

Trust Capital Group (TCG)

IPO: Process, Challenges and Value for Shareholders

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Terms used

Capitalisation	:	<u>market value</u> of the business
Flotation	:	IPO preparation <u>process</u> : creation and growth of capitalisation
IPO	:	Initial Public Offering: listing of shares on the stock exchange
EBITDA	:	Earnings before interest, tax, depreciation, ammortisation
£	:	British pounds, exchange rate £1 = \$1.8

Content

(1) Flotation process

- Benefits
- Suitability
- Challenges
- Agents

(2) IPO

- «Myths» of IPO
- Valuation ladder
- Return on Investment
- Why now?
- TCG's services

(1) Flotation

- Benefits
- Suitability
- Challenges
- Agents

Flotation

Benefits

- ❑ Inflow of financial resources
- ❑ Improvement of debt financing terms (duration, cost, size, collateral, etc)
- ❑ Establishment of the real market value of the business and means for future exit from the business
- ❑ Boost the profile and reputation of the company
- ❑ Improvement of the management's motivation, qualifications and professionalism

Flotation

Suitability

Recommended for:

- Fast growing businesses with :
 - Coherent development strategy
 - Leading market positions
 - Need of financial resources

- Progressive owners who are :
 - Ready to invest in the growth of the company's value
 - Willing to take the business to a new level of development

- Top managers looking for :
 - Professional and career growth

Flotation Challenges

- Commitment by the owners and top managers
 - Time
 - Investments

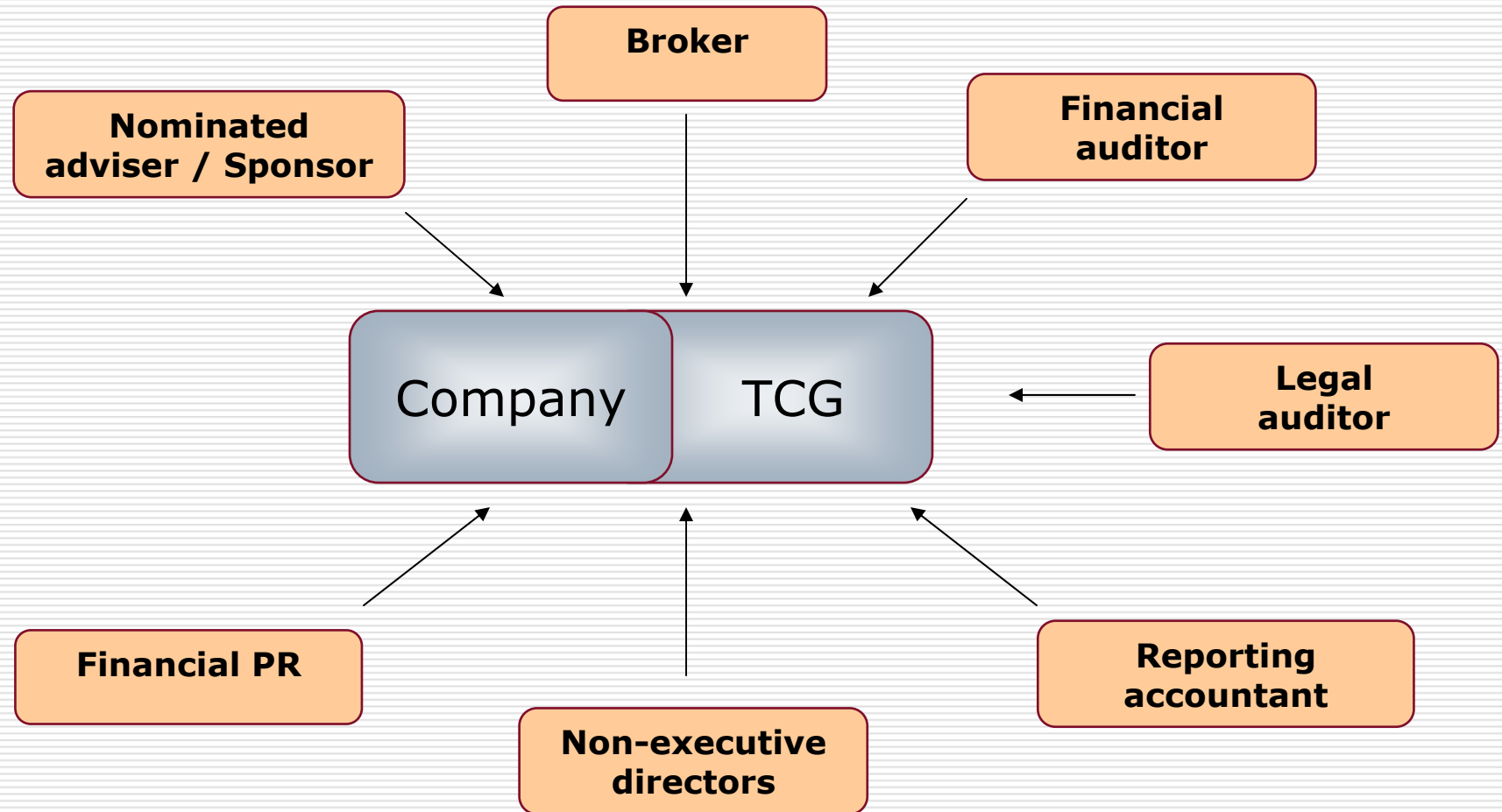
- Coordination of advisers
 - Uneven quality
 - Efficiency
 - Budget overruns

- Length and timing of IPO process

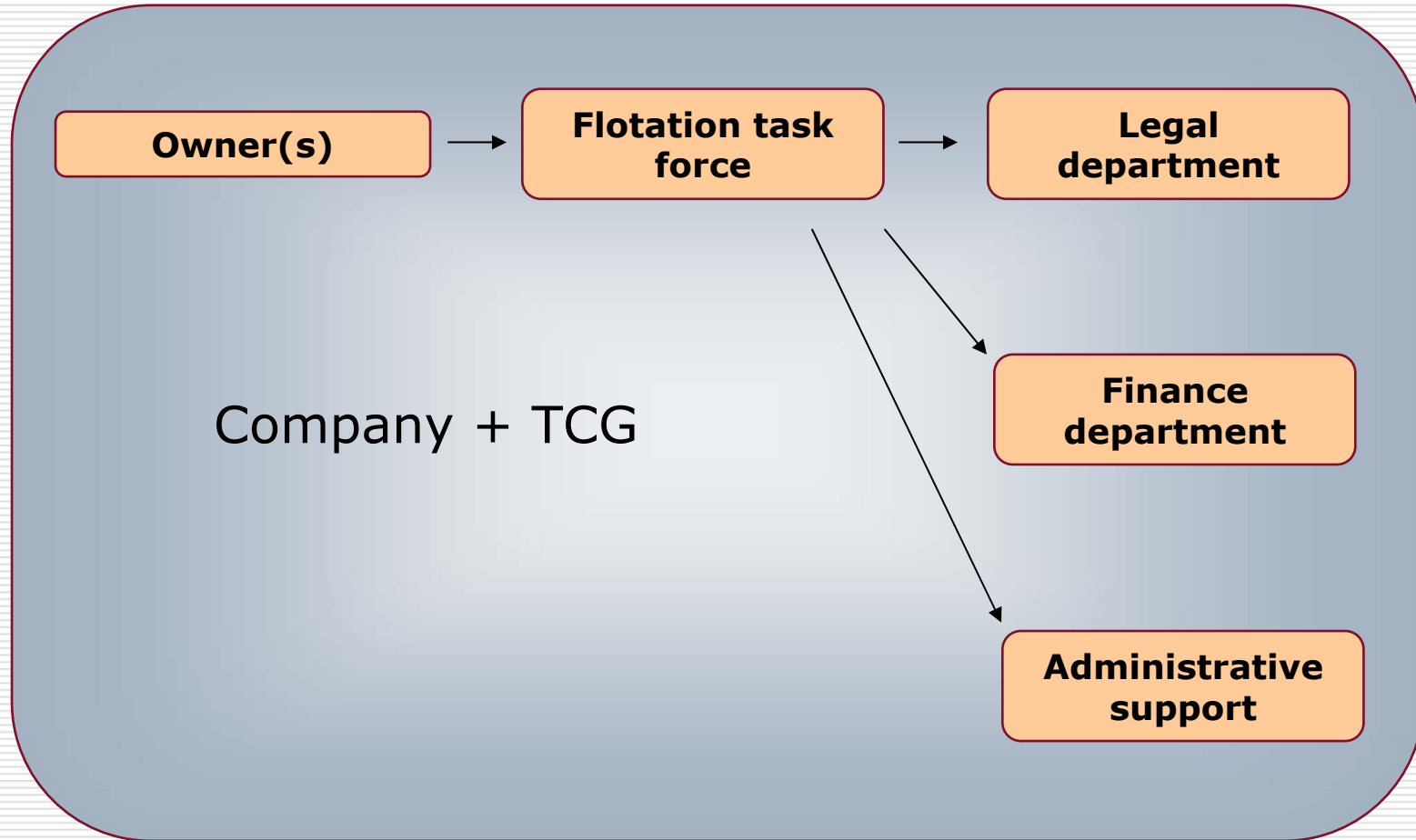
- Valuation

- Costs
 - Total flotation investments
 - Post-flotation costs

Agents – External



Agents – Internal



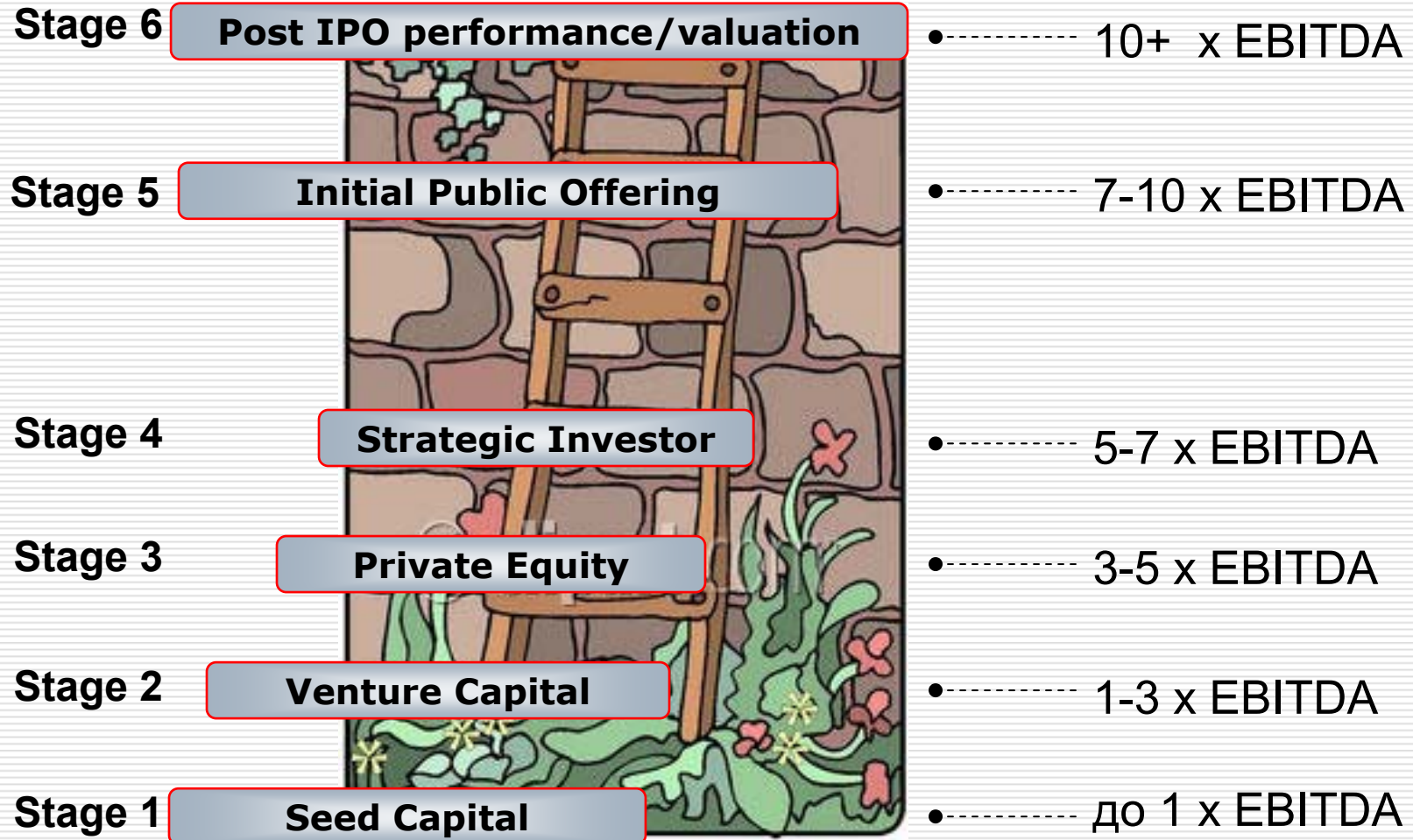
(2) IPO

- «Myths» of IPO
- Valuation ladder
- Return on investment*
- Why now?
- TCG's services

Overcome the IPO «myths»

- «Public placement is possible and successful only for large companies»
- «Investments in the IPO process are unreasonably large»
- «IPO does not provide the highest valuation to the owners. Better to sell to a strategic investor»
- «IPO results in loss of control over the business by previously private owners»

Valuation ladder



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Return on Investment (based on UKRPRODUCT example)

Stage 5 **Initial Public Offering**

£22m

ROI $\frac{\text{Increase in (delta) valuation } \sim \text{£11m}}{\text{Investments in IPO } \text{£0.8m}} = 14 : 1$

Stage 3 **Private Equity Capital**

£10.4m

Note. The private equity valuation of Ukrproduct (Stage 3) was calculated based on a real offer it had in 2003, which valued the business at 4 X EBITDA. However, in order to calculate the private equity valuation in 2004 and to separate the effect of growth in valuation from the growth of business itself, the private equity valuation was multiplied by EBITDA of 2004 (4 x £2.6m =10.4m).

Why do IPO now?

Maximum return on investment!

- ❑ Being first (among the first) in the sector, region, etc. provides more positive side effects
- ❑ IPO forces the business to become more efficient
- ❑ Protection of ownership rights – disclosing information secures the interests!
- ❑ Investments in the IPO process grow along with the scale of the company
- ❑ Investor interest towards Ukraine may not remain for long, unless regular successful stories are in place

What we do

Increase the return on investment and Company valuation by:

- Pre-IPO preparation:
 - Investor positioning (*corporate image, strategy, communications, etc.*)
 - Organisational, legal and business structuring

- Coordination of the flotation process:
 - selection of the IPO agents in the interests of the Company
 - coordination and control over the legal, accounting, tax due diligences, and other aspects of the process
 - expert advise on the flotation documents as to their alignment with the Company's interests
 - technical advise on the reports and crisis management upon requirement

- Participation in roadshows / marketing presentations

Discussion
