

Executing a successful IPO

For companies serious about going public – the time to prepare is now

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PwC IPO Centre

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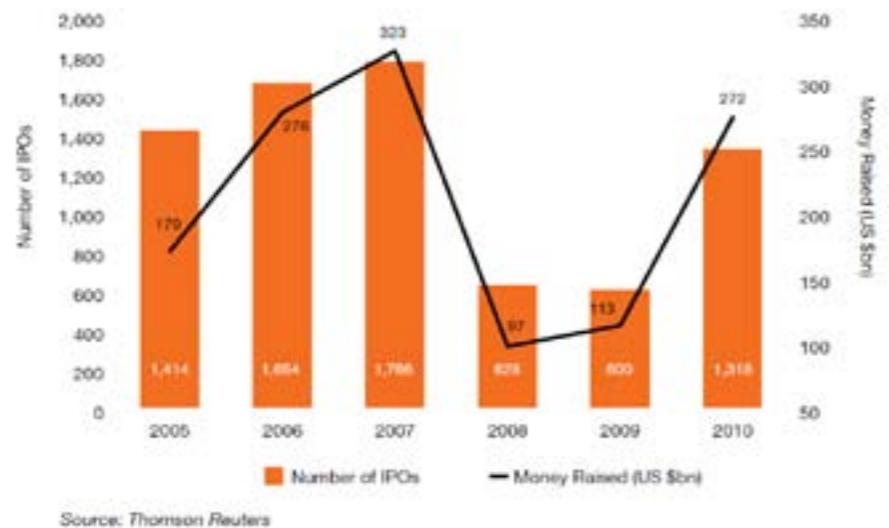
The heart of the matter

As IPO market momentum increases, many companies are assessing their readiness to go public

Taking your company public is a transformational event, perhaps the most important your company will go through. Done properly an Initial Public Offering (IPO) not only supports your company's continued growth it can change the lives and fortunes of everyone involved (owners, employees and investors).

The outlook for IPOs

Following the recent global economic downturn positive momentum in IPOs across the globe is rapidly building. In 2010 in excess of US\$ 270 bn was raised through IPOs globally, an increase of 140% on 2009. The market appetite for IPOs is expected to continue into 2011 and beyond.



Why go public – the key considerations and challenges

Key considerations

Going public is not simple, it is time consuming and can be expensive. Despite this, for many companies the advantages of going public far outweigh the disadvantages. So before diving straight in you should take a moment to consider "Why do I want to go public?" Some of the reasons may include:

- Access to capital – to fund growth and further expansion both at the time of admission and through further capital raisings.
- Mergers and acquisitions – once established publicly traded shares can be used as currency to acquire other businesses.

- Talent management – an attractive employee share scheme can help to attract and retain key talent, encouraging commitment and long term motivation amongst all employees.
- Enhancing the company's image – listing your business on the right market can raise its profile, create brand awareness, achieve international exposure and increase overall confidence in the company amongst all stakeholders.

Your answers to these questions should drive the overall IPO strategy – including the timing and the offer structure.

Key challenges

Being involved in an IPO is a once in a life time event. Miscalculating the time and complexity involved to transform a private business to a publicly traded company is a common pitfall. Key challenges for companies considering an IPO include:

- Planning and good preparation. For most companies there is a significant amount of work needed up front to get into shape for the IPO. While market timing is outside a company's control, preparation is not. If an IPO is in management's goals, expect discussions and planning sessions to begin early in the process.

- The IPO process is very time consuming for key executives leaving less time for them to carry out their day jobs. This can increase the risk of business issues not being addressed or not enough time being dedicated to the flotation.
- Understanding the financial track record issues such as complex financial histories, transition to different accounting standards and sourcing additional disclosure information.

How can PwC help you achieve a successful listing?

Going public can be immensely rewarding, but it is a period of intense pressure and change for your company. Without doing the initial preparation and ground work, an IPO can be doomed before it has even started. At PwC we understand this and in our experience the most successful IPOs are the best prepared. This is particularly so in today's changing economic climate – potential investors not only want a good investment story, they are looking for transparency in financial reporting, strong governance and robust systems. At PwC we have experience of a wide range of international and domestic IPOs – we can help you evaluate the pros and cons upfront. We simplify the process, take you through it and prepare you for life as a public company. PwC makes a difference, we aim to support you and help you get it right through our:

Approach – We understand the challenges your business faces – our specialist industry knowledge and IPO expertise puts us in a unique position to advise our clients on the most suitable route, focusing on achieving success and avoiding unnecessary complications and delays along the way.

Global network – Our reach extends across the globe including Europe, America, Africa, Middle East, India and the Far East. Through our extensive network we combine local market insights with specialist knowledge and expertise – helping your business achieve its potential.

Track record – In 2010 PwC was the reporting accountant for over 100 IPOs globally, helping companies raise in excess of US\$41bn.



An in-depth discussion
Careful thought, preparation, and
planning are key for a successful IPO



Preparing for a successful IPO

Preparing for an IPO is like choreographing an intricate ballet. Just as a ballet is constructed from individual dance steps and musical notes, the IPO consists of separate, elemental processes that are interdependent on one another. Every part of the company plays an important role, and each contribution must be coordinated and staged precisely. Strong leaders, careful planning, and talented performers can make the difference between failure and a winning performance.

Pre-IPO

Many companies start preparing for becoming a publicly listed company well before the actual IPO process starts. In fact, advance preparation is typically the critical success factor to achieving a smooth execution process – steps can be taken early to correct any potential organisational gaps or transactional issues that are identified, allowing you to take advantage of the optimum IPO window for your company.

PwC can provide an **IPO Readiness Assessment** which will help you review the critical areas needed for a successful float. The table below is an indicator of the areas that the IPO Readiness report will assess and how the potential impact on both the company's resource and the actual IPO can be measured:

Areas for review

Group structure	<ul style="list-style-type: none">Consideration as to which entity is listed and which companies are to be in/out of the group. Resultant impact on transaction structuring including: tax planning, structure of financing arrangements, distributable reserves and share incentive considerations.
Financial information	<ul style="list-style-type: none">Determining make up of the 3 year historical financial track record for the prospectus. Assessment of suitability of accounting policies including segmental reporting and identification of other disclosures needed to comply with IFRS requirements.
Corporate governance	<ul style="list-style-type: none">Assessment of corporate governance arrangements including board composition and committee structures and changes needed to meet public company requirements.
Financial reporting procedures	<ul style="list-style-type: none">Assessment of existing systems including IT systems, financial reporting systems and management information to identify potential weaknesses/opportunities for improvement in advance of the IPO.
Risk and compliance issues	<ul style="list-style-type: none">Assessment of existing systems including money laundering controls, whistle blowing, code of conduct, internal audit.
Selection of the IPO market	<ul style="list-style-type: none">High level analysis of the significant requirements and differences of selected exchanges. Early identification of eligibility issues.

We report our findings against the key attributes of a public company. Findings are prioritised according to the potential impact on a planned IPO and the traffic light system provides a useful way of presenting our findings.

- Critical – need urgent attention as they are deemed to be critical to the IPO path
- Issues that will need to be addressed prior to the IPO – some processes are in place but improvements are required.
- Appropriate procedures are in place, or an issue that needs to be addressed prior to IPO but is relatively straightforward or an issue that can be addressed post IPO

IPO

Once the initial ground work is complete the IPO process can begin. One way to ensure a successful performance is to establish two parallel work streams at the start of the IPO registration process – we refer to these as **Going Public** and **Being Public**.

Going public is the process of taking the company through the steps of gathering the necessary financial, marketing, and business information; being subject to detailed financial and legal due diligence; preparing the prospectus/registration statement and clearing this with the regulators; and then marketing the business and selling the shares in the road show. This registration process ends when the offering is sold and the company, and/or its shareholders receive the proceeds.

Being public is the process of transforming the organisation into a public company. Among the many tasks involved are upgrading, sustaining, or enhancing financial reporting capabilities, creating an investor relations function to communicate with the "market" and investors, meeting legal and stock exchange governance, reporting, and internal controls standards and listing requirements of the selected exchange and local legislation.

Going public

- Prospectus/registration statement
- Historical financial information
- Structuring
- Due diligence
- Other expert reports
- Underwriting
- Project management

Being public

- Corporate strategy and development
- Accounting, reporting and financial effectiveness
- Governance and leadership
- Internal controls
- Media and investor relations
- Treasury and financial risk management
- Legal
- Tax
- Human resources
- Technology
- Project management

Splitting the work flow in this way ensures all bases are covered – while some of these elements will not come into play until after the IPO launch, many have very long lead times.

It is vital to create an achievable IPO plan for completion, and commence execution while still a private company. Doing this will help you keep on track and meet key IPO objectives; such as maximising IPO price, attracting a high quality investor base, develop relationships with the wider market to create liquid trading and develop relationships with market analysts to ensure quality research coverage is available on your company.

At this stage PwC will work in partnership with all the other advisers to begin the IPO transaction process. The diagram opposite highlights the key areas that PwC will be able to assist you:

How PwC can help you

We can help you address many of the questions which you will need to consider during the IPO process, including:



Post IPO

Build a finance organisation that can meet the needs of a public company. The first months of life as a public company are critical. There is uncertainty among investors and analysts because the company is relatively unknown. The newly established public company is also unfamiliar with forecasting results and performance. And the consequences of not meeting expectations can be severe. In fact, an inability to communicate effectively with analysts and investors to manage expectations can be damaging to shareholder value and compromise credibility.

As a result, getting the right finance organisation, with the right capabilities to deliver quality financial reporting at the right time, is an important factor to a successful IPO. This is typically achieved by first

focusing on getting the monthly financial close process to a reasonable amount of time for a public company and then preparing the quarterly, half yearly and annual financial information with the level of detail and accuracy that is expected of a public company.

A good IPO plan will identify the critical aspects of the finance function that need to be in place before starting the IPO preparation process, for example, the CFO and controllership functions. Others, such as public reporting, can be built up during the IPO preparation process, initially relying on external resources, migrating to an internal public reporting function as the IPO launch date approaches. The key is getting the appropriate balance of resources in place at the right time without overdoing it before the IPO is certain.

Start preparing now – be ready when the IPO market is ready for you

The table below is a useful checklist of things to consider on how to execute a successful IPO

Use a multidisciplinary approach

- Going Public and Being Public require multidisciplinary approaches that involve all areas within the organisation — the board of directors, shareholders, strategy teams, accounting and financial reporting, legal, treasury and risk management, investor relations, tax, human resources, and information technology.
- While the accounting, financial reporting and legal departments play an important role, it's a common mistake to delegate all aspects of the IPO preparation to one group. All department heads should be aware of what is transpiring, as they will need to provide input to the information-gathering process and will be asked to evaluate their department and determine a transformation plan for the new organization.

Strike the right balance between internal and external resources

- Once a company begins, the time and effort involved in trying to execute on the Going Public and Being Public plans can quickly overwhelm existing resources that are trying to operate the business. The daily requests for information from lawyers, bankers, and accountants will make it clear that existing resources are not able to manage competing demands and a new resourcing plan is needed.
- If there is time and sufficient clarity around the future public company structure, the company should begin building its public company resources. However, such an endeavour is often time-intensive and may not be complete in time to avoid the hiring of external resources.
- The advantage to hiring from outside the company is that the resource is able to deliver immediate experience, technical depth, and can increase or decrease capacity as necessary to meet the demands of the process. However, reliance on external resources should be temporary to ensure adequate knowledge retention by internal staff after the registration is complete.
- To resolve employee work overload, companies may also consider hiring and training temporary workers at the start of the IPO process to perform routine day-to-day tasks, enabling more experienced employees to handle the complex demands of an IPO.

Don't try to do too much at once

- Another common mistake in anticipation of an IPO is to try to do too much at the same time. Companies need to take a staged approach to building a public company. Far too often, companies try to complete an acquisition, a debt refinancing, a significant systems or ERP upgrade, a cultural and business integration, a new incentive compensation strategy, a new organization structure, a new legal structure, a new management philosophy, and new board and governance policies, in conjunction with their IPO. Trying to achieve multiple initiatives at the same time can strain an organization, such that the project drowns under its own weight and the IPO is delayed or is never completed.
- Hence the need for an effective IPO Readiness assessment that can help alleviate issues by prioritising tasks and completing them within scheduled phases.

Set the IPO structure early

- Successful IPOs determine the IPO structure at the beginning of the process. Existing stakeholder concerns must be tackled early. While it is difficult to finalize and document the details for all of these terms at the start of the project, the more complete the offering structure is at the start of the project, the more efficient the project will be. Changing the structure or primary transaction dynamics during the process can cause significant delays and can have legal, tax, and financial reporting surprise implications.
- Invest the time up front to carefully consider existing stakeholder concerns and determine the offering structure and marketing options. Changes to the offering and legal entity structure late in the process can be expensive and risk derailing the deal.

Consider all the options, including dual track IPOs

- An IPO is often just one of a number of possible exit paths. The process of revisiting historical financial statements; improving operations, internal controls and processes; and preparing a company for sale in a public offering can also be used for other potential exit strategies such as private placements of equity, or sales to strategic or financial buyers.
- If these options are considered as part of a company's initial IPO strategy, a high quality IPO Readiness assessment can evaluate each option and when necessary layer dual or multiple track processes into the IPO plan; identify common work streams and key decision points, ensure optimization of the process, and eliminate inefficiencies.

In summary

IPOs are back. Although the trend today does yet not come close to the IPO boom years of the past, solid economics, strong fundamentals, and a well-prepared story to market can provide a great foundation for a successful IPO. Achieving that success, however, requires connecting many pieces of a complex puzzle, some of which are outside of the control of company management and its stakeholders. One thing you can control is your own IPO preparation process and a thorough IPO Readiness assessment is the best way to ensure a successfully planned, monitored and executed IPO. Next, you need to focus on two separate, yet integrated work streams. First, form the Going Public team and start the process toward the registration and marketing of your company and stocks. Second, companies must prepare their management teams and business units for Being Public. These efforts must be staged to prevent doing some tasks too early in the process.

Although the external IPO market is beyond control, companies that envision an IPO in their future can start now and give themselves the best possible chance for success when the markets are open.

About PwC

Whether a company is an emerging business seeking venture capital, or an established company seeking to expand through an IPO, PwC can provide a full range of audit, reporting, accountant, advisory and support services.

PwC brings experience in a broad range of functional areas to help management anticipate business risks and develop programs for managing such risks early in the IPO planning process. Our experienced teams work with clients to provide guidance through the complex life cycle of a capital market transaction, from helping to determine the right entry strategy and assessing IPO-readiness, to assisting with the public registration process, to preparing for the ongoing obligations as a public company.

PwC's global presence, extensive knowledge of capital markets, and network of financing relationships provide the expertise and insight needed at every stage.

- We provide experienced and integrated insight into multiple elements of the transaction process.
- We advise on the technical accounting and financial reporting complexities associated with the Going Public process.
- We undertake due diligence on behalf of sponsors, investment banks and boards of directors.
- We evaluate and advise on company controls and processes.
- We advise on the breadth of the change organisations experience as they prepare to migrate into a public company across multiple functional areas.
- We provide services that enhance management's ability to focus more time on the marketing phase of the deal and the ongoing management of the business.

About the PwC IPO centre

PwC has a strong and established record helping companies from all over the world plan and execute successful IPOs. The PwC IPO Centre was created to respond to today's increasingly complex cross border world. It is now more important than ever for companies to be able to tap into both global knowledge as well as local insights. The IPO centre brings together our global expertise ensuring that as one firm we provide companies with the right mix of sector and IPO expertise combined with relevant local and international market knowledge. Through the IPO centre we are able to connect companies with the right PwC capital market specialists that are able to help them effectively evaluate the pros and cons of IPO, take them through the flotation process and prepare them for life as a public company, regardless of the market they choose to list on.

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