Exits -- IPOs

- Converting Private Equity (VC) positions into real money
- Capturing the public market premium
- How soon can an exit occur?
- How much can be “harvested”?
Advantages of IPOs

- New money for company, lower cost of capital
- Creation of liquidity
- Ownership dispersed, management power increased
- Acquisition “currency”
- Recruiting and retention
Disadvantages of IPOs

- Becoming a “reporting company”
- Exposure to market “expectations”
- Attracting attention in crowded marketplace
- Having to consider shareholder and minority interests
- Expenses
- Litigation
- Vulnerable to takeovers
A Successful IPO Requires:

- Sponsorship and broad market introduction
- Good positioning of company in industry and sector
- Deal structuring to help company and provide investor liquidity
- “Bookbuilding” among large investor base
- Plan for broad distribution, investor diversity
- Appropriate pricing (+0 to 10%)
- Aftermarket nurturing and support
Overview of the IPO Process

- Identify candidate
- Study company and market
- Prepare pitch
- Relay valuation and positioning thoughts
- Win mandate

- Due diligence
- Determine key parameters of offering
- Finalize other structural issues
- Define the equity “story”
- Articulate key investment highlights
- Address potential investor concerns
- Build company model and prepare valuation
- Set the filing range
- Target key investors
- Develop list of likely participants
Overview of the IPO Process

- Distribution of prospectus
- Internal sales force education
- Roadshow
- One-on-one meetings and Group presentations
- Book building process

Marketing

Pricing and Valuation
- Detailed knowledge of specific orders
- Allocations to long term holders
- Price a successful deal

Aftermarket
- Stabilization/Trading
- Research initiation and continued coverage
- Disciplined investor relations
- Long-term commitment

Marketing

Pricing and Valuation

Aftermarket
Role of Research Analysts

- Identify/introduce company
- Recognition for expertise
- Evaluate investment potential
- Help persuade institutional investors
- Provide aftermarket coverage
- Provide recommendation to investors

- Too close to CEOs be objective – susceptible to “spin”
- Exposure to “inside” information, to be leaked to clients
- Promises of coverage & recommendations
- Too caught up in trends
- False reporting. Misuse of influence
Research Controversies

• Improper solicitation of IPOs
  – Frank Quattrone (CSFB)

• False reporting:
  – Mary Meeker (MS)
  – Henry Blodget (ML)
  – Jack Saltzman (SSB) - Worldcom, Winstar

• Misuse of influence/misleading conduct:
  – Jack Saltzman - ATT
IPO Realities

- Modest “Underpricing” is deliberate
- *Company* is selling stock, not early investors; appreciation is for benefit to those NOT selling
- VCs and management cannot sell until 90 day lockup period is over, or longer for insiders
- Secondary sales by insiders can be resisted by market and underwriters
- *True exits* via IPOs can take a long time