%
- Other, 1%

**By total amount of assets managed*”**

- $150b or more, 6%
- $75b - $149.99b, 3%
- $30b - $74.99b, 6%
- $10b - $29.99b, 10%
- $5b - $9.99b, 7%
- $2.5b - $4.99b, 11%
- $1b - $2.49b, 14%
- $500 - $999m, 9%
- $300 - $499m, 7%
- $100 - $299m, 13%
- $50 - $99m, 8%
- Less than $50m, 6%

*Mean value of assets managed by respondents: $20.1b

*Values in US dollars
Are you ready?

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EY is a leader in helping to take companies public worldwide. With decades of experience, our global network is dedicated to serving market leaders and helping businesses evaluate the pros and cons of an IPO. We demystify the process by offering IPO readiness assessments, IPO preparation, project management and execution services, all of which help prepare you for life in the public spotlight. Our Global IPO Center of Excellence is a virtual hub which provides access to our IPO knowledge, tools, thought leadership and contacts from around the world in one easy-to-use source.

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