Enhancing value for your company
Preparing for an exit
Drivers of successful exits

An Ernst & Young study of exits over the past four years showed:

► Successful exits that focused on **improving the core business** during the downturn, outperformed the sample average by more than 30%.

► Investments made in **new innovative growth sectors** were the next best drivers of value.

► **Buy and build strategies** with the need for multiple acquisitions, repeated successful integrations and deals built around **targeted growth strategies** underperformed, relative to the above two strategies.
2010 PE-backed IPO sector breakdown

Source: Capital IQ, Dealogic
Expect IPOs to remain a strong exit alternative for PE investors:

- 71% of 2010 PE-backed IPOs ended the year above their offering price (on average 27.2% above) – more than 1/3 closing out December 40% or more above offering price

- PE-sponsored IPOs generally outperformed sales to strategic and PE acquirers by almost 70% over the three-year period through 2009 – it’s about equal in 2010 – driving many to “dual track” the IPO and trade sale

- PE sponsors sold an average of 24.6% of their equity stake at the IPO (down 23%)

- IPO investors have become extremely discriminating – only investing in recession-resistant companies with solid balance sheets and compelling growth stories

Other trends – PEs seeking liquidity

- Debt market rebound provides complementary and alternatives to equity issuance – according to S&P, more than $45B was issued to fund dividends in 2010 – providing liquidity to PE funds

- In 2010, nearly 30% of PE exits were to other PE houses, as PEs seek to exit investees held for an extended period and to raise cash to distribute back to investors
Perspective of institutional investors

Institutional investors said:

- **Top financial factors considered when investing in an IPO**: Debt to equity ratio (63%), EPS growth (59%), Sales growth (55%), ROE (55%)

- **Top public company initiatives that should be completed prior to an IPO**: Financial reporting process (75%), financial planning and analysis process (70%), corporate governance (67%), systems and controls review (67%)

- **Important accounting and reporting issues going forward**: (1) Asset valuation impairment, (2) consolidated subsidiary financial statements, (3) revenue recognition, (4) related-party transaction issues, (5) tax accounting and reporting issues

- **Internal business issues that will have the most impact on their IPO investment decision-making**: Working capital management/cash flow (72%), regulatory and compliance risk (62%), rationalizing business structure (43%), timely financial reporting procedures (41%)
Institutional investor survey
Rate the importance of the following performance measures in your decision-making related to IPO stocks.

**Average importance of the top ten nonfinancial measures**

<table>
<thead>
<tr>
<th>Measure</th>
<th>Importance</th>
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<tbody>
<tr>
<td>Management credibility and experience</td>
<td>4.7</td>
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<tr>
<td>Corporate strategy execution</td>
<td>4.3</td>
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<tr>
<td>Quality of corporate strategy</td>
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<td>Brand strength</td>
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<tr>
<td>Corporate governance practices</td>
<td>4</td>
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<tr>
<td>Ability to recruit/retain talented people</td>
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<tr>
<td>Quality of IR guidance</td>
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<td>Market share</td>
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<td>Customer satisfaction</td>
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<td>CEO leadership style</td>
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Preparing for an exit
Focus on finance, governance and controls

Investment in finance, governance and internal controls helps you protect your business, improve your performance and enable transformation.
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