



A road to becoming public: the case of Ukrproduct Group

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Executive Summary



- **First Ukrainian company** to float on London Stock Exchange (AIM)

- **Company brief** :
 - dairy-based branded FMCG: (1) processed cheese, (2) packaged butter, and (3) dried milk powder
 - market leader in segments (1) and (2)
 - production: ISO9001 certified
 - distribution: pan-Ukrainian
 - sales 2004: £27.1 million (~260 млн. гривен)

- **IPO*** : Raised £6 million gross by issuing 27.2% of the new shares at the starting price of 53.5 pence (£0.535), 18 institutional and 33 individual investors immediately following the placement

- **Market capitalisation** (рыночная стоимость**) : ~ £24-26 million

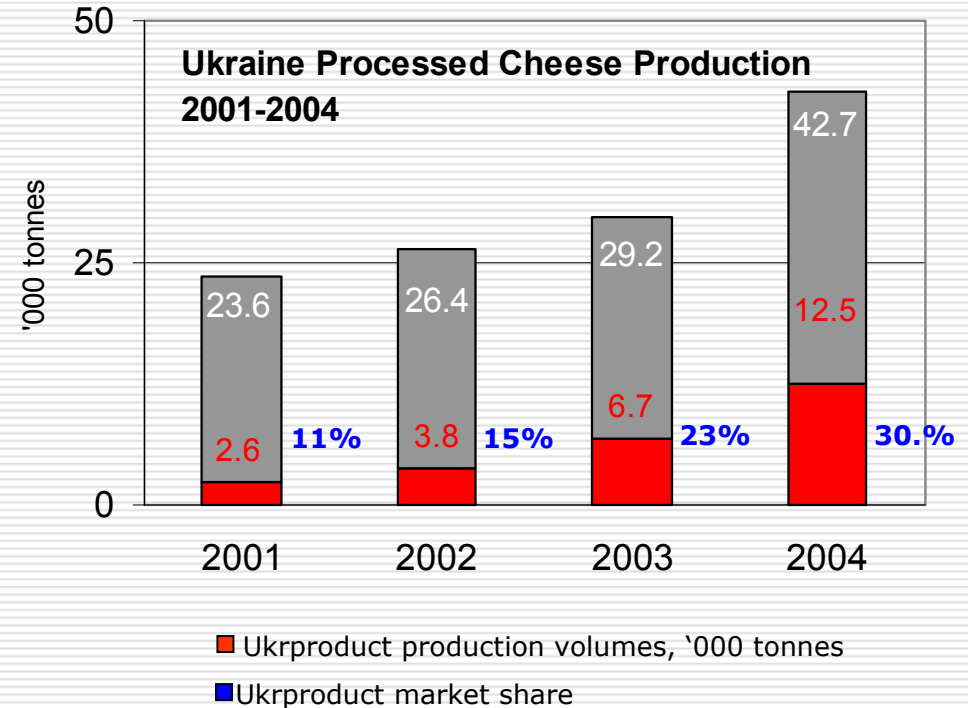
* IPO – Initial Public Offering

** In September-October 2005

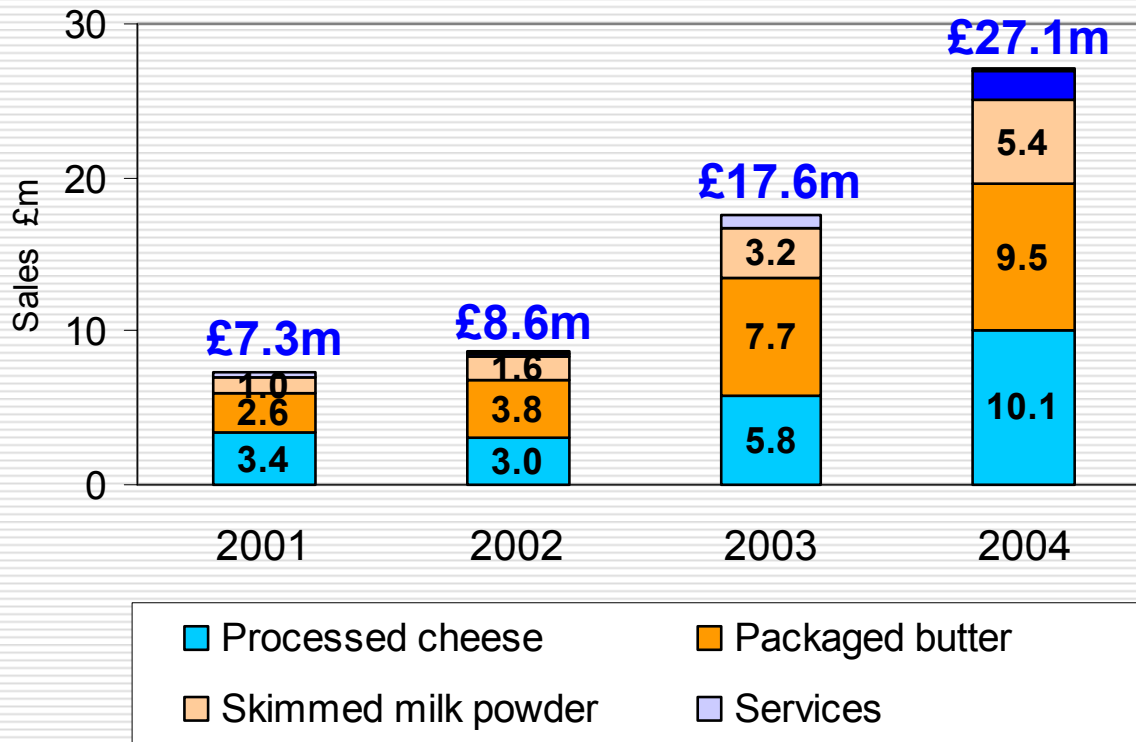
UPG – Competitive Position



- Fragmented market
 - Over 80 domestic manufacturers
 - Imports account for 2% of the market
 - Little branding
 - Inconsistent product quality



UPG – Products & Services



- Core competences – processed cheese packaged butter
- Dried milk powder – branded & profitable
- Distribution services – incremental sales and growing auxiliary competence

Reasons for going public



- ❑ Raising long-term funds to support continuing growth of the Group
- ❑ Achieving the objective valuation of the Group (market capitalisation)
- ❑ Lowering the cost of bank loans (realised belatedly!)
- ❑ Becoming more professional, structured, better governed, confident and efficient business
- ❑ Raising the profile of the Group for business partners, agents and banks, as well as boosting self-esteem

Positioning UPG for IPO



- **Convincing story of growth**
 - pace and quality
 - past and future
 - convergence play
- **Top-quality management team**
- **Focused strategy**
- **Good financials**
- **'Clean' dilution – new capital only**

IPO Process



□ Choice of agents:

- Trust Capital Group – overall coordination
- WH Ireland – broker & nominated adviser
- Cobbetts and PWC (Ukraine) – legal advisers
- Baker Tilly – reporting accountants and corp. fin.
- Moore Stephens and IGK – auditors
- Financial Dynamics – public relations (PR) adviser

□ Sequence of steps:

- Finding and contracting the agents
- Structuring the Group (internal and external)
- Due diligences (audit, accounting, tax, legal)
- Agreeing valuation
- Presenting the Group to investors and fund-raising

□ Costs:

- £800,000

Pre-IPO business structuring



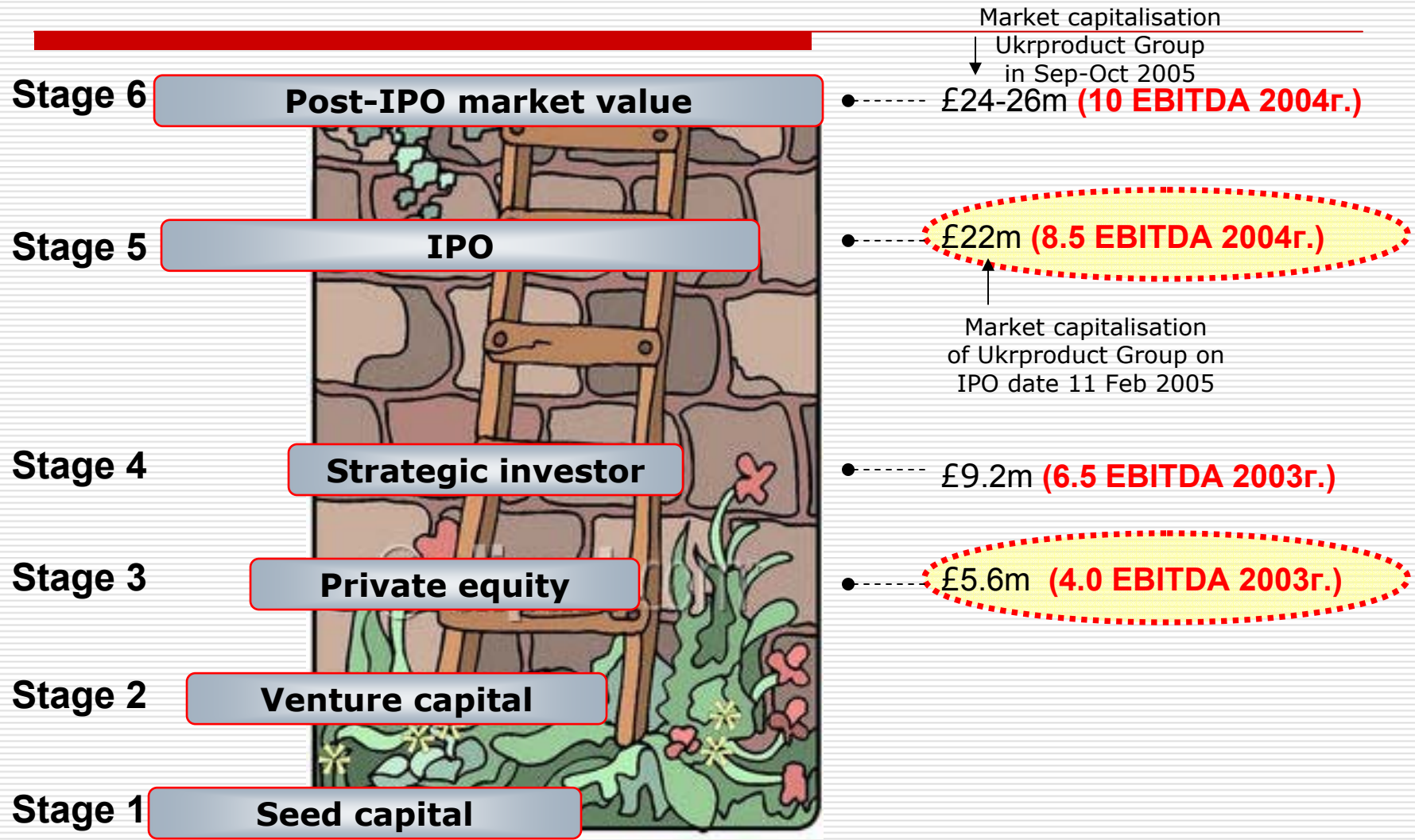
- Organise a task force responsible for the “flotation process”
- Improve the internal reporting and communications
- Build transparent and viable structure of the business
- Abandon overly aggressive tax optimisation schemes, if used
- Conduct IAS/IFRS audit

Owners' perspective



- ❑ Owners must develop faster than the business!
- ❑ Owners must be prepared to “think public”
- ❑ Challenging IPO process requires personal dedication & involvement
- ❑ Dilution of control post-IPO is substantial
- ❑ Public responsibilities may seem burdensome

UPG Value Ladder



Note. EBITDA Ukrproduct Group FY2003 £1.4m, FY2004 £2.6m

UPG – Lessons of the IPO Process



- Impossible IS possible
- Central brain - in Ukraine!
- Trust advisers but expect DIY*
- Control the process (or process will control you!)
- Be prepared to compromise at every stage

Life post-IPO



- ❑ Effectively deployed flotation proceeds to fund continuing business development
- ❑ Increased the market shares in core segments
- ❑ Developed supplementary products and services
- ❑ Continued efforts to strengthen the investor base and recognition

Discussion

