

Preparing for an IPO

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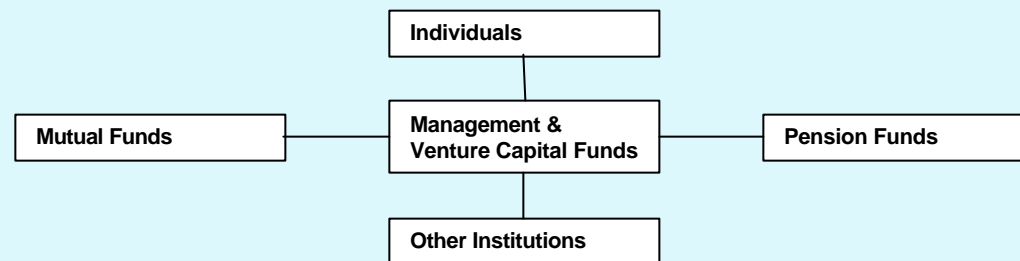
November 13, 2000

What is an IPO?

- An **I**nitial **P**ublic **O**ffering of the shares of a company's stock
- The orderly sale of shares to the public following rules outlined in the Securities Act of 1933 and enforced by the SEC
- A way for companies that need capital for growth to sell ownership stakes to investors who believe in a company's future prospects

Benefits of Being a Public Company

- Bolster and diversify equity base
- Enable cheaper access to capital
- Exposure and prestige
- Attract and retain the best management and employees
- Facilitate acquisitions
- Create multiple financing opportunities: equity, convertible debt, cheaper bank loans, etc.



Challenges Faced by a Public Company

- Additional financial disclosure requirements
- Shareholder and security analyst scrutiny
- Corporate governance
- Vulnerability to hostile takeovers
- Cultural considerations

Public vs. Private Company Perspective

- **Public companies face significantly higher scrutiny than private companies**
- **Effective and timely communication to The Street will strengthen a public company's credibility, which is key to valuation**

Public Company

- Accountability
 - External shareholders
 - Research Analysts
 - Management
 - Board of Directors
- Disclosure
 - Quarterly SEC filings
 - Detailed review of operating results
 - Quarterly investor calls
- Forecasting
 - Thorough
 - Precise
 - Conservative
 - Critical to always meet or exceed Street expectations – missing a quarterly earnings target can reduce a company's stock price by 50% or more

Private Company

- Accountability
 - Management
 - Shareholders
 - Board of Directors
- Disclosure
 - Summary results to shareholders
 - Management accounting
- Forecasting
 - Primarily for budgeting
 - Missing budgeted numbers may impact bonus payments but does not necessarily weaken a company's competitive position

Before and After

Life Before IPO – “Prep”

- Fulfill due diligence requirements
- Develop budgeting and reporting process
- Develop timely reporting of key metrics
- More aggressively track revenue/
profitability progress within each month/
quarter
- Develop clear communication method for
changes in business
- Designate responsible parties inside
organization to provide appropriate
investor relations
- Prepare investor relations personnel for the
types of questions they will be asked and
information they will provide

Life After IPO – “Full Disclosure”

- Investor relations
 - Conference calls
 - Press releases
 - SEC requirements
 - Ongoing discussions with investors and
analysts
- Management credibility
- Facilitate management responsiveness to
changing marketplace (“business
strategy”)

Organizational Meeting

Identify Issues

- Composition of working group
- Structure of offering
- Time schedule and assignment of tasks
- Legal considerations
- Publicity
- Financial and accounting matters

Organizational Meeting

Composition of Working Group

Hire the Team

- Lead manager
- Co-managers
- Issuer's counsel
- Underwriters' counsel
- Accountants

Organize the Internal Team to Address the Following:

- Structure
- Strategy
- Due diligence
- Disclosure

Organizational Meeting

Structure of Offering

- Size of offering
- Primary and secondary components
- Number of shares authorized
- Status of mezzanine financing
- Existing shareholder list
- Lock-up agreements with company, principal shareholders, officers, directors
- Distribution objectives/syndication
- Directed share program
- Selection of listing exchange
- Selection of stock symbol
- Use of proceeds

Organizational Meeting

Time Schedule and Assignment of Tasks

- Due diligence sessions
- Drafting sessions
- Availability of audited financials
- Shareholder communications
- Board of director meetings
- Filing
- SEC review period
- Salesforce presentations/roadshow
- Pricing/offering
- Closing

Organizational Meeting

Legal Considerations

- Outstanding claims
- Loan agreement restrictions or other consents needed to offer shares
- Blue Sky Issues
- Board meetings
- Disclosure of confidential agreements
- Request of confidentiality or treatment of confidential information
- Possible lawsuits
- Possible acquisitions, divestitures, restructuring, management changes

Organizational Meeting

Publicity

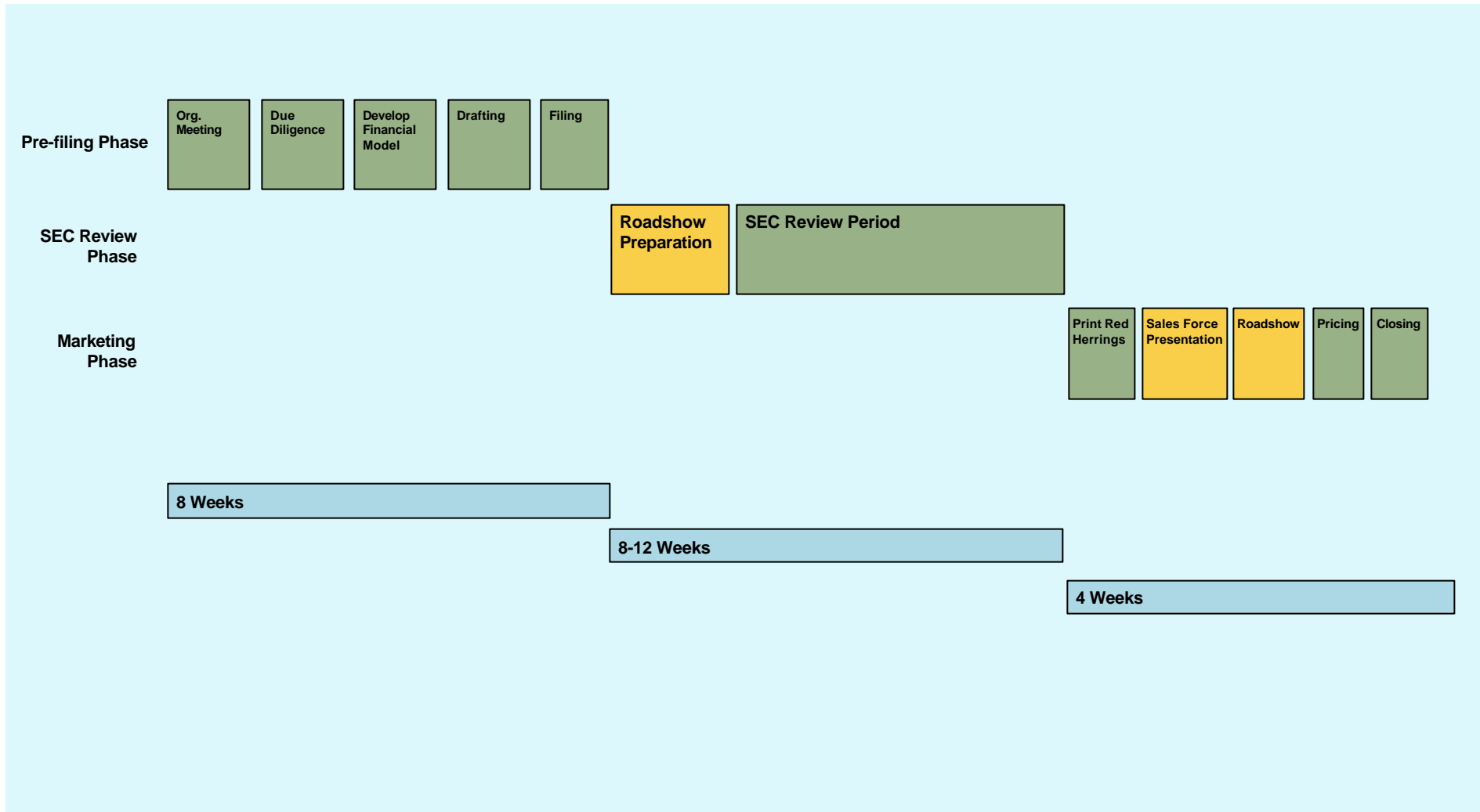
- Quiet period
- Industry presentations
- Press releases/other corporate announcements
- Interviews or articles on company to be published

Organizational Meeting

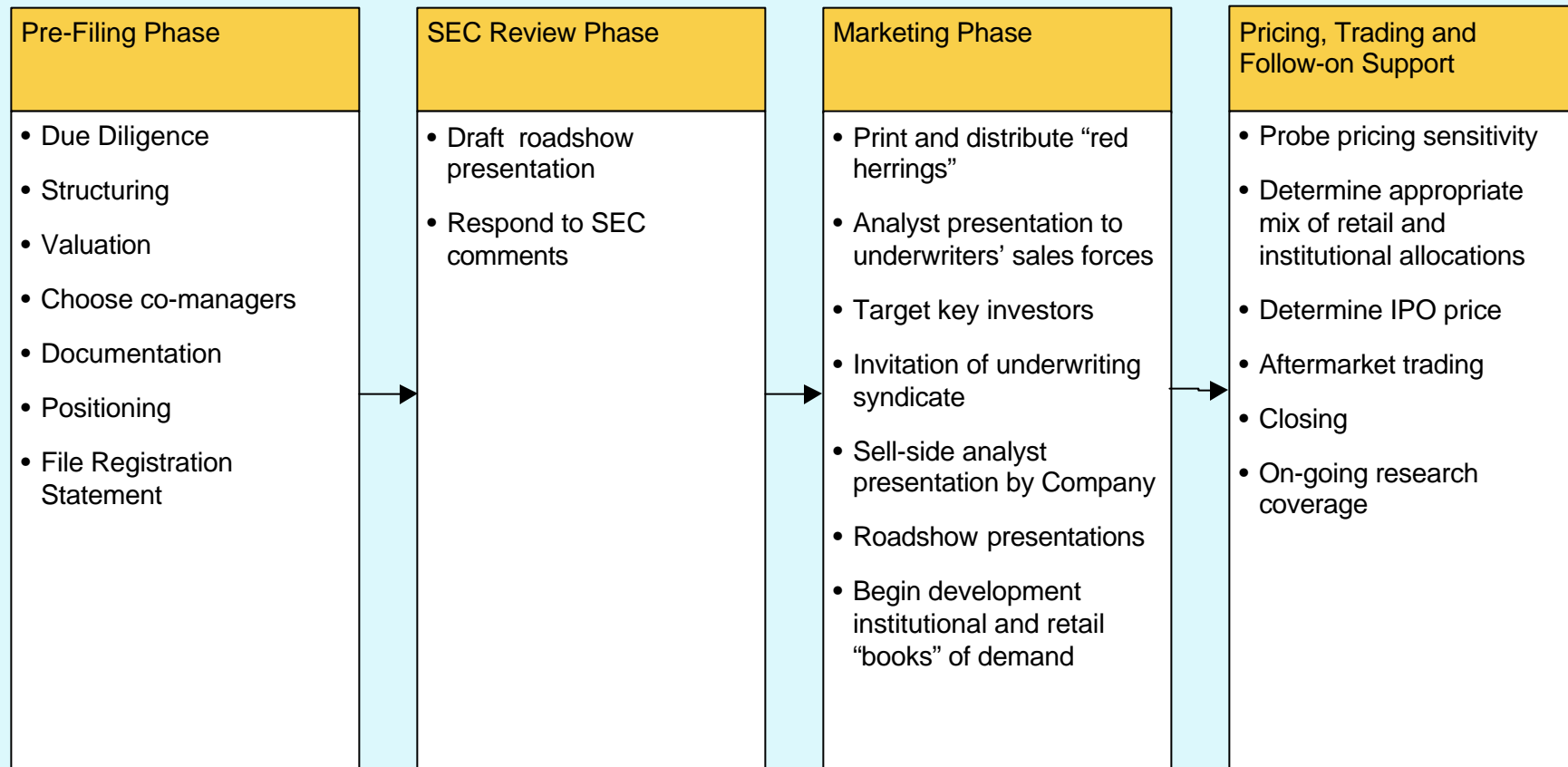
Financial and Accounting Matters

- Historical audited financial statements
- Identify any unusual items requiring advance discussion with SEC
- Comfort letter

Time Schedule



Time Schedule (cont'd)



Due Diligence Process

At the Corporate Level

- **Business Overview**
 - History
 - Mission statement/vision
 - Objectives and key challenges
 - Operational overview
 - Management team/organizational chart
 - Key investment highlights
 - Strategic position in the industry
- **Industry Overview/Market Opportunity**
 - Industry size/growth rates
 - Market drivers
 - Major industry trends (spending, commissions, etc.)
 - Consolidation
 - Segmentation/target markets
 - Cyclicity
 - Regulatory environment

Due Diligence Process (cont'd)

At the Corporate Level

- **Products/Services**
 - Description of each major product/service category
 - Market size by category
 - Sales and margins by product/service category
- **Customers**
 - Breakdown of total customers/subscribers (business vs. consumer, small vs. large, etc.)
 - Historical growth in customers/subscribers
- **Suppliers**
 - List of key suppliers (number, sourcing policy, relationships, price volatility)
- **Growth Strategy and Projections**
 - Organic growth opportunities
 - Strategy for growing below-the-line business
 - Key areas for new development
- **Acquisitions/Ventures**
 - Any planned or pending acquisitions
- **Legal**
- **Human Resources**
 - Retention of key employees post-IPO

Due Diligence Process (cont'd)

At the Business Unit Level

- **Business Unit Strategy**
- **Major Business Unit Review**
 - Competitive strengths/points of differentiation/areas of weakness
 - Growth strategy
 - Employees (breakdown, hiring, turnover, retention plans)
 - Pricing trends/margin trends
 - Significant threats/opportunities
- **Detailed Financial Review**
 - Reconciliation of budget vs. actual results
 - Annual historical/pro forma financial data and key operating statistics
 - 3-year projected financial results
 - Detailed model including income statement, balance sheet, cash flow
 - Sales and profitability breakdown between traditional and below the line services
 - Financial objectives (revenue growth, operating margin, leverage statistics, etc.)
 - Major accounting issues (revenue recognition, receivables, write-off policies, reserves, etc.)
 - Exposure to exchange rates and how foreign currency exposure is managed
 - Internal auditing procedures
 - Tax position, current and future

Due Diligence Process (cont'd)

At the Business Unit Level

- **Budgeting/Forecasting Process**
- **Personnel**
 - Recent and planned management changes
 - Compensation philosophy (salary vs. bonus, how bonuses are determined, share ownership, etc.)
 - Employee recruitment and retention strategies
 - Significant employment agreements
- **Customer Review**
 - Concentration past 3 years and projected
 - Revenue breakdown (by service, customer, industry, geography)
 - Recent major wins/losses and reasons
 - Customers at risk
 - Summary of contract terms for key customers

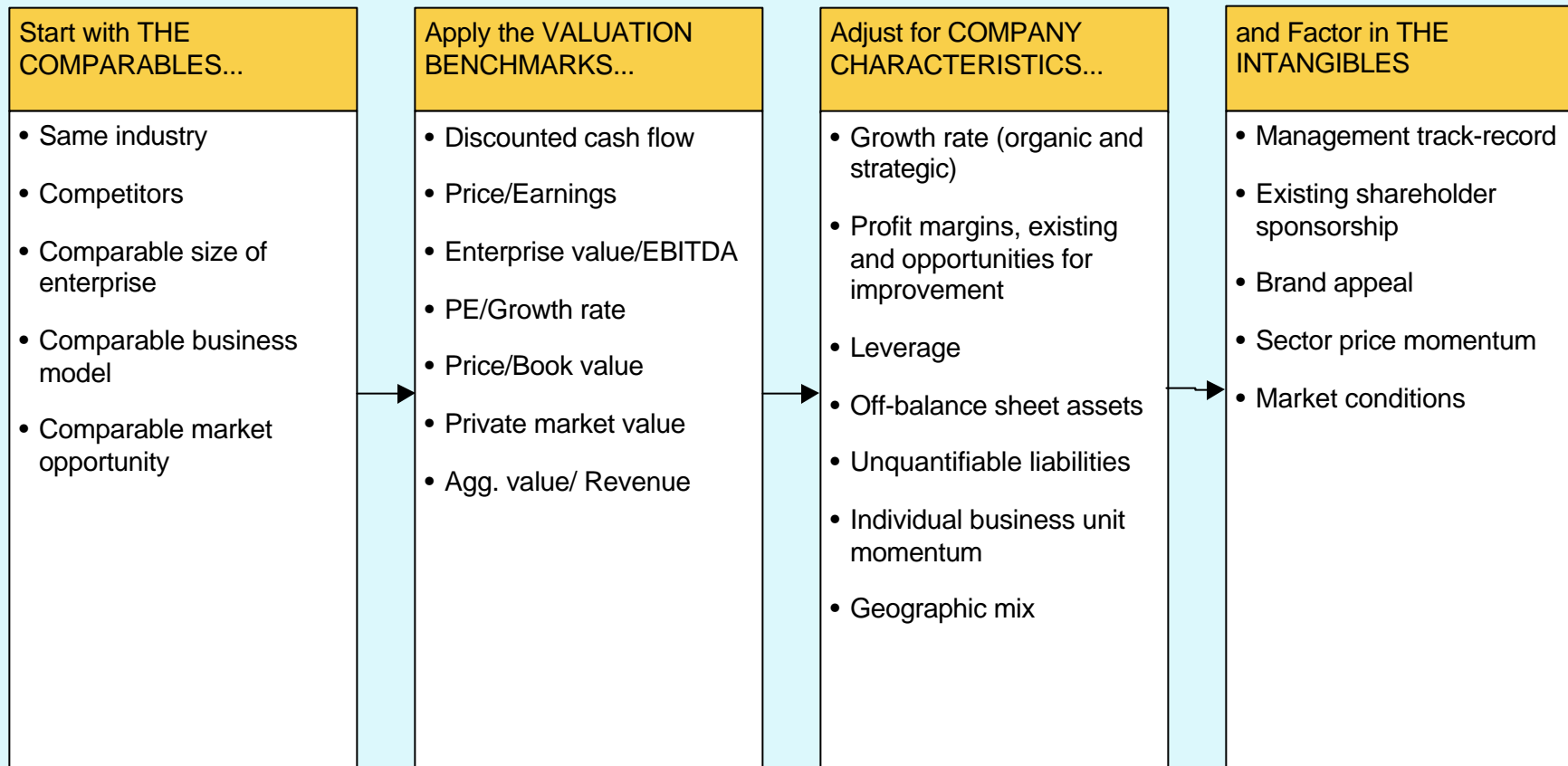
Preparation of the Registration Statement

- Prospectus Summary
- Risk Factors
- Use of Proceeds
- Capitalization
- Selected Financial Data
- MD&A
- Business
 - Overview
 - Industry
 - Competitive strengths/
solution
 - Strategy
 - Products
 - R & D
 - Manufacturing
 - Sales & Marketing
 - Competition
 - Customers
 - Environment
 - Properties
 - Employees
 - Legal
- Management
- Principal Stockholders
- Related Party Transactions
- Underwriters
- Financial Statements

Role of Equity Research

- Accountable to the investor
- Perform detailed due diligence on company and its prospects
- Develop financial model
- Articulate “the story” to investors during IPO marketing
 - Source of independent valuation
 - Provide institutions with analytical framework
 - Maintain close communication with institutions throughout marketing process and beyond
- Initiate written research coverage on company following 25-day “cooling-off” period
- Provide ongoing support with frequent reports, conference calls, 1-on-1 calls and electronic broadcasts to investment community
- Research analysts ranked by investors annually – Institutional Investor ranking an important milestone in analyst’s career

Analysts/Investors Approach to Valuation



Role of Co-Managers

- Research coverage
- Distribution capabilities
- Spread underwriting risk

Roadshow Presentation

- Opportunity for company to articulate story and investment opportunity face-to-face investors
 - Domestic U.S. roadshow
 - 8–10 days
 - Approximately 100+ face-to-face meetings
 - International roadshow
 - 2–4 days
 - Approximately 20–50 face-to-face meetings
- Investors are prepared through reading prospectus, discussions with research analysts and salespeople prior to meeting management
- Combination of group meetings and “One-on-One” meetings
- Critical juncture in deal process
 - Investors ask everything required for an informed investment decision

Presentation Format

- There are three different types of meetings with investors on the roadshow
 - Group presentations
 - allow the Company to deliver its equity story beyond the “elephant” accounts
 - range from lunches with several hundred investors (e.g., New York) to smaller presentations (e.g., Houston)
 - will be conducted by the two teams separately with the exception of certain key cities where the teams will combine for maximum impact
 - are generally conducted during a meal
 - One-on-One Presentations
 - expected to generate the majority of quality institutional demand
 - range from meetings with a single portfolio manager / buy-side analyst to small group sessions with multiple portfolio managers and buy-side analysts
 - will take place in cities throughout the United States and Europe
 - will be conducted by the two teams separately with the exception of certain key accounts where the teams will combine for maximum impact
 - Conference Calls
 - are conducted on an as-needed basis with investors who are unable to work within the schedule
 - will include group as well as one-on-one sessions

Illustrative Roadshow Schedule

Roadshow Schedule		
	Red Team	Blue Team
Monday	Paris/Geneva	Zurich/Frankfurt
Tuesday	Scotland	Amsterdam/Rotterdam
Wednesday	London	London
Thursday	–Travel Day–	–Travel Day–
Friday	Mid-Atlantic	Southeast
Monday	Boston	Boston
Tuesday	New York	New York
Wednesday	Denver	Kansas City/Chicago
Thursday	Los Angeles	Texas
Friday	San Diego	San Francisco/Portland
Monday	New York	New York
Tuesday	Minneapolis/Wisconsin	Columbus/Pittsburgh
Wednesday	Open	Toronto/Detroit/Lansing

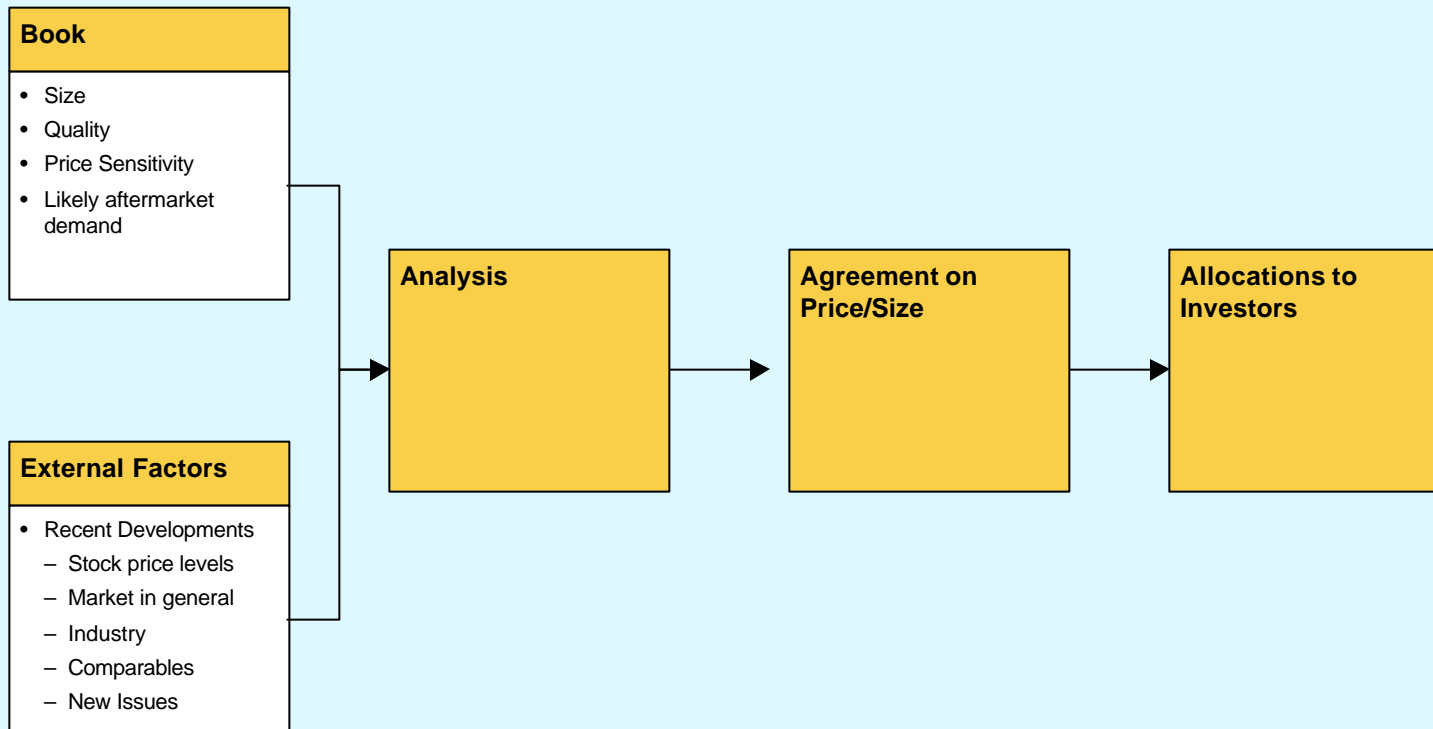
Pricing Overview

- Once the intended pricing date has been determined, investors are informed of the day and time on which the book will be closed (i.e., the deadline for submitting indications of interest)
- Once the book has been closed, the lead manager, in consultation with the co-managers, reviews the book of demand in order to assess:
 - Strength of demand
 - Price sensitivity
 - Investors' allocation expectations
 - Likelihood of aftermarket buying/selling
- At the time of pricing, the lead manager reviews the book with the Issuer and recommends an offering price which, in his judgement, will maximize the offering proceeds to the Issuer consistent with a favorable aftermarket performance.
- Once the Issuer and the managers have agreed on an offering price, the underwriting agreement and the intersyndicate agreements are signed

Pricing Process

Pricing Process
Last Days of Roadshow

Pricing Day



After the IPO

- Regulation FD
- File regularly with the SEC
 - Earnings announcements
 - Quarterly and annual financial statements
 - Material corporate events
- Hit your earnings