

# The role of IPO in the strategic development of the company

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# Agenda

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- IPO process
- Consequences of privatization
- Magyar Telekom introduction, privatization
- Current ownership structure and development over the years
- How IPO changed our life
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- Strategic stake vs. market listing



# Introduction

## Why IPO?

### Opportunities

- Access to capital for growth
- Create a liquid market (entry/exit route) for existing owners / new investors
- Obtain an objective market valuation
- Create an 'acquisition currency'
- Encourage employee commitment
- Raise public & international profile
- Enhance status with customers and suppliers

### Costs / Risks

- Regulatory rules and compliance
- Heightened disclosure and transparency costs
- Public scrutiny of strategy and performance
- Competing demands on management time
- Valuation dictated by market forces

- An IPO will be **business-transforming** and place **new demands and pressures** on the management team
- However, the **opportunities** should far outweigh the associated **costs**

# Hungarian privatization at a glance

## Ways of privatization

- I. Sale to strategic investor
- II. Market listing
- III. Mixed

## Examples

Utilities, Pharmaceuticals  
OTP (bank), MOL (oil & gas)  
Magyar Telekom

### I. Sale to strategic investor

- Large number of companies sold to foreign strategic buyers
- Control premium for majority ownership, fast transactions, immediate proceeds
- Long-term investment with influence on strategic decisions with know-how transfer

### II. Market listing

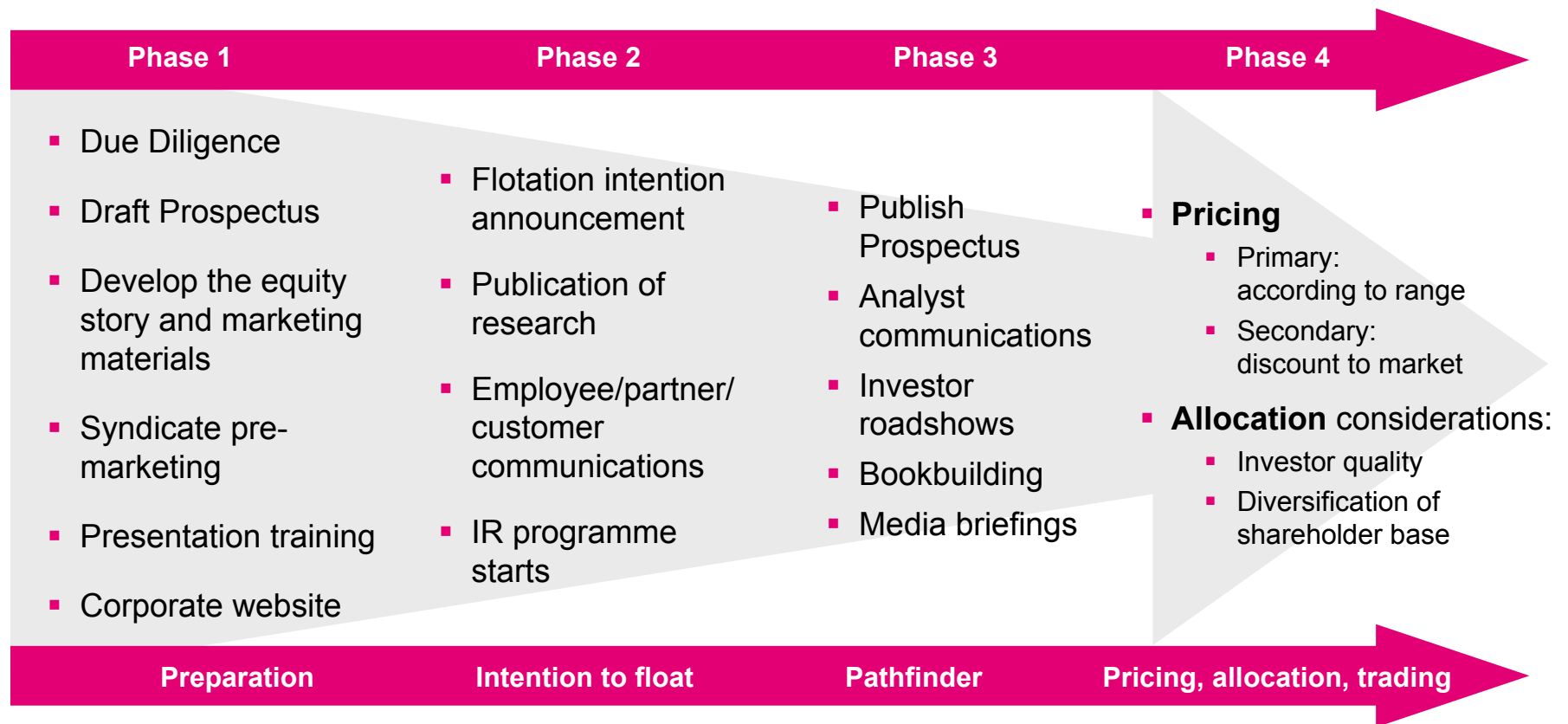
- Prior to transactions, regulatory framework created (gas pricing, telecommunications, etc)
- Few, strategically important, high value enterprises sold in several tranches in complex transactions

- ###
- Fragmented ownership (primarily in the US and UK, domestic market is also important)

### III. Mixed

- Combination of the strategic sale and capital market transaction

# IPO process (private placement example)



## Timing is crucial

- General capital market situation, country risk profile
- Establishing legal framework (e.g. Gas Law, Telecommunications Law)
- Avoiding competing IPOs
- Results of the company, expectations of investors

# Consequences of privatization

- Creation of the Hungarian capital market
- Increased liquidity
- Significant proceeds
- 14-fold return over past 10 years
- Appearance of retail shareholders, diversified savings portfolio
- In many cases: state's 25% stake is preserved

## BUX performance since 1995



# Magyar Telekom



# Magyar Telekom at a glance

## Market leader in all core businesses

### Hungarian operations

- fixed line incumbent operator in Hungary
- 100% stake in the leading Hungarian mobile operator

### International presence

- full scale telecommunications services in Macedonia
- successful acquisition of majority stake in Telekom Montenegro

### Rebranding from Matáv to Magyar Telekom from May 2005

T·Com· T·Online· T·Mobile· T·Systems· T·Kábel·

- introduction of the full T-brand portfolio
- does not signify any ownership change
- ticker on BSE changed to MTELEKOM; NYSE ticker unchanged (MTA)

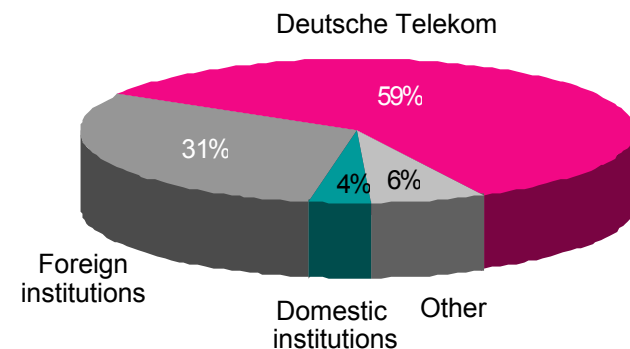
## Stock information

Around EUR 4bn market capitalisation

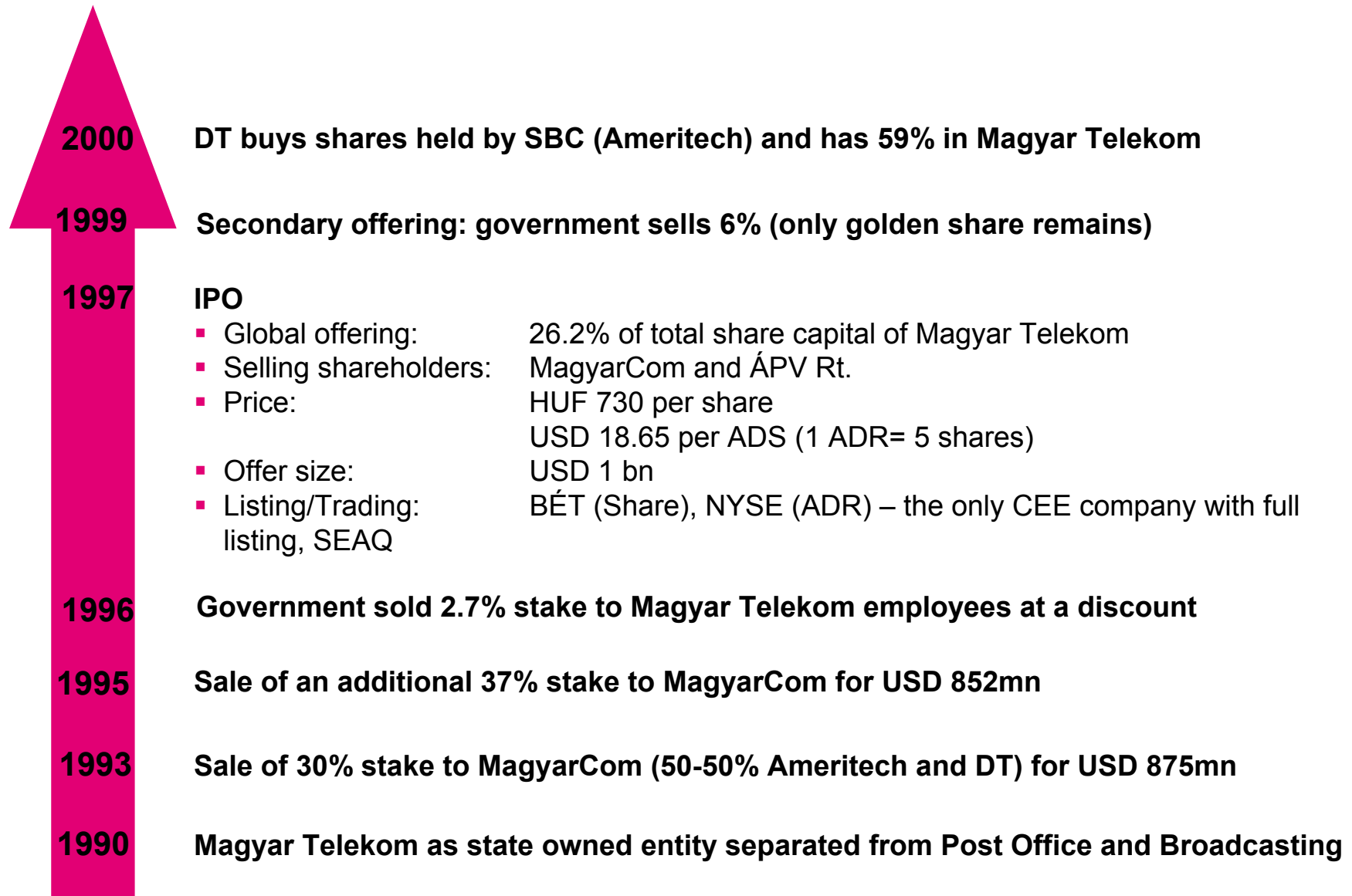
### Stock exchange listing

- listed on NYSE and Budapest Stock Exchange
- traded in London

### Ownership structure, approximate figures

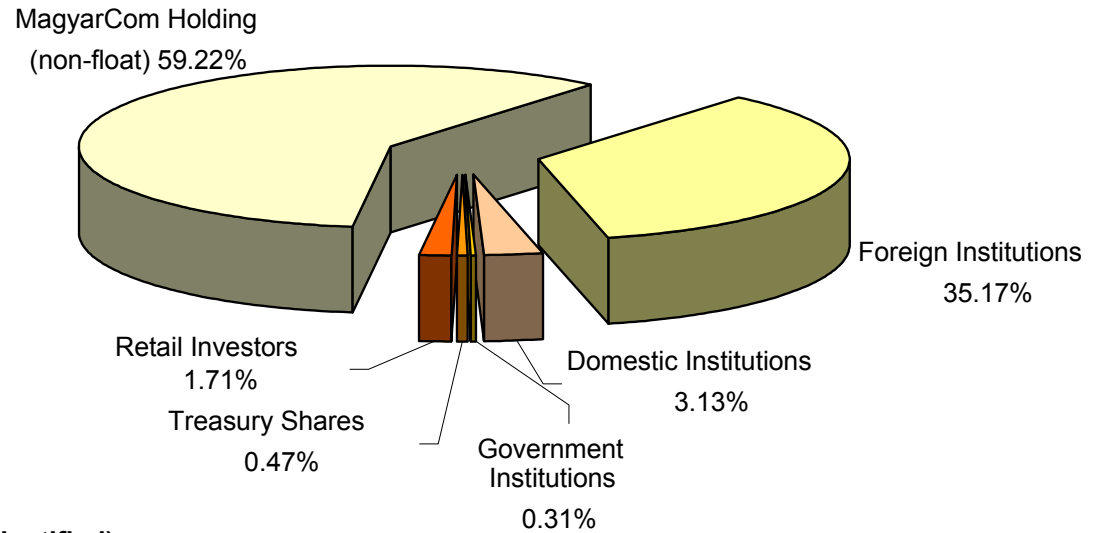


# Privatization – combined transactions

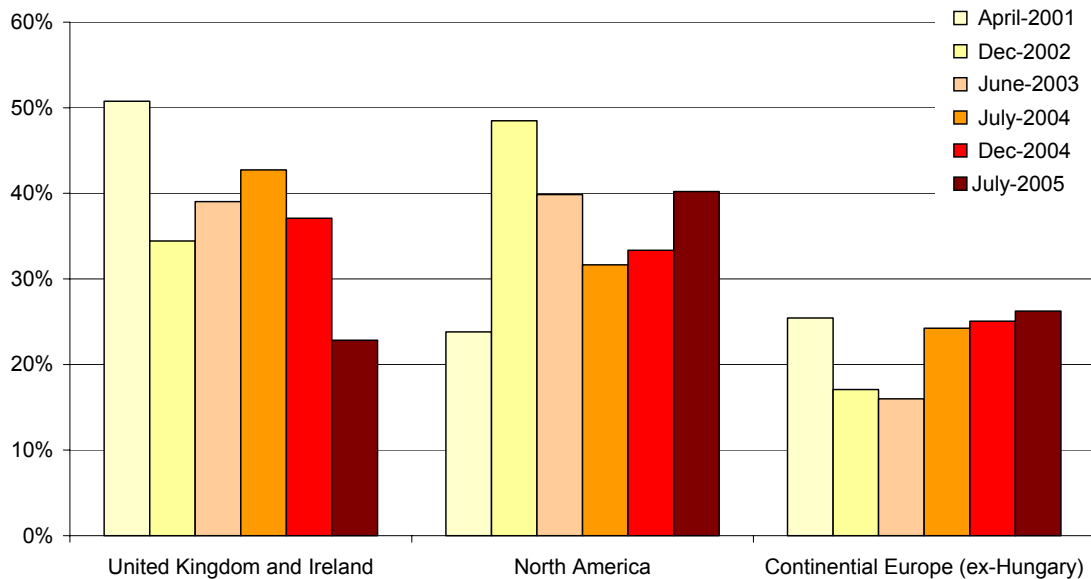


# Current ownership structure

**Ownership structure of Magyar Telekom as of July 31, 2005**

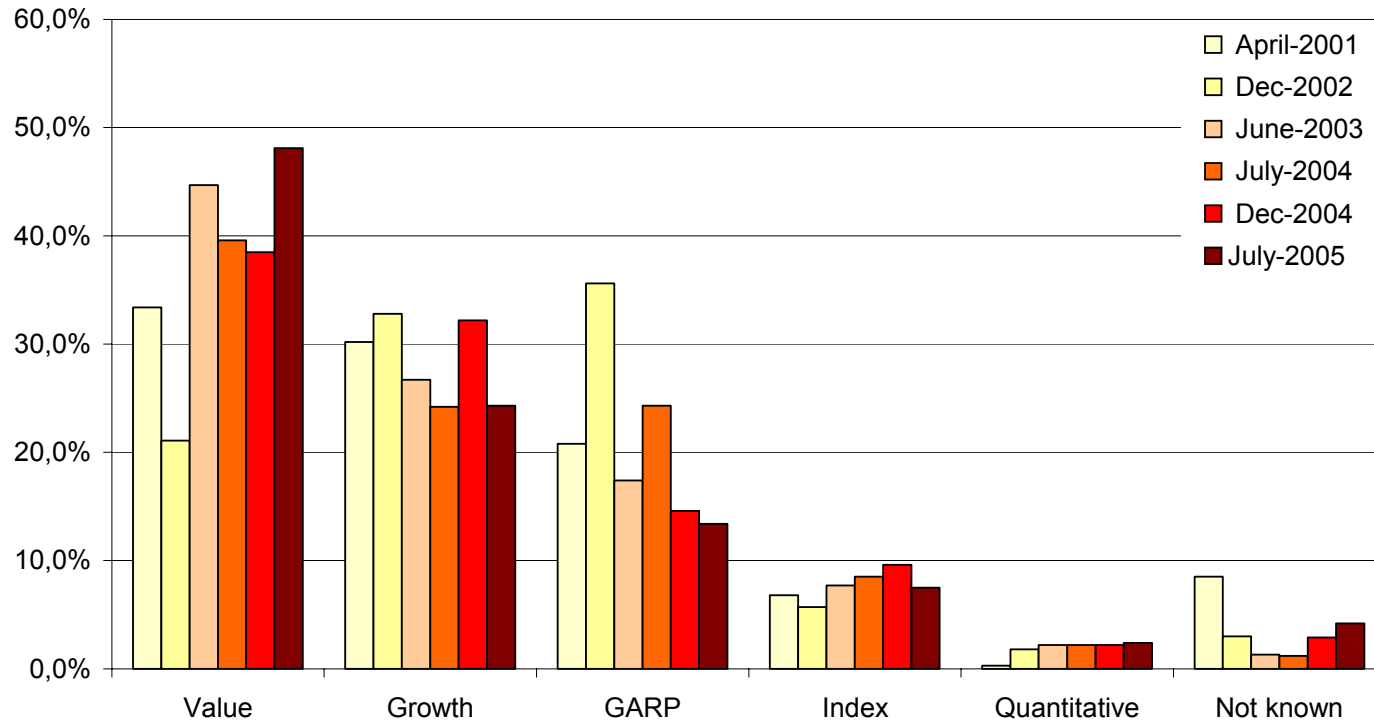


**Geographical breakdown of investors (% of identified)**



# Change in shareholder structure according to investment style

## Institutional investment style



**Value investors** prefer stocks that are trading at undervalued levels relative to some valuation. They tend to have longer-term investment horizons.

**Growth investors** prefer companies whose bottom line growth will average at least 15% annually and are willing to pay above market average multiples.

**GARP investors** seek to add growth stocks to their portfolios, but will not pay a premium price to obtain the securities - “growth at a reasonable price”.

**Index investors** strive to match the performance of an equity index such as the MSCI Index or the S& P 500 Index, while at the same time keeping trading costs at a minimum. Indexing is a passive style of investing. Index investors are not familiar with the companies in which they have made investments.

**Quantitative investors** utilize computers to screen a vast universe of stocks. The computer, using preset criteria determined by the investment management firm, determines a narrow group of stocks that meet these criteria.

# How IPO changed our life...

- Changing relationship with stakeholder groups
- Implications for corporate communications
- Impact on company leadership
- Influence on strategic direction

# Changing relationship with stakeholder groups

## Employees

- New incentivisation options
- Pressure to restructure and cut costs
- Need for increased internal communication

## Government

- New regulation governing industry
- Industry liberalisation
- Increase in competition levels

## Shareholders

- New audience to take into consideration
- Different investment / performance criteria
- Need for regular communication

# Implications for corporate communications

- Increased need for transparency and greater disclosure levels
- Requirement for dedicated IR functions to manage market expectations
- Increased demands on management time
- Financial cost of listing and complying with financial markets regulation

# Impact on company leadership

- Change in control over company strategy
- Greater management accountability
- Transparency over management remuneration and performance
- Greater alignment of management goals with company performance

# The market's impact on strategic direction

- Constant pressure to deliver, demand for continuous improvements in efficiency
- Greater financial flexibility, option to finance acquisitions with shares
- Pressure from the market to apply strict acquisition criteria when expanding
- Need to provide continuous strategy updates to the market
- Shareholder value is constantly measured

# Strategic stake vs. market listing

|                                                              | Strategic Stake | Market listing | Mixed |
|--------------------------------------------------------------|-----------------|----------------|-------|
| Benefit from management expertise and knowledge transfer     | ✓               |                | ✓     |
| Capital injection to grow/develop business                   | ✓               | ✓              | ✓     |
| Financial support from parent company                        | ✓               |                | ✓     |
| Higher liquidity as a result of diversified shareholder base |                 | ✓              | ✓     |
| Market valuation as an indicator of management performance   |                 | ✓              | ✓     |
| Pressure to improve efficiency                               | ✓               | ✓              | ✓     |