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IPO Insights 2003

The Seventh Annual IPO Transformation®~CEO Retreat

May 9, 2003

IPO 2003: When Opportunity Knocks, Will Your Company Be Ready?

You might ask about the relevance of holding this year's IPO Transformation~CEO Retreat in an initial public offering (IPO) environment as difficult as the one we face today. We believe that it is precisely times like these that require CEOs to be most prepared to seize the opportunities and address the leadership challenges that lie ahead. For many companies, an IPO will define their future. By instituting the right strategies now, a well-prepared CEO and management team can transform a company on the defensive to one on the offensive.

Another reason we chose to hold the IPO Transformation~CEO Retreat this year—making it our seventh annual—is that the rules are changing dramatically. The SEC, NASD, and NYSE, along with the Sarbanes-Oxley Act of 2002, are requiring reforms that companies planning to be in the "first wave" of IPOs need to begin addressing now.

While today's IPO window is effectively closed, our speakers assured us that the market is cyclical and that it will reopen. So when the IPO market returns, will your company be ready? If you attended this year's retreat, you already know what you need to do to answer the question affirmatively. If you did not attend, this report will share some of the highlights to help you find the answer.

We would like to thank this year's co-host, Wilson Sonsini Goodrich & Rosati, as well as our sponsors, Silicon Valley Bank, Fleishman-Hillard, Goldman Sachs, and Bowne.

We hope you'll find this report of use for some time to come.

Roger Dunbar
Global Vice Chair, Emerging Growth Market
Ernst & Young

Daniel Love
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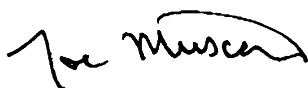


Joseph Muscat
Partner and Retreat Chair
Ernst & Young

About the Retreat

The Seventh Annual IPO Transformation~CEO Retreat was held May 7-9, 2003 at the Ritz-Carlton Laguna Niguel in Dana Point, California. The two-day retreat familiarized CEOs, CFOs, and other senior executives who are planning to take their companies public with the leadership challenges associated with the IPO Value Journey®.

The IPO Transformation~CEO Retreat consisted of a series of plenary and breakout sessions and networking opportunities. The sessions took executives through the various phases of the IPO process, from planning through execution and beyond the first day of trading. Many key issues facing executives considering an IPO were covered in-depth, such as board recruitment, corporate governance and the impact of Sarbanes-Oxley, stock exchange reforms, compensation and stock options, and more. Speakers included CEOs and CFOs who have led their organizations through an IPO or other transactions, as well as presenters from Ernst & Young along with our co-hosts and sponsors. An open Q&A exchange followed each panel.

Bear markets come and go, but the importance of solid, well-managed companies remains constant.

That was the message delivered to senior executives from more than 50 high-growth companies at this year's IPO Transformation~CEO Retreat, held May 7-9, at the Ritz-Carlton Laguna Niguel in Dana Point, California. The 50 CEOs, accompanied by other senior executives from technology, financial services, telecommunications, life sciences, health care, retail, and manufacturing companies, were told that companies that focus on business fundamentals, deliver superior financial performance, are organized with a good corporate governance structure, and have an effective communications program will always be attractive to long-term investors, regardless of the market or economic environment.

While today's IPO environment is characterized by changing rules, uncertain financial markets, and a questionable economy, compelling reasons still remain for a company to begin preparing to go public. For one thing, no other single financial transaction marks a company's coming of age as does an IPO. Furthermore, an IPO brings a company more capital, prestige, and credibility than any other transaction.

This year's conference speakers included CEOs and CFOs who have led their organizations through the IPO process, along with bankers, venture capitalists, lawyers, accountants, communications specialists, and other practitioners. They discussed in detail such issues as:

- Today's IPO climate
- The changing regulatory environment
- Corporate governance issues
- How to build and recruit board members
- The officer certification requirements
- Stock exchange reforms
- Trends in compensation and stock options
- IPO alternatives, such as mergers and acquisitions, late-stage funding, and strategic alliances

> *"What's the IPO market like today? Is it about to open up again? Are we going to be drinking McDonald's decaf or will we be back at Starbucks drinking the good stuff?"*
> — John Savage, managing partner, Alliant Partners

In the Beginning

The first question a CEO who contemplates taking a company public must answer is a simple one—why?

During the "bubble" years, an IPO came to be viewed by many as a liquidity event for the original investors and, to a lesser extent, management. It was not viewed so much as a process, but an end in itself. But that attitude is no longer sustainable; indeed, today's IPOs are increasingly driven by old-fashioned, back-to-basics business goals.

Mike Wood, president and CEO of LeapFrog, an education software and publishing company, said his company went public In July 2002 for traditional business reasons. These included raising money for capital-intensive initiatives, such as developing new content and platforms and expanding globally. The transaction also served as a long-term liquidity vehicle for private company investors, as well as for the creation of currency to attract employees and use for acquisitions.

> *"Public companies have more credibility than private companies."*
> — Robert Thomas, president & CEO, NetScreen Technologies Inc.

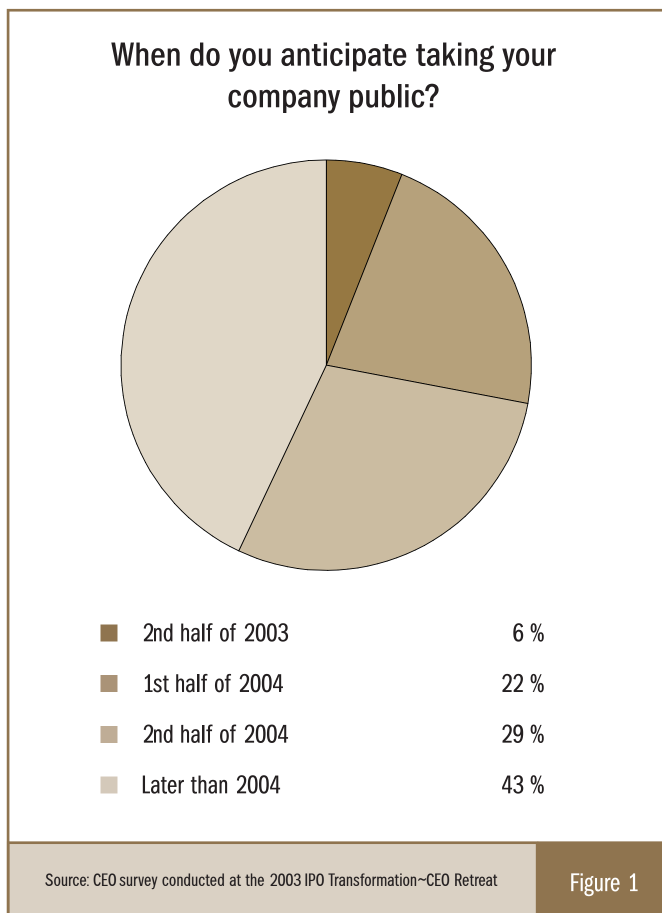
A second speaker said his company went public to gain credibility. "If we wanted to grow, if we wanted to prosper, we needed the credibility of a public company," said Robert Thomas, president and CEO of NetScreen Technologies Inc., an Internet security firm that went public in December 2001. Thomas believes that "public companies have more credibility than private companies." (For a CEO's firsthand view of an IPO, read "*Case Study: Netscreen Technologies Inc.*")

This year's attending executives were already in sync with the more traditional, back-to-basics view of IPOs. In an on-site executive survey, attendees were asked what they planned to do with their IPO proceeds. They ranked expansion of business operations first, liquidity for shareholders second, and the creation of a publicly traded security for M&A purposes third. Reducing debt and creating personal wealth for CEO were fourth and fifth, respectively.

Regardless of why a company goes public or what management intends to do with the proceeds, investors have become a very selective lot these days. Gone are the days when all that mattered was a good concept. Today, said Thomas and other CEOs who have taken their companies public, investors look for companies that have:

- A proven business model
- Profits, or a clear, short path to profitability
- Growing and sustainable revenues
- Good products and/or services and the processes and technology to back them up
- A strong customer base
- A defensible market position
- A seasoned management team

Assembling all the necessary elements for an IPO takes time, John Savage, managing director, Alliant Partners, added. "Companies have to live longer before they can tap into public funds. We're going back to an investment environment we saw in the late '80s. Maturity is creeping back into the market," Savage said.



Source: CEO survey conducted at the 2003 IPO Transformation~CEO Retreat

Figure 1

IPO or Bust?

Speakers at this year's conference differed widely as to whether companies that want to go public can do so in the current environment. Many suggested that for the time being, the IPO market is effectively closed.

Alliant Partners' Savage cited the less-than-encouraging fact that the IPO market has shrunk dramatically, from its all-time high of 646 IPOs in 1996–an early year of the bubble–to a mere 57 IPOs in 2002.

Peter Thiel, managing member, Clarium Capital Management LLC, added that an IPO is possible, but "the reason companies are not going public is that it's not desirable. That is, the cost/benefit is not compelling. The costs outweigh the benefits."

Thiel said underwriting and new regulatory costs make it too expensive for companies that will have less than a $1 billion market cap to go public in the current environment, and he believes that companies should also put M&A activity in their strategic plans.

Barry Taylor, managing director, Technology Group of Warburg Pincus, said CEOs should look for opportunities to go on the offensive. One strategy he supports is to take advantage of the current lull in the IPO market to pursue M&A opportunities through which valuable assets can be acquired at reasonable valuations.

This year's attending executives have clearly factored today's IPO climate into their planning, in some cases delaying their public offerings by a year or more. Only six percent said they plan to go public in the second half of this year. Fifty-one percent said they intend to go public sometime next year. A large share, 43 percent, said they now plan to go public "later than 2004," meaning a year and a half or more from now. (See Figure 1.)

Other reasons cited for pushing back the IPO include the need for time to address corporate governance issues, fill management team vacancies, and refine the company's business strategy.

An Expensive Undertaking: The Impact of Sarbanes-Oxley

The rules for IPOs and corporate governance are changing, thanks to the Sarbanes-Oxley Act (SOA), the new federal legislation designed to curb corporate excesses such as those that led to the Enron and WorldCom collapses.

Although some elements of SOA implementation are still being defined, many changes wrought by the new law are unmistakable. First, the board must have directors who are truly independent, and the law sets forth a definition. Also, at least one of the independent board members must have previous financial experience/expertise, such as serving as a CFO, a CPA, or in a similar position. Sarbanes-Oxley also requires at least three board committees, including auditing, compensation, and nominating. An outside director must chair the audit committee, and outside directors must meet in an executive session. The CEO and CFO will also have to certify financial results to the Securities and Exchange Commission.

Sarbanes-Oxley will certainly make recruiting new outside board members more difficult, in large part because of the new rules and higher perceived level of risk in this environment. Compensation for board members is both increasing and shifting from equity to cash.

Panelists agreed that the new regulations are going to make it more expensive to not only go public—but to be a public company as well. Meeting the new regulations will come at a price. What that will be is far from certain. Too many factors are variables—from the size of the company to the size of its board. But CEOs should plan on spending more on in-house accounting and compliance staffs, outside auditors, and annual and meeting fees for outside directors. It might even be necessary to hire a staff to assist the outside board member who will chair the audit committee.

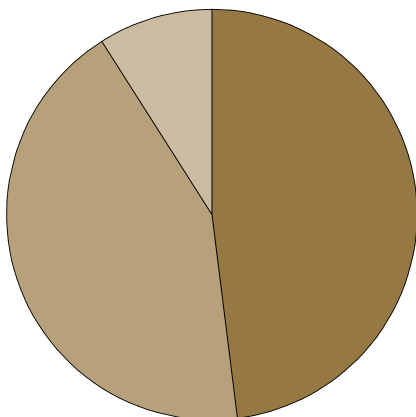
> *"If you have to change the way you do business to conform to Sarbanes-Oxley, you have bigger problems."*
> – Remi Barbier, president and CEO, Pain Therapeutics Inc.

Neil Bray, an Ernst & Young partner, said companies will not only have to invest in internal and disclosure controls, but also in auditing these controls to ensure they are effective. Some companies have gone so far as to form committees to monitor them, he noted.

In a separate breakout panel on corporate governance, panelists said that current compensation for outside board members in the pre-Sarbanes-Oxley era typically ranged from $15,000 to $25,000 per year per director, plus meeting fees and expenses. This cost will surely rise as companies compete for directors and lure reluctant candidates onto their boards. Panelists said they would not be surprised to see companies pay an annual retainer of $60,000 or higher for outside directors, especially those that chair audit committees.

In our on-site CEO survey, nearly 70 percent expressed concern over new corporate governance regulations. Of those who expressed concern, 48 percent said they planned "to invest in additional people and technology for compliance," and 43 percent said they would "strengthen their company's proposed board of directors." (See Figure 2.)

How are you planning to comply with the new corporate governance regulations?



Invest in additional people and technology for compliance	48 %
Strengthen company's proposed board of directors	43 %
Delay offering until it is perfectly clear what is expected of a public company	9 %

Source: CEO survey conducted at the 2003 IPO Transformation~CEO Retreat

Figure 2.

Case Study

NetScreen Technologies Inc.

NetScreen Technologies Inc., based in Sunnyvale, California, is a leading supplier of Internet security software. Founded in 1997, NetScreen went public on December 12, 2001. President and CEO Robert Thomas related his experiences firsthand to this year's IPO Transformation~CEO Retreat.

Thomas explained that NetScreen was profitable and had money in the bank, but went public for the credibility the transition brings. "If we wanted to grow our business, if we wanted to prosper, we needed the credibility of being a public company," Thomas explained. "Public companies have more credibility than private companies."

NetScreen's path, however, was less than direct. On the way to going public, NetScreen discovered that it didn't have the financial systems in place to close the books in 24 or 25 days, an essential requirement for a public company. Once that had been resolved in the subsequent quarter, NetScreen got back on track for an IPO only to confront the bursting of the Internet bubble.

"Little things get in the way," Thomas warned. "Around every corner there is a little detail that can put you off track."

Once the process begins, the CEO must assemble the team of professionals whose job it is to take the company public. It is this team that a CEO needs to rely on, he said, because the CEO must take care of business. "Focus on revenue," he advised.

Once the underwriter team is selected through the "bake-off," a process in which investment banks compete for your business, there's the red herring to write. CEO involvement usually begins and ends with the business profile, Thomas said. The business section includes a description of the company's business, the market or markets it participates in, and its competitive environment, both risks and rewards.

The road show is the CEO's chance to sell his company to investors, Thomas said. For this, the CEO usually assembles a team including one technical guru and the CFO. Thomas said he wished he took along a fourth person to record impressions of the various investors. The road show team sees so many people in the course of their travels, Thomas said, that it's difficult to recall all the important details, such as which investors were focused on the long-term prospects of the company. Those investors would also likely have been the stable, long-term holders of company stock that NetScreen was seeking.

On pricing night, Thomas said, it's up to the CEO to manage three different and somewhat opposing constituencies. These would be the bankers, who want to price the IPO at the low end of the range; the board, who want to price at the high end; and investors, who want a good deal and experience.

The next day, when the stock starts trading, is "a fantastic feeling," said Thomas. But, he quickly added, "the euphoria lasts for a day."

Then, the CEO must ask him or herself: "Now what?"

For NetScreen, the IPO market was an inflection point in the life of the company. Having gone public, Thomas said, he refocused the employees and others on a new goal: "We would like to be the number one security company in the world. The IPO is not the end of the game."

"The biggest lesson to learn is to control the process. Everyone else does this [takes companies public] for a living—so control the process and decide what kind of investors you want. The worst thing is to give up control."

—Robert Thomas, president and CEO, NetScreen Technologies Inc.

The CEO speakers were generally supportive of the changes required by the Sarbanes-Oxley Act. Remi Barbier, president and CEO of Pain Therapeutics Inc. based in San Francisco, said Sarbanes-Oxley merely puts into law good and ethical business practices that companies should have been practicing all along, but will not deter those who don't or won't abide by those practices anyway. David Eslick, president and CEO of USI Holdings Inc., a San Francisco-based insurer that went public last year, said Sarbanes-Oxley clearly defines good business practices and ethics. "I'm one of the executives who believes Sarbanes-Oxley is a good thing," said Eslick.

> *"Investors need to have a good experience [with your IPO] because they have long memories. The goal is to make sure your IPO price is the lowest your stock ever trades at."*
> — Shaker Khayatt, vice president, Goldman Sachs

In this new age, good corporate governance is not only the law, but also makes good economic and investment sense. "Good governance is typically equated with lower risk," said Katharine Martin, partner, Wilson Sonsini Goodrich & Rosati (WSGR).

At a minimum, Martin said, good corporate governance policies and procedures will require a private company to make changes in the following areas before going public:

- Internal and disclosure controls
- Officer certifications
- Audit committees, along with the role and responsibilities of the committee auditors
- Whistleblower protection policies

This year's executives apparently have already taken some of these insights to heart. In our on-site CEO survey, 61 percent said the first step they would take to prepare their companies for a successful IPO was to institute public company-like financial controls.

Asked what was the single most important factor in achieving a successful IPO, 54 percent of our executives said preparation. That is, to "act like a public company before becoming one."

Capital Markets: A Sea Change in Store?

Today might just be the worst capital market environment in a generation or more, but experts and economists presented evidence that both the economy and capital markets are at or near bottom. Happily, a shift to the upside may be at hand.

Ernst & Young senior economist Bill Wilson said that with the Iraqi war effectively over, the economy is poised for more strength in the second half of the year. The equity markets have rallied and business confidence is beginning to rebound, which should translate into greater business spending as many of the 1990s excesses have begun to dissipate. Both monetary and fiscal policies continue to stimulate domestic demand. Several important soft spots remain, including a weak global economy and intensive corporate cost cutting, which will keep the labor markets weak for some time to come.

Brian Levine, senior NASDAQ market maker, Goldman Sachs, presented the case that capital markets, after a three-year slump, are showing signs of recovery. Positives include: a sharp rally in stock prices off their lows since the beginning of the year; rising trader, investor, and consumer confidence; increasing corporate profits and trust; a positive correlation of stocks to bonds; interest rates at 40-year lows; and drastically reduced geopolitical risks.

Risk, at least a modicum of it, is coming back in favor. "Investors are more risk tolerant," Levine said, noting that even Internet stocks—which led the bubble up and brought it down— "have had a significant rally."

On the negative, he said, unemployment hit an eight-year high of six percent, mutual funds flow rates have not recovered, and other geopolitical risks could surface.

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> — Katharine Martin, partner, Wilson Sonsini Goodrich & Rosati

Advice from the Front Lines

Many of this year's conference speakers were CEOs and CFOs who had already been through the IPO process and lived to tell about it. They offered both general and personal insights into the process, summed up as follows:

- Prepare well in advance. "If you're going public in the next six months or a year, then you have to start acting like a public company now," said John Kunze, president and CEO of Plumtree Software.
- Plug the holes in your organization. That means fill in gaps in management, accounting practices, policies, and procedures.
- Be profitable or close to it.
- Be able to forecast accurately. The need for visibility into future fiscal periods increases for a public company. If you can't reasonably forecast revenue for the next five quarters, then it might not be a good idea to go public.
- Conduct dress rehearsals. Use late-stage financing or other private placements before the IPO to help prepare your organization to operate as a public company, including closing the books and reporting. "We actually used our last round of financing as a dress rehearsal," Plumtree's Kunze said. "We hired an outside banker to help run it and then used the private memo as the first draft of our red herring."
- Build a team you can trust. "Let the team run the process, so you can get back to business," said Plumtree's Kunze. "If you spend all your time polishing the bumper, then you're not using your team properly."
- In preparing the filing and registration statement, maintain the fine line between disclosure and selling the company. "It's a tightrope," said John Owen, chief financial officer of JetBlue Airways Corporation. "You want it to be a positive sales experience but you also want it to be an accurate disclosure."
- Hire a coach for the road show.
- Be flexible. You will need to be prepared for the unexpected so you can roll with the punches. "Nobody can get you completely prepared for everything that will happen. You have to stay focused on the ultimate goal [of going public]," said David Eslick of USI Holdings Inc. "The key is to stay flexible." For USI Holdings, the company lowered the price of its initial offering a few dollars per share to get the deal done and the investors it wanted, Eslick explained. As a result, "we weren't a sufficient size for the NYSE," Eslick said. "We had to go over at the last minute to the NASDAQ."

Shaker Khayatt, vice president of Goldman Sachs, said that even in today's difficult environment, however, it is possible to get deals done. "Stories that have the best chance of selling are about companies that have proven business models, have profits or a clear, short path to profits, are well positioned, have a broad and deep management team in place, and have the infrastructure of a public company," said Khayatt.

Pricing remains an issue, though. Sixty-seven percent of all the issues that went out last year priced below their initial filing range. While it may sound bad, Khayatt said it's really not. "Investors need to have a good experience [with your IPO] because they have long memories," he said. "The goal is to make sure your IPO price is the lowest your stock ever trades at."

> *"The most value you will ever get for your company is to take it public."*
> — James Armstrong, chairman and CEO, JDA Software

The Great Communicators

To go public, CEOs need to be prepared to effectively add a new title to their business cards, that of CCO or "chief communications officer." The CEO must clearly communicate the vision of the company and its future to all the constituencies of any public organization—including employees, customers, suppliers, analysts, investors, and the board of directors. This needs to happen early on in the IPO planning process.

"The CEO has the lead responsibility for communicating the message, internally and externally," said David Eslick, president and CEO of USI Holdings Inc. "I don't think there's anybody else in the company who can communicate with all the constituencies what the company is and where it is going."

> *"CEO could also stand for chief ethics officer."*
> – Rick Anderson, senior vice president, Fleishman-Hillard

The CEO's communications skills are also essential to building credibility among investors, analysts, and the public.

"Your credibility as a CEO has to be proven. It is proven by results. Staying out of the limelight is not a tactic that builds on credibility," said Bill Zabit, an Ernst & Young partner who heads up the firm's Strategic Messaging Services, a Transaction Advisory Services specialty practice.

The CEO must also set and communicate the ethical standards by which the company operates. "CEO could also stand for chief ethics officer," said Rick Anderson, senior vice president, Fleishman-Hillard.

CEOs shouldn't underestimate the importance and seriousness of their new role. "Every time I see a company with communications or related legal problems, usually the CEO has set the wrong tone," said Keith Eggleton, partner at WSGR. "The CEO is the tone setter."

Other Options

Besides an IPO, a number of other financing and transaction options are available to companies. For instance, M&A activity is up significantly in the last two years, and speakers advised that CEOs consider that in their strategic planning activities. CEOs, the speakers added, must avoid thinking of an M&A transaction as a kind of failure.

Rory O'Driscoll, managing director at BA Venture Partners, explained: "If you don't go bankrupt, 80 percent of [the attending] companies will be involved in an M&A transaction, and [only] 20 percent of you will go public. Those are the statistics."

Indeed, for some companies an M&A exit may be the only way to go.

Along with an IPO or an M&A, late-stage funding is also an option. "Some $80 billion in VC and late-stage funding has got to go somewhere, and people are desperate for good companies that will offer liquidity in the next two years," said BA Venture Partners' O'Driscoll.

Jim Kochman, president of Alliant Partners, said that CEOs need to look at an M&A transaction as an evolutionary step for their companies. "In an M&A stock-for-stock transaction, you're investing the value of your company into this other company. In the long run, that can often be positive."

Then there's debt. However, many private companies do not have the assets and revenue characteristics required to be bankable, our panelists warned. And debt can often get out of hand. "For many technology companies, debt is like alcohol," said O'Driscoll. "It's okay to have a few drinks after dinner but if you come to depend on it you're in trouble."

Breakout Observations

In addition to the plenary sessions, breakouts offered the CEOs and other attending executives an opportunity to "drill down" on areas of interest. Some of the insights shared in these sessions follow.

Board Responsibilities and Recruitment

Board members cannot determine the success of your company, but they can definitely influence it. For this reason, building the right board is one of the more critical duties of a CEO preparing to take his or her company public. This task is expected to only get harder, given the new regulatory requirements, responsibilities, and liabilities that members will have to take on.

In brief:

- Expect board recruitment to escalate in terms of both cost and challenge.
- Desirable qualities in board members include being collaborative, consultative, knowledgeable, independent, and constructive.
- Choose board members who understand your vision and where you want to take the company.
- Sarbanes-Oxley requires that at least one independent board member have financial expertise—a former CFO or a CPA, for example, would nicely fit the bill.
- Board compensation is shifting away from equity and toward larger cash payments. Expect to pay $15,000 to $25,000 or more for an annual retainer, plus $250 to $1,000 in meeting fees.
- Look for a "division of labor" among board members: expect your financial expert to handle financial matters, and your industry expert to advise on market trends, etc.

"Some $80 billion in VC and late-stage funding has got to go somewhere, and people are desperate for good companies that will offer liquidity in the next two years."

– Rory O'Driscoll, managing director, BA Venture Partners

IPO Prep Course

This session took participants step-by-step through the IPO process. It went from banker selection to drafting registration documents, the road show, the SEC review, and pricing, and included insights on the process from various experienced professionals.

- Begin selecting bankers way in advance, perhaps as early as two years.
- Perform preliminary due diligence on bankers before the "bake off."
- To go public, the company should have at least $100 million in annual sales and be profitable for at least two or three quarters.
- Prepare to be Sarbanes-Oxley compliant before the IPO.
- Have financial and accounting infrastructure for a public company in place well in advance, and do trial runs of quarterly reports while still a private company.
- Delegate management of the S-1 drafting process to financial and legal departments so operations executives can concentrate on running the company.

IPO Advanced Course

In this session, expert panelists—including company executives, an auditor, an investment banker, and an attorney—each presented their sometimes very different perspectives on the IPO process and offered insights.

- While still private, have accountants evaluate financial statements and disclosure as though the company were public.
- Regulation Fair Disclosure establishes rules for fair disclosure and what a CEO can and cannot say in one-on-one analyst meetings that are not disclosed to the general public. Complying with FD requires significant care and coordination between company spokes people.
- Establish a long-term relationship with your bankers for post-IPO transactions.
- New rules requiring the division between investment bankers and their research analysts to avoid potential conflicts of interest require executives to work with bankers in new ways.
- Prior to going public, companies may have to be compliant with Sarbanes-Oxley to comply with the requirements set forth by their underwriters.
- After the IPO, CEOs should expect to spend from 25 to 50 percent of their time on matters relating to being a public company.

Measuring Success

Was My IPO a Success?

Joe Muscat, the Retreat's chair, shared insights gleaned from a series of CEO surveys. Those CEOs who viewed their IPOs as successful shared a set of common traits.

First, those CEOs viewed the IPO as a "journey" that required a successful series of changes to the organization, including the composition of the board, compensation plans, accounting, and policy and procedures.

Second, the companies demonstrated superior financial performance prior to and following their IPOs as compared to others in their sector.

And third, the companies effectively communicated superior non-financial metrics that mattered to their current and prospective investors. These included the quality of the organization's management team and how well it had executed its business strategy.

A survey conducted in 2003 along with the Economist.com found that investors added other measures as well, some financial and some not. Those included EBITDA and EBITDA growth, management depth and maturity, customers' perception of quality, market position, corporate culture, and customer satisfaction.

Muscat said the surveys also found a correlation between the amount of time a company takes to institute changes in preparation to go public– and the actual launch of its IPO. In general, the longer the time allowed for integrating changes in the organization, the higher the probability of success. "While many companies made the necessary changes to go public," concluded Muscat, "they found that they hadn't given those changes enough time to season."

Industry Roundtables

Before the attendees departed, an industry roundtable was held to discuss pre-IPO and IPO transaction markets in three industry sectors–technology, life sciences, and consumer products. Highlights of the discussions follow.

Technology

The IPO climate in the Technology sector remains weak, according to this panel. In such a climate, it is important for private companies to weigh the benefits and drawbacks of alternatives, such as an M&A transaction.

Once the IPO climate in this sector revives, the panelists agreed that IPOs in the range of $100 to $300 million post-IPO valuation will be back in favor. However, companies that are considering an IPO do need to weigh the costs associated with going public and operating as a public company. This may lead many to defer the timing of their offering or to seek alternate transactions.

Before the IPO market for Technology companies revives, it remains necessary to rebuild trust for all of the sector's stakeholders–including venture capitalists, entrepreneurs, public investors, and large technology buyers.

Life Sciences

Things are certainly looking up in Life Sciences. Experts in this breakout session said they expect companies in this sector to improve well in advance of their Technology counterparts. While the last 18 months have been slow—only two percent of all financial transactions in this sector were IPOs—this session's panel of experts said they see many signs that Life Sciences IPOs will ramp up potentially as early as the second half of the year. However, the revival will not be broad-based, but instead highly selective, with only a limited number of companies able to access the capital markets.

In the meantime, many Life Sciences companies should look to strategic alliances with larger, well-established pharmas for their best financing option. These alliances typically include financing and joint marketing and sales of complementary products.

Consumer Products

When the high-tech bubble burst, funding sources reoriented themselves toward well-established consumer products companies. The financing situation remains extremely good, according to panelists in this breakout session, as large amounts of venture capital are still looking for safety in this dependable harbor.

In consumer products, investors are looking for companies with a solid business model, predictability, an established customer base, a good management team, a solid brand name, and barriers to entry that protect that brand name.

Besides venture backing, companies in this sector are also looking for good M&A prospects that they can grow. Many of these transactions are funded through bank debt. Companies looking to acquire others should search for good brand names with complementary products. A word to the wise: Keep the best people in the acquired concern and don't extract costs that could harm core competencies.

The Business of Magic

Taking the lead on the basketball court is a lot like being the CEO of an entrepreneurial company. We have all witnessed much of Earvin "Magic" Johnson's career as a basketball star, sports legend, Olympian, and part owner of the L.A. Lakers basketball team. But Johnson shared a secret at this year's IPO Transformation~CEO Retreat that most people don't know. That is, since his teenage years, he held a dream beyond success on the court. "I wanted to be a businessman," confessed the basketball star.

Johnson recounted that as a teenager he used to clean offices at night. Sometimes, he said, he would sit in the president's chair, lean back, put his feet up on the desk, and dream that someday he would have an office like that one.

Today, Johnson *is* a successful businessman. Magic Johnson Enterprises has growing and diversified lines of business—including Starbucks franchises, FatBurgers fast-food restaurants, Loews Cineplex movie theaters, shopping centers, housing projects, and more - all focused on the inner city. He also has a $300 million venture fund to invest in other business opportunities.

Johnson's formula for success is one that any CEO can learn from. His advice: Look for your niche; understand your customer and give them good service; give customers what they want and treat them with respect; learn to delegate to others; keep employees focused on goals; don't be afraid to visit the trenches and get your hands dirty, sometimes literally; and don't forget your family.

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For more information on EGM services, please call Daniel Love, Americas Director, Emerging & Growth Market at 212.773.8100 or email at daniel.love@ey.com. ■

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