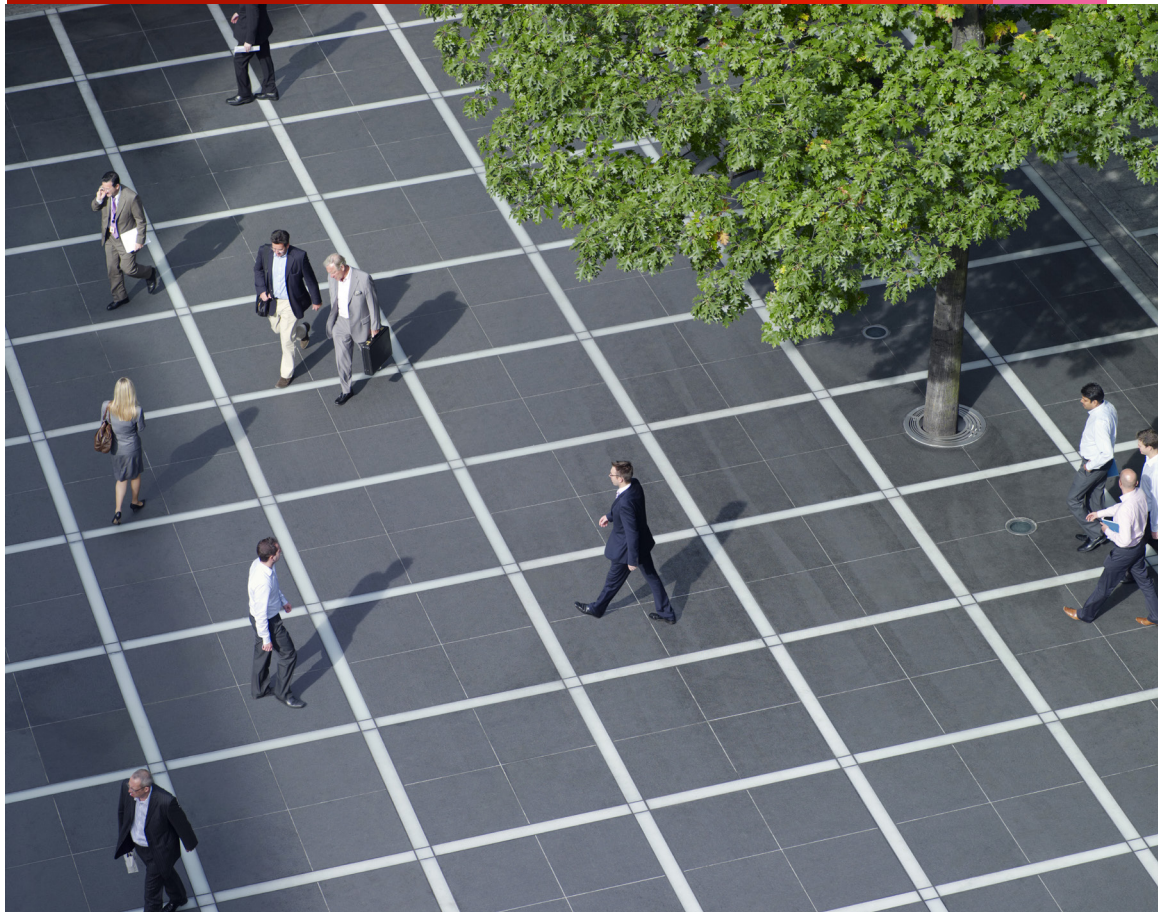


Roadmap for an IPO

A guide to going public

Capital Markets



*Careful thought, preparation and planning
are key to a successful IPO*

Pre-IPO

Initial planning
and preparation

Readiness
assessment
(IPO diagnostic)

Implementation
plan

IPO

Going public

Project set-up

Delivering the IPO

Post-IPO

Being public

Embedding change
in order to operate
effectively as a
public company

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1. The decision to go public

What does “going public” mean?

It refers to the process of offering securities such as ordinary shares of a privately owned company for sale to the general public. The first time these securities are offered is referred to as an initial public offering, or an IPO.

Is going public right for your company?

A company usually begins to think about going public when the funding required to meet the demands of its business begins to exceed the company’s ability to raise additional capital through other channels on

attractive terms. But simply needing capital does not always mean that going public is the right answer. There are a number of questions that a company should ask itself before deciding to go public.

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| Attractive track record? | <p>A company that outpaces the industry average in growth will have a better chance of attracting prospective investors than one with marginal or inconsistent growth. Here are some of the most important factors that investors look for in companies:</p> <ul style="list-style-type: none">• An attractive product or service, preferably one with a competitive advantage and sufficiently large market;• An experienced management team;• A positive trend of historical financial results;• Favourable financial prospects;• A well thought-out, focused business plan;• Strong financial, operational, and compliance controls. <p>Though some companies may not meet all of these criteria, investors may nevertheless perceive these companies as having potential for growth, due to other favourable characteristics (e.g. capable and committed management, and a product or service that is highly visible, unique, or of interest to the public).</p> |
| Strong sales and earnings growth? | <p>Many companies that have successfully gone public have illustrated market support for their product or service that would sustain a strong annual growth rate over a period of time.</p> |
| Products or services visible and of interest to the investing public? | <p>The established company can answer this question with historical sales data, while the early-stage company must use market research projections and demonstrate product superiority. An early-stage company may also qualify as an IPO candidate due to the uniqueness of its product or service.</p> |
| Do investors perceive leadership as capable and committed? | <p>It is vital to ensure that the board of directors and management have the right blend of experience and skills to establish a solid corporate governance structure, and ensure that the board committees are operating effectively. To lead a successful IPO, management must be committed to the time and effort involved in meeting offering requirements, conducting analyst and other investor-facing meetings, and providing financial reports to the shareholders on a timely basis.</p> |
| Do the benefits outweigh the costs of going public? | <p>For existing shareholders, selling equity generates proceeds today in exchange for giving up at least some degree of control of the company, and a portion of the future returns associated with corporate growth. Raising equity capital in the public markets can also entail substantial upfront costs, such as underwriting and other advisors’ fees and expenses. Ongoing costs arise from obligations including compliance with market requirements, maintaining a dedicated investor relations function, and more frequent and extensive financial reporting. Whether the benefits outweigh the costs may be difficult to judge until several years after an IPO.</p> |
| Are the market conditions right? | <p>The demand for IPOs can vary dramatically, depending on overall market strength, the market’s current opinion of IPOs, industry economic conditions, technological changes, and many other factors. Stock market volatility is one of the most unpredictable aspects of going public and it makes timing of the IPO a decisive factor in achieving the best possible result. Although it is impossible to accurately forecast the market sentiment, a company must consider the importance of timing and be prepared to alter its timetable.</p> <p>At any point in time, an IPO window may be open for companies within certain favoured industries, and sometimes the window may be open for companies in all industries. Missing an IPO window by as little as a few weeks can result in a postponed or withdrawn IPO or a lower market valuation.</p> |

Going public – advantages and challenges

Key advantages of going public

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| Increased cash and long-term capital | Funds are obtained to support growth, increase working capital, invest in plant and equipment, expand research and development, and retire debt, among other uses. |
| Increased market value | Valuations of public companies tend to be higher than those of comparable private companies due in part to increased liquidity, available information, and a readily ascertainable value. |
| Mergers and acquisitions | Once established, publicly traded shares can be used as “currency” to acquire other businesses. |
| Improved liquidity | Shareholders may achieve improved liquidity as well as greater shareholder value. Existing shareholders may, over time, sell their shares in the public market. Alternatively, existing shares may be used as collateral to secure personal loans. |
| Talent management | An attractive employee share scheme can help to attract and retain key talent, encouraging commitment and long term motivation amongst 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 stakeholders. |



Challenges of going public

An IPO is a big undertaking. 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:

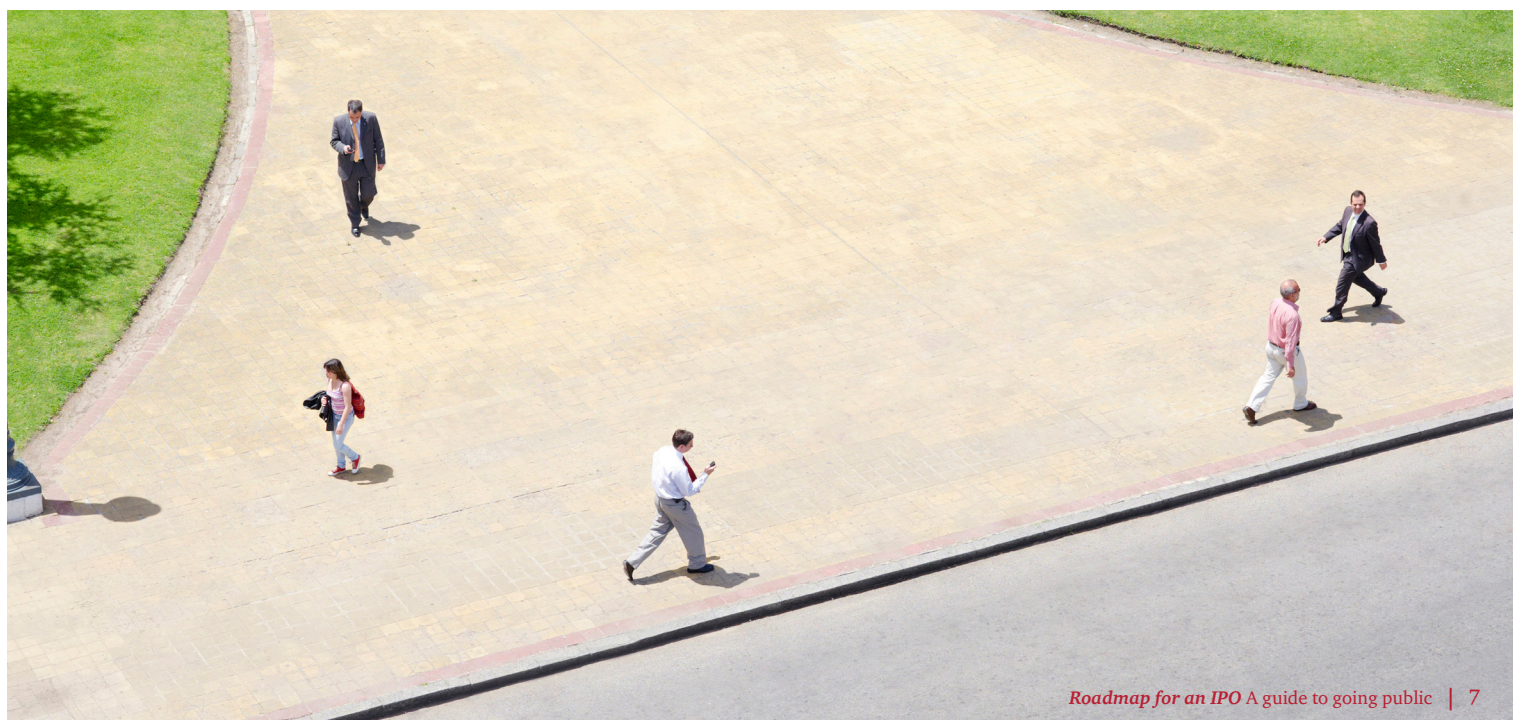
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| Planning and good preparation | For most companies there is a significant amount of work needed up front to get into shape for the IPO. While market timing is outside a company's full control, preparation is not. If an IPO is in management's goals, discussions and planning sessions would be expected to begin early in the process. |
| Time commitment by management | 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 offering. |
| Increased transparency | Reporting requirements for public companies are more extensive and transparent than those for private businesses. Some sensitive areas of disclosure that will be available to competitors, customers, and employees include: (1) extensive financial information, such as the results of the business segments; (2) compensation of directors/key management; and (3) investments in company shares by the directors/key management and major shareholders. |
| Performance pressure | In a private company, the business owner is free to operate independently. Once the company becomes publicly owned, the owner/management becomes accountable to all of the company shareholders. Shareholders may expect steady growth in sales, profits, market share, and product innovation. Thus, in a publicly held company, management may be under constant pressure to balance short-term demands for growth with long-term strategies. |
| Restrictions on insider sales | Company's existing shareholders can not sell their stock during a specified time following the IPO - typically 180 days. This is called the "lock-up" period. It is a regulatory requirement in some markets, in other markets contractual obligation is driven by market practice. |
| Investor relations | Investors' inquiries, investment-community presentations, printing and distribution of annual financial reports and other periodic reports require significant time commitment by management. They often also require additional personnel or a public relations function. |
| Vulnerability to hostile takeovers | Having publicly traded shares reduces the company's ability to control its ownership and exposes it to unsolicited acquisition threats. |
| No turning back | The IPO process tends to be one-way. Taking a company private can be difficult and costly. |
| Building a financial track record and timely financial reporting | <p><i>Financial track record</i></p> <p>Understanding the financial track record issues such as complex financial histories, transition to different accounting standards and sourcing additional disclosure information can individually or collectively be part of the IPO readiness process for a company.</p> <p><i>Pressure for timely financial reporting</i></p> <p>Public companies need to publish financial statements on an annual and quarterly/half-yearly basis in accordance with relevant accounting and disclosure standards. These financial statements are due relatively soon after each period end, so there is increased time pressure on reporting compared to that for a privately held company.</p> |
| Which market to choose? | Each market has specific eligibility requirements, such as in relation to earnings history, shareholders' equity, market capitalisation, number of expected shareholders, corporate governance and industry specific regime. Other factors to consider include industry/geographic specifics of companies listed on each market. A company seeking to go public must choose the market that is right for its circumstances. |

2. Preparing for a successful IPO

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

Undertaking a Readiness Assessment (“IPO Diagnostic”) helps the company review the critical areas needed for a successful offering. These areas include:

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| Group structure | Consideration as to which entity to list and which companies are to be in/out of the IPO group. May impact the transaction structuring through tax planning, structure of financing arrangements, distributable reserves and share-based compensation arrangements. |
| Financial information | Preparation of the three year historical financial track record for the inclusion in the prospectus. Assessment of complex financial history of acquisitions or disposals alignment of accounting policies with those required for a public company, including segmental reporting and identification of other disclosures needed to comply with IFRS or other reporting requirements. |
| Corporate governance | Assessment of corporate governance arrangements, including board composition and committee structures and changes needed to meet public company requirements. |
| Financial reporting procedures | Assessment of existing systems including IT systems, financial reporting systems, management reporting, budgeting and forecasting processes to identify potential weaknesses/opportunities for improvement in advance of the IPO. |
| Risk and compliance issues | Assessment of existing systems including money laundering controls, whistle blowing, code of conduct and internal audit. |
| Selection of the IPO market | Analysis of the significant eligibility requirements and differences in those among the selected exchanges. Early identification of eligibility issues. |



Preparation is the key to success

Building an effective management team

As a company prepares for an IPO, it must expand its management capabilities. The investment community wants to be certain that management running a company is not a “one-man band.” This may require adding individuals with public company experience in marketing, operations, development, and finance. The team needs to be cohesive and share a long-term vision for the company to obtain maximum financial return and valuation.

Developing budgets and financial performance assessments

Throughout the IPO process, investment banks will ask for financial projections and will compare company’s historical performance to its historical budgets. The company should get into the habit of preparing realistic budgets, updated forecasts, and be able to articulate why variances have occurred.

After a company goes public, budgets and projections will become an important tool for financial analysts. Furthermore, this information and a public company’s ability to meet its own earnings estimates can have a significant impact on its stock performance. Therefore, accurate budgeting and forecasting is critical for a successful IPO, as the market gives little margin of error in that area and punishes the stock for any underachievement.

Appointment of independent non-executive directors

One of the best sources of objective advice can come from an independent director. Most of the key stock exchanges require at least half of the board to consist of independent non-executive directors. A company should not wait until the last minute to begin its search for qualified independent board members. A potential board member who is unfamiliar with a company may be reluctant to join the board immediately prior to an IPO, since a director has personal liability for information contained in or omitted from the prospectus.

Creating an audit committee

Audit committees have an essential role in ensuring the integrity and transparency of corporate reporting. Investors now expect published information to be subject to objective, board-level review.

Typical requirements for audit committees are that they:

- are composed entirely of independent directors;
- have and disclose at least one member who is a financial expert;
- are directly involved in the appointment, compensation, and oversight of the company’s independent auditors;
- have authority to engage independent counsel and advisors as deemed necessary to carry out their duties and establish procedures for dealing with concerns received from employees and others regarding accounting, internal control, or auditing matters.

Evaluating corporate governance principles and practices

All major exchanges have defined eligibility standards that need to be met in connection with an IPO and listing of a company’s equity securities. These standards address matters such as board composition, structure, and process, including the nomination of directors, compensation practices, and similar matters. Given the level of interest by institutional investors and the investing public in corporate governance matters, it is important for companies to take a close look at their corporate governance principles and practices when planning the public offering process.

Building a positive public image

A positive image can enhance the initial sales effort and maintain the public’s interest in the stock in the market. Companies need to enhance or create such an image with those who will buy the company’s stock and those who influence that buying decision. Creating or enhancing a company’s image may involve hiring a public relations firm well in advance of the public offering. This firm can help a company get their “story” out prior to the offering and maintain positive external communications and shareholder relations after it has gone public.

Establishing incentive compensation plans

Many companies establish a long-term incentive compensation plan to help retain and motivate key management and employees.

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| Audited financial statements/interim reporting | Financial statements audited by a recognised firm give the company increased credibility. In connection with the IPO process, the company may be required, for the first time, to present half-yearly or quarterly financial statements. |
| Drafting management’s discussion and analysis | A stumbling block that many companies face is describing the affect of underlying factors on the company’s performance. A prospectus will require the inclusion of Management’s Discussion and Analysis (MD&A) related to the company’s operations and financial statements. This is a quantitative and qualitative discussion of a company’s performance. The company will need to describe in-depth such items as changes in sales volumes and cost structures, liquidity and capital resources, sources and uses of cash flows, vendor relationships, employee compensation, unusual nonrecurring charges, significant environmental exposures, and other risks and uncertainties. Producing high quality, comprehensive MD&A will expedite a company’s IPO process and be a step toward operating as a public company. |
| Identifying your “going-public team” -the players | <p>Investment bank</p> <p>Companies can go to market without an underwriter, but the process is so complex and specialised that it is rarely done. The value added by an underwriter is the assurance that an IPO will be properly managed and successfully marketed and supported, both before and after going public. A lead underwriter works with a company to develop the prospectus coordinate the road show marketing the placement of securities and underwrite certain risks. It is common for there to be more than one investment bank/underwriter involved in the transaction.</p> <p>Investment banks contribute other skills and support, including:</p> <ul style="list-style-type: none"> • Experience in marketing and structuring the deal; • Experience in the pricing stock, so it will be attractive for the company but also reap a reasonable return for the investor; • Syndicate capabilities to cover a wide range of potential investors; • The ability to help the company with future offerings; • A research department with the scope to enable it to analyse the company, its competitors, the market, and the economy as a whole. <p>Company’s counsel</p> <p>Company’s counsel is primarily responsible for drafting of the prospectus and coordinating the review process by the regulator. They also help a company negotiate underwriting agreement and other legal documentation. Company’s counsel will also perform legal due diligence and issue legal opinion to the underwriter.</p> <p>Underwriter’s counsel</p> <p>Also involved in the IPO process are the underwriter’s counsel, who are generally responsible for drafting the underwriting agreement. They also review the entire offering documentation and any related agreements. Their principal objective in reviewing the prospectus is to ascertain on behalf of the underwriter that it is complete and not misleading.</p> <p>Independent auditors</p> <p>As strategic and technical advisors, a company’s independent auditors play a key role throughout the listing process. The selection of an auditing firm is typically based on its experience with public company financial reporting and reputation, and experience with IPOs and other capital markets transactions.</p> <p>Part of the auditors’ work is to provide “comfort letters” to the underwriters to support underwriters’ due diligence process.</p> <p>Other professional advisors</p> <p>A public relations firm experienced in offerings can help guide companies through the marketing restrictions and make the most of the opportunities that do exist, help prepare materials for analyst presentations, and coach management in their presentation skills.</p> |

3. The process of going public

Once the initial groundwork is complete, the IPO process can begin. One way to achieve a successful performance is to establish two parallel work streams at the start of the IPO process - 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 and having the prospectus approved by the regulator; and then marketing the business and offering the shares in the road show. This 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 organization in order to operate as a public company by the time of the IPO and on an ongoing basis. Among the many tasks involved, it includes optimising 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 | Being public |
|---|--|
| <ul style="list-style-type: none">• Prospectus• Historical financial information• Structuring• Due diligence• Other expert reports• Underwriting | <ul style="list-style-type: none">• 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 functions• Technology• Project management |

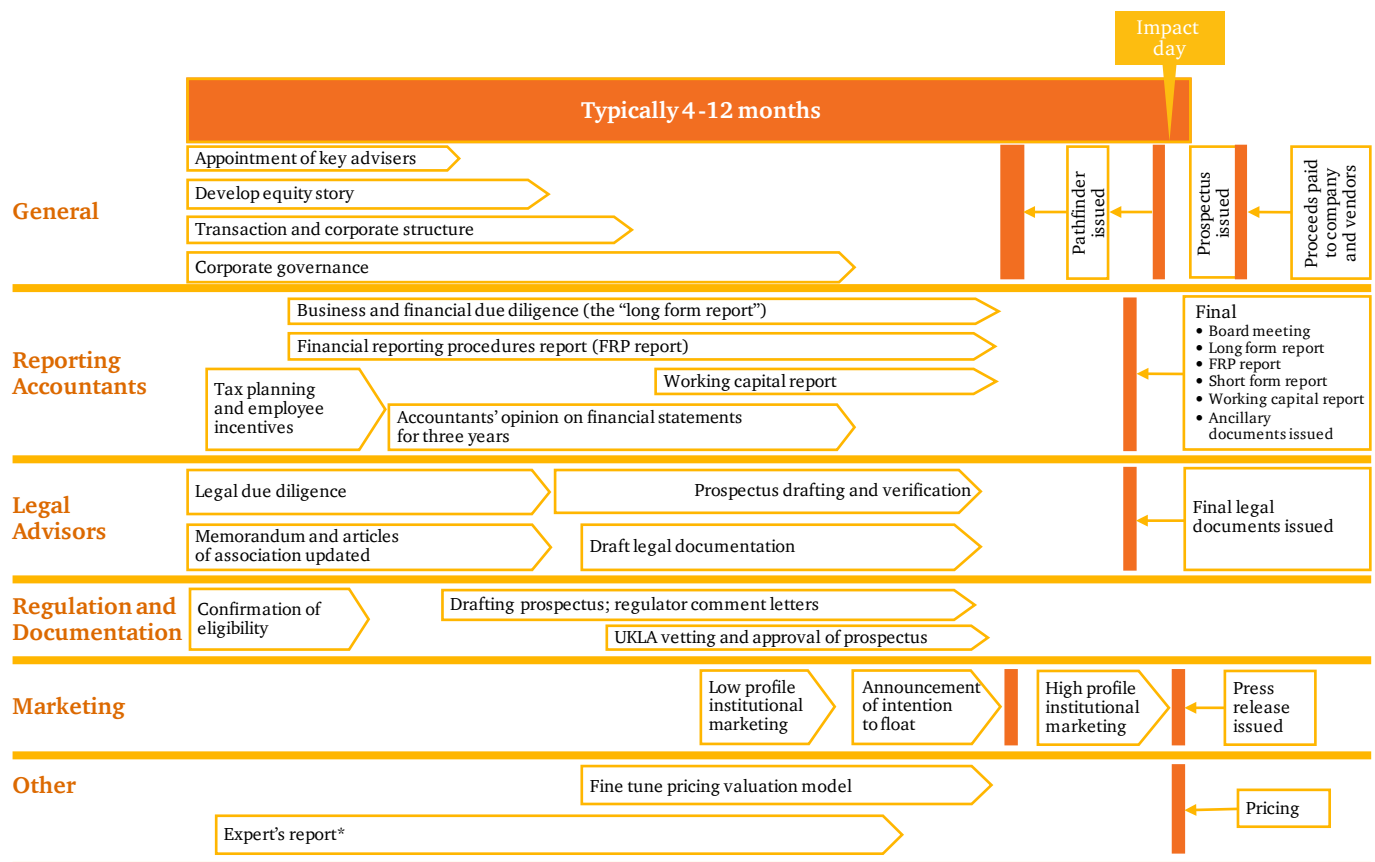
It is vital to create an achievable IPO plan for completion, and commence execution while still a private company. Doing this will help keep on track and meet key IPO objectives, such as maximizing the IPO price, attracting a high quality investor base, and developing relationships with the wider market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

Typical execution timeline

Businesses often begin their preparations for becoming a public company well before they launch the IPO process. Depending on the state of company readiness, an IPO execution process can take anywhere from 4 to 12 months. Advance preparation is a key success factor that allows for a smooth and efficient execution process.

The flotation timeline for each market differs due to the varying level of regulatory requirements. The following chart gives an indication of the IPO process for a Premium Listing on the Main Market of the London Stock Exchange.

Indicative IPO process timeline



* Some companies such as real estate or natural resource companies have to provide specific regulation or technical expert report for their IPO

Once a company reaches a preliminary understanding with its underwriters, the IPO process starts in full force. This phase of the offering should start with a sense of urgency, because the clock is ticking. At the same time as keeping business running as usual, companies and their advisers will need to juggle four tasks in parallel:

- Preparation of the preliminary prospectus;
- Investigation of the company's affairs for underwriter due diligence;
- Monitoring of market conditions for pricing purposes;

- Preparation of marketing materials for the road show.

A company can expect it to take anywhere from four to twelve months from the time it decides to go public until the time it receives the proceeds from an offering. The actual length of this period depends, among other things, on the readiness of the company to go public, the availability of the information that must be disclosed in the offering documents, and the market conditions.

Kick-off meeting and preparing the offering documents

Holding the kick-off meeting

An initial step in the IPO process is arranging an all-hands meeting. This meeting is attended by all members of the IPO team— company management, independent auditors, underwriters, the company’s counsel, and the underwriters’ counsel. The purpose of this initial organizational meeting is to discuss the nature of the offering, coordinate responsibilities for sections of the prospectus, establish a timetable and share information regarding the working group’s availability.

Throughout the IPO process, additional all-hands meetings and/or calls take place to discuss any problems, review drafts of the prospectus, and determine whether the process is on schedule.

Preparing the offering documents

Preparing the offering documents is a relatively complicated, time-consuming, technical process requiring substantial planning and coordination. It involves providing the information specified by the regulator and complying with the applicable rules in the most efficient manner possible. It requires a great deal of effort by the management team, lawyers, and independent accountants to position a company as accurately as possible, presenting the positives while also disclosing any negative risk factors.

During the preparation process the scheduled timetable for going public can slip, causing a delay in the anticipated offering date. It is therefore imperative that the entire team be thoroughly familiar with the requirements, be cognizant of the deadlines set, periodically assess the status and ensure that reviews are timely.

Information required to be disclosed in the prospectus

Prospectus requirements will depend on the exchange selected and the applicable laws and regulations. Typical disclosure requirements include the following:

Risks associated with the business – risk factors are those that are specific to the company and its operating environment, though they may depend on wider trends. Factors that make an offering speculative or risky must be disclosed. These factors may include:

- Recent adverse developments or operating losses;
- The need for additional financing;
- Industry trends or business seasonality;
- The existence of significant competition;
- The company’s dependence on a few customers, suppliers, or key members of management;
- Information regarding significant contracts or licences;
- Impact of current or proposed legislation;
- Technology changes;
- Risks related to countries where a company operates.

Use of proceeds – discussion of the planned use of the proceeds from the offering. Typical uses might include debt reduction, acquisitions, capital purchases, research and development expenditures.

Dividend policy and restrictions – disclosure of the company’s current dividend policy, any anticipated changes to that policy, and any restrictions on the ability to pay dividends. Restrictions might be based on debt, contractual agreements, or the regulatory environment in which a company operates.

Capitalisation – the capital structure of a company both prior to the offering and after all securities offered are sold, usually presented in a tabular format.

Information about the company’s business – extensive disclosures about the business are presented, including:

- A description of principal segments, products, services, and markets for the company's products and services;
- Information relating to foreign operations, if any;
- Regulations affecting the industry and company;
- Pending or threatened legal proceedings;
- Revenues, profits, assets, products and services, product development, major customers, inventory, patents, suppliers, and the competitive position of each major industry and geographic segment of the company.

Financial information – a company must generally present three years of audited financial statements. Interim financial statements may also be required and are reviewed by independent accountants.

Pro forma – pro forma financial information includes financial statements or financial tables prepared as if certain transactions have already occurred. The need for pro forma financial information most frequently occurs in connection with recent business combinations. There could be other events or transactions for which pro forma financial information may be required if such information would be material to investors, including situations in which:

- The company's financial statements are not indicative of the ongoing business;

- Redeemable preferred shares or debt instruments are convertible to common stock at either the effective or closing date of an IPO;
- Other changes in capitalisation occur at or prior to the closing date of an IPO.

MD&A – management discussion and analysis provides investors and users with information relevant to the assessment of the financial condition, performance, liquidity and capital resources of the company, with particular emphasis on the impact on future trends. It is therefore imperative that this section be carefully drafted. It must be written as objectively as possible, pointing out both favourable and unfavourable developments, and it should be written from the point of view of the company's management. A MD&A section typically covers:

- **Results of operations** – this is a comparison of the income statement amounts for each period presented and an explanation of the reasons for any material changes. The MD&A should also discuss the reasons for any recent positive or negative trends, as well as the quality of the company's earnings. Any known trends or uncertainties that have had or are expected to have a material impact on the company and any changes in significant balance sheet items should also be analysed and discussed.
- **Liquidity** – any known trends or any known demands, commitments, events, or uncertainties that will result

in the company's liquidity increasing or decreasing in any material way, together with any course of action the company has taken or proposes to take to remedy any deficiencies.

- **Capital resources** – a description of the company's material commitments for capital expenditures, the general purpose of such commitments, and the anticipated source of funds needed to fulfill such commitments.
- **Disclosure about off-balance sheet arrangements, aggregate contractual obligations, related parties and other matters** – includes, among other things, an explanation of off-balance sheet transactions and arrangements, including the company's relationships persons that may have a current or future material effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, or capital resources.
- **Critical accounting policies and estimates** – provides greater insight into the quality and variability of the company's financial condition and performance resulting from key accounting policies, assumptions, and estimates.
- **Other disclosures** – other required disclosures may include legal proceedings and certain relationships and related transactions.

Performing due diligence procedures

Throughout the preparation process, procedures are performed to provide a reasonable ground for belief that, as of the effective date, the prospectus contains no significant untrue or misleading information and that no material information has been omitted. These procedures are referred to as due diligence.

Due diligence procedures performed by the underwriters' counsel and the underwriters include the detailed review of the company and its management. These procedures normally include site visits, review of significant agreements and contracts, financial statements, tax returns, board of directors' and shareholders' meeting minutes, and various analyses of the company and the industry in which it operates. The company's counsel and the underwriters' counsel also distribute questionnaires to the directors and officers, requesting them to review, verify, and comment on the information contained in the draft offering documents. In addition, the directors and officers may be interviewed by either its own or the underwriters' legal counsel.

"Keeping current" procedures are performed by the independent auditors to assist the underwriters in investigating whether any material developments have occurred with respect to the company's financial position or operations since the date of the financial statements included in the prospectus. Due diligence also encompasses review of the prospectus by the parties involved in its preparation to ensure that there are no material misstatements, omissions,

or inconsistencies.

In addition, as part of their due diligence procedures, underwriters request comfort letters from the company's independent auditors with respect to information that appears in the prospectus outside of the financial statements and on events subsequent to the accountants' report date. It is common for underwriters to request comfort on as much information as possible. Auditors provide comfort on information that is derived from accounting records that are subject to the company's internal controls over financial reporting. Generally, the more information the underwriters seek comfort on, the more onerous and expensive the process becomes. In light of this, and to avoid any misunderstandings and undue delays, it is important that a company, the auditors, and underwriters agree, in the early stages of the process, on the information in respect of which the auditors will be giving comfort.

Due diligence meetings with management are attended by the underwriters and their counsel, and the company's principal officers and the company's counsel. At such meetings, the underwriters are granted an opportunity to perform due diligence in relation to the proposed offering, ask questions concerning the company and its business, products, competitive position, recent developments in finance, marketing, and operations, and future prospects.

Regulatory review

Regulatory review

The prospectus is reviewed by the relevant regulator to determine whether there is full and fair disclosure in accordance with the regulator's requirements, and whether or not the document contains misstatements or omissions of material facts.

After review of the prospectus, the regulator typically issues a letter that sets forth questions, possible deficiencies, and suggested revisions. The letter, referred to as a comment letter, is generally mailed or faxed to the company's legal counsel.

Each comment must be addressed and resolved in writing before the prospectus can be finalized. A company generally receives several subsequent comment letters from the regulator addressing follow-up questions on responses to the original comments, or additional comments on new or amended information included in the prospectus.

Upon completion of the draft prospectus, it is sent to the printer. A company will want to ensure that this draft is substantially final, so as to avoid unnecessary reprinting/ amending costs at the printer. It is common for several lengthy drafting sessions to occur at the printer.

The preliminary prospectus or "red herring"

A preliminary prospectus may be sent to interested investors prior to the start of "road show". This preliminary prospectus is a key tool in the lead underwriter's ability to form an underwriting syndicate, which will distribute the shares.

Investor meetings or "road shows"

For potential investors to learn about the company, an underwriter will arrange meetings or "road shows" with financial analysts, brokers, and potential institutional investors. These meetings are generally attended by the company's CEO and key management such as the chief financial officer, and may take place in many different locations around the world, if the company has an international offering.

It is vital that the management team is well prepared for these meetings. The company should not assume that the prospectus is able to "stand on its own" - a company should anticipate potential questions concerning specifics about its business and be ready to communicate the answers. The credibility projected by a management team in its presentation and its ability to respond to potential investors' questions will be a major influence in the success of the offering. The "road shows" represent a critical part of a company's selling efforts, since it is here that a management team promotes the offering to the institutional investors.

Negotiating and signing the underwriting agreement

The negotiation and final determination of the offering price and amount of the underwriter's discount and the net proceeds to the issuer depend on a number of factors, including the past and present performance of a company, current conditions in the securities markets, and indications of interest received during the "road show". For example, in establishing an offering price, the underwriters look at a multiple of earnings or cash flows experienced by similar companies. These multiples may be applied to the company's most recent results of operations or projected future earnings based on the outlook for the company's growth. The underwriter also examines the current stock market price of comparable companies.

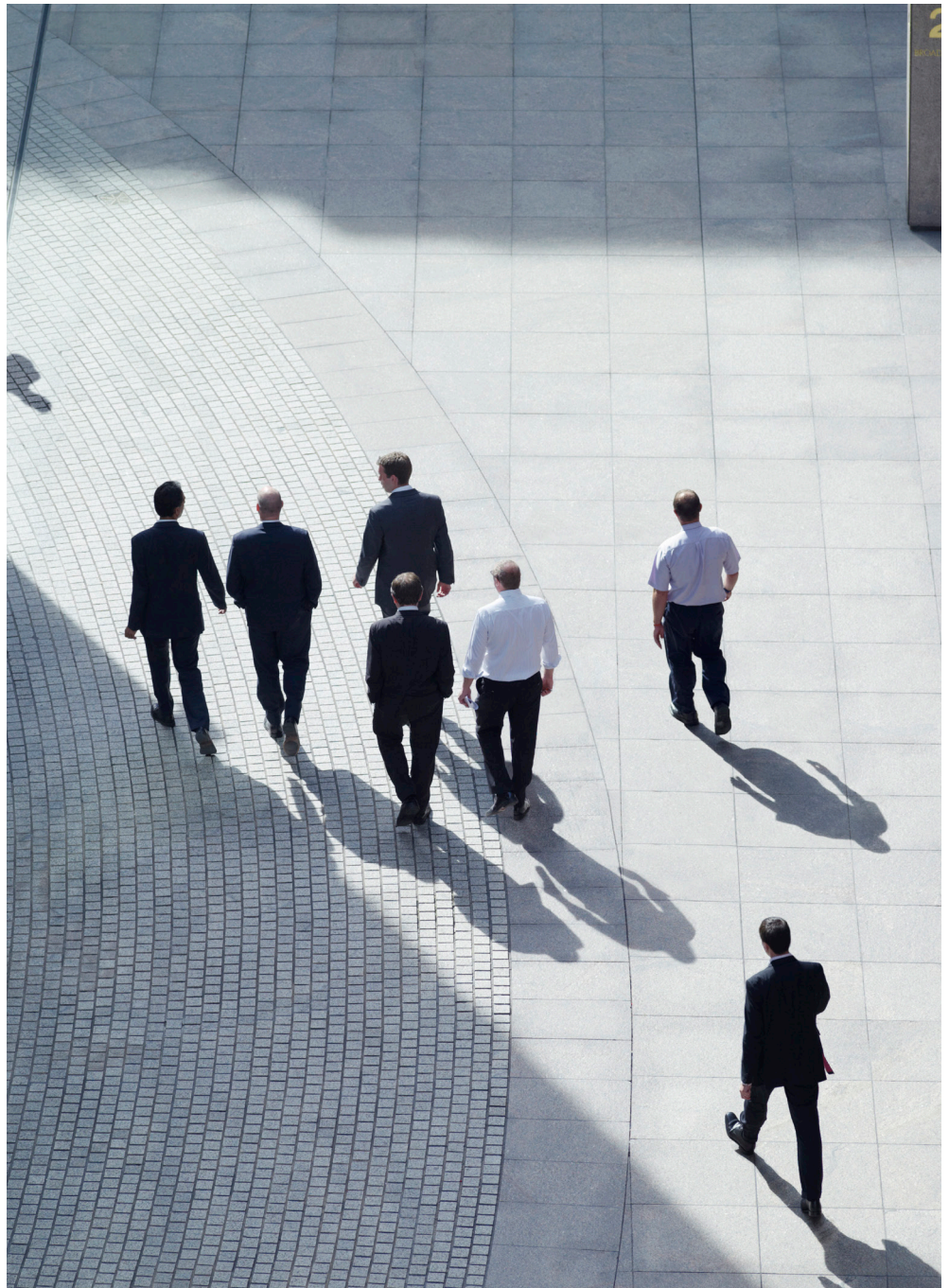
Timing also plays as important a part as any other factor in determining the final offering price of the shares. Another consideration is the anticipated aftermarket share value. That is, after a period of trading, the stock will settle at an aftermarket share value, and typically, the offering price allows for a small appreciation of the price per share in the aftermarket immediately subsequent to the IPO. An offering at the high end of a range may not provide adequate investor return, resulting in a weak or depressed aftermarket, while pricing at the low end may result in a run-up immediately following the offering (in effect, a lost opportunity for the company or selling shareholders).

Upon completion of negotiations with the underwriter - usually about the time the "road show" is over - the underwriting agreement is signed by authorized representatives of the company and the underwriter. Also at this time, the final prospectus is prepared, including (as applicable) the agreed-upon offering price, the underwriter's discount or commission, and the net proceeds to the company.

7 days after the offering

Holding the closing meeting

The closing date – generally specified in the underwriting agreement – is usually within three to five business days after the pricing of the offering. At closing, a company delivers the securities to the underwriter and receives payment for the issue. Various documents, including the “bringdown” comfort letter prepared by the independent accountant and legal opinions prepared by legal counsel, are also exchanged.



4. Life as a public company

Preparation for life as a public company

The first months of life as a public company are critical. There may be uncertainty among investors and analysts because the company is relatively unknown. The newly established public company may also be less familiar with forecasting results and performance. And the consequences of not meeting expectations can be severe. An inability to communicate effectively and manage expectations of the analysts and investors can be damaging to shareholder value and compromise credibility.

As a result, having the right finance function, with the right capabilities to deliver quality financial reporting at the right time, is an important factor in a successful IPO. This is typically achieved by first focusing on getting the monthly financial close process in shape to deliver results within an accelerated timeframe, and then preparing the quarterly (if applicable), 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 financial controller functions. Other functions, such as investor relation, can be built up during the IPO preparation process, perhaps initially relying on external resources, and migrating to an internal investor relation 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.

Once a company is public, considerable effort must be expended to maintain its market position. If investor enthusiasm for a company is not maintained, trading will decline. If company's shares are thinly traded, the benefits sought from the IPO (such as liquidity through a future secondary offering) will not be realized. Thus, effective distribution and support of the stock, as well as continuing interest from financial analysts, is necessary after the IPO. A strategy for after-market support can be created with the assistance of a financial public relations firm. This strategy usually includes choosing an individual or individuals within the company to handle shareholder relations, to ensure that a company will release information that is consistent and accurate.

A public company performance, as perceived by the market, is reflected in the value of its stock. Management faces the pressure of balancing short-term productivity with long-term goals. Negative developments, such as the release of lower-than-expected earnings, may adversely affect the stock value. Management may need to ensure that communications with external parties explain fully the results of the company performance, so that this transparency in reporting will in turn create greater market trust. Clearly, earnings are not the only factor that affects public perception of a company. Even after a company goes public, it should strive to maintain (or improve) performance and other indicators that it was aiming to achieve prior to going public.

Questions to ask after the IPO include:

- Is the company demonstrating a sustained or increasing growth rate that is high enough to attract/satisfy investors?
- Are the company products or services highly visible and of interest to consumers and investing public? The company should project a positive image to its investors, customers, and community. This is important, since the attitude of the public may sway the stock value. There is growing interest in corporate social responsibility, including sustainability and climate change issues. Companies should have a strategy to address such concerns.
- Is management capable and committed? Management plays a key role in the way a company performs; therefore, it is essential that management remains innovative, committed, and capable of delivering value to the company shareholders.

Meeting reporting requirements

Public companies are required by the regulators to publish certain periodic reports to keep the investing public informed. Companies should focus on these requirements and discuss their obligations under the various regulations with their legal counsel and accountants to ensure they can be met. Where necessary, legal counsel should also be consulted to confirm the requirements pertaining to the form, content, and timing of specific reports. A public relations firm can assist companies with issuing annual reports to shareholders.

Timely disclosure of material information

Public companies are generally required to disclose all material information (unless there is a legitimate reason for not doing so), both favourable and unfavourable, as promptly as possible. Information that is generally considered material includes: significant financial transactions, new products or services, acquisitions or dispositions of assets, dividend changes, and top management or control changes. This information is usually disseminated by press releases; however, companies may also decide to send announcements directly to their shareholders. Generally, the need to disclose information is discussed with legal counsel.

What's next?

The IPO is not the end of the story – it is only the beginning. Once listed, a company will be under far greater public scrutiny and will have a range of continuing reporting and other obligations with which to comply. Any weakness in systems or failure to comply with regulations could cause not only decrease in share price, but also management public embarrassment, reputational damage, and the potential for corporate and personal fines. The benefits of careful preparation and planning are realized following the IPO.

