

Raising Capital and Creating Currency

Characteristics of a Successful IPO

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Why Go Public?

Raise Capital

- Strengthen balance sheet
- Invest in the business
- Make acquisitions

Create Public Currency

- Establish a market value for the Company
- Enhance acquisition capabilities
- Create liquidity
- Enhance employee incentives

Create Branding Event

- Increase publicity and market awareness
- Create excitement around the Company's growth opportunities

Identify and Target Attractive Shareholders

- Establish stable long-term ownership base

Gain Effective Wall Street Sponsorship

- Leverage voice / advocacy of respected analysts

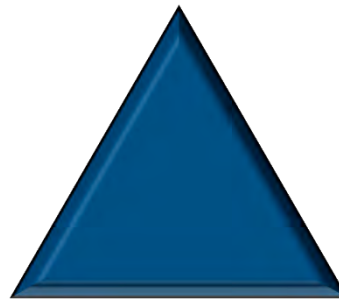
Advantages and Issues to Consider

Advantages / Benefits

- Liquidity mechanism for existing shareholders and employees
- Raise additional capital
- Create an acquisition currency
- Enhance financial flexibility
- Raise company profile

Issues / Concerns

- Accountable to public shareholders
- Public disclosure requirements
 - Disclosure of sensitive information
 - Quarterly report card becomes critical
 - Additional fees and expenses
- Distracting and time consuming process



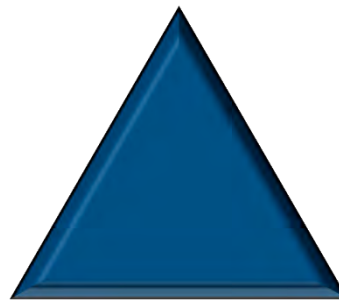
Balancing Interests

Issuer Objectives

- Maximize proceeds while minimizing ownership dilution
- Position stock for price appreciation
- Place stock with long-term holders
- Wall Street research coverage/ support
- Liquid aftermarket for shares
- Raise company profile

Investor Demands

- High-quality growth opportunities
- Expectation of stock price appreciation
- Appropriate pricing relative to peer group
- Access to management team / research
- Liquid market for shares
- Flawless execution by underwriting group



Traditional IPO Benchmarks

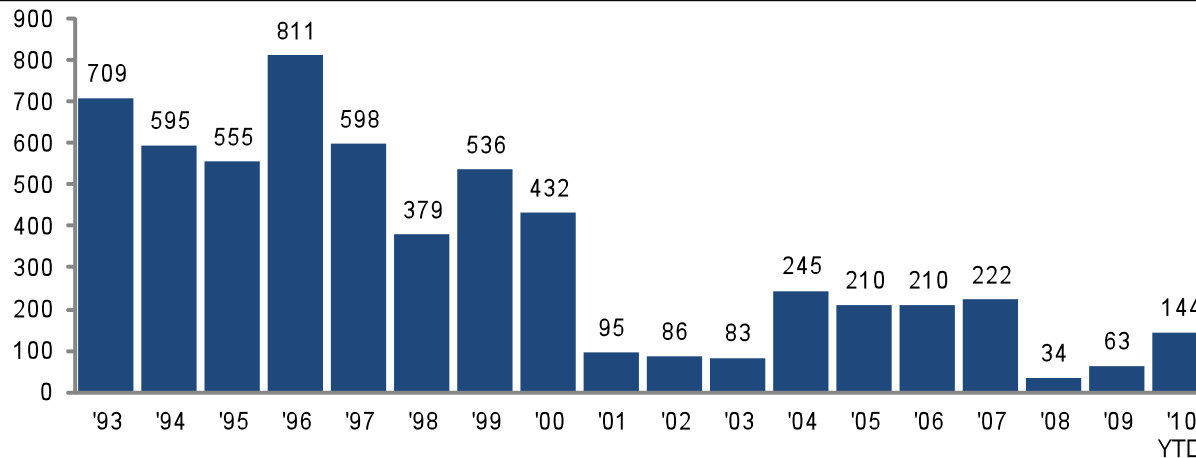
- ✓ Large, visible market opportunity
- ✓ Demonstrated ability to realize market opportunity: revenue and customers
- ✓ Stability of revenue: product, customer and geographic diversification
- ✓ Clear, competitive differentiation
- ✓ Experienced, proven and recognized management team
- ✓ Highly respected financial and strategic investors
- ✓ Business infrastructure to realize market opportunity: operations, finance, personnel

Assessment of the IPO Environment

- General economic environment
- Prospects for sustained growth by sector
- Market performance
 - Broad indices
 - Comparable companies
 - Volatility Index (VIX)
- Mutual funds flows and equity fund cash positions
- Market receptivity to new equity issues (pricing trends, after-market performance)
- Backlog of Initial Public Offerings
- Characteristic of recent successful IPOs
- IPO (or IPO plans) of comparable companies

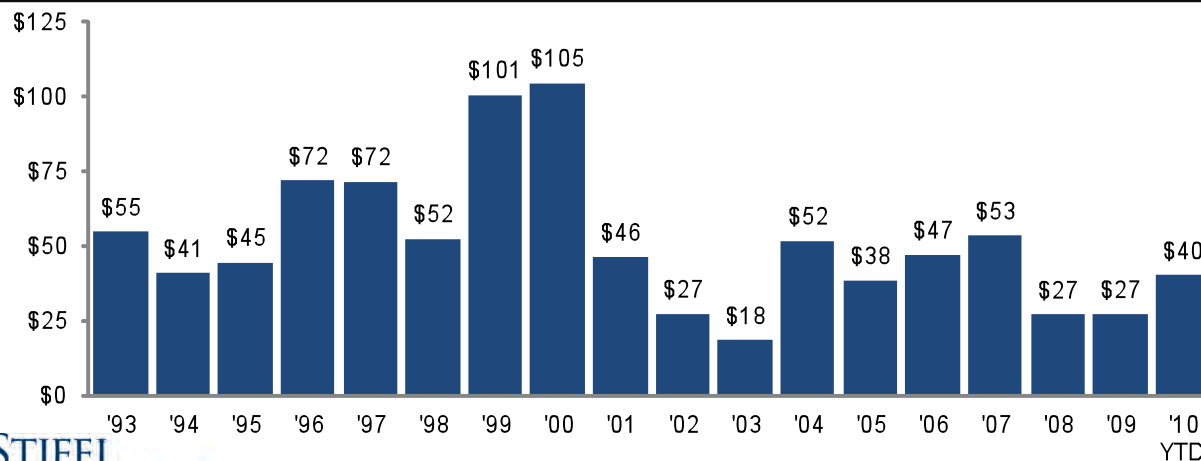
IPO Market Statistics (1993 to Present)

Number of IPOs



- Number of annual IPOs have declined significantly

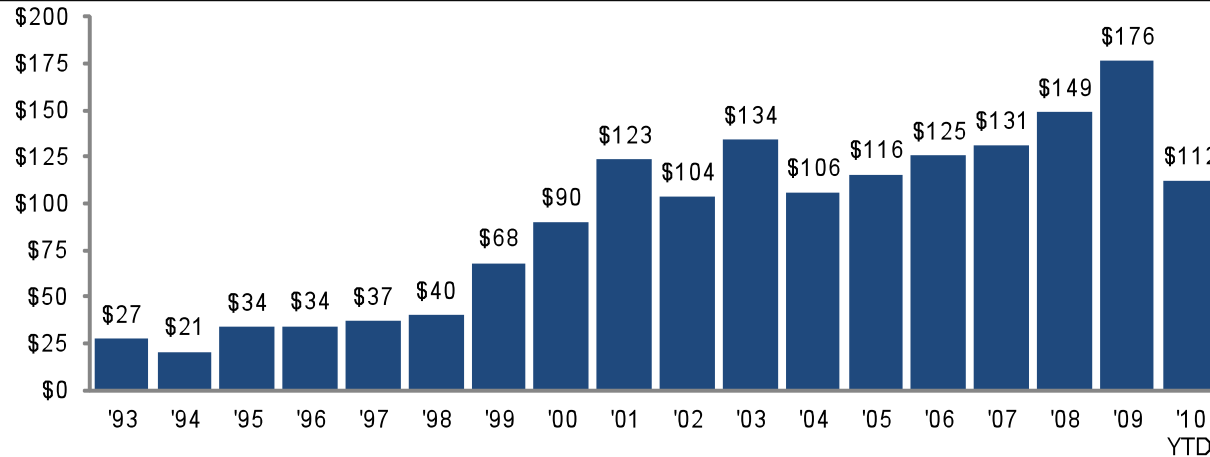
Aggregate IPO Proceeds (\$B)



- IPO proceeds have fluctuated with the strength of the market

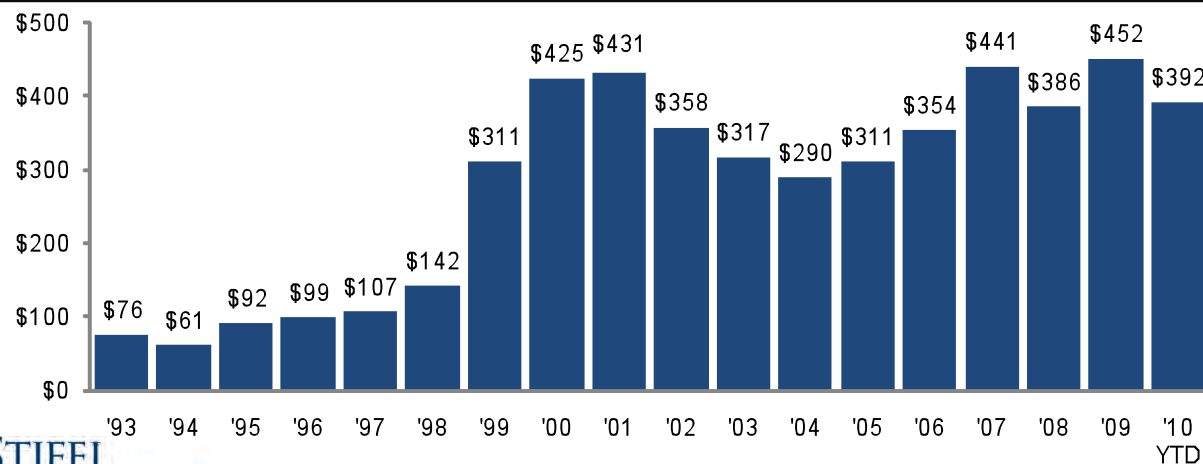
IPO Market Statistics (1993 to Present)

Median IPO Size (\$M)



- Average size of IPOs have increased

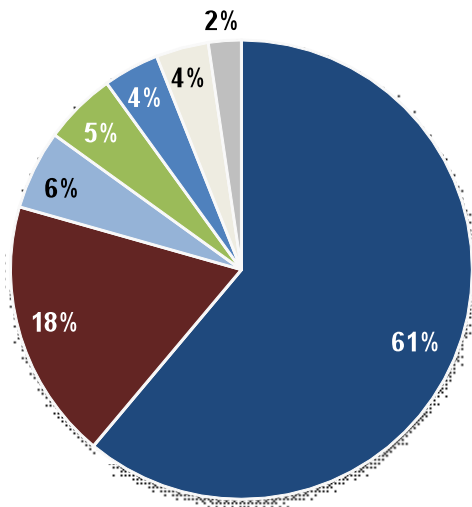
Median Market Cap at IPO (\$M)



- Pro forma market caps have also increased

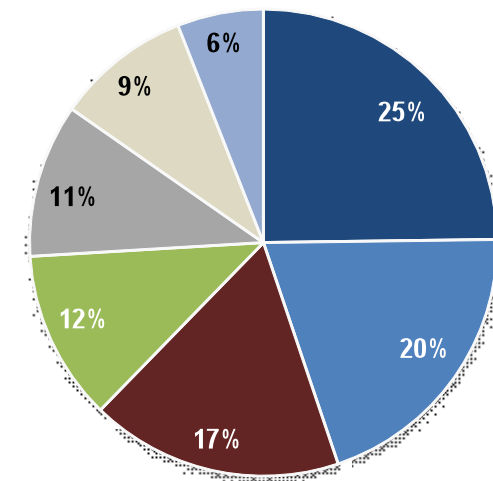
IPO Market Statistics (1993 to Present)

2000 IPOs by Industry



IPOs by Industry Since 2001

- Tech, Media & Telecom
- Financial
- Healthcare
- Natural Resources
- Industrial
- Consumer
- Services



- Since the tech bubble, IPO issuers have been well distributed across industries

Requirements for a Successful IPO

- **Key Characteristics**
 - Large and growing market opportunity
 - Historical and projected revenue growth
 - Track record of profitability or on a clear path
- **Valuation Considerations**
 - Comparable company trading multiples
 - Pre-money vs. Post-money equity value
 - Size of IPO (float and liquidity)
 - IPO discount
 - Market timing
 - Competing asset classes
- **Other Considerations**
 - Use of proceeds (growth capital vs. debt paydown)
 - Secondary vs. primary shares

Advance Preparation

- Build a network of experienced investment bankers with relevant industry expertise
- Establish relationships with experienced lawyers and accountants
- Work with accountants to prepare for Sarbanes Oxley
- Round out finance staff to meet the demands of public reporting
- Develop and maintain detailed projection model
- Establish track record of financial performance vs. budget
- Establish a Board of Directors to meet independence requirements

Key Steps in the IPO Process

Due Diligence

- Org meeting
- Management presentations
- Customer calls
- Financial due diligence
- Legal and accounting due diligence

Drafting Sessions / Filing

- Positioning and investment highlights
- Business section
- Risk factors
- Financial statements / MD&A
- Printers
- File S-1

Roadshow Prep

- Powerpoint presentation
- 30 minute pitch
 - 25 minutes: CEO
 - 5 minutes: CFO
- Parallels S-1 themes
- Historical financials only
 - Long-term model

Respond to SEC Comments

- SEC comments to document
 - Initial 30-day review
- Response letter / S-1 revisions
- Preliminary valuation range

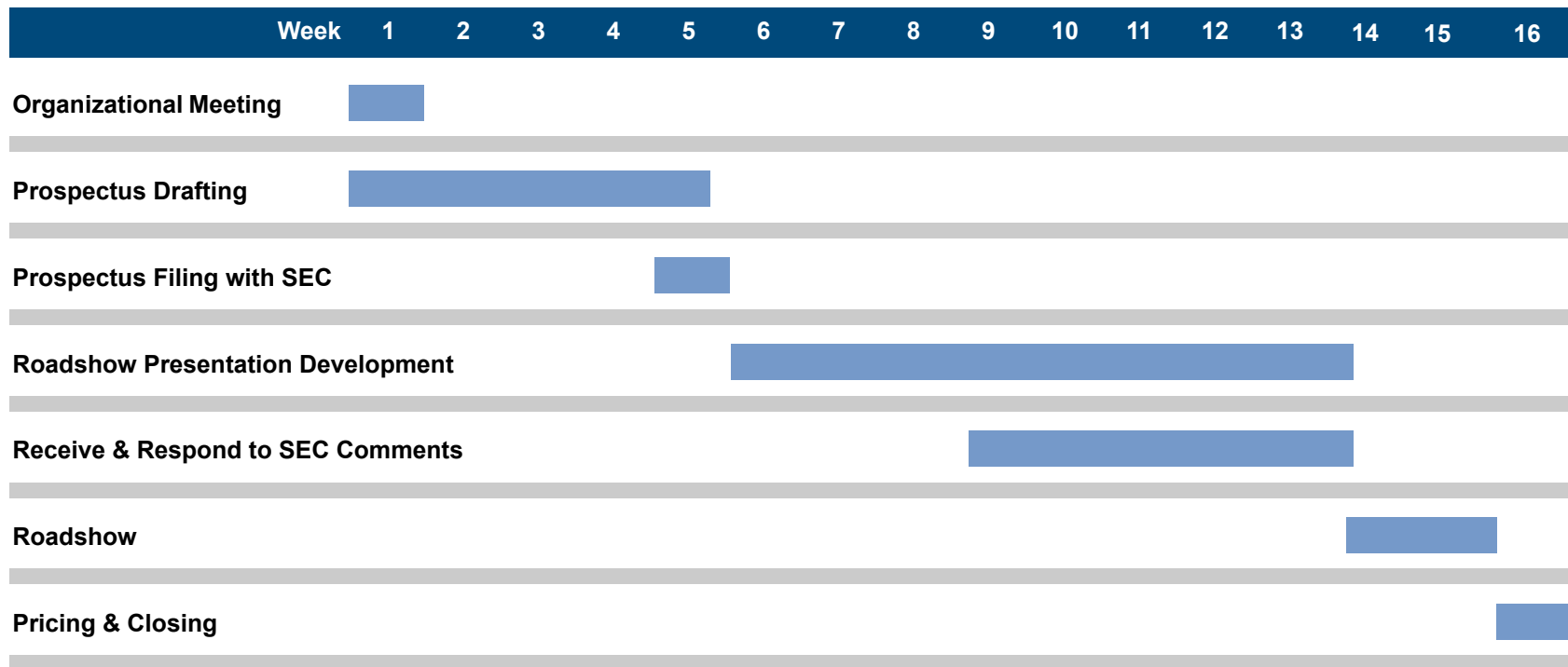
Roadshow

- Preliminary prospectus (“Red Herring”)
- In-house presentations
- Two week multi-city process
- Group and one-on-one meetings

Pricing & Closing

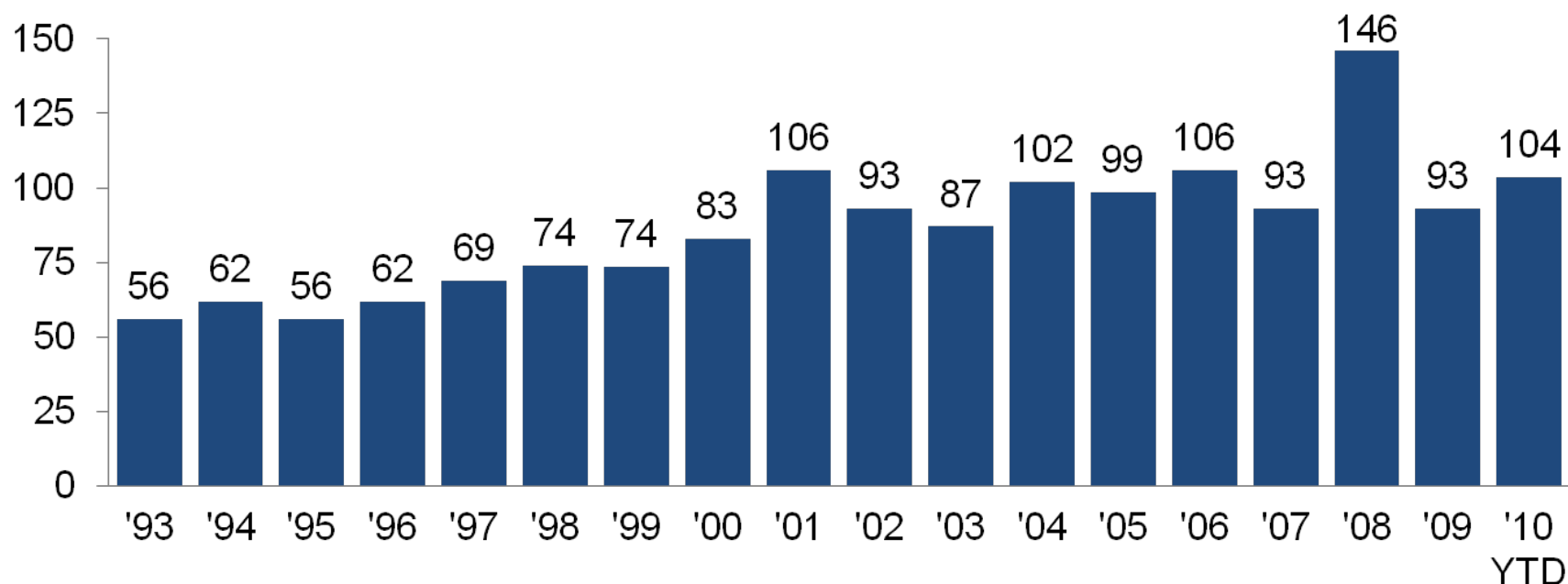
- Assessment of “the book”
- “Bring-down” due diligence
- Price shares
- Final prospectus
- Closing call

Typical IPO Timeline



File to Offer Timing Trends

Median Days From Initial Filing to Offer (1993 to Present)



- The length of time from filing to offer has increased over the years, primarily due to:
 - The SEC's growing scrutiny during the S-1 review process
 - Issuers' increasing sensitivity to market timing

Phyllis Proffer
Founder
The Heights Company, LLC

New Issuers

- Opportunity to build your brand
 - Management credibility
 - Company reputation
- Proven in the markets you serve
- Unproven in the financial markets
 - Brand should drive stock price
 - Don't allow stock price to drive your brand

Common Goals

- Maintain access to capital markets on best possible terms
- Increase knowledge and understanding about company
- Create communication that promote sound investment decisions
- Increase liquidity and minimize volatility

Building Credibility

- Develop strategic investment messages
 - Realistic expectations in reasonable time frame
 - Stay true to your investment characteristics
 - Decide early what you want to share with investment community
 - Provide proof points and updates on regular basis
- Maintain consistency and timeliness
 - Incorporate investment messages in all communications
 - Adhere to disclosure policy and quiet periods
 - Achieve consistent schedule for earnings releases and conference calls
 - Announce impact of material information as soon as the impact is understood
- Avoid being overly promotional
- Be prepared to contrast and compare with others in industry while remaining conscious of providing competitive information

Articulate Investment Characteristics

Strategic, measurable and regularly updated

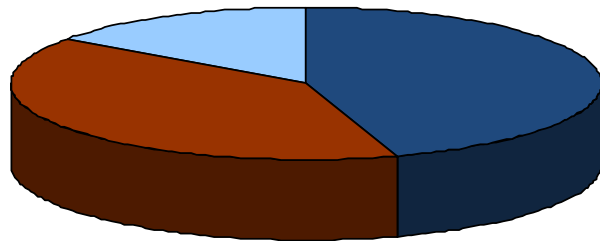
- Ability to compete
- Sales growth trends
- Productivity
- Earnings growth
- Balance sheet strength
- Controls

Advance Preparation

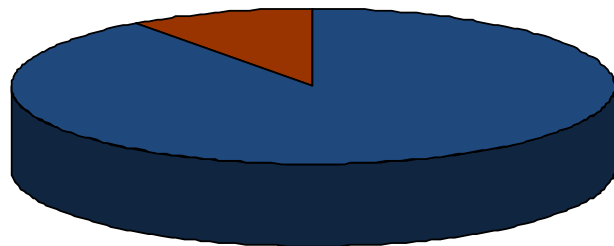
- One to two years in advance
 - Establish consistent practice of modeling financial projections
 - Begins with accurate financial reporting
 - Provide a link between operating performance and future financial results
 - Test organization's ability to execute plans and achieve expected results
 - Establish consistent practice of corporate communication and product announcements
 - Create a flow of information and approval process
 - Clarify roles and responsibilities
 - Develop disclosure and media policies

2010 NIRI Survey on Guidance

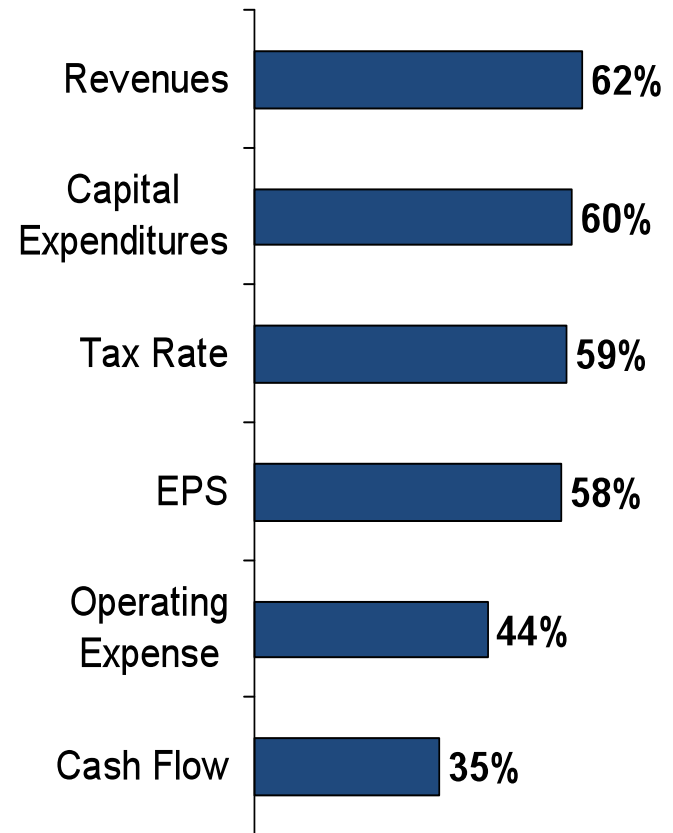
Large Cap Mid Cap



Small Cap



90% Provide Guidance



Advance Preparation

- Six to twelve months in advance
 - Start monitoring your peer group
 - Operating and financial metrics
 - Trading activity
 - Research coverage
 - Key dates
 - Formalize a calendar for the first full year
 - SEC reporting deadlines, blackout and quiet periods
 - Earnings release and conference calls
 - Board of director and committee meetings
 - Annual meeting and proxy preparation
 - Educate employees about responsibilities of being a public company

Consistency in Communications

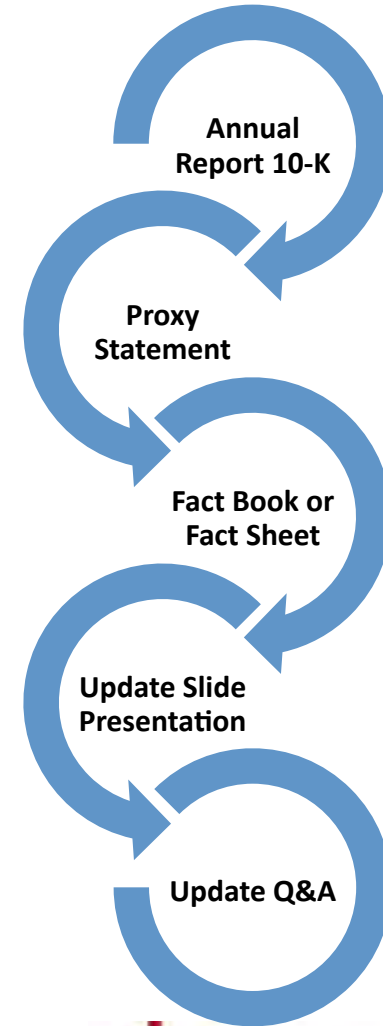
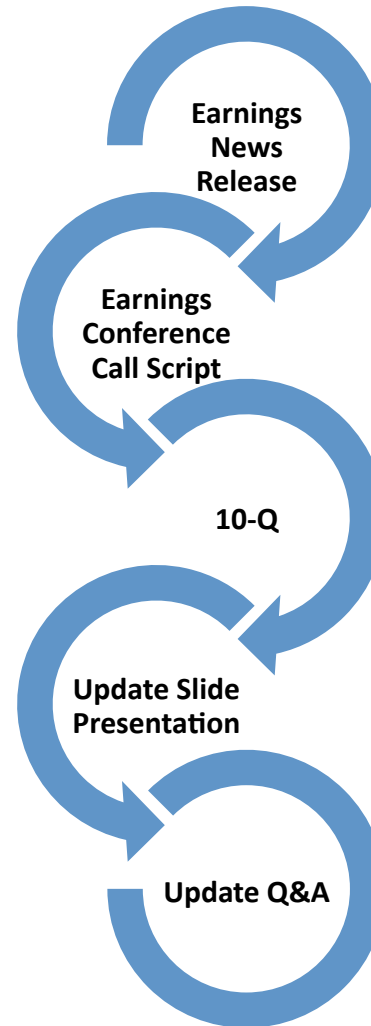
- Developing material and timely disclosure
 - SEC filings, annual report and proxy statement
 - News releases
 - Financial presentations
 - Fact sheets and/or fact books
 - Discussion documents for small group and one-on-one meetings
 - Conference call scripts
 - Q&A document
 - Corporate governance and investor web site

Message Continuity

IPO Road Show

- Prospectus
- Slide Presentation
- Q&A

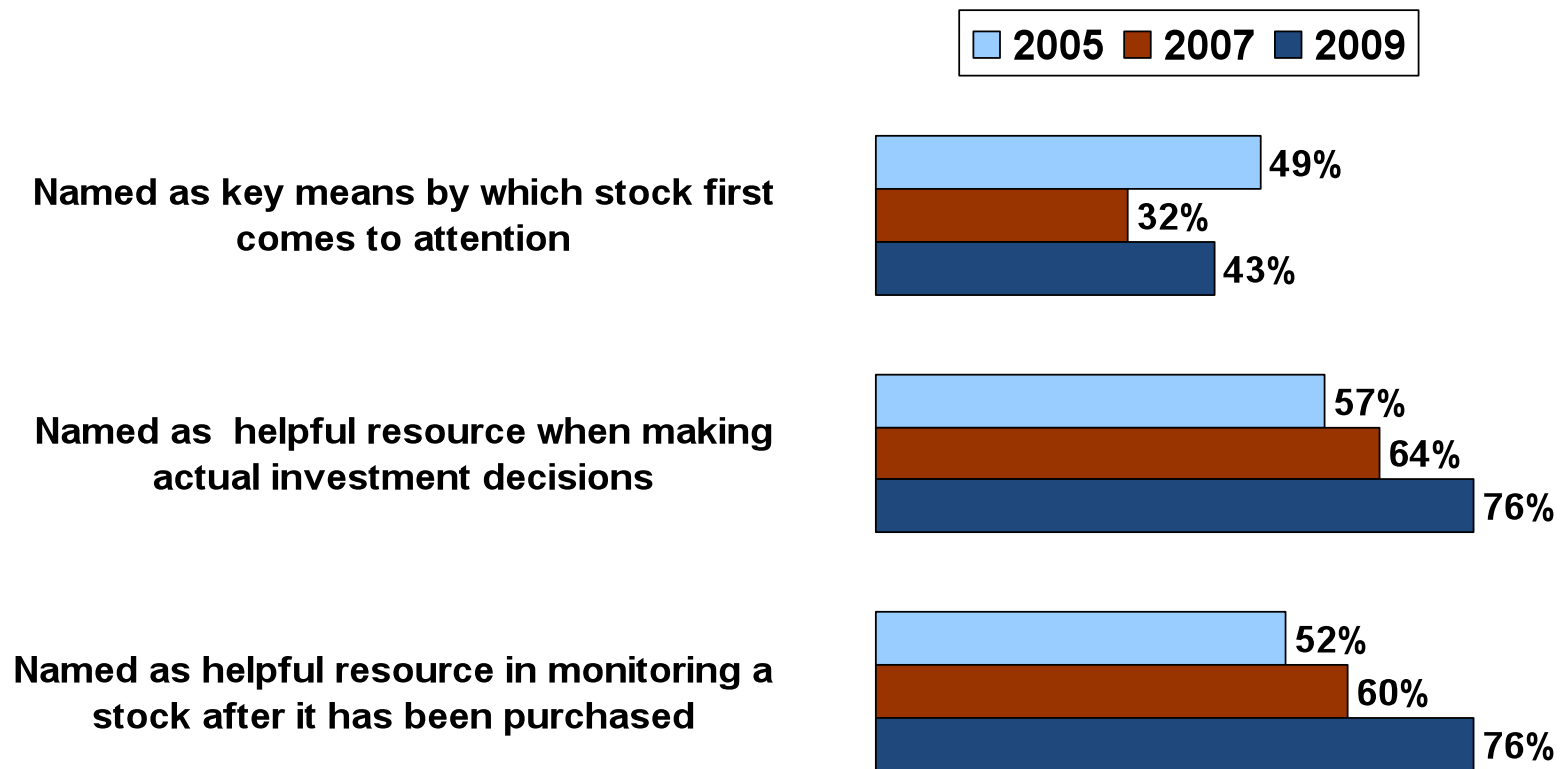
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Corporate Web Sites

Growth in perceived helpfulness of Corporate Web Sites



Source: Perspectives on the Buy-Side 2009 by Rivel Research Group

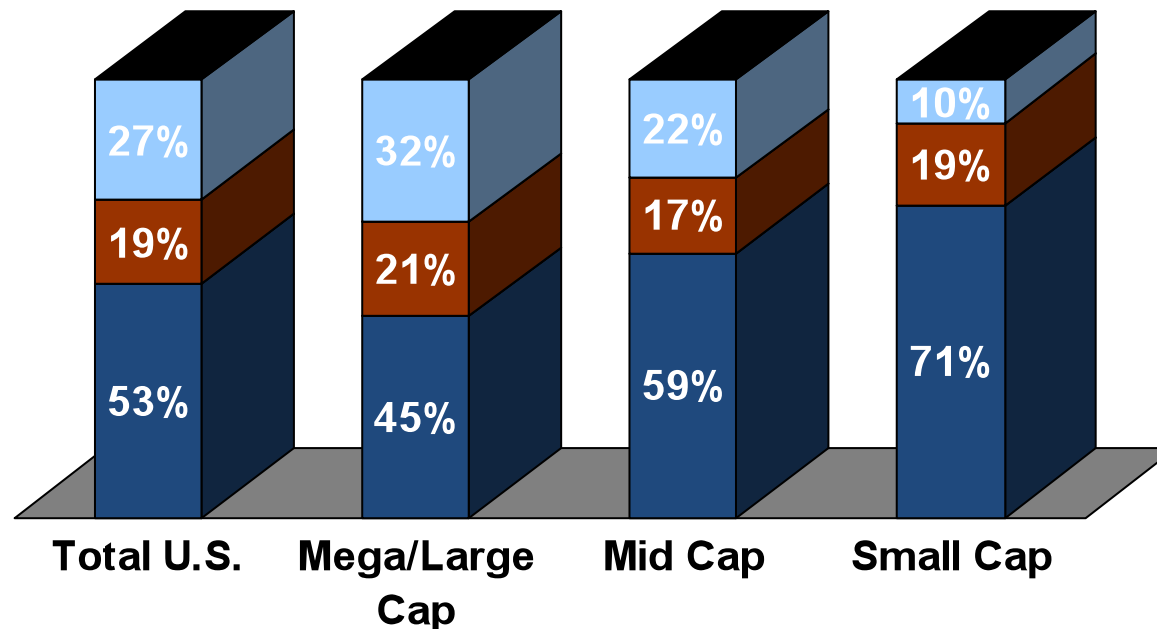
Managing Relationships

- Be accessible to investors
 - Get to know their investment styles and turnover characteristics
 - Listen to their feedback -- wonderful resource for building investment message
 - Know your Top 10 to 20 institutional investors
- Seek a good match between investment styles and investment characteristics
- Remain objective, not complacent, about sell side research coverage

Senior Management Accessibility

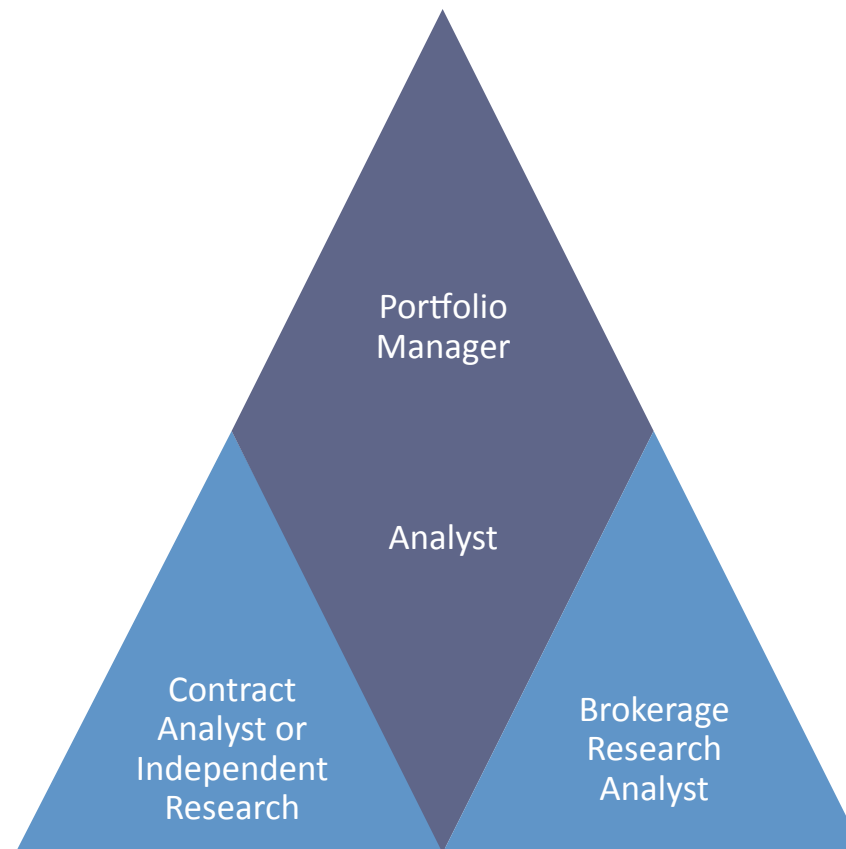
Importance of meeting face-to-face to investment decision

■ Not Important ■ Somewhat Important ■ Very Important/Important



Source: Perspectives on the Buy-Side 2009 by Rivel Research Group

Decision Hierarchy



Investment Styles

Seeking stocks with earnings expected to grow faster than industry and overall market

Growth

Seeking stocks they believe the market has undervalued despite company's long-term fundamentals

Value

Aggressively managed portfolio using advanced investment strategies

Hedge

Attempt to match the performance of a broad market index

Index

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Monitor Progress

- Measure, assess and adapt activities
 - Accessibility
 - Conferences
 - Small group meetings and on-site visits
 - One-one meetings
 - Institutional shareholder mix
 - Daily trading volume and stock price
 - Accuracy of research coverage

Monitor Performance

- Performance relative to peer group
 - Operating and financial metrics
 - Trading activity
 - Research coverage
- Report regularly to Board of Directors
 - Meeting activity
 - Changes in Top Ten institutional holders
 - Changes in shareholder mix
 - Changes in research coverage

Questions and Answers

Moderated by
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