Initial Public Offering

Are you ready to float?

What is an IPO?

Are you considering listing your company on a stock exchange? In recent times, the phrases listing and floating have been replaced with an Initial Public Offering also known as an IPO.

The decision to do an IPO is a major event in a company's history and should only be undertaken after careful consideration. Any company director considering an IPO must ensure that the business itself, management and the board are fully equipped for operating in the listed company environment.

Like many advisers, our team at Endeavour Capital have project-managed numerous IPOs. However, very few advisers have experienced an IPO as either manager and/or a director. Endeavour Capital's senior staff have all experienced IPOs as Managing Director, non Executive Chairman and non executive director of various companies. This unique experience allows us to better understand the issues that companies face with a potential IPO.

At Endeavour Capital, we appreciate the demands placed on management's time during an IPO and can advise on and assist with the impact it has on the business.

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What are the benefits of an IPO?

Raising capital
Whilst it is not mandatory to raise funds at an IPO, one of the primary reasons companies consider an IPO is to raise equity. Being a listed company also makes it easier to raise additional equity in the future through rights issues and placements.

Liquidity
An IPO can provide a company with liquidity for its shareholders. This is especially the case for a company that has a number of shareholders with different investment horizons. Shareholders can make their own decisions on whether to sell or buy shares, subject of course to any escrow provisions and trading windows.

Access to debt
A stronger balance sheet and the corporate governance of a listed company will assist the company to raise additional debt finance, without the need for personal guarantees.

To provide incentive to employees
As part of an IPO, employee share schemes can be established to assist in attracting, retaining and motivating employees.

Recognition and credibility
The status of a listed company adds to the credibility of that company when dealing with customers, suppliers, banks and staff.

New shareholders and directors
An IPO introduces a wide range of new shareholders, from institutional to private investors. The IPO may result in the appointment of additional experienced non-executive directors to your board who can assist you through the IPO and beyond. These directors may assist in adding creditability to your company.

What are the negatives?

The potential negatives for an IPO incude:

- The time demands and costs of undertaking an IPO
- The pressure from the market to deliver results
- The tight reporting timeframes
- Exposure of the company's accounts, remuneration and related party transactions to the market
- The compliance costs of being listed
- A reduction in managerial and shareholder control, including exposure to a potential takeover
- No guarantee that a reasonable aftermarket and liquidity will be achieved
- Escrow restriction may apply
- A trade sale may produce a higher price than an IPO

Unless you are a larger company, an IPO should not be viewed as an exit mechanism. It is simply a source of funding and eventual liquidity.

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Are you suitable to float?

Shareholder spread
A company must have a minimum spread of shareholders to be listed on the ASX. It must have either 500 shareholders holding a minimum investment of $2,000 each or 400 shareholders each holding a minimum investment of $2,000 provided that at least 25% of those shares are held by non-related parties. The shares to be listed must have a minimum value of 20 cents.

One of the following tests must also be satisfied:

Profit test
The company must have profit before tax for the past three years of at least $1 million, $400,000 of which comes from the preceding 12 month period. The company's main business activity must be the same as it was for the previous three years. The company must have audited financial accounts for the last three financial years.

Net tangible asset test
The company must have net tangible assets of at least $2 million. Less than half of the company's total tangible assets must be cash or readily convertible to cash. If this is not the case there are binding contracts in place to invest or spend money to bring the proportion to less than half. An alternative net assets test is available where the company will have a market capitalisation of at least $10 million at listing.

Market Attractiveness
Meeting the ASX tests does not guarantee a successful IPO - It is merely the first step towards a successful IPO. The market will determine whether or not your company is an attractive listed investment opportunity.

Key factors that the market will consider in assessing your company for an investment:

- A clear and simple business model and a well articulated vision statement
- Exposure to an attractive industry
- Solid financial performance - profitable, or a clear path to profits
- Price
- Dividends
- Strong management team and a board with good track records
- Well defined utilisation of funds raised
- Adequate size
- Strong and profitable growth prospects
- A culture of delivering on promises and disclosure

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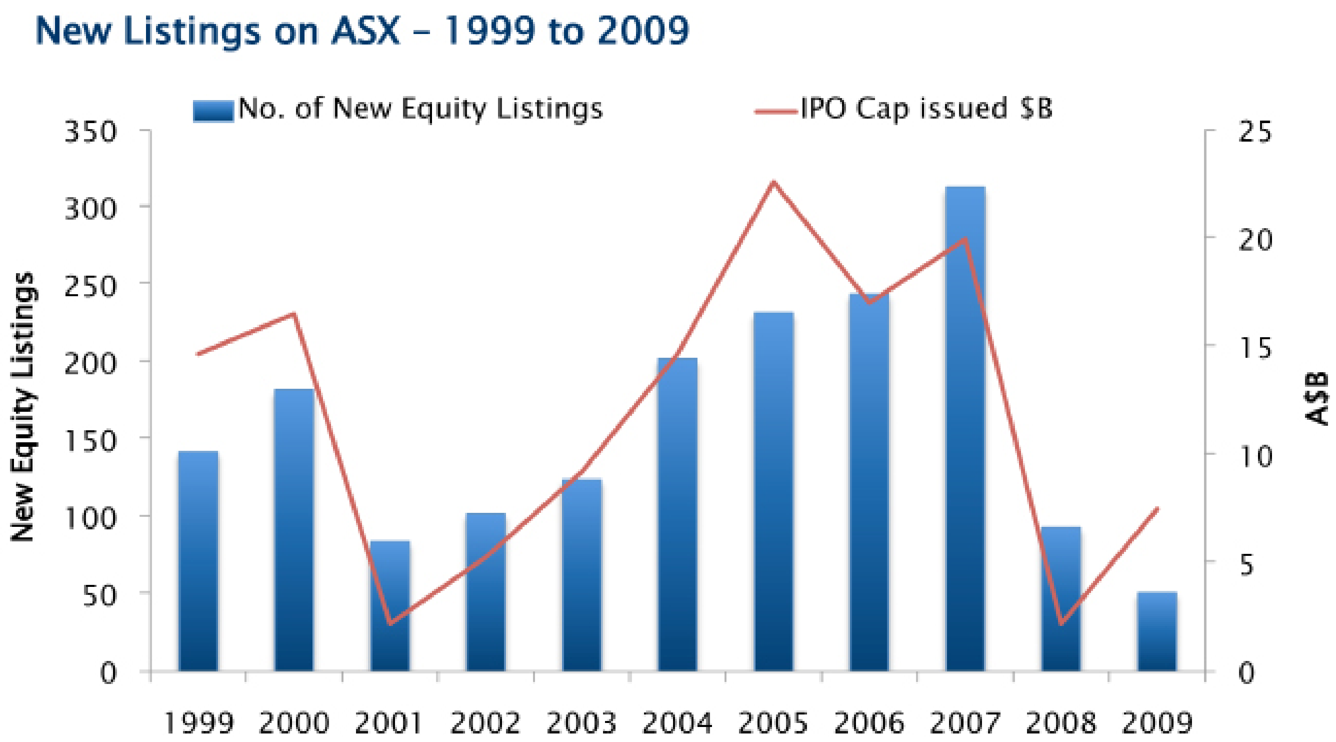
Is now a good time to do an IPO?

The appetite for IPOs varies dramatically, both in terms of number of IPOs and the types of businesses that are attractive to the market. Technology companies and mining stocks have gone in and out of favour with investors.



A company must consider the investor's appetite for its business progressively through the IPO process. Endeavour Capital has extensive contacts in the stockbroker community who can provide input into the market attitudes.

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The IPO process

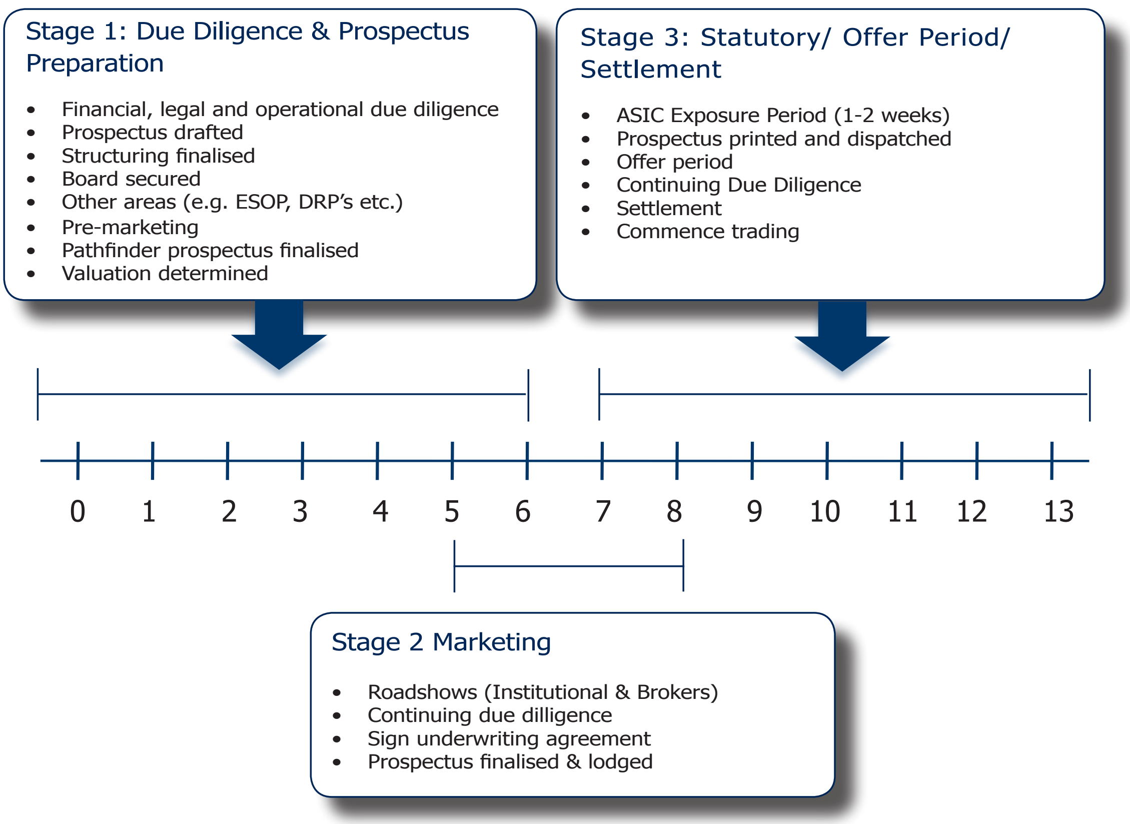
The Prospectus must comply with all the requirements of the Corporation Act. Failure to meet disclosure requirements is a criminal offence and Directors can face both criminal and civil liability. Therefore the preparation of the Prospectus has to be managed carefully to reduce the risks, a process known as due diligence.

A due diligence committee is established to oversee the prospectus preparation to ensure that there is a reasonable basis for making all the statements in the prospectus. The due diligence committee may consider all aspects of the company, including its business, management and its financial, taxation and legal position.

Endeavour Capital is experienced in chairing and being a member of the due diligence committee.

The costs of an IPO are typically staged and include legal, accounting, corporate advisory ASX, ASIC, printing, share registry and investor relations fees. In addition, the stockbrokers will charge a success fee based on a percentage of funds raised. The overall IPO costs for a smaller company are typically in the range of 8-10% of funds raised.

The Corporations Law requires, with certain exemptions that any issue of shares to the public must be made through a Prospectus lodged with ASIC.



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How much is your business worth?

The price at which a company issues shares is the result of a negotiation between the company assisted by its adviser and the stockbroker. Whether or not the IPO is underwritten, the stockbroker will want to ensure that there is strong probability that the fund raising will be successfully completed. This is at odds with the Company, who want to issue for the smallest dilution to achieve its objectives.

Endeavour Capital works with our clients to achieve their objectives, not that of the stockbroker. We compare your company's price/earnings ratio and dividend yield to others in your industry, evaluating its future prospects, its management team, its quality of earnings and its current stock market conditions.

To trade at a premium it is necessary for your company to differentiate itself from its peers. This will involve considering a range of factors including market position, any special technology or processes, the strength of the board, management, profitability and growth prospects.

10 questions before you start the process of a potental IPO

1. What are you trying to achieve through a listing?
2. Do you have a suitable corporate structure for a listed company?
3. Do you have the appropriate composition of board of directors?
4. Will the current management team be successful when operating in a listed environment?
5. Do your reporting systems always meet the timetable and accuracy required for listed a company?
6. Is your business model suitable for a listed company?
7. Are your key relationships adequately documented?
8. Do you have the corporate, compliance and risk culture to be listed?
9. Do you have a track record of delivering on your promises?
10. Are there suprerior alternatives to an IPO?

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What happens after the IPO?

After a company is listed, it must comply with the ASX listing rules and Corporations Law. This includes providing six monthly financial reporting within 60 days of period end, and complying with continuous disclosure. The accounts of the company, including remuneration of directors and senior management will be available to shareholders. The Managing Director, Chief Financial Officer and Chairman will have ongoing investor relation responsibilities.

There are also ongoing compliance costs including listing fees, audit fees, share registry fees, annual general meeting costs and shareholder reporting costs as well as additional directors fees.

What are the alternatives to an IPO?

Having reviewed the issues highlighted in this document you may decide that your company is not ready for an ASX listing at this point in time. There are a number of alternative sources of capital available, including:

- A trade sale of all or part of your business
- A management buy-out
- Debt capital
- Other equity capital from either a strategic, passive or financial investor

Endeavour Capital can assist you consider and execute these alternatives.

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How can Endeavour Capital help?

Established in 1998, Endeavour Capital is an independent advisory company specialising in small and mid-sized companies typically valued up to $100 million. Our role is to assist our clients in achieving their objectives through providing independent, sound, creative and experienced counsel. Endeavour Capital's activities include: acquisitions, business sales, capital raisings, directorships, IPO project management, succession planning and valuations.

We have over 25 years of experience advising companies across a wide range of industries including distribution, financial services, healthcare, information technology, manufacturing and retail.

Endeavour has an experienced and specialist team of professionals that can assist and advise companies on all stages of the IPO process, including:

- An initial assessment of the suitability of the company for listing
- Providing independent, strategic advice to the company on the listing process
- Assessment of the company's capital structure
- Preparation of an Information Memorandum on the business to be used in presentations to underwriters/sponsoring brokers
- Assistance in selecting underwriters, sponsoring brokers and other experts
- Advice and assistance in determining the pricing and terms of the IPO
- Co-ordinating underwriters/brokers and other professionals required to achieve IPO
- Co-ordinating the preparation of the Prospectus and due diligence process
- Marketing the offer within the investment community
- Negotiating valuation and agreement with stockbroker
- Preparing road show presentation.
- Liaising with legal and accounting advisers
- Co-ordinating with the ASX selected
- Co-ordinating ASX reporting obligations

Endeavour Capital manages the intensive process of preparing a company for its IPO, enabling the CEO and CFO to remain focused on ensuring the company continues to meet its financial targets. Our role is to assist you in identifying issues that you may encounter during this process and identify solutions. We can also advise on whether equity is the right source of new money or whether alternative sources should be sought. If you are not ready for a listing we can help in advising on a strategy to prepare your company for a listing at a future date.

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