new shares are issued by the company for subscription by investors, whereas a secondary offering is, quite logically, called an "offer for sale".

Most of the time, raising new money is an easier exercise, particularly if the issuer exhibits attractive characteristics, for example, if the market can clearly see that the new funds will help finance development. By contrast, selling down one or more shareholdings in a company is sometimes viewed with suspicion by investors, especially when no remaining stakes are retained by the sellers after listing. For example, investors would probably be wary of a private equity investor exiting in full in an IPO, not only because the investor would be seen to be trying to maximize its exit price at all costs, irrespective of how the shares may trade in the aftermarket, but also because its interests would no longer remain aligned with those of new investors, post-listing. A private equity investor in such a position may therefore prefer to wait until a later date to fully cash in on its investment, perhaps through one or more further sell-downs.

Rather confusingly, the term "secondary offering" is also sometimes used to describe a follow-on transaction for a listed company, irrespective of whether new money or old shares are issued or sold. In addition, the term "primary equity" (or "primary equity market") is commonly used to describe the new equity issue market (including IPOs), whether the offerings consist of new or old shares, while the secondary market often describes that for the trading of shares, once they have become listed.

1.1.2. Other reasons for going public

Other reasons for going public can include the prestige and recognition attached to the status of a listed company, raising the profile of the business, or achieving optimal liquidity for the shares so that they can be more easily traded. In some cases, issuing new shares and listing in an IPO is a practical way to reduce the level of gearing that a company has accumulated over the years, perhaps as a result of conducting a costly acquisition, and with which it has been burdened. This is likely to become more prevalent following the recent credit crunch as some corporates find it difficult to obtain bank financing.

A business may want to refocus on its core activities and spin off or de-merge a division in a newly listed company. For example, in 1995 Sandoz, the Swiss pharmaceuticals group, listed its specialty chemicals subsidiary in a US$1.4 billion equivalent international IPO in Zürich. The business was, at

that time, renamed as Clariant to give it a new, stand-alone identity. Clariant subsequently developed as a new chemicals group with the acquisition in 1997 of the chemicals business of Hoechst, with further sizeable acquisitions in 2000, 2006 and 2008, while Sandoz itself merged with Ciba-Geigy in 1996 to form Novartis. Another example of a spin-off is the US$3.1 billion equivalent listing in 2014 in Hong Kong, through a fixed single investment trust, of HK Electric Investments and HK Electric Investments Ltd. The assets of the trust were spun off from Hong Kong–listed Power Assets Holdings to create a separate, vertically integrated power utility with a focus on the generation, transmission, distribution and supply of electricity to the islands of Hong Kong and Lamma. Other examples are provided in the case studies in Appendix 1.

A company can also opt to list on more than one stock exchange, for example because it has become so large, or so global in nature, that this may be a way to more easily access investors around the world, so that they can trade the shares in their own time zones. For example, Prudential, the British insurance company, conducted secondary listings for its shares in Hong Kong as well as in Singapore, in addition to its primary listing on the London Stock Exchange (LSE), at the time of its attempted acquisition of AIA (the Asian arm of AIG) in early 2010. The reason for this was to be able to more easily target and tap Asian investors in a global rights issue, in order to raise funds for the acquisition.

Similarly, a business may have evolved in such a way that there has been a significant, geographical shift in the company's activities, so a second (or even a third) listing may be a way to more closely align where the company carries out its activities with where its shareholders are located.

In some cases a company may even decide to de-list from one stock exchange and to re-list on another to try to achieve more recognition from investors, more active trading in its shares and better sell-side research coverage. One reason for this can be because the new stock exchange is larger, or has higher daily trading volumes, which may also ultimately result in a higher valuation for the business. It is believed that in 2007 Want Want, a Taiwanese food manufacturer, de-listed from the Singapore Exchange (SGX) and, after a corporate re-organization, subsequently re-listed its shares on the Stock Exchange of Hong Kong in 2008 precisely for this reason. Similarly, Hainan-based Sihuan Pharmaceutical, which manufactures heart drugs in China, also chose to de-list from the SGX in 2009 and to re-list in Hong Kong are usually unpaid but receive a proportion of the equity upon IPO, typically 20%, in addition to purchasing warrants prior to the IPO.

1.2.6. Stand-alone business and insider ownership

A listed company should be able to operate independently and should own its key operating assets as well as the contractual and intellectual property rights necessary to the conduct of its business. Where such assets (or rights) are held by another (usually related or connected), company or individual, they must be transferred to the listing candidate and an appropriate group re-organization should be carried out, except perhaps where such related-parties arrangements are conducted on normal commercial terms, and on a continuing basis—for example, where the listing candidate rents its head office from a controlling shareholder at market rates. In such cases, however, specific waivers usually need to be obtained from the relevant stock exchange or regulator. Fair value should also be paid as consideration for any transfer of assets to avoid unfortunate legal and tax consequences. Where a group re-organization is implemented, care should also be taken at the same time to optimize the company's tax efficiency.

Investors also look for companies where the interests of the management are aligned with theirs. Appropriately incentivizing a number of senior management insiders through stock options or a similar scheme is generally well received by the market.

1.2.7. Liquidity and transaction size

Lastly, and irrespective of the minimum listing criteria defined by the stock exchange, it is essential that the business—and therefore the market capitalization and free float—is large enough to prevent the company from becoming an "orphan stock", i.e., a company with no trading liquidity or investor following, after the IPO. There are two closely related reasons for this. First, larger and therefore more widely held listed companies achieve higher trading volumes. While there will generally be a spike in the average daily trading volume (ADTV) in the first days or even weeks following any IPO, for smaller companies, such ADTV will often trickle down to a fairly low level once the initial interest has subsided among investors. Secondly, listed stocks that achieve a high ADTV are regularly followed by research analysts on the sell-side, i.e., employed by brokers and investment banks, and on the

buy-side, i.e., working for institutional investors or hedge funds. This, in turn, contributes to generating interest, and therefore further liquidity, in these securities.

For the most part, smaller companies are not researched (or at least not as well researched) by analysts, and often exhibit a much lower market liquidity. This can hinder further capital-raising exercises, as the amounts to be raised will invariably represent high multiples of the ADTV and will therefore not be easily absorbed by the market.

What should be the ideal minimum size for a company to conduct an IPO? This varies from market to market. Some brokers and boards of stock exchanges even specialize in mid- or micro-caps or smaller capitalization companies. As a general rule, however, the larger, so-called "bulge-bracket" investment banks (those firms that regularly dominate the IPO league tables) will typically set a minimum market capitalization threshold of around US$250 million to US$400 million equivalent (with an average free float or typical IPO size of about US$50 million to US$100 million). Below this minimum, an IPO becomes not only much more challenging to distribute but also, importantly, not a profitable enough exercise for the lead brokers. Smaller IPOs are obviously feasible, particularly if the company posts strong growth or offers very clear visibility to investors, or if the lead bank is appointed on a sole basis. Smaller brokers with lower overheads and a different corporate and institutional client base naturally have lower thresholds.

It should be noted that investment banks generally have no such minimum size criteria for follow-on transactions, that is, for ECM offerings for companies that are already listed. This is because the amount of preparation work necessary for their execution is greatly reduced. Block trades of existing shares often require minimal documentation beyond a simple sale and purchase agreement and, perhaps, placing letters. Even when a prospectus is required in the case of a fully marketed offering, the precedent documentation created at the time of the IPO and available as a result of ongoing filings with the regulator or stock exchange makes placements easier and much faster to execute.

1.3. Selecting the optimal listing location

Selecting the optimal listing location is not an easy task for a board of directors, and many considerations need to be taken into account. In some cases, stock analyst. This is not to be confused with research analysts, who research and publish reports on listed companies to support sales efforts of securities to institutional investors. However, an analyst could be employed in a research department as a junior research analyst or research assistant. As is common in the UK and in the US in particular, analysts are often hired on campus as part of a large intake of new hires once or twice a year. Well-structured summer internships including rotation among various departments, as well as a mixture of on-the-job training and in-house academic courses, are a good opportunity to spot talent early, and a high proportion of fresh graduates will often have spent some time in a summer job in an investment bank before being recruited into the entry programme.

Front office, entry-level staff often spend much of their early years drafting and putting together presentations to pitch for new business (see Section 1.9.2) and writing minutes of meetings with clients. I spent a considerable amount of time as a graduate trainee writing briefing notes for the then chairman of S.G. Warburg, Sir David Scholey, on the clients he was meeting around the world. This involved reading through annual reports and management files and enquiring about current marketing initiatives and transactions with colleagues throughout the firm. It is a demanding and time-consuming but ultimately formative exercise.

Entry-level staff are usually promoted to the level of senior analyst or associate after one or two years. At this stage, in the US in particular, it is common for junior investment bankers to leave to study for an MBA, then re-join the industry after a couple of years, although these days, many entrants to investment banks already have a master's degree (or more) on their CV. They will remain at this level, sometimes becoming senior associates in the process before promotion to the rank of manager, senior manager or, more frequently, associate director or vice-president, again for a few more years.

1.6.2. The senior ranks

The next level up is director or senior vice-president, often followed by executive director. Again, employees will generally stay a few years in each role. Importantly, it should be noted that the title of director or executive director does not indicate any board membership or affiliation. Accordingly, these titles are generally followed on business cards by the name of the department in which the individual works.

The most senior levels are managing director, sometimes senior managing director, and, for some investment banks that have retained such a structure, there may also be a partnership level. For example, Goldman Sachs has managing directors and more senior partner managing directors. The Australian investment bank Macquarie has both managing directors and division directors at the same level, depending on the country or region in which they work, whereas its higher, *de facto* partner rank is the executive director level. The primary responsibility of front office managing directors is the origination of new business.

Lastly, there will often be a further senior layer with several vice-chairmen, chairmen or presidents, often without defined team leadership responsibilities, but dedicated to senior client coverage or to ensuring senior representation for the firm.

1.6.3. Head titles

There are many "head" titles in investment banks. There are country heads (for example, head of China investment banking), product heads (such as head of M&A, head of ECM—all of which can have global, regional, sub-regional or dedicated country or sector responsibilities), heads with sub-product responsibilities (global head of equities, then global head of cash equities, followed by head of Asia cash equities, with further sub-heads for Hong Kong, Singapore etc.), heads of product origination and heads of product execution, heads of industrial sectors (for example head of telecoms, media and technology, which may include several sub-sectors, each of which would have their own dedicated head). In fact a head may often have a very small (or sometimes no) team reporting to him or her. Global heads, as the name indicates, have world-wide responsibility, with various local or regional teams reporting to them, and are generally the most senior bankers within an investment bank. These should not be confused with local or regional heads of a global business, for example, head of Singapore global debt capital markets, who have a much narrower scope of responsibilities.

In a further twist, some banks have a generic title structure, with different, equivalent titles in various regions, reflecting local market practice. For example, HSBC or Nomura investment bankers are assigned a numbered grade indicating seniority, irrespective of (although usually linked to) their marketing title. Other investment banks, in the Asia-Pacific region in particular, also have similar arrangements. This can all be rather tricky to contribution on the part of the lead banks to expenses associated with the offering. For example, investment banks may not be reimbursed for their legal or out-of-pocket expenses, or these may be subject to a cap. Banks may even be asked at that stage to agree to other key terms and conditions pertaining to the offering—later to be detailed more fully in their mandate letters and in the sale and purchase and underwriting agreements. As I explain in greater detail in my book, *IPO Banks: Pitch, Selection and Mandate*, in effect, an RFP process is also a great opportunity to successfully negotiate a number of elements of the IPO with prospective lead banks.

Investment banks have extensive graphics and presentations departments and are used to responding to RFPs at very short notice. Often responses will be sought within a week, perhaps two at most. However, it is usually best to give investment banks enough time to work on a quality submission. RFPs can be issued in many languages—it is not uncommon for them to be issued in Chinese or Korean to bankers working in the Asia-Pacific time zone. Agricultural Bank of China reportedly sent an extensive RFP of 35 pages in length to a group of more than 20 banks to pitch for one of the lead roles in its US$12 billion H share IPO in April 2010; this was in addition to another group, reportedly of ten banks, to lead the A share portion of its global offering, giving them barely a week to respond over an Easter bank holiday weekend.[29] Many investment banks will actually re-use parts of earlier or recent pitches, given their high level of ECM activity and the similarity between most RFPs. Some of the larger investment banks will even make regular use of outsourcing firms, often physically located in India, for the most commonly used parts of pitches or to help compile statistics. This can include trading multiples for comparable companies, or brief descriptions of potential acquisition targets in the case of M&A transactions. It also frees up junior personnel from working on the most "mechanical" aspects of pitches to concentrate on more value-added areas.

It is fairly common for RFPs (at least for larger IPOs) to be split into two parts: a written presentation and, subsequently, an oral presentation for those banks shortlisted after the initial stage. The written submission for an IPO will generally include, in a specified format, a maximum number of pages including, or excluding, appendices, the language to be used, or a minimum font size, and some or all of the following:

- an assessment of current and forecast market conditions, on a global basis, as well as for the country and industry sectors relevant to the company;
- an assessment of current and forecast primary equity market conditions, including a pipeline of disclosable new issues, perhaps highlighting comparable or similar offerings;
- a summary of the equity story and market positioning for the issuer as it would be marketed by the bank, together with possible concerns that may be raised by investors as well as potential mitigating factors suggested by the investment bank;
- an attempt at valuing the business, explaining the various methodologies used, and those likely to be favoured by investors. The issuer may sometimes include selected forecast financials in the RFP so that all the banks can attempt a valuation on a similar footing. This may also include specifying recommendations for the capital structure of the company upon IPO, perhaps including the use of a special dividend;
- a recommendation as to which stock exchange to list on, if not specified;
- a summary of the execution process, together with any anticipated execution issues, and the bank's ideas on how best to resolve these;
- the main issues that will be the subject of due diligence on the part of the investment banks and other relevant advisers;
- a list of documents that will be required for the transaction, together with suggestions for third-party advisers to be appointed in connection with the IPO;
- a proposed timetable for the transaction;
- details of the bank's proposed transaction leader and execution team;
- the proposed offer structure and marketing strategy for the IPO, including jurisdictions in which investors of various types will be targeted, and in how many tranches the global offering should be divided;
- a proposed structure (and, perhaps, names of potential participants) for the syndicate of banks that will lead the offering;
- the bank's recommended approach for research coverage for the company, together with details, coverage and rankings of its research analysts that would be assigned to research the company;
- a list of target investors, together with likely demand expected from such investors. This may also include identifying investors for a pre-IPO or cornerstone round, and may sometimes be split between bottom-up and top-down demand estimates;

and transparent corporate governance is always appreciated by investors. Nevertheless, and even accounting for the addition of independent and non-executive members, a board of directors is often best kept to a manageable (and, ideally, relatively small) size.

2.2.3. Directors' responsibility and insurance arrangements

Directors should be briefed by the legal advisers to the issuer at the outset of the transaction (if already appointed) to enable them to understand the potential criminal and civil liabilities that may apply to them in connection with the IPO. A number of these relate to the contents of the prospectus, since false or misleading statements (or indeed the omission of material information) may trigger legal proceedings on the part of disgruntled investors. The directors of a company applying to list should thoroughly review and, where necessary, also seek legal advice on the prospectus and offering circular. They should also be given ample time to do so.

In addition, it is common for companies that are contemplating an IPO to have director and officer (D&O) insurance arrangements in place. These insure the directors and senior management against liability arising from negligence, default, breach of duty and (more rarely) fraud.[40] Most of the large, non-life insurance companies can provide coverage and write relevant policies.

2.2.4. Local representatives

A minimum number of authorized representatives generally need to be appointed to serve as the main point of contact for the stock exchange with the company. Often these are directors, although the company secretary, or secretary to the board, can sometimes also act in this capacity. For corporates not incorporated in the country of listing, or whose headquarters are located in another country, most stock exchanges will also generally require the presence of senior management locally, often in the form of two or more executive directors.

For example, in Japan, listed foreign companies whose main market is the Tokyo Stock Exchange (TSE) are required to appoint a local Officer Responsible for Handling Information (ORHI). The ORHI, who plays the role of liaison for investors in Japan as well as with the TSE, must be selected from among executives or officers fluent in Japanese. Conversely, the TSE requests

foreign listed companies whose main market is not the TSE to designate a Corporate Information Handling Officer (CIHO) to remain in contact with the TSE and enhance timely disclosure. The CIHO can communicate with the TSE in Japanese or English, and is also generally in charge of corporate disclosure in the home country.[41]

2.3. The IPO timetable

The timetable for an IPO depends, in part, on the degree of sophistication of the issuer and on management's familiarity and experience with capital markets. A frequent issuer of publicly traded fixed income instruments, perhaps through a Euro Medium Term Note (EMTN) programme, will already be well versed with the level of disclosure required by a stock exchange and in working with legal advisers and accountants on similar transactions. The company will also generally have good management information systems in place to enable the in-depth analysis required to draft an offering circular. Similarly, a listed group that decides to spin off one of its subsidiaries or a division in a flotation will generally find it comparatively easy to bring another such corporate entity to market.

2.3.1. Availability of financial information

Most of the time, the timetable for an IPO is first and foremost dictated by the availability of the company's accounts for publication in the disclosure document to be filed with the regulator or exchange. In addition, if a company has undergone recent changes in its business, or carried out material acquisitions or disposals in the recent past, it may be necessary to re-compute historical accounts (typically for one to three years) on a *pro forma* basis, as if the business, as it stands today, had been in existence in the past. This may generate a considerable workload for the financial management team and the auditors, particularly if the acquired or sold business is spread across a variety of jurisdictions. For additional information on *pro forma* accounts, please see Section 2.6.

2.3.2. Due diligence, drafting and prospectus review

The average company probably needs the best of six, and sometimes up to nine, months from the start of the process to the first day of trading, to execute

2.3.5. Other considerations on the timetable

During the marketing leg of the timetable, care should be taken to avoid pricing taking place on or around the announcement of important economic statistics or other events which might affect global financial markets, for example the dates for the Federal Open Market Committee (FOMC) meetings, when key decisions are made about interest rates and the growth of the money supply in the US. It is also wise to avoid—to the extent practicable—marketing, during the last week of roadshows, at the time of major competing ECM offerings, that is, transactions in the same geographical market or industry sector. It is especially important to try to avoid being in the market at the same time as very large or "must own" transactions which may result in institutions, particularly those with index funds, overlooking the IPO in favour of a more visible offering. Equity syndicate desks will often discuss and check with each other to avoid two or more transactions hitting the market at exactly the same time although on occasion there can be very busy weeks in the primary markets with many offerings clashing with each other.

In addition, certain periods of the year have traditionally been closed to issuance, such as the months of August and December, largely because many institutional investors are away on holidays during the summer and because they often close their books early at the end of the year to prepare their annual accounts—and also to go on Christmas holidays. Chinese New Year in Asia (usually around January or February) or the Holy Month of Ramadan across the Middle East are obviously not conducive to primary ECM activity there for the same reasons. However, market practice has changed, particularly in Asia, and it is now not uncommon to see billion-dollar offerings coming to market in mid-August or IPOs and other ECM offerings marketed until at least a week before Christmas. Requests for proposal sent by issuers in South Korea after 20 December actually appear to be a recurring feature of ECM activity in Asia!

Conversely, there is often a great deal of issuance activity from September to the end of November, as well as from March to June, as companies' interim and annual accounts become available for publication, and as corporates rush to come to market after a period of lull, before the issuance window closes again. The start of the calendar year prior to Chinese New Year is also frequently a busy time for new issues in Asia.

2.3.6. Go and no-go decisions

Throughout a transaction, a series of go and no-go decisions can be made at important milestones, with each of these milestones resulting in an increasingly public profile for the IPO.

A decision not to proceed with an offering can be made at any time during the preparation or drafting work, and prior to the submission of the draft prospectus to the regulator or stock exchange. The next milestone is typically the presentation to research analysts, when the transaction group widens, and when leaks about the confidentiality of the transaction may therefore occur in the media. In addition to the research analysts themselves, research assistants and editors for the research reports also become aware of the offering at this stage, hence potentially increasing the risk that confidentiality may be breached.

The key next step is the publication of pre-deal research, when the transaction effectively becomes public knowledge. Pulling a deal after this stage invariably becomes a decision that enters the public domain.

Thereafter, the key milestone decisions are the setting of the price range and the determination of the offer price. It is nearly impossible not to go ahead with an IPO once the offer price has been set and allocations sent to investors unless a *force majeure* event has occurred. An issuer or its shareholders can, however, relatively easily decide not to proceed with an IPO if they do not like the price range or, indeed, the final offer price. In this case, a statement, generally about weak or unsuitable market conditions, needs to be communicated to the market, since the offering will at that stage already have been extensively pre-marketed, or indeed marketed, to institutions by the research analysts and salespeople.

Assuming the price range has not changed during the bookbuilding stage (except, as already mentioned, in the US), and that enough decent-quality investor demand has been gathered to more than cover an offering at the bottom end of the range, it would be rather unusual to pull a deal on the basis of the final offer price, if the price range has previously been accepted by the issuer and if the offer price is determined within that range. It may, however, perhaps become necessary to re-size the offering to a smaller transaction if the deal is only barely covered, in which case investors must first be informed of the new parameters for the offer.

2.6.5. Profit forecasts

In some jurisdictions, for example in Hong Kong, a profit forecast for the coming financial year end may be included in the prospectus, although this is not a requirement under the listing rules. This takes the form of a "not less than" figure and is generally only included in the domestic version of the listing document. It is rare for such profit forecasts to be included in offering circulars that are distributed in the US. When a profit forecast is included, it is essential that the forecast is not only met by the issuer later on, but also, ideally, comfortably exceeded. In March 2014, nightclub operator Magnum Entertainment announced a profit warning barely two months after its blow-out US$16.3 million IPO in Hong Kong, which saw its retail tranche almost 3,600 times subscribed by members of the public and its share price double on the first day of trading. This triggered a sharp fall in the stock to well below the IPO offer price. Rather curiously, the profit warning was blamed on "non-recurring listing expenses", obviously something that listing candidates should clearly be aware of at an early stage.[49]

As mentioned above, all (or at least the vast majority of) the financial information included in the prospectus, whether in the F pages, summary of financial information, section on capitalization, narratives or in the MD&A, is the subject of comfort letters delivered by the accountants. Comfort letters are addressed in detail in Section 2.8.

2.6.6. Financial disclosure in the US

For international (i.e., non-US) companies listing in the US, which are also referred to as "foreign private issuers", it is usually necessary to include, in the registration statement, financial information either in conformity with US GAAP or under the local GAAP, with a reconciliation of material differences between local GAAP and US GAAP, together with an explanation of the material differences between such local GAAP and US GAAP. The reconciliation to US GAAP is normally required for shareholders' equity and net profit.

However, since November 2007 (and effective since 4 March 2008), private foreign issuers listing in the US do not have to reconcile their accounts to US GAAP if they report under IASB (International Accounting Standards Board) IFRS. The rules are applicable to the financial years ending after 15 November 2007. It should be noted that, while most companies reporting under local variations of IFRS in the EU should be able to state that they are effectively reporting under IASB IFRS for the purpose of filing with the SEC, some may not. In particular, hedge accounting under IAS 39 (subsequently replaced by IFRS 9, which was published in November 2013 and which deals with the recognition and measurement of financial instruments) may be different under IFRS as adopted by the EU and IASB IFRS, and accordingly may not qualify for disclosure in the US under SEC rules without a reconciliation to US GAAP.[50] In 2013, the IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after 1 January 2018.

As an example, while accounts were published in conformity with US GAAP for the Nasdaq IPO of Shanda Games in 2009,[51] in the case of Banco Santander Brasil's IPO on the NYSE in 2010, reporting was under IFRS as well as under Brazilian GAAP.[52] Case studies for both offerings are included in Appendix 1. In any event, US GAAP and IFRS are converging and more than 120 countries now allow or require the use of IFRS.[53]

In the US, audited income and cash-flow statements for the last three years and audited balance sheets and changes in shareholders' equity for the last two or three years, depending on market practice in the issuer's country of incorporation, are required to be presented on a consistent basis. In addition, where the company has been in existence for more than three years, condensed or selected financial information is required for up to five years.

For foreign private issuers, interim reporting in the US can be on the basis of home country and stock exchange practice rather than in the form of quarterly reports, although, in practice, non-US companies listed in the US generally publish quarterly interim reports. In addition, while federal securities laws require clear, concise and understandable disclosure about compensation paid to CEOs, CFOs and certain other high-ranking executive officers of public companies, disclosure of executive compensation may be conducted on an aggregate basis rather than through individual disclosure, if permitted in the issuer's home country.

Lastly, as outlined above, segmentation of financial information, on a geographical basis or according to the issuer's principal activities on a divisional basis, is normally required for revenues, operating profit and assets in the US.

Sometimes, several valuation methodologies are used because the issuer is involved in distinct businesses to which separate valuation techniques need to be applied. Or just one primary methodology may be used, then cross-checked against other valuation techniques to refine an initial range or to confirm assumptions that may have been made.

For example, MTR Corporation, which operates Hong Kong's mass transit railway system, was generally valued at the time of its US$1.4 billion equivalent privatization IPO in 2000 by research analysts through a sum-of-the-parts valuation, using a variety of methodologies. A discounted cash-flow (DCF) analysis was used to assess the value of its railway operations. A price-to-net-asset-value valuation was then separately used for its real estate business, which largely consists of office, commercial and residential property assets located above urban railway stations, based on the open-market valuation report published by the property valuers in the offering circular. In addition, a variety of other techniques were used to value peripheral assets—for example, the company's majority ownership of a business operating smart cards widely used by residents of Hong Kong to travel on trains and buses, as well as revenue derived from sharing arrangements with operators for mobile telecommunications made in the metro system. In 2012, valuation for the US$2.1 billion equivalent IPO of hospital owner and operator IHH Healthcare, in both Malaysia and Singapore, was primarily conducted on the basis of its forward enterprise value, divided by prospective earnings before interest, tax, depreciation and amortization (EV/EBITDA), and looking at a group of regional primary peers (Apollo Hospitals and Fortis Healthcare in India, as well as Raffles Medical Group in Singapore) and other comparable companies in Southeast Asia (Bangkok Dusit Medical Services, Bumrungrad International and Bangkok Chain in Thailand, as well as KPJ Healthcare in Malaysia). To this were added the valuations for a new hospital in Singapore that had yet to become operational, Mount Elizabeth Novena, and that was accordingly generally valued on a DCF basis, as well as for two listed companies in which IHH Healthcare was a shareholder, Parkway Life REIT in Singapore and Apollo Hospitals in India (as mentioned above, also used as a peer for the valuation of the company's core business). In addition, prior to the IPO, IHH Healthcare had secured a controlling stake in Acibadem, a hospital business listed in Turkey, which was also taken into account when compiling the sum-of-the-parts valuation.

Valuation can be made on a stand-alone basis or involve a comparative analysis, effectively benchmarking the business against companies that are already listed and for which there are obviously already prices ascribed by the market. When multiples of comparable companies are used, these are most of the time compiled on a prospective basis—that is, only multiples using forecasts of sales, cash-flow, earnings or dividends are used, rather than historical (or "trailing") multiples. The market always looks forward.

When undertaking a valuation exercise in connection with an IPO, it is important to distinguish between a pre-money valuation, i.e., without taking into account primary proceeds raised by the issuer as part of the flotation, and a post-new money valuation, which includes such an amount. As the free float typically initially represents around 25% of a listed company, there could be a considerable difference depending on whether or not new money is taken into account. Accordingly, this should be made clear to potential institutional investors in pre-deal research reports and/or when conducting PDIE. As pre-deal research reports typically do not themselves refer to IPOs, pre-money valuation ranges will normally be used.

2.11.1. Earnings multiples

The most commonly used valuation technique is the simple price-to-earnings (P/E or PER) multiple, defined as the price per share divided by earnings per share (EPS) or, alternatively, as the expected market capitalization divided by forecast earnings. It is simple to compute, does not necessitate in-depth analysis and is widely understood by the financial community. Generally, one would consider the P/E for the following financial year (rather than the trailing P/E which uses earnings for the last 12 months), or perhaps a blend of the P/Es for the next two financial years, assuming forecasts by either the company or more often research analysts are available. The higher the P/E, the higher the value of a company. There are, however, clear limitations to the use of P/E multiples. For example, when one is comparing P/Es of various companies listed across several jurisdictions, this does not account for differences in taxation, which can be significant. It may also be the case that the companies being compared have widely different accounting policies or different asset or capital structure profiles, hence differences in net interest, depreciation and amortization (including amortization of goodwill), which may also distort P/E comparisons. Such a methodology is also often not appropriate for valuing companies that generate significant recurring provide a good benchmark for what both the institutional and retail markets can absorb.

IPOs may also sometimes include an upsize option, whereby the issuer can opt to increase the size of the offering by a fixed, previously disclosed percentage, subject to investor demand. For example, this was the case in the IPO of AIA in October 2010 in Hong Kong, where the size of the IPO was increased by 20% to reach the equivalent of US$17.8 billion (prior to exercise of the over-allotment option), making it at the time both the largest ever IPO in Hong Kong as well as by an insurance company. In this particular case, the upsize option applied to the institutional tranche only and the 10% public offer tranche, which was approximately ten times subscribed, did not trigger a claw-back. Following the exercise in full of the over-allotment option, on the first day of trading, the IPO of AIA increased in size to US$20.4 billion equivalent, becoming the third-largest ever world-wide at the time.

2.14.3. Accessing the US market

As explained earlier, a key decision, and one which is usually influenced by the size of the company and IPO, is how the US market and US investors are accessed, since selling shares to US investors entails additional costs with respect to disclosure and the level of comfort that will be sought from third-party advisers, particularly legal firms and accountants. In addition, listing in the US, rather than merely selling shares there, also often entails, except perhaps in the case of extremely large offerings, paying much higher IPO fees than is the case elsewhere, with gross fees of up to 6.50% or 7.00% in some cases, compared to around 2.00% to 3.50% in many other markets. Examples of gross fees paid by issuers to underwriters in IPOs across various jurisdictions can be found in the case studies included in Appendix 1.

For most smaller international IPOs, say, up to US$150 million equivalent in size, a Reg. S offering is generally appropriate, i.e., an issue that will only target offshore US institutional investors, in addition to institutions domestically and internationally and retail investors in the country of listing. This is because, for an IPO of this size, the incremental demand which may be derived from investors in the US in many cases does not justify the additional expense, disclosure work and potential liability risk. It also means that research analysts will not be visiting the US on their PDIE tour—in any event, no research reports can be distributed in the US—and that the roadshow will also not be visiting American cities.

Back in the 1990s, however, it would have been pretty much inconceivable to conduct the IPO of a privately owned company much above the US$1 billion or US$1.5 billion mark without registering the offering with the SEC and listing in the US. The US$3 billion private sector IPO of Swedish truck manufacturer Scania in 1996 is a case in point. The company was listed both in Stockholm and on the NYSE in an offering led by SBC Warburg (as it was known at the time), Morgan Stanley and Sweden's Enskilda Securities. The same also applied to many privatizations in Europe, including France, Italy, Spain and other countries. Deutsche Telekom, from Germany, listed in Frankfurt, on the NYSE and on the Tokyo Stock Exchange (TSE) in a massive US$13.2 billion IPO that same year, although it later de-listed from both the NYSE and the TSE in 2010. However, in the case of some European (and, in particular, UK) privatizations, mass local retail offerings conducted with much fanfare and advertising were able to absorb significant amounts of stock, encouraged by generous retail incentives. Indeed, many of the early privatizations in the UK in the late 1980s and early 1990s were multi-billion-pound offerings with significant retail tranches, including the £2.5 billion IPO of British Steel in 1988, the £5.2 billion IPO of the water authorities in the UK in 1989 and, twice, a £5.4 billion secondary offering for British Telecom (BTII in 1991 and BT3 in 1993).[67]

Listing a company in the US implied conforming to the stringent disclosure and reporting requirements of the SEC, NYSE or other US exchanges, a costly and demanding process, both initially and on a continuing basis. Accordingly, in 1991, Rule 144A of the Securities Act of 1933 was enacted to enable foreign issuers to offer securities in the US by way of an institutional private placement to QIBs, without the need to register with the SEC. This was on the premise that large US institutions were mature enough and, in any event, already active around the world so as to be generally satisfied with the disclosure and reporting standards used by issuers in their local markets, subject only to a limited amount of additional information being included in new issue offering circulars for the benefit of US buyers.

Nowadays, many multi-billion US dollar offerings (including all the mega IPOs by Chinese banks in recent years) have been conducted with Rule 144A private placements, and US listings of foreign issuers are no longer the norm, even for very large IPOs, although perhaps with the exception of internet companies. While some US investors can still only buy SEC-registered securities, a Rule 144A private placement enables an issuer to access most US

- demand and allocation arrangements, including the timetable for bookbuilding and input of investor demand; details on how demand can be indicated—currency, shares, depository receipts (if any);
- details of portfolio managers to be provided; procedures for private client orders, procedures for designations; allocation procedures and allocation criteria;
- selling and trading restrictions, such as the selling restrictions for the main jurisdictions—for example, the list of 49 Japanese institutions to which sales may be made; prohibition on grey market trading; use of derivative products;
- contact details for the lead banks across corporate finance, ECM, equity syndicate, settlement and roadshow coordination teams; and
- forms to be used to order prospectuses for each of the tranches in the global offering, as well as for each type of application form for clients (if relevant), and where the forms should be delivered.

3.3.2. Advertising and legal names

The banks will also be asked how their advertising and legal names should appear in the prospectus. The advertising name is the short form name as it should appear on the cover of the prospectus, for example "Deutsche Bank", or, more likely—since it is now rare for the names of junior houses to appear on the covers of offering circulars—in any advertising made in connection with the offering. The legal name is the full name as used in the various agreements evidencing the underwriting of the IPO, as well as within the offering circular in the "underwriting" or "plan of distribution" section, for example, "J.P.Morgan Securities (Asia Pacific) Limited". Generally, advertising a transaction as a matter of record in a tombstone advertisement (that is, a factual advertisement listing the "bare bone" facts of a past equity offering, as a matter of record only) is under the control of the issuer and of the lead banks. As already mentioned, the names of the banks will usually (but not always) appear in alphabetical order.

3.3.3. Invitation telexes

The syndicate presentation now sometimes replaces the invitation telex that was previously sent to banks to invite them to participate in a transaction. However, in some cases, a telex is still also sent (although, nowadays, it is an

email) in addition to the presentation, but at a later stage, generally prior to, and sometimes even following, launch.

3.4. Pre-deal investor education and setting the price range

Pre-deal investor education (PDIE), previously—until the mid-2000s or so—called pre-marketing, was probably first introduced in the UK at the end of the 1980s. Its objective is for research analysts to physically meet with institutional investors to convey the merits of the investment case. Where allowed, such investors will already have received copies of pre-deal research reports. PDIE is usually on a non-exclusive basis and, invariably, several of the investment banks involved in an IPO send their reports to the same portfolio managers since no real investor targeting takes place at this stage, other than in the case of a cornerstone investor tranche. Indeed, many portfolio managers are interested in discussing the features of the company with more than one research analyst (although clearly not a dozen!), to gain complementary perspectives on the business. Such investor education meetings can be set up by all syndicate members once notification has been received from the lead banks.

3.4.1. How PDIE is performed

Subject to legal restrictions, the lead banks each send one or more research analysts around the world to meet with investors, talk through short presentations, summarize their individual pre-deal research reports, stress the key points of the investment proposition and answer questions that may be raised. This can be a very intensive exercise, as it is common for research analysts to meet with perhaps 8 to 12 investors in any given day throughout a period of approximately two weeks, covering multiple cities across a number of time zones. There will be individual meetings with the larger accounts, as well as small group meetings, perhaps over breakfast, lunch or dinner. When more than one research analyst per house, and more than one lead bank, are involved, this can cover a very wide range of potential accounts: it can therefore provide an accurate view of the market's take on both the investment case, and the likely valuation for the business in the proposed IPO.

Importantly, the research analysts liaise on a regular (often at least daily) basis with their ECM and equity syndicate desks to convey the feedback

3.11.4. Free retention

In some cases, where one of the banks has a sizeable number of small orders that would be difficult to allocate individually, such a bank can be given a "free retention" amount of stock to allocate as it sees fit. It should, however, generally revert to the bookrunners with disclosure of its final allocations since in some markets details of allocations (or some of the allocations) need to be filed with the regulator or stock exchange. Bookrunners often also keep an amount of free retention to be able to top up allocations for some of their own accounts (but in such a case, excluding split orders).

3.11.5. Other considerations for institutional allocations

Once the allocations have been finalized, they are generally presented to the issuer for confirmation. In some cases, management may ask for a few adjustments if there are investors they believe should be favoured more than others, perhaps as a result of a particularly productive one-on-one meeting held during the roadshow. Alternatively, and even though it remains legally their responsibility, management teams often have few or no comments on the allocations made by the banks. The allocations then need to be conveyed to the individual salespeople who have taken the orders, so that they can in turn be reflected back to the institutions. This can be done either by email or, more commonly nowadays, directly through the bookbuilding system. Inevitably at this stage, there is often much complaining on the trading floor, particularly if the issue has been a "hot deal", as salespeople obviously want to be seen by their clients to have been pushing their case very hard to receive a good allocation. Some shares might have been set aside by the syndicate desk in a "dummy" order, perhaps in the name of the bookrunner itself, to allow for last-minute adjustments: this is not really ethical and is now less frequent. Agreed free retention amounts are more commonly used for this purpose.

3.11.6. Placing letters

The allocations to institutions are then often formally reflected in placing letters, which they are asked to sign and return to the banks' settlement or operations departments. The placing letters include an acknowledgement of the selling restrictions—for example, that shares bought in a Rule 144A placement by US qualified institutional buyers (QIB) investors can only be re-sold (in the US) to QIB investors. Such placing letters will also include

details of the brokerage commission (if any) that may be charged to investors for participating in the IPO. Investors should then return the signed placing letters with details of their brokerage accounts for delivery of the shares upon closing.

3.11.7. Retail allocations

Retail offerings are usually allocated by way of a balloting mechanism by the registrar, whereby different allocation ratios are applied to various bands of number shares validly applied for. In some cases, for the smaller applications, no balloting may be applied, resulting in such applicants being allocated in full. Through the balloting mechanism, a set number of shares then become allocated to each successful applicant under each band. As with institutional allocations, care should be taken to ensure that successful applicants are each allocated a board lot (or a multiple of the board lot). An example of the balloting bands used in a recent offering can be found in the case study for the IPO of CapitaMalls Asia in Singapore in 2009, which is set out in Appendix 1.

3.11.8. Brokerage, transaction fees and levies

In addition to brokerage (generally but not always set at 1%), investors may also be required to pay trading fees or transaction levies to stock exchanges and regulators. For example, the Stock Exchange of Hong Kong charges investors a trading fee of 0.005% (per side of transaction) and a transaction levy of 0.003% (per side of transaction) is also charged by the local regulator, the Securities and Futures Commission (SFC). This applies to both institutional and retail investors. In addition, although not applicable to IPOs (as the above duties are), brokers in Hong Kong are required to pay to the stock exchange a trading tariff of HK$0.50 on every purchase (or sale) transaction; and all securities listed on the exchange are subject to a stamp duty at the rate of 0.1% on the value of each transaction. The government in Hong Kong also levies a transfer deed stamp duty of HK$5.00 payable by the registered holder of a share certificate and, independently of the quantity of shares traded, the registrar of each listed company also levies a transfer fee of HK$2.50 per share certificate from the registered holder. Moreover, an additional Italian financial transaction tax is charged and collected by brokers on Italian securities and their derivatives that are listed in Hong Kong (which, at the time of writing, only applied to shares in Prada, and derivative warrants in these).

no longer used—or at least not price ranges as wide as those for IPOs—and that a company's live share price has to be taken into consideration. In follow-on transactions, the level of pricing is necessarily done by reference to the prevailing share price, as well as to trading volume. Generally, it is done at a discount.

4.3.1. Marketed offerings

Follow-on transactions can be conducted in a similar fashion to IPOs, with a prospectus and a management roadshow to convey the merits of the issuer and capital raising to the market, and also to attempt to minimize the selling pressure that generally accompanies the announcement of a sell-down or a dilution. In 2007, HDFC Bank, one of India's foremost lenders already listed in New York, came to market to raise US$607 million in new proceeds in a follow-on capital raising by way of an American depositary shares marketed offering. This involved the publication of a US-style prospectus, as well as a full roadshow around the world by the senior management team led by Chairman Deepak Parekh, one of India's best-known businessmen. In the event, the timing of the transaction was perfect, having regard to the global credit crunch that ensued, and the deal was extremely well received by investors, enabling the bookrunners to price the offering at the volume-weighted average price (VWAP) on the day of pricing, equivalent to only a minute discount to the closing price.

4.3.2. Rights issues

Traditionally, listed companies, in the UK in particular, raise further capital by way of rights issues. Rights issues are fixed-price offerings that are generally fully underwritten at the outset by a syndicate of banks and provide certainty of proceeds for issuers. In a rights issue (or rights offering), existing shareholders are entitled (but not required) to exercise their right to buy shares in the company in proportion to their respective holdings at the time—for example, the right to buy one new share for five old shares held. This effectively gives them a right of first refusal to protect themselves from dilution.

Shareholders can either exercise their pre-emption rights and take up their rights to subscribe in the new issue or, alternatively, decide to sell their rights, or part of the rights they own, on the stock exchange. While shareholders selling their rights face dilution, they effectively incur no loss in value as a result of the sale. Rights sold by shareholders not willing to participate in the rights offering are separately traded "nil paid" during the subscription period. Rights not taken up by shareholders (thereby renouncing their rights) lapse and are automatically sold in a controlled manner by way of a "rump" placement on the last day of the rights issue, thereby diversifying the shareholder base of the company and further improving liquidity. Shareholders can also engage in a practice known as "tail swallowing", whereby they sell enough rights to buy new shares to allow them to take up as many shares as they can without having to pay under the rights issue.

Typically, companies can raise a proportion of new capital (around 5%) without first offering shares to existing shareholders in a rights issue. But authorization can also be sought, typically on an ongoing basis, in a shareholders' meeting to waive pre-emption rights under a "general mandate" to enable the company to raise equity capital through other means. Shares in a rights issue are typically offered at a significant discount (around 20% or more) to the prevailing share price, so as to entice shareholders to take up their rights. Timetables for rights issue are also generally longer than for other follow-on transactions. For example, in the UK and in Hong Kong, rights issues last 21 days in total. This can sometimes depress the share price, which can, on occasion, fall below the rights issue price.

The price at which the shares trade after the announcement of the rights issue but before its launch is called the "cum" price, whereas the theoretical price at which the shares should trade after launch is called the "theoretical ex-rights price" (TERP), when both shares and rights trade separately in the market. The TERP is calculated as the number of old shares multiplied by the previous day's closing price, to which is added the subscription price multiplied by the number of new shares; this is then divided by the number of new shares of the company following the rights offering to obtain the TERP.

The subscription price and discount are selected at the start of the rights offering process. Setting the price for the rights issue at a high discount to the TERP encourages participation and minimizes speculative behaviour, as well as the likelihood that the share price will fall below the rights issue price. Conversely, setting the rights issue price at a low discount to the TERP may encourage shorting of the stock.

There are added complications when a rights issue is conducted internationally, in that the issue may have to exclude retail investors to prevent public offerings being registered and conducted across a number of

An LSE IPO: Essar Energy

Background

Essar Energy plc ("Essar Energy") is an India-focused energy company incorporated in the UK, with assets across the power and oil and gas industries. Essar Energy was created after a re-organization by combining the existing energy portfolio of the Essar Group, a diversified conglomerate in India. At the time of the IPO, Essar Energy owned 86.7% of Essar Oil, a listed company in India with a relatively low free float of 10%. Essar Energy had revenue in the financial year ended 31 March 2009 of about US$8,453 million, posting a net loss of US$167 million. In the sixth month ended 30 June 2010, it had revenue of US$4,765 million and profit after tax of US$112 million. The company was listed on the Main Market of the London Stock Exchange in a £1,274 million (equivalent to US$1.9 billion) IPO in May 2010, with the ticker "ESSR". The ISIN for the securities is GB00B5SXPF57. Upon listing, Essar Energy was valued at US$8.3 billion, making its IPO the largest on the LSE in 2010, and Essar Energy the largest ever India-focused company to list in London.

Syndicate structure

The IPO was led by JPMorgan Cazenove and Deutsche Bank, acting as joint global coordinators and joint bookrunners. JPMorgan Cazenove was sole sponsor and financial adviser. BNP Paribas, Nomura and Standard Chartered acted as co-managers. JPMorgan Cazenove was also appointed as stabilizing manager.

Legal and other advisers

The issuer was advised by Freshfields Bruckhaus Deringer as to English and US law and by Amarchand & Mangaldas & Suresh A Shroff & Co as to Indian law. The underwriters were advised by Linklaters as to English and US law. Essar Energy's auditors were Deloitte. RPS Energy, Advance Resources International and Netherland, Sewell & Associates provided expert reports as technical consultants on certain oil and gas assets, which were included in the prospectus. The registrars were Computershare Investor Services.

Offer structure

The global offering was conducted by way of an offering of new shares by Essar Energy to fund existing growth projects, including the completion of power-plant projects, the acquisition of captive mines, the exploration and development of oil and natural gas blocks, the expansion of a refinery's capacity as well as for general corporate purposes, including working capital requirements for the company's oil and gas business. In addition, the offering included an over-allotment option representing 10% of the firm shares. Following the IPO, around 24% of the company's share capital was held in public hands. The global offering included an offering under Reg. S to investors outside of the US and a private placement to QIBs in the US pursuant to Rule 144A.

Fees and expenses

The gross spread for the offering was 2.25%, split between management and underwriting commissions and a selling concession. In addition, an incentive fee of 1% was payable at the discretion of the issuer to the joint global coordinators. Essar Energy estimated in its prospectus total fees and expenses for the IPO of £64 million.

Notable features of the transaction

Essar Energy reportedly decided to list in London, among other reasons, because of more flexible regulations for follow-on offerings, compared with India's requirement for a floor price.[101]

The offering was initially announced as a larger, US$2.5 billion IPO. The price range was determined at £4.50 to £5.50 per share, said to represent a multiple of forecast earnings in the low teens. Essar Energy was reportedly viewed as an attractive proposition on account of the growth of its business sectors in India, and also as a way to buy into Essar Oil, whose low free float makes it a difficult investment to consider for many foreign investors.

At the time of closing the book, the company announced that the offering was fully covered within the price range. However, perhaps because the level of subscription was not sufficiently high, and against the background of particularly difficult market conditions, it then decided to conduct on the day of pricing a fixed price offer at £4.20 per share. The offering was successfully closed at that level.[102]

Essar Energy had a difficult start of trading with its share price falling 7% on the first day, reportedly the worst debut performance by a newly listed company on the LSE for eight years. Nevertheless, the share price recovered, enabling a modest 1.3% of the over-allotment option to be exercised. Essar Energy shares were trading up 2.3% after one month and Essar Energy became a constituent of the FTSE 100 index in June 2010. In 2014, Essar Energy attracted controversy as Essar Global Fund Limited (its 78% shareholder controlled by brothers Shashi and Ravi Ruia) attempted to take the company private at what was said to be a particularly low valuation, in light of a very significant fall in the company's share price since its IPO.

Source: IPO prospectus and financial media.

A Bursa Malaysia and Singapore IPO: IHH Healthcare

Background

IHH Healthcare Berhad ("IHH") is the world's second-largest listed private healthcare provider based on market capitalization. It focuses on markets in Asia and in the Central and Eastern Europe, Middle East and North Africa (CEEMENA) region, which are highly attractive growth markets. It operates an integrated healthcare business and related services that have leading market positions in its home markets of Singapore, Malaysia and Turkey. It also has healthcare operations and investments in the PRC, India, Hong Kong, Vietnam, Macedonia and Brunei. At the time of its IPO, IHH operated 4,900 licensed beds in 30 hospitals, with one additional hospital in Turkey, the acquisition of which was pending completion. In the year ended 31 December 2011, IHH generated revenue of RM3,329 million and a profit for the year of RM394 million. IHH is incorporated in Malaysia. The company was listed on the Main Market of Bursa Malaysia in Kuala Lumpur (as primary market) and on the Main Board of the Singapore Exchange (SGX) in July 2012, with the tickers 5225 in Malaysia and Q0F in Singapore. The ISIN for the securities is MYL5225OO007. IHH was valued at about US$7.3 billion upon listing. Raising US$2.1 billion equivalent, its IPO was the first one to be simultaneously listed in Malaysia and Singapore, as well as on two stock exchanges in the ASEAN region. It also ranked as the third-largest IPO globally and as the second-largest in Asia in 2012.

Syndicate structure

Malaysian investment bank CIMB acted as principal adviser (i.e., as sponsor bank) in relation to the Malaysian listing and, together with DBS Bank, as joint issue manager for the Singapore listing. Bank of America Merrill Lynch, CIMB and Deutsche Bank acted as joint global coordinators and, together with Credit Suisse, DBS Bank and Goldman Sachs, as joint bookrunners of the global institutional offering, with Nomura, OCBC, RHB and UBS acting as co-lead managers. CIMB (as coordinator) and Maybank were underwriters and joint bookrunners of the Ministry of Trade and Industry (MITI) offering targeted at *Bumiputera* (ethnic Malay) investors. There were also eleven joint underwriters for the Malaysian public offering (which was led by CIMB and Maybank) and six underwriters for the retail tranche in Singapore (led by CIMB and DBS Bank).

Legal and other advisers

The issuer was advised as to Malaysian law by Kadir Andri & Partners; as to Singapore law by Allen & Gledhill; as to US and English law by Linklaters; as to Turkish law by Akol Avukatlik Burosu; as to PRC law by King & Wood Mallesons; and as to Indian law by Talwar Thakore & Associates. The selling shareholder was advised as to English law by Freshfields Bruckhaus Deringer. The underwriters were advised as to Malaysia law by Albar & Partners; as to Singapore law by WongPartnership; as to US and English law by Allen & Overy; and as to PRC law by Jingtian & Gongcheng. IHH's auditors were KPMG. The share registrar in Malaysia was Symphony Share Registrars, while the share transfer agent in Singapore was Boardroom Corporate & Advisory Services. Frost & Sullivan acted as independent market researcher (IMR). Malaysia Issuing House acted as issuing house for the listing in Malaysia. WATATAWA was PR adviser. IHH was approved as a Shariah-compliant stock by the Shariah Advisory Council of Malaysia's Securities Commission.

Offer structure

The global offering was conducted by way of an offering of new shares by IHH as to approximately 80.5% principally to repay bank borrowings, for working capital and general corporate purposes, and also to pay for listing expenses. The balance of the global offering was by way of a sell-down by Abraaj Capital. In addition, the offering included an over-allotment option representing 15% of the firm shares (including shares subscribed by cornerstone investors) provided by a subsidiary of Malaysian sovereign wealth fund Khazanah Nasional Berhad, the controlling shareholder of IHH at the time. Following the IPO and the exercise of the over-allotment option, 30.6% of the company's share capital was held in public hands.

The global offering included retail offerings in both Malaysia and Singapore, a voluntary MITI offering in Malaysia (since IHH Healthcare did not generate more than 50% of its net profit in Malaysia, this was technically not compulsory), an offering under Reg. S to institutional investors outside of the US and a private placement to QIBs in the US pursuant to Rule 144A. A significant portion of the global institutional offer was taken up by 22 cornerstone investors. In addition, eligible directors and employees of the group, as well as business associates that had contributed to the success of the group, were able to participate in the IPO as part of the Malaysian and Singapore public offerings.

Listing in New York on the NYSE

A summary of some of the principal initial listing requirements for foreign private issuers on the New York Stock Exchange (NYSE) is given below. A foreign private issuer must be a foreign (that is, non-US), non-governmental issuer with 50% or less of its outstanding voting securities held directly or indirectly by US residents. In cases where more than 50% are held by US residents, the majority of the executive officers or directors must not be US citizens or residents, more than 50% of the company's assets must not be located in the US, and its business must not be administered principally in the US. In addition to meeting NYSE listing requirements, a company must register its securities with the SEC before admission to dealings on the NYSE.

Financial requirements:

Companies wishing to list on the NYSE must satisfy an earnings test or a valuation/ revenue/cash-flow test:

Earnings test:	Pre-tax earnings from continuing operations and after minority interest, amortization and equity in the earnings or losses of investees, as adjusted, must total at least US$100 million in aggregate for the last three fiscal years with a minimum of US$25 million in each of the most recent two fiscal years.
Valuation/revenue/ cash flow test:	A minimum global market capitalization of US$500 million, with revenues of at least US$100 million in the most recent 12-month period, an aggregate cash-flow for the last three years of at least US$100 million and a minimum cash-flow in each of the preceding two years of at least US$25 million; or A minimum global market capitalization of US$750 million, with revenues of at least US$75 million in the most recent fiscal year.

In the case of companies listing in connection with an IPO (or an initial firm commitment underwritten public offering), the company's underwriter (or, in the case of a spin-off, the parent company's investment banker or other financial adviser) must provide a written representation that demonstrates the company's ability to meet the global market capitalization requirement based upon the completion of the offering (or distribution).

Public float and spread of shareholders:

A minimum of 5,000 shareholders, holders of 100 or more shares, is required, with a minimum of 2,500,000 shares publicly held, representing a public market value of at least US$100 million, each calculated on a world-wide basis. The calculation for shares publicly held excludes shares held by directors, officers or their immediate families and other concentrated holdings of 10% or more.

Operating history and management:

See above.

A majority of directors must be independent.

Setting up an audit committee is compulsory.

The exchange has a free and confidential review process, where companies can learn whether or not they are eligible for listing and what additional conditions, if any, might first have to be satisfied.

Acceptable jurisdictions:

There are no stated restrictions on jurisdictions but listing is at the discretion of the exchange.

Accounting standards:

The accounts must be audited and prepared in accordance with US GAAP or reconciled to US GAAP. But the NYSE also accepts financials prepared in accordance with IASB IFRS, if permitted by SEC rules.

Suitability for listing:

Suitability for listing is at the discretion of the exchange.

Other requirements and issues:

New entities with a parent or affiliated company listed on the NYSE are subject to different thresholds and requirements. The shares must have a closing price of at least US$4 per share at the time of listing.

Other market:

In addition to the NYSE, issuers can list on NYSE MKT LLC, a market more particularly dedicated to small- and micro-cap companies.

Source: NYSE website.

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for example, in connection with a cornerstone process. This can also apply to confidential information given to potential trade buyers in connection with a dual-track process. The term non-disclosure agreement (NDA) is also often used.

Conflict of interest: in the context of an IPO, a conflict arising between the corporate finance and securities departments of an investment bank, or a conflict arising between the principal investment side of the bank and other departments. This may also apply to transactions entered into between shareholders and directors of a company and the company itself. See also *Related-parties transactions.*

Connected-parties transactions: see *Related-parties transactions.*

Continuity of business: a listing requirement laid out by a stock exchange that the business of a company applying for listing has been substantially the same over a period of time.

Continuity of ownership or management: a listing requirement laid out by a stock exchange that the main shareholders or senior management of a company applying for listing have been substantially the same over a period of time.

Contractual rights: rights pursuant to which a company is able to enter into contracts with third parties. In the context of an IPO, it is important that such contractual rights are not held by a party other than the issuer.

Contrarian investor: a type of investor that goes against established trends and believes that most other investors are wrong in their assessment of the market.

Contribution to expenses: a mechanism pursuant to which the underwriters of an IPO are asked to contribute to some of the expenses associated with the transaction. Contribution to expenses is common in some privatizations and large, prestigious offerings. It is particularly frequent in South Korea.

Control room: a part of the compliance department of an investment bank tasked with the control of pre-deal (or other) research prior to publication to ensure compliance with research guidelines and to avoid conflicts of interests, libel or litigation.

Conversion rate: (also known as hit rate) the ratio between one-on-one meetings held by a bank with investors during an institutional roadshow and the number of orders actually placed by those same investors in the book of demand. The hit rate can be computed on an overall basis, by bank, by region or by

investor type. This information is commonly included in case studies of past transactions for IPO pitches.

Convertible bond: a bond issued by a company and convertible into ordinary shares of that company, usually at a premium and pursuant to certain conditions, including the performance of the company's share price over a period of time. An exchangeable bond is issued by a company but is exchangeable into shares of another company, owned by the former, or exchangeable into Treasury stock owned by the issuer.

Convertible preferred share: an instrument similar to a convertible bond but in this case preferred shares are issued instead of a bond. See also *Convertible bond* and *Preferred shares*.

Core growth investor: a type of institutional investment style in which investors typically invest in companies that have good growth earnings potential.

Core value investor: a type of institutional investment style in which investors typically invest in companies with a large market capitalization, below-average price-to-earnings ratios, price-to-book or cash-flow multiples, but usually higher-than-average dividend yields. Such investors often conduct significant, in-house fundamental analysis on the stocks they buy.

Cornerstone investor: generally, a high-quality institutional investor, hedge fund or tycoon that is allocated on a guaranteed basis prior to the start of bookbuilding a significant amount of stock at the offer price, so as to provide momentum and leadership for the IPO. The names of, and allocations made to, cornerstone investors are disclosed in the offering circular(s) and prospectus and, in some (but not all) jurisdictions, they have to abide by a lock-up.

Corporate governance: a set of best practice recommendations laid out initially in the Cadbury and Higgs reports in the UK to avoid conflicts of interest and abuses at senior management and board level for listed corporates. Stock exchanges encourage and sometimes include certain corporate governance practices as a condition to listing.

Corporate Information Handling Officer (CIHO): In Japan, foreign listed companies whose main market is not the Tokyo Stock Exchange (TSE) are required to designate a Corporate Information Handling Officer (CIHO) to remain in contact with the TSE and enhance timely disclosure. The CIHO can communicate with the TSE in Japanese or English, and is also generally in charge of corporate disclosure in the home country.