Current Market Update

- Secondary Market trading – macro vs. fundamental drivers
- IPO Market – pricing of recent deals; trading of recent deals
- First order effects of new JOBS Act

What Makes a Good Investment Banker

No one set of criteria, based upon:

- Relationship
- IPO Experience – but league table overrated
- Understanding of your company
- Sector knowledge
- Valuation least important
- Brand?

The Valuation Process Demystified

Key objective: Manage valuation for the longer term

Doing the Math

Three primary aspects of the valuation analysis are:

1. “Comps”:
   - Business comparables: companies that share traits similar to you
     - End markets for your product
     - Same business “ecosystem”
     - Share similar business cycles
   - Financial comparables: growing at a similar rate and/or share a similar margin structure (may be completely out of your sector)
     - Useful guideposts for certain measures
     - Especially important when you have no close business comps
   - Be wary of focusing on companies with the highest valuations
     - Be honest with yourself about your relative strengths and weaknesses relative to your comps
2. “Metrics”
   - Price/Earnings ratio: appropriate when profitability margins are stable
   - Revenue multiple: appropriate for higher growth companies who are not yet profitable
     - Recent high growth software IPOs
     - Investors are “buying the growth”
     - Investors may want the company to delay becoming profitable in order to gain market share or create other long term sustainable competitive advantages.
   - EBITDA: appropriate when substantial debt or high depreciation is present.
     - Excluding non-cash charges allows for better comparability to other companies

3. “Market”
   - Though out of your control, market levels are very important to the success of an IPO
   - Even high profile IPOs cannot escape this fact
   - The IPO market is binary: it is either “on” or “off.”
     - Driven by changes in investor sentiment, which changes frequently
     - Make educated guesses regarding future openings of the IPO window
   - Additional value can be achieved by waiting for “market windows”

Public Investors
   - Issuing to the right “long term” holders lead to long term price success
     - “Long only” mutual funds, pension funds and investment advisors are best
     - Hedge funds often have very savvy portfolio managers, but need to ensure that you aren’t just a quick “trade” for a fund
   - Road show is a two-way interview
     - Over two weeks you will meet 60-70 of the largest investors who want to learn more about your company in person
     - These firms may be stakeholders in your company for years to come
   - Avoid short-term holders who look for technical movements based on pricing inefficiencies
     - Can lead to your shares trading down after the IPO prices
     - These investors are playing the “IPO” game
     - Better to distribute stock to investors who have done a lot of homework
   - Look for investors who will likely make follow-on purchases in the secondary market

Allocation Process
   - The banker should know their client base and help read investors’ intentions
   - Allocations are always scaled back so investors can buy more shares after the IPO
   - Issuing company has some input into allocation process – no longer a “black box”
Board

- Varying situations and objectives likely exist:
  - Invested at different valuations
  - Different investment horizons and/or hurdle rates
- Keep other constituents in mind as well, including employee shareholders and option holders.
- At the end of the day, bankers lay out options and advice, but companies make decisions

IPO discount

- Setting an initial price that is attractive can drive more demand in terms of effort resulting in higher valuations post issuance
- Technical reasons:
  - Risk of newly issued company with no public track record
  - Liquidity could be challenged as typically a small percentage of the company is sold at issue

A successful IPO will be defined in the months after issuance:

- CEO is happy with the investor base
- Stock trades up steadily over time
- Market appreciates the underlying value of the company