



**Jamaica Stock Exchange
Junior Exchange Seminar
20 February 2009**

IPO Valuation

*“Price is what you pay.
Value is what you get.”*

Warren Buffett

Pre IPO Value Factors

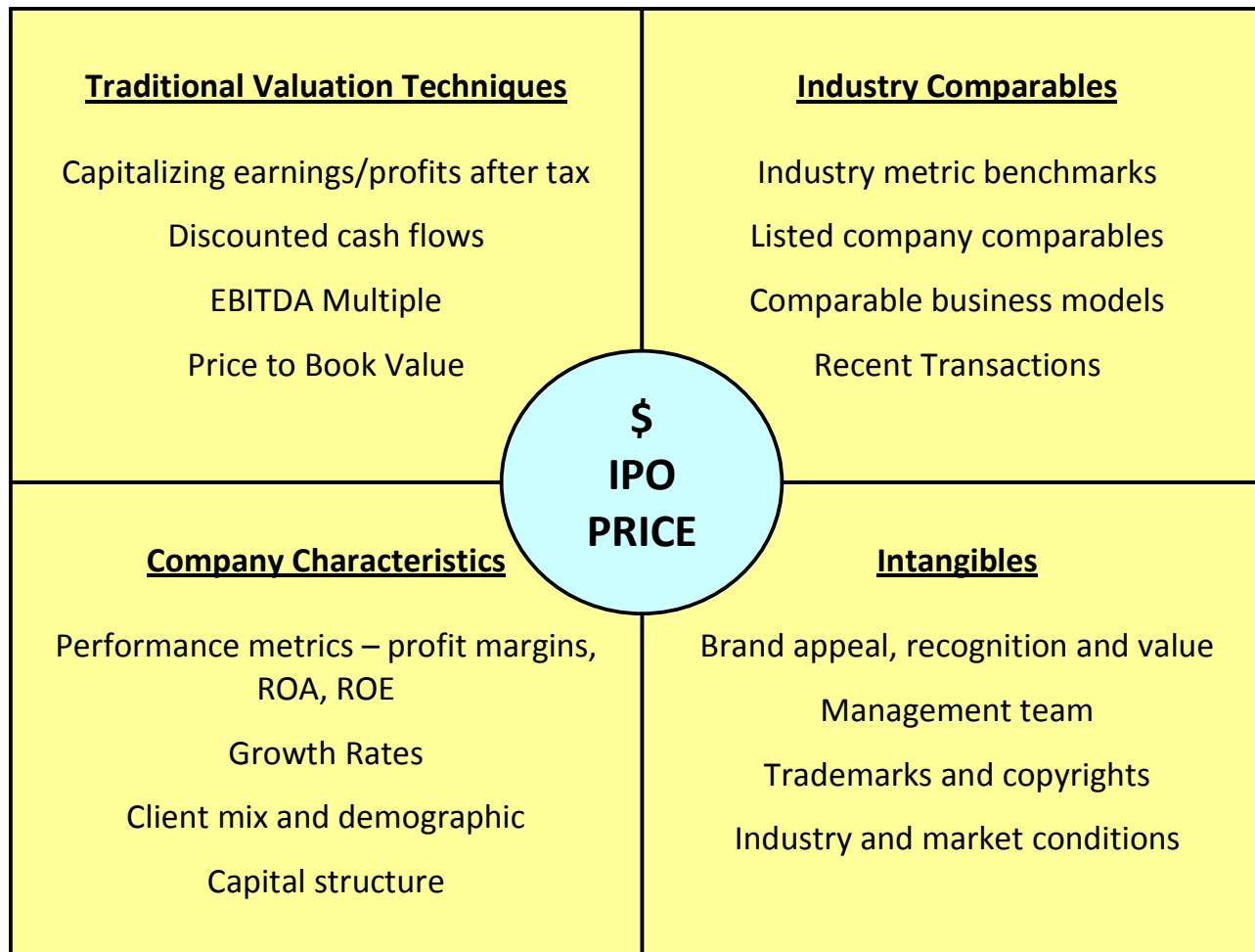
- Private capital structure – Equity & Debt
- Post IPO capital structure
- Market value of assets – employed assets and redundant assets
- Intangible value and goodwill created as a private entity
- Business model & business plan
- Comparable industry valuations or transactions
- Risk

IPO Pricing Methodologies

IPO pricing is a triangulation of valuation methodologies, factors and considerations

- Traditional valuation techniques
- Industry Comparables
- Company characteristics
- Intangibles

IPO Price Box



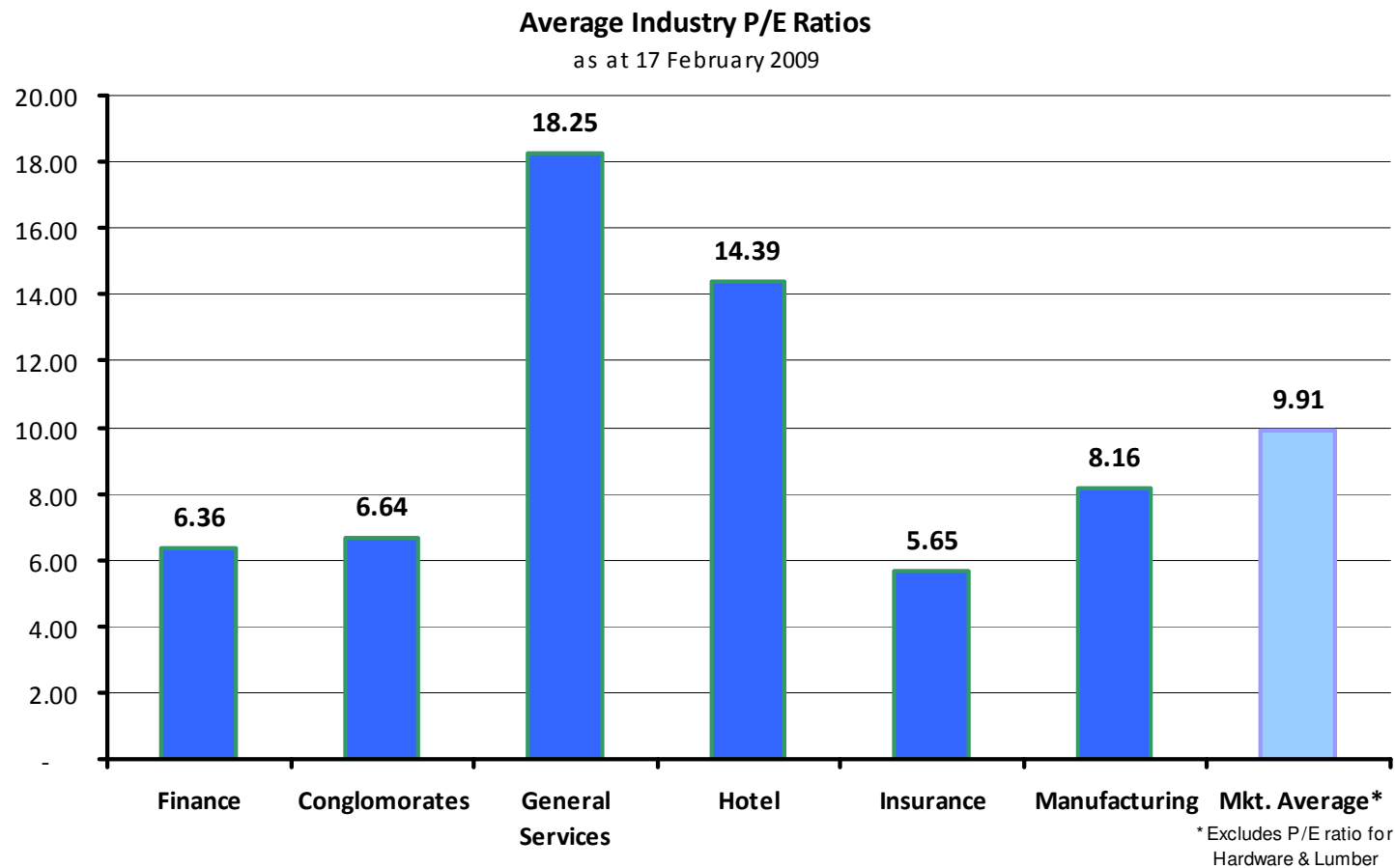
Traditional Valuation Techniques

- Past financial performance – focus on growth, profitability, cash generation/burn, ROA, ROE
- Cash flow projections demonstrating future growth and how IPO cash injection will be deployed in the business
- Net asset/book value of the business – asset valuations may be necessary
- Identifying non recurring income and expenses – normalising income

Industry Comparables

- Company performance metrics vs industry standard
- Listed company comparables to guide on price multiples, leverage and performance ratios
- Free float of shares
- Pricing on past IPOs in the same industry
- Tracking price movement of listed industry counterparts

Industry PEs on the Big Board



Company Characteristics

- Stage in the business cycle – customer growth, demographic and geographic spread
- Past performance, with a focus on most recent – 3-5 years – has there been growth
- How is the business financed – Debt to Equity
- The impact of the IPO on the future performance of the company
 - reduce debt or expand
 - enhanced income tax incentives on the Junior Market

Intangibles

- Brand value, appeal & recognition – strong brand and trademarks owned by the company may warrant a higher price
- Market conditions – is the time right for an IPO – is there growing demand for the product, will a reduction in debt servicing improve performance significantly
- Governance and Management – experience, future involvement, technical abilities and commitment

Valuation vs JSE Price

The intrinsic value of a company very often differs from the market determined price, but there is liquidity and access to capital.

- A valuation exercise may include information that is not available to the public
- Discussions are held with management and boards that allow the valuator to make judgments on both a qualitative and a quantitative basis
- Market prices tend to reflect the minority position rather than an en bloc value of the business

Post IPO Value Factors

- Meeting business and strategic plan objectives presented pre IPO
- Growing revenues, profits and market share
- Liquidity of the stock following listing
- Disclosure and corporate governance
- Sustained strong leadership in the management team



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