Enhancing value for your company

Preparing for an exit

Ernst & Young
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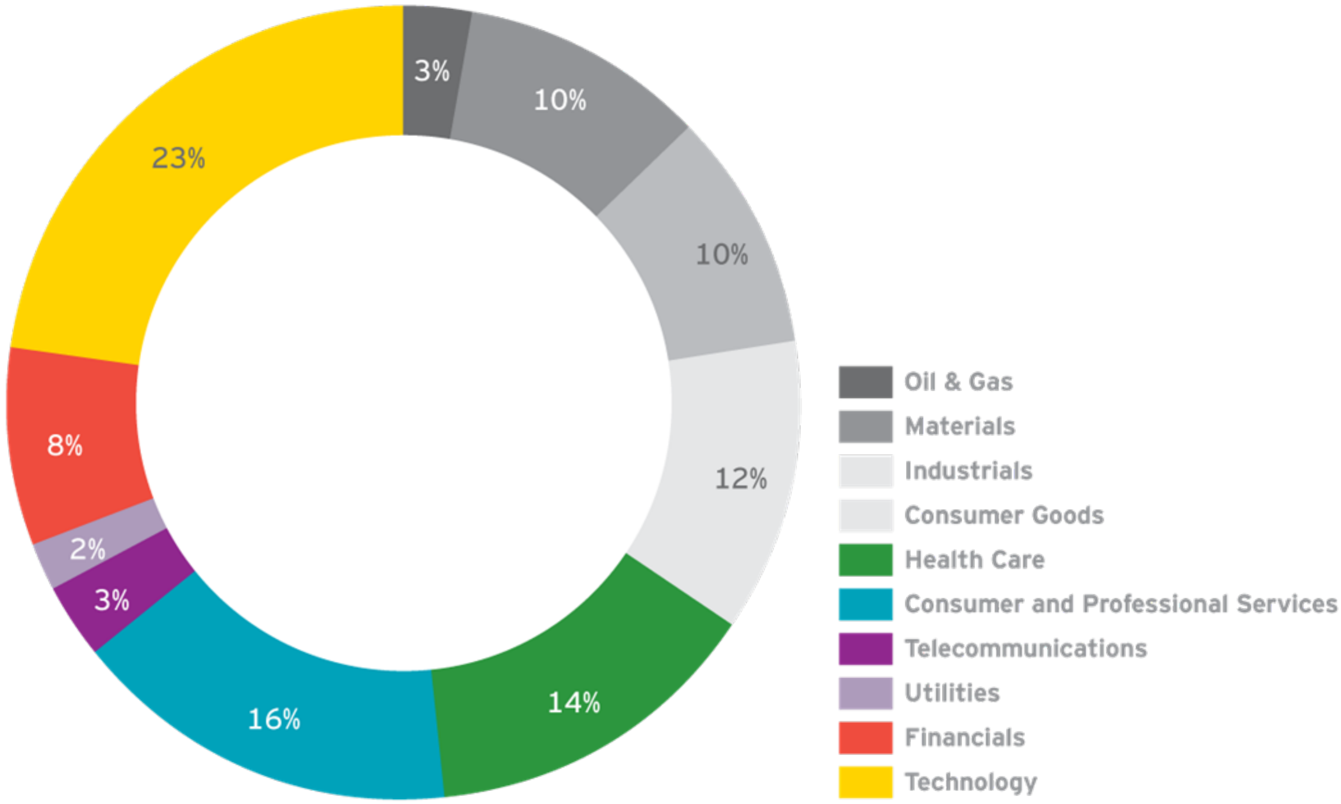
Drivers of successful exits

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

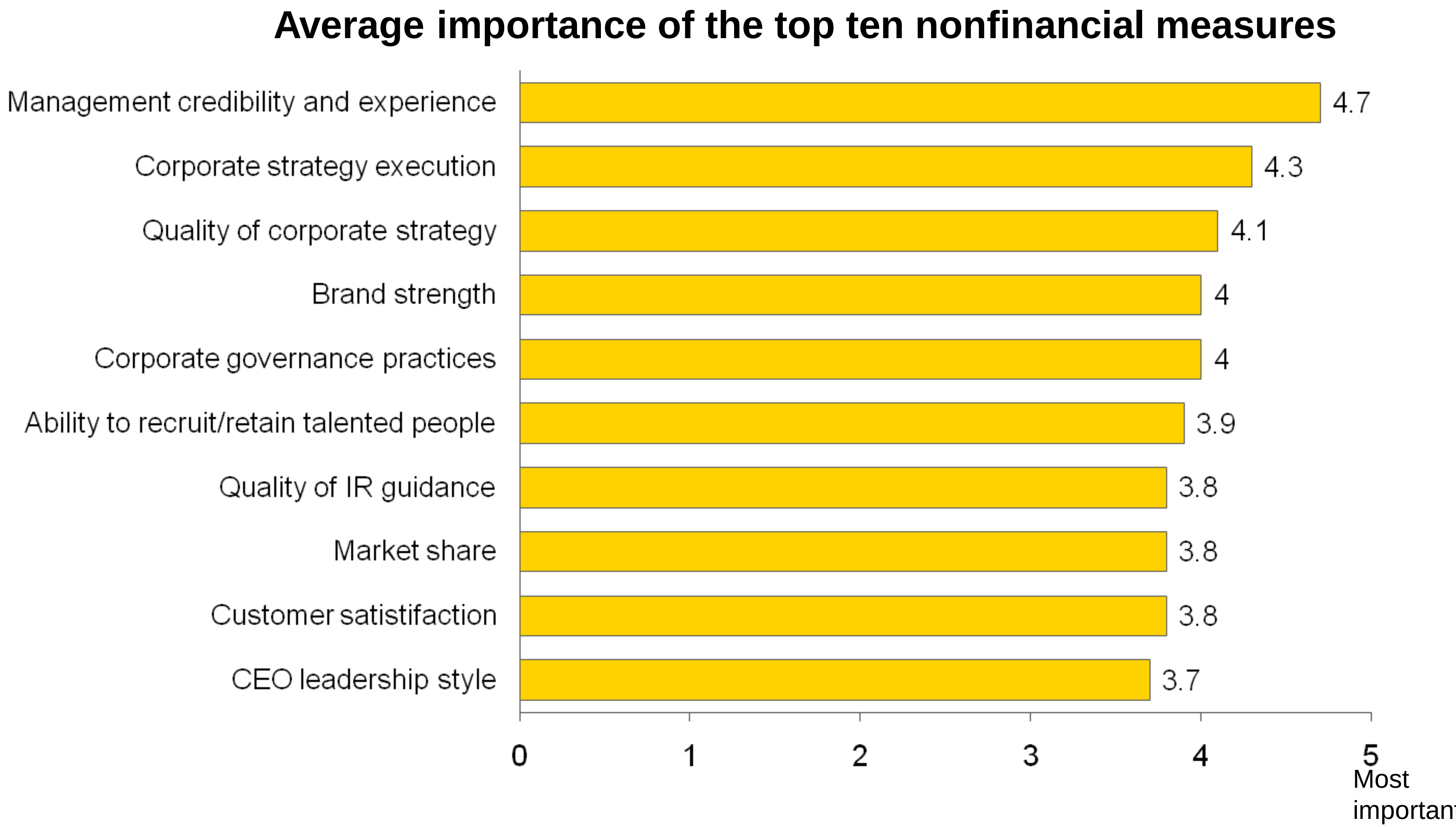
- **Expect IPOs to remain a strong exit alternative for PE investors:**
  - 71% of 2010 PE-backed IPOs ended the year above their offering price (on average 27.2% above) – more than 1/3 closing out December 40% or more above offering price
  - PE-sponsored IPOs generally outperformed sales to strategic 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

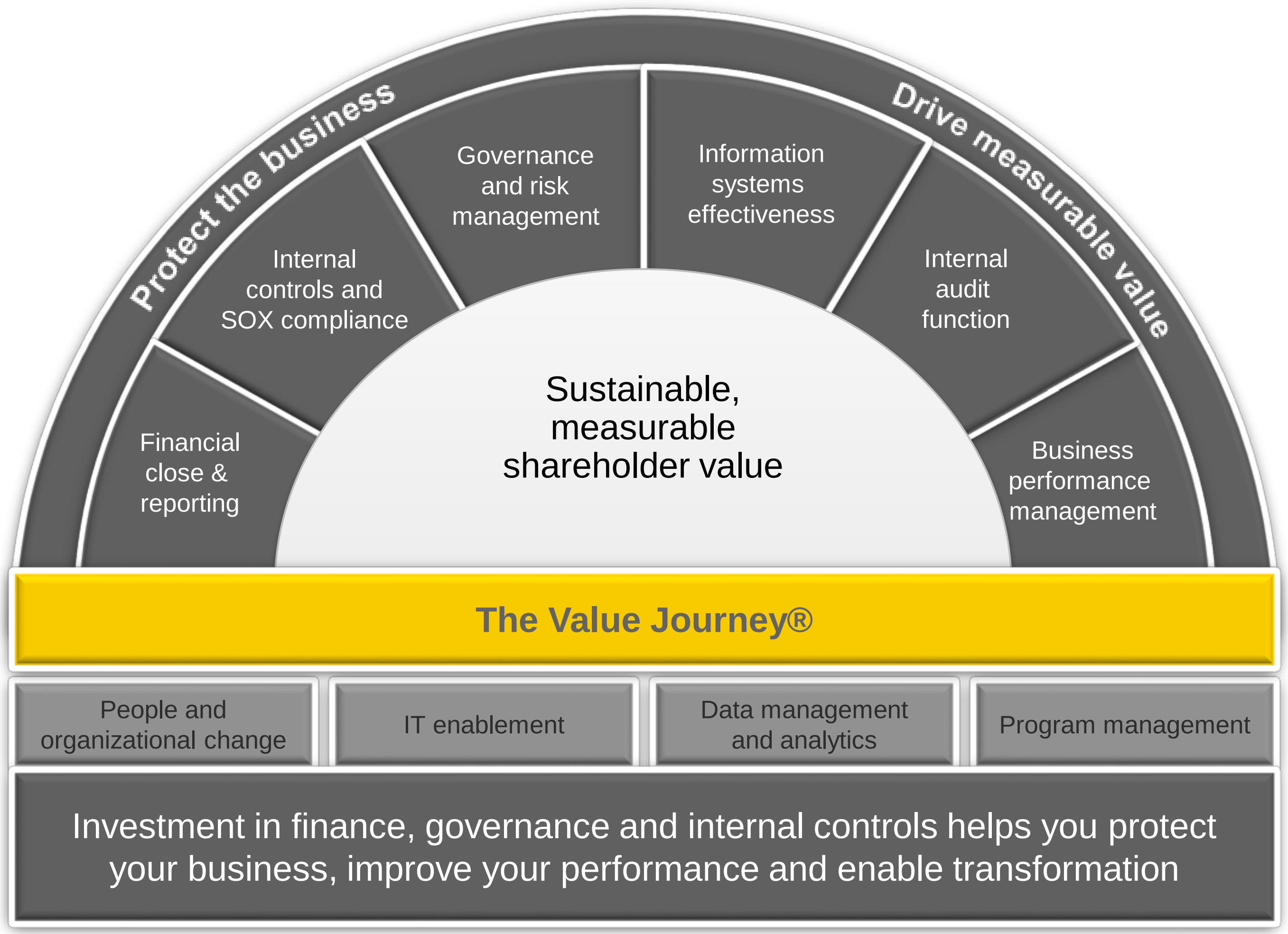
- Institutional investors said:
  - **Top financial factors considered when investing in an IPO**: Debt to equity ratio (63%), EPS growth (59%), Sales growth (55%), ROE (55%)
  - **Top public company initiatives that should be completed prior to an IPO:** Financial reporting process (75%), financial 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.



Preparing for an exit
Focus on finance, governance and controls



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