



## Practice Guide: Pre & Post Listing Valuation

By Paul A Zaman MBA, MSC

### Equity Market – Pre and Post Initial Public Offerings (IPO)

#### Scenario: Initial Public offering – new share placement

An unlisted company must get itself well understood and liked by the equity market investors with good analysts coverage. This is achieved by having pro-active senior management engagement with the equity market and an effective financial investor relation's function. Then Initial public offerings is very likely to be liked by the equity market, supported and give rise to overall firmness and upward trend in share price.



If the company is unknown, miss-understood and not supported by good analysts then the offerings are likely to be dis-liked by the equity market, unsupported and give rise to continuous and prolonged weakness and downward trend in share price.

Simply by having pro-active and professional financial investor relations function in the preceding six month to a secondary offering can make a huge financial difference to funds raised.

*Please see Annexure I on Initial Public Offering Price and Liquidity Trends*

#### RTO versus IPO

IPO needs extensive marketing to institutional and retail as must get set percentage of shares placed as free float. IPO road shows may be in one country or global. Could be pre-pre-marketing, pre-marketing, and post IPO marketing. IPO favours medium to large market capitalised companies. IPO also can either be a compliance listing with a minimal free float particularly when the owner is a large market

capitalised company. Or a significant placement for specific growth plans.

RTO has an installed share registry and investor base. This then favours a company listing that is complex and/or technical that needs explanation to potential investors. RTO is also easier for small to medium listings as the extensive road show marketing and underwriting fees may be avoided. RTO normally has minimal new issuance of current and vendor shares. Objective is the listing and access to subsequent equity issuance in secondary offerings. An RTO tends to have more certainty than an IPO for a small to medium sized market capitalised company.

### Equity Market – Pre and Post Secondary Offerings (SO)

#### Scenario: Secondary offering – rights issue or new share placement

A listed company is generally well understood and liked by the equity market investors when it both good analysts coverage and above average share transaction volume known as thick liquidity. This is achieved by having pro-active senior management engagement with the equity market and an effective financial investor relation's function. Secondary offerings are very much likely to be liked by the equity market, supported and give rise to overall firmness and upward trend in share price. Typically if a finite quantum of shares were issued due to price firmness and support the actual funds raised would be -5% to 15% than expected.

A listed company is generally not well understood and disliked by the equity market investors when it has two or less analysts providing research coverage and below average share transaction volume known as thin liquidity. This is occurs when senior management dis-engage from the equity market and rely upon public relations and corporate communications to inform professional investment community. Secondary offerings are very much likely to be dis-liked by the equity market, unsupported and give rise to continuous and prolonged weakness and downward trend in share price. Typically if a finite quantum of shares were issued due to price weakness and lack of support the actual funds raised would be -5% to -25% than expected.

Simply by having pro-active and professional financial investor relations function in the preceding six month to an secondary offering can make a huge financial difference to funds raised.

*Please see Annexure II on Secondary Offering Price and Liquidity Trends*



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### Equity Market –Listed Company acquisition of Private Company's Business Unit

#### Scenario: PublicCo Buying PrivateCo

PrivateCo will be valued based upon assessment of the business, independent asset valuations, relative to known market transactions; relative to listed peers. A quantitative analysis is used to determine overlap for final price determination by negotiation.

PrivateCo final valuation is always set by willing seller & willing buyer negotiation. The price will be determined by qualitative issues rather than quantitative such as: ListCo will not wish to see earnings dilution, excessive goodwill right-off, adverse equity market reaction.

Due diligence of a PrivateCo is often more difficult than a PublicCo for the acquirer. Often there are performance covenants on the acquisition to protect the acquirer. Plus the PublicCo sell and buy-side analysts have even less visibility and often do not see or believe in the synergy. Therefore a PrivateCo is often valued at 20 to 50% lower than a PublicCo. The peer listed relative valuation may be say a PER of 9 times and so the purchase price of a similar PrivateCo is likely to be 20 to 40% lower at a PER of 5 to 7times. Likewise is the acquire is trading at say a PER of 9times, then they wish to avoid earnings dilution so would have difficulty in acquiring a PrivateCo with a PER of equal to or more than a PER of 9 times. In fact due to the likely good will right off, the top PER will be less.

### Equity Market – Listed Company acquisition of Listed Company's Business Unit

#### Scenario: PublicCo1 Buying PublicCo2

PublicCo2 will be valued based upon assessment of the business, independent asset valuations, relative to known market transactions; relative to listed peers. PrivateCo1 will also have to make public statements as to the strategic fit and anticipated synergy justifying the acquisition. A quantitative analysis is used to determine overlap for final price determination by negotiation.

The PublicCo2 final valuation is always set by willing seller & willing buyer negotiation. This is done by the Board of Directors on behalf of the shareholders and so there will be independent advisory support and an EGM to gain shareholder approval. The price will be determined mainly by quantitative issues however Board Director, majority and minority shareholder interests and sentiment also are taken into consideration.

PublicCo1 will not wish to see earnings dilution, excessive goodwill right off, and adverse equity market reaction.

Due diligence of a PublicCo2 will take place assuming it is a collaborative and not a hostile bid. PublicCo1 and PublicCo2 sell and buy-side analysts have limited visibility and often do not see or believe in the strategic rational and suggested synergy.

If PublicCo1 is trading at say a PER of 9times, then they wish to avoid earnings dilution and so would have difficulty in acquiring a PublicCo2 with a PER of equal to or more than a PER of 9 times. In fact due to the likely good will right off, the top PER will be less. The key factor is PublicCo1 demonstration to the equity market the strategic rational and synergy also their track record in successfully undertaken and digesting acquisitions. Often in acquisitions between PublicCo's the acquirers share price decreases and the seller's share price increases – largely because of "cash is king" and lack of complete confidence in capturing the promised synergy.

For any PublicCo to do a secondary offering or acquisition it is imperative that the equity market understands:

- PublicCo Corporate Goals, strategy, milestones and management track record
- PublicCo justifies the rational for the strategic fit
- PublicCo justifies the action plan for capturing the synergy
- The earnings and cash flow accretion (short term dilution and medium term accretion is possible) is easily seen and understood.

*Qualvin Advisory was founded in 2003. We provide advisory services to the Board, CEO and CFO of listed and unlisted companies in S.E.Asia. Qualvin facilitates the Board in areas such as formulating corporate goals & strategy and governance & CSR. Qualvin also formulates and executes the financial investor relations strategy to: increase shareholder value and institutional following; firm the share price and raise new capital. Talk to the CEO then email: pzaman@qualvin.com.*



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### Annexure I:

<b>Table I: Initial Public Offering price and liquidity trends</b>				
	Pre IPO Prospectus	IPO Prospectus Offer minus 4 weeks	Placement Period & Book Build	Initial trading in 4 to 12 weeks
Company is well-understood, liked by equity market .	Extensive Pre-marketing to ensure investors understand the company and meet the management team .	Grey share price exists	Grey share price firms with oversubscription in retail and institutional book build	Share price firms 5 to 30%. Steps up on good news flow.  Liquidity based upon short term investors taking profits and long-term investors getting full allocation.  Price movement and liquidity determined by news flow .
Company is not well understood and not liked by the equity market.	Limited Pre-marketing and few investors understand company and believe in franchise and the management team.	Grey share price exist	Grey share price weakens. With under subscription in retail and institutional book build and underwriter taking shares.	Share price is volatile as short-term investors dump shares and long term buy shares. Usually a peak followed by steady decline in price and liquidity.

*Source: analysis of secondary offerings in Singapore in 2006 to 2004 time frame*



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### Annexure II:

<b>Table II: Secondary Offering price and liquidity trends</b>				
	Announcement and EGM, offer minus 12 weeks	Offer minus 4 weeks	Offer Period	Offer plus 4 to 12 weeks
Company is well understood, liked by equity market, with above average liquidity.	Share price weakens a little, 1 to 5% .	Share price neutral, +/- 1 to 5%.	Share price firms a little, 1 to 5%	Share price firms 1 to 10% and steps up good news flow.  Share price 5% to 15% above pre deal.
	Liquidity increases further due to fright sell-out.	Liquidity stable as long term investors top up and short-term investor sell-out.	Liquidity decreases until deal is done.	Liquidity increases in anticipation of management using the funds wisely on growth and positive news flow .
Company is not well understood and not liked by the equity market, with below average liquidity.	Share price is starts falling, 1 to 10% on announcement as investors not wishing to participate in rights issue and/or perceived dilution sell-out. Certainty of EGM outcome means further sell-down.	Share price weakens further, 1 to 10% as investors not wishing to participate in rights issue and/or dilution sell-out.	Share price steps downward, as investors seek further 5 to 10% discount on average price in market over last 30 days.	Share price temporarily firms 1 to 5% as certainty that offering gets done. Offer price sets a new trading support level, which is tested. Share price 7% to 25% below pre deal level plus dilution effect.
	Liquidity increases due to sell-out.	Liquidity thins as most existing investors have done so.	Liquidity is thin - investors already set or exited.	Liquidity is thin until news flow .

*Source: analysis of secondary offerings in Singapore in 2006 to 2004 timeframe*