

DR Abstract

Developing Public Company Infrastructure for IPO and Beyond

In the second of its autumnal educational events for Russian issuer clients, J.P. Morgan's DR Group held a seminar in St. Petersburg on the subject of 'Developing Public Company Infrastructure for IPO and Beyond.' The event, led by Peter Russell, a member of the DR Group's IR Advisory Services team, was held in partnership with PriceWaterhouseCoopers.

An initial public offering is not only a milestone, it is the entrance into a new stage—life as a public company—that presents its own unique opportunities, risks and challenges. History has shown that companies who prepare in advance can best take advantage of the IPO window when it opens. Planning and organizing an IPO can be arduous, and most experts estimate that it takes at least one year of intense work above and beyond the day-to-day running of the business. A company that is well-organised, that has a track record of effective communication and is knowledgeable about the challenges ahead, is likely to be better received by the investment community after listing.

J.P. Morgan's seminar on 'Developing Public Company Infrastructure for IPO and Beyond' brought together an expert line-up of IR professionals, accountants and lawyers to examine the various policies, functions and information resources that need to be in place to enable effective investor relations. The event's speakers included:

- Nik Colbridge, Counsel, Skadden, Arps
- Kirill Abaryshev, Associate, Skadden, Arps
- Tom Blackwell, Managing Director, M: Communications
- Anna Kuznetsova, Partner, PriceWaterhouseCoopers
- Mikhail Subbotin, Partner, PriceWaterhouseCoopers
- Olga Vysotskaya, Certified Director
- Kliment Falaleev, IR Director, LSR Group

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Seminar highlights and a summary of the key issues discussed

Managing Expectations

Understanding both external expectations and internal responsibilities was highlighted by Tom Blackwell of M: Communications as vital for effective IPO infrastructure development. Questions, to which thorough responses should be sought, include:

- What information does the company want to disclose and when – beyond routine?
- What guidance, if any, will be provided?
- What is the desired frequency of operational/production updates?
- Who is currently authorised to speak for the company? Who should be authorised to speak for the company?
- What kind of news flow does the company anticipate?

Often there will be an emotional element to the decision-making process, when facing up to such realities as: ‘Is management really ready to talk about the business to the outside world, on a regular and regulated basis’ and ‘Is the CFO prepared to devote a third of his/her time to Investor Relations (IR) obligations?’

Values into Action

There are numerous inputs that will affect the attitudes of investors and ultimately determine the valuation of an IPO. Investors, for example, look for companies that have a successful track record – of achieving goals and that have demonstrated the ability to deliver shareholder value. Management will have the opportunity to communicate the track record via roadshows and the prospectus. A less tangible, yet invariably more challenging asset to nurture is credibility. Credibility, ahead of business strategy and even metrics of past performance is reputed to be the leading factor the buy-side considers when evaluating whether to buy an issuer’s stock. Credible companies have clear lines of authority and have established formal processes running right through the organisation. A company can therefore seek to significantly boost its IPO effort by starting to act and look like a well-disciplined public company before it taps the equity markets. This typically takes the form of:

- Updated IR website and presentation to reflect the equity story and strategy
- Disclosure guidelines to demonstrate transparency and compliance
- IR strategy, calendar and budget
- A dependable guidance policy
- Internal reporting procedures
- Baseline coverage/profiles achieved in targeted international and financial media

Disclosure Obligations

Outlining the principal legal issues arising in connection with post-IPO obligations of Russian issuers, Nik Colbridge and Kirill Abaryshev from the law firm Skadden, Arps drew attention to ongoing disclosure requirements.

What needs to be disclosed?

- Information that is required to be disclosed under foreign law (for DR issuers)
- Russian quarterly reports
- “Material facts” disclosure

How the disclosure needs to be done

- Russian language
- Internet/newswires
- Foreign law disclosure information – day of disclosure under foreign law
- Russian quarterly reports – within 45 days from the end of the quarter
- “Material facts” disclosure – not later than 2 days from the relevant event

A related issue addressed during the panel discussion was inside information. An essential prerequisite for the proper functioning of financial markets is that all market participants are treated equally. It is not acceptable that anyone would receive a financial benefit from a transaction executed on the market as a result of the use of inside information or manipulation techniques. What constitutes “Inside Information” and how it should be treated is an important consideration for any publicly listed company. In general terms, Inside Information is information of a precise nature which: is not generally available; relates, directly or indirectly, to the company; and if generally available, would be likely to have a significant effect on the price of the company’s shares.

Panellists agreed that the maintenance of an up-to-date ‘insider list’ should be a priority disclosure and compliance task overseen by the Board of Directors and supported by both the Investor Relations and Legal functions. The list needs to include a record of all persons acting or working for the company that have access to inside information relating directly or indirectly to the company. Russian issuers must be ever more disciplined in notifying a Regulatory Information Service (RIS) as soon as possible, and posting on its web-site, details of any inside information which directly concerns the company. The company has limited ability to delay disclosure so as not to prejudice legitimate business interests and where the confidentiality of the information can be ensured.

An interesting point to note is that the UK’s regulatory body, the FSA, has commented that it is not acceptable for companies to announce good news which can be expected to have a positive impact but to withhold bad news on the same matter. Issuers are advised to take this into account before voluntarily announcing good news that is not inside information.

When to Prepare

There was a consensus among speakers and delegates that Russian IPO candidates could benefit from adopting a more methodical and proactive approach to the preparation of internal controls and systems required for public company life. As foreign investors become increasingly selective, companies face an ever-growing need to plan and implement all aspects of their IPO carefully to achieve a fair valuation. The question of when to start preparing the IR function for IPO is a difficult one given that it invariably depends on how the company currently functions. The most important consideration is that investors like continuity and stability. The earlier a company has established reliable working practices and is acquainted with high standards of IR behaviour, the more likely it will display these characteristics.

Key Takeaways

- Understanding both external expectations and internal responsibilities is vital for effective IPO infrastructure development.
- There are two key areas of information disclosure that are considered in advance of going public: What information will need to be disclosed and how it should be disclosed.
- Maintenance of an up-to-date 'insider list' should be a priority disclosure and compliance task overseen by the Board and supported by both the Investor Relations and Legal departments.
- IPO candidates could benefit from adopting a more methodical and proactive approach to the preparation of internal controls and systems required of a public company.
- As foreign investors become increasingly selective, companies need to plan and implement all aspects of their IPO carefully to achieve a fair valuation.

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