
The IPO Forum

November, 2010

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Executive Summary

- NIC Capital (“NICC”) assists large to medium sized companies raise funds through:
 - Private Placements of Equity issues;
 - Pre-IPO Convertibles;
 - IPO Placements;
 - Debt Placements;
 - Other Debt / Equity Hybrid instruments.
- NICC also offers other services including:
 - Assisting clients looking to IPO in a few years get ready for such a critical corporate event;
 - Advising clients on optimal capital structure;
 - Providing Merger & Acquisition advisory.
- NICC is eminently qualified to act as a trusted financial advisor by virtue of its:
 - Dedication and on the ground presence as well as its diverse product offering – Debt Capital Markets, Equity Capital Markets as well as Corporate advisory execution platforms;
 - Through partnership with group companies including NIC Bank, NIC Bank (Tanzania), Insurance Company of East Africa, ICEA Asset Management , Lion of Kenya and other investors, NICC has the capacity to successfully execute and place significant amounts of both debt and equity offerings;
 - NICC is currently advising Real Insurance on a equity private placement of KES 651 mn and recently advised Housing Finance on structuring a KES 10.0bn Medium Term Note followed by a KES 7.0bn debut issue. NICC is also in the process of advising another listed institution on a KES 900mn Corporate Bond. Similarly, NICC also advised Athi River Mining on their KES 1.6bn Equity Linked Note in April, 2010.

2. Alternative Sources of Capital

2A. IPO Placement

What is an IPO?

An initial offer of shares for purchase to the general public by a limited company, subsequently the shares are freely tradable in a public market such as the Nairobi Stock Exchange.

The Nairobi Stock Exchange offers Company's an option to either list on the Main Investment Market Segment (MIMS) or the Alternative Investment Market Segment (AIMS).

	MIMS	AIMS
Share Capital	<ul style="list-style-type: none">• Minimum share capital of KES 50 mn	<ul style="list-style-type: none">• Minimum share capital of KES 20 mn
Track Record	<ul style="list-style-type: none">• Declared positive after tax profits for at least 3 years of the past 5 years	<ul style="list-style-type: none">• Declared positive after tax profits for at least 1 years of the past 2 years
Financial Records	<ul style="list-style-type: none">• In compliance with IAS• Audited Financial Statements	<ul style="list-style-type: none">• In compliance with IAS• Audited Financial Statements
Directors & Management	<ul style="list-style-type: none">• Competent and Suitable Directors and Management	<ul style="list-style-type: none">• Competent and Suitable Directors and Management
Dividend Policy	<ul style="list-style-type: none">• Must have a clear future dividend policy	<ul style="list-style-type: none">• Must have a clear future dividend policy

Why Consider an IPO?

An IPO provides both benefits and obligations for the Company and its shareholders, and the pros/cons should be carefully assessed.

Advantages

- ▲ Creates liquidity, allowing shareholders to monetise all or part of their investment
- ▲ Enables broader access to capital to facilitate corporate growth (equity, equity linked)
- ▲ Current shareholders do not need to inject additional funds (or over-aggressively leverage up the company) to finance future growth
- ▲ Provides the option of equity-based incentives, thereby helping to retain and attract key management and employees
- ▲ Catalyst for installing a solid corporate governance framework
- ▲ Corporate image and prestige enhanced/greater public visibility and awareness

Issues to Consider

- ▼ May not maximise value in the current market environment (and there is a risk that the valuation achievable may be below the range acceptable to the shareholders) – investors “buy-in” to the high growth business plan / equity story is key
- ▼ Dilution of ownership/control by the families, although this can be mitigated through structuring
- ▼ Change from the philosophy and culture of private company
- ▼ Pressure to deliver short term results
- ▼ Corporate governance more onerous and costly
- ▼ Additional responsibilities of directors of a quoted company
- ▼ Greater disclosure of financial and operational information

The ultimate timing of any IPO will depend upon funding requirements, the broader market backdrop and the speed with which the preparatory work can be completed. Given the longer term and strategic rationale for the offering, there is clearly no need to rush. However, early preparation will preserve maximum timing optionality.

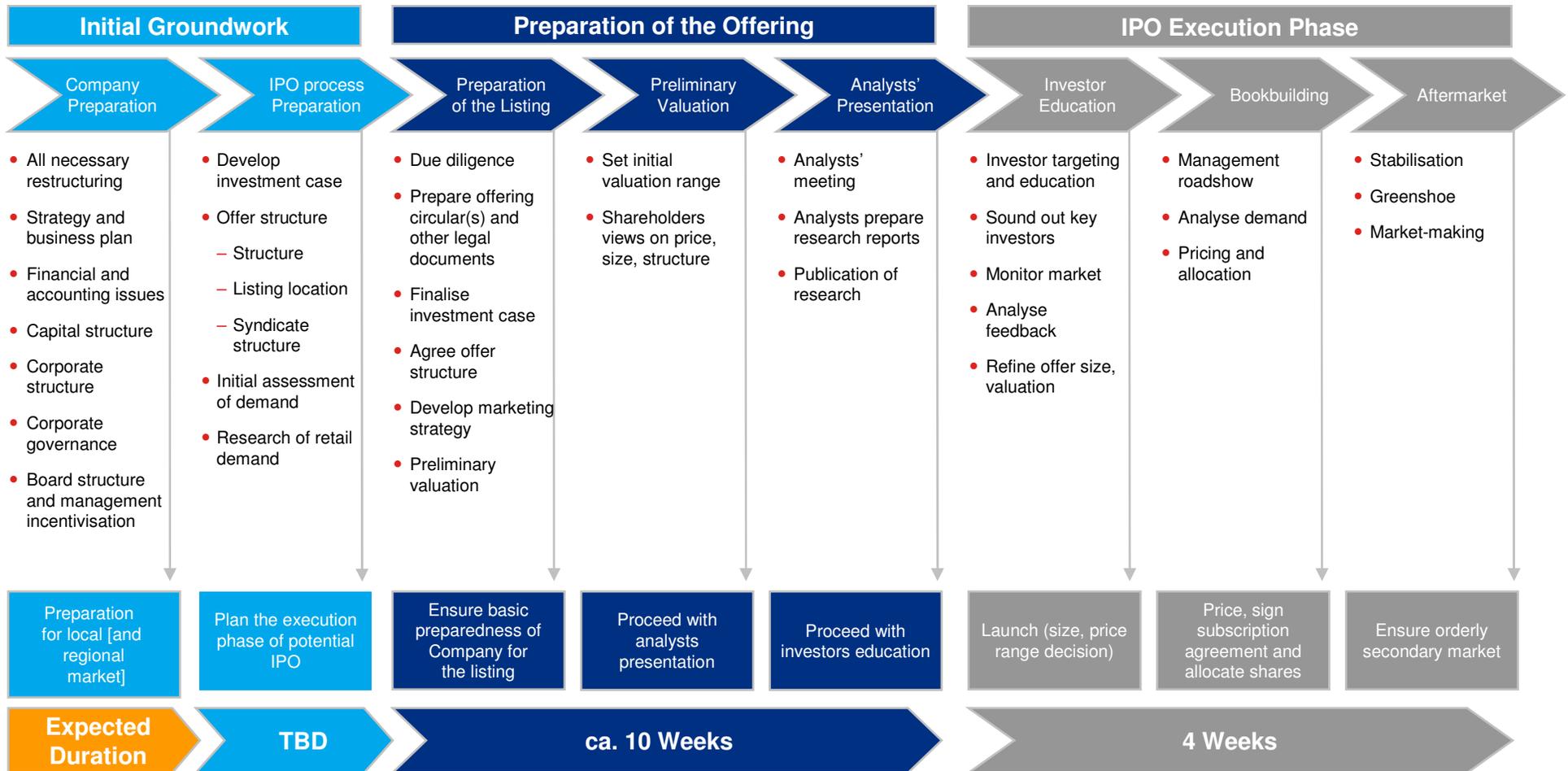
What Does the Company Need to Consider Prior to IPO?

The ability of the Company and its advisors (banking, legal, accounting) to deal with as many of the pre-IPO considerations raised below at the earliest possibility will allow it greater flexibility over the ultimate timing of pricing the IPO.

Issue	Comment
Strategy/ Restructuring	<ul style="list-style-type: none"> • Complete any necessary internal strategic restructuring underway that will impact the equity story
Investment Case / Communication	<ul style="list-style-type: none"> • Carefully assess its business plan / capital requirements to justify IPO proceeds • Identify and refine key investment themes • Preparation of data that best supports IPO messages • Selection of PR firm ahead of launch to manage information flow to the market
Offer Structure	<ul style="list-style-type: none"> • Consider best offer structure for access to all pools of potential demand (e.g. domestic, regional and sector focused investors) • Carry on discussions with the relevant market and stock exchange authorities to ensure effective deal management
Financials	<ul style="list-style-type: none"> • Ensure all historical financials required to complete IPO will be available in time to meet target IPO pricing date • This information will be important to the overall selling message and determining valuation • Agree on reporting standards and regime going forward post-IPO and ensure systems in place to allow the listed company to report in a timely fashion
Corporate Governance	<ul style="list-style-type: none"> • Ensure listed company is able to meet international standards of corporate governance – key to maximising uptake from international investors • Key points to consider will be: <ul style="list-style-type: none"> – Appointment of non-executive board members (recommended that majority of Board are non-execs) as necessary – Create audit, remuneration and nomination committees to be chaired by non-executive board members – Ensure full and transparent disclosure of all matters relating to the business, including pre-IPO shareholders
Internal Planning	<ul style="list-style-type: none"> • Internal planning ahead of IPO will be important to limit management distraction • Formation of core working party with clearly defined roles, including IR officer, if possible • Working party will need contacts for key areas – Finance, Marketing, Operations, Legal and HR
Refine Investor Targeting	<ul style="list-style-type: none"> • Work with banks to ensure that target investor list for IPO includes any existing relationships which can be leveraged

IPO Process Overview

The IPO process involves three distinct phases of work: initial groundwork to prepare Client for public ownership and agreement of the structure of the offering; preparation of the offering and execution of the offering. Time to market can typically be expected to be around 3-5 months.



Roles and Responsibilities – Split Between Transaction Parties

The Transaction Advisor will be intimately involved in each and every stage of execution and will coordinate the entire process to attain maximum efficiency throughout.

Client

- Management due diligence
- Establish Data Room
- Discussion on equity story of the group and business plan/strategy
- Preparation of Offering Circular
- Preparation of financial statements/business plans/dividend policy
- Corporate restructuring (if required)
- Corporate governance/Board composition
- Press releases
- **Provide information for analyst and roadshow presentations as well as any pilot-fishing presentations**
- Review of analyst research
- Anchor marketing presentation
- Management roadshow presentation
- Ongoing investor relations

Transaction Advisor

- Project Management of offering
- Transaction structuring
- Development of equity story
- Due diligence
- Review of Offering Circular
- Oversight of Offering Circular
- Preparation of analyst and roadshow presentations
- Liaison with NSE and CMA
- Coordinating investor education (pre-marketing)
- Underwriting and other relevant legal agreements
- **Coordination of pricing/allocation/settlements/trading/stabilisation**

Issuer's Counsels

- Corporate restructuring advice (options and compliance with applicable law and regulation), if required
- Review of transaction and contribution to drafting and Offering Circular
- Identify possible legal hurdles arising from offering
- Coordination of other jurisdictional issues
- Corporate and regulatory approvals
- **Drafting of Offering Circular/reviews for compliance with applicable law and securities rules**
- Drafting of underwriting and other relevant legal agreements including lock-up etc
- Legal opinion and any necessary technical and law opinions
- Drafting of publicity guidelines
- Liaison with NSE and CMA

Sponsoring Stock Broker

- **Guide Client on all matters pertaining to NSE, the CMA and all the relevant Acts, regulations and the rules that govern a IPO**
- Submit the application and information memorandum to the CMA and NSE for approval
- Lead the setting up of a network of brokers and agents to implement the sales strategy and lead the sales process with support from this network
- Preparation of research guidelines
- Perform any other sponsoring brokerage role that may be required under the relevant laws and regulation

Auditors

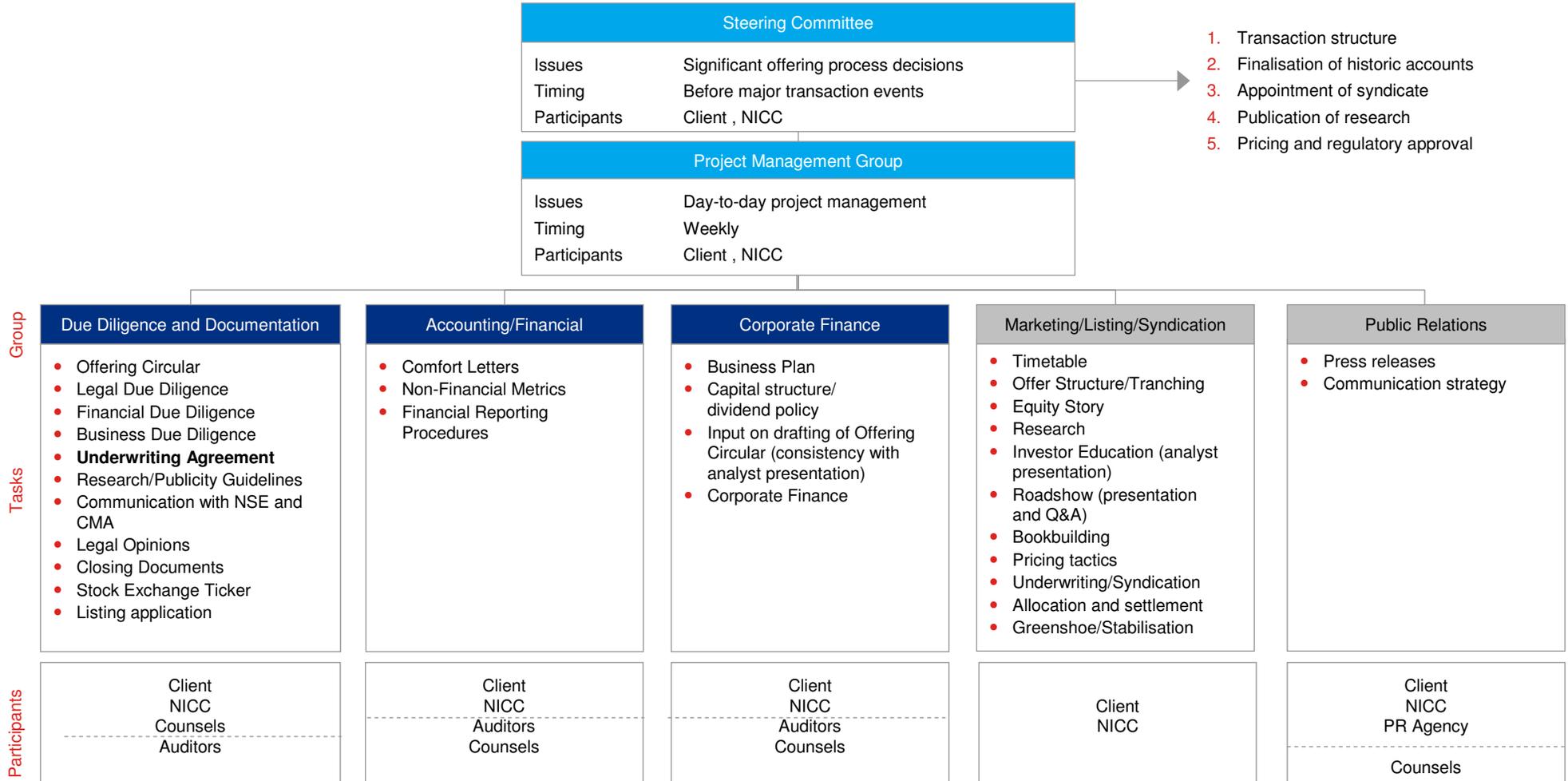
- Preparation and audit of three years of IFRS historic financials plus any relevant interim periods
- **Financial due diligence, including limited scope financial due diligence report**
- Prepare and review interim financial statements, if necessary
- Assist in preparation of MD&A
- Review Offering Circular
- Comfort letters
- Audit of financial reporting procedures
- General advisory to parties on accounting and disclosure issues

Registrar

- **Receive share application forms once confirmed by the Lead Transaction Advisor and the Sponsoring Broker**
- Prepare share certificates and send them to Client for execution
- Receive transfers requests and make any necessary entries and updates to the shareholder's registrar
- Deliver circular and share certificates to shareholders
- Will be sending updated registrar to Precision for purposes of paying dividends

Project Management

The Transaction Advisor would assume the role of overall co-coordinator between the various other professional advisors and consultants during the preparation and execution stage of the transaction to ensure a robust IPO process and successful outcome.



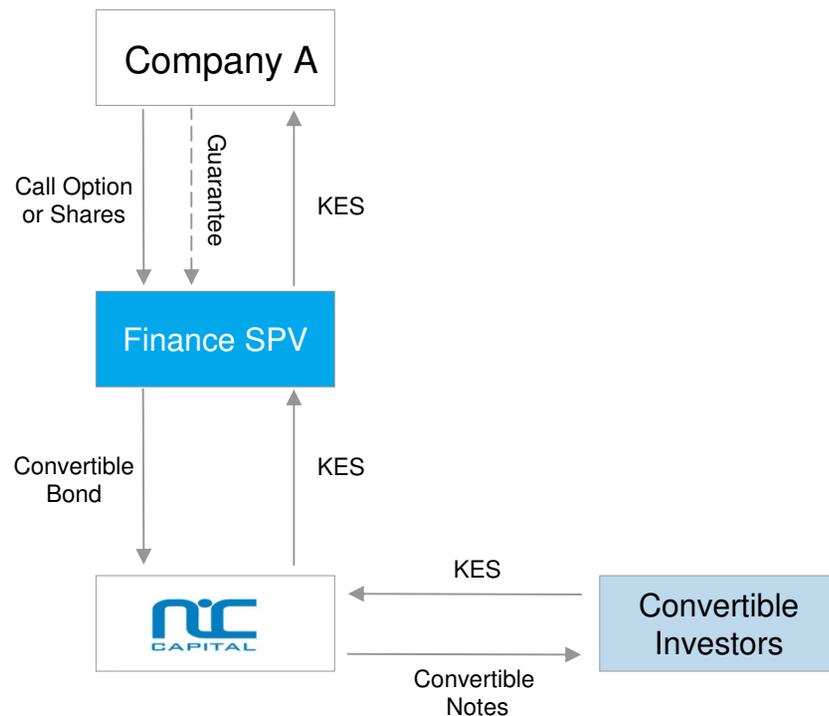
1. Transaction structure
2. Finalisation of historic accounts
3. Appointment of syndicate
4. Publication of research
5. Pricing and regulatory approval

2B. Pre-IPO Placement

Financing Structure of a Pre-IPO Convertible

A Pre-IPO convertible is an attractive option for companies looking to raise funds within 24 – 36 months of an IPO.

Transaction Diagram



Transaction Considerations

- A pre-IPO convertible can allow the Company to raise funds prior to an IPO
 - Investors typically require mezzanine-type returns for these investments
- These securities can be structured to achieve the Company's objectives
 - Can allow the Company to raise capital prior to an IPO
 - De-risks capital raising, giving the company incremental capital in the near term
- Buyer universe is typically targeted
 - Appeals to convertible funds, hedge funds, high-net worth individuals and certain arms of private equity funds
 - Target investor universe represents deep pocket of capital
 - Unlike traditional private equity, investors in these investments do not require any measure of control
 - Enables the Company to raise capital without requirement to address Management / Governance
- Marketing is usually focused on the Company's story
 - Given investors' limited historical exposure to the company, investors will be focused on understanding the Company's potential
 - Transaction will likely require 4 – 6 weeks of marketing so as to get investors familiarized with the Company
 - Ability to educate these investors today can be beneficial for a future IPO, as it is possible that these investors could represent anchor orders in a future capital raise such as during **IPO**

Rationale for a Pre-IPO Placement

Broaden shareholder base ahead of an IPO, tapping key strategic investor(s)

- Garner support from key investors
- Strategic relationships can help to continue to build the Company's growth story

Provide the Company with liquidity at attractive valuations

- Can be structured as a straight equity investment or as a pre-IPO convertible, depending on transaction objectives
- Can potentially achieve a better valuation by providing downside protection

Provide financial flexibility

- Transaction allows for a liquidity event without requiring a public offering in the current market conditions
- Provides stability to the capital structure, enhancing IPO execution
- Mitigates valuation risks by providing a more stable backdrop in volatile market conditions

Establishes a valuation benchmark

- Provides a validation of the equity story by sophisticated investors
- Can take advantage of positive headwind prior to an IPO by establishing a strong valuation benchmark

Efficient execution

- Can execute a transaction with a limited number of investors within 2-3 months
- Key driver of timing is availability of key financial information to present to prospective investors

2C. Debt Placement

Debt Financing Options

Debt products are easier to access as they have a broader investor appeal ranging from banks, asset managers, pension funds and retail investors, among others.

Financial Instrument	Benefits & Considerations	Comments
Term Loan	<ul style="list-style-type: none"> ▲ Quick financing option ▲ Can be structured to fully meet client's objectives ▼ Relatively expensive 	<ul style="list-style-type: none"> ● A loan from a bank for a specific amount that has a specified repayment schedule and a floating interest rate. Term loans almost always mature between one and 10 years
Revolving Credit Facility	<ul style="list-style-type: none"> ▲ Amounts repaid are available for re-drawing ▲ Credit is available when you need it ▼ In some cases, the borrower is required to pay a fee to the lender for any money that is undrawn on the revolver 	<ul style="list-style-type: none"> ● A line of credit where the customer pays a commitment fee along with interest expenses and is then allowed to use the funds when they are needed ● Usually used for operating purposes, fluctuating each month depending on current cash flow needs
Syndicated Loan	<ul style="list-style-type: none"> ▲ Speed of execution ▲ Flexibility of use – general corporate purposes and, in terms of drawdown, availability and ability to prepay ▼ Usually include more covenants than bonds 	<ul style="list-style-type: none"> ● A loan made by two or more lending institutions on common terms and conditions using common documentation and administered by a common agent ● Perhaps the only option for medium sized companies unable to access the bond markets or not willing to get rated
Bond	<ul style="list-style-type: none"> ▲ As well as long maturities, bonds are a source of fixed rate funding ▲ The long tenor and fixed rate provide a very attractive tool for asset, liability and risk management ▼ Regular interest payments and principle at a determined date 	<ul style="list-style-type: none"> ● The core investor group of bond investors, namely pension funds, typically invest around one third of funds under management in bonds
Commercial Paper	<ul style="list-style-type: none"> ▲ Easy, cheap and quick to issue, especially with privately placed CP's ▲ Flexible tenor and pathway to cheaper longer term borrowing ▼ Proceeds from CP are restricted to financing short term needs (working capital) 	<ul style="list-style-type: none"> ● A CP is a short term promissory note issued by corporations to finance short term needs ● Appetite for CP is starting to grow as rising bank interest rates make CP a cheaper option of raising funds

Q & A