The Art of Successful IPOs

How BCG Supports Effective Transactions

Transaction Center Product Series
Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we help clients with total transformation—inspiring complex change, enabling organizations to grow, building competitive advantage, and driving bottom-line impact.

To succeed, organizations must blend digital and human capabilities. Our diverse, global teams bring deep industry and functional expertise and a range of perspectives to spark change. BCG delivers solutions through leading-edge management consulting along with technology and design, corporate and digital ventures—and business purpose. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, generating results that allow our clients to thrive.
The Art of Successful IPOs
How BCG Supports Effective Transactions
A Proven, Time-Tested Approach

IPO transactions call for effective collaboration among numerous players over lengthy periods of time. Key participants range from investment banks and law firms to accountants and multiple departments within the organization—to name just a few. Confronted by such complexity, many organizations considering an IPO struggle with how best to conceptualize, prepare for, and execute the transaction. At BCG, we’ve developed a proven approach for managing the challenges that come with IPOs.

Our approach complements and reinforces the various participants’ efforts in every IPO transaction. As a result, we’ve facilitated many successful IPOs in a diverse array of industries and geographies. We also add value to the overall IPO process through our proven support philosophy.

- **Dedicated IPO and transaction team:** Through BCG’s Transaction Center, we bring a strong team with specific skills and experience to help clients manage the IPO.

- **Renowned industry expertise:** Regardless of industry and market, we bring the full depth of BCG’s expertise to the table to shape the IPO strategy, business plan, and equity story.

- **Collaborative approach:** We work alongside you every step of the way. We also help you coordinate all other advisors—including your investment banks, accountants, and law firms—from a strong PMO.

- **Value focus paired with detail discipline:** We concentrate our expertise on the aspects of your IPO that have the most value at stake. We also deploy our analytical power to ensure that no detail or risk is ignored—so nothing can jeopardize successful execution of your IPO.
• **Thought partner:** We serve as a sparring partner for addressing your most common and daunting IPO issues. No matter what the question is, we work hard with you to find the right answers and we aren’t afraid to challenge you to get there.

We apply our support philosophy and our disciplined approach over every phase of the IPO transaction process:

**Phase 1: Conceptualize**
- Understand IPO implications
- Check IPO readiness
- Plan carve-out
- Review business plan and draft cornerstones of equity story

**Phase 2: Prepare**
- Understand investor universe and expectations
- Build strong equity story
- Prepare prospectus and other filings
- Decide on capital structure and dividend policy

**Phase 3: Execute**
- Finalize and gain approval of prospectus
- Prepare analyst presentations and investor roadshows
- Conduct investor education and roadshows
- Conduct book-building and pricing

Let’s see exactly how BCG helps companies successfully navigate the IPO process.
Phase 1: Conceptualize

Are you ready to list?

Clearly, IPOs can deliver significant proceeds to the seller and provide the new company with access to capital markets in the future. But before executives can decide whether an IPO makes the most sense for their company, they should define a sound concept for the strategy.

There’s much to consider here. For example, once a company goes public, it will have to not only continue competing for customers in its chosen markets but also start competing for investor funds. Management will need to answer to investors as well as to analysts, who will all keep an eagle eye on the company’s financial performance and management practices.

So the crucial question becomes: “How ready are we for an IPO and life in the capital markets?”

To help companies assess their capital-market readiness, BCG uses a comprehensive approach that zeroes in on three readiness dimensions: (1) strategic and financial, (2) reporting, and (3) corporate and governance. This approach helps illuminate any readiness shortfalls or gaps and can point executives’ attention to areas that need addressing to improve the chances of a successful IPO.

Strategic and financial readiness

Once under the spotlight of capital markets, management needs to regularly review, and even more importantly, deliver against the company’s financial targets. A sound business plan at the time of the listing preparation is thus crucial for IPO success and future capital-market performance.

Even though the company can’t disclose its plan to investors in detail, the plan constitutes a pivotal part of a successful IPO. Having a sound business plan in place early in the process helps the company understand how well positioned it is compared with its peers and what valuation uplift it can expect from earnings improvements. It also helps management make the right decisions regarding capital structure and dividend policy. After the IPO, the business plan helps management meet the company’s financial targets and win the market’s trust—and thus attract additional funds.

BCG works jointly with clients to make their business plan “investor proof.” That is, we put ourselves in the shoes of different investor
groups to challenge the plan’s substance, its granularity, and its ambition level compared to peers. Together with our clients, we help define levers for improving a company’s performance, and we prepare rigorous implementation plans to ensure that the resulting effects are visible in time for investors to recognize them in the IPO.

Building on the business plan, we develop the cornerstones of the equity story, including an initial set of investment theses and a clear articulation of the IPO’s strategic intent. We formulate initial storylines for all of a company’s businesses—the pearls, certainly, but also businesses that may be more difficult to communicate to the market. Additionally, we closely analyze peers’ equity stories, with an eye toward understanding how they present their overall business and their business segments to the market. The business plan and equity story are closely interlinked. Their consistency is a key success factor in IPOs; therefore, development of both should go hand-in-hand.

**Reporting readiness**

All companies seeking to go public face a major challenge: establishing processes and infrastructure for creating and publishing financial statements and data on key performance indicators. Such reporting must meet the strict content and timing rules required by capital markets (such as quarterly financial statements). Companies must also compile a comprehensive set of historic financial and non-financial data to include in the IPO prospectus.

BCG helps companies understand these and other reporting requirements.

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**Business Plan**

- **Group financials guardrails**
  - e.g., sales growth and cash yield targets

- **Detailed cost forecasts**
  - e.g., SG&A cost estimates over time

- **Specific improvement measures**
  - e.g., headcount reduction program

- **Capital and dividend forecasts**
  - e.g., payout ratios and debt factor

- **Detailed investment plan**
  - e.g., asset-by-asset capex estimates over time

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**Equity Story**

- **Strategic positioning and investment highlights**
  - e.g., focus on growth with moderate cash yield

- **Financial guidance**
  - (directional only!)
  - e.g., opex excellence and cash management programs

- **Financial framework**
  - e.g., payout and rating commitment

- **Investment corridor**
  - e.g., portfolio capex guidance

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Note: Arrows indicate direction of influence between the two documents.
Three Steps to Create an Investor-Proof Business Plan

Is the substance accurate?

1. Analyze plan content and structure, e.g.:
   - Review completeness and overall build-up of plan
   - Test for deviations from trends
   - Test for deviations from preceding management plan
   - Scrutinize all key assumptions
   - Check for consistency throughout the plan

Is the ambition level sufficient?

2. Extensively test ambition level, e.g.:
   - Use external market data, benchmarks
   - Challenge against BCG best practices
   - Challenge against peers’ performance
   - Compare financials and analyst expectations
   - Assess magnitude and criticality of deviations for IPO

How can the plan be improved?

3. Activate improvement levers, e.g.:
   - Define improvement levers
   - Quantify improvements’ potential impacts (including timing)
   - Consider interdependencies
   - Prioritize levers with highest impact on IPO
   - Craft plans for activating levers
requirements and assess their current set-up so that they can identify and address any gaps. We also ensure that the KPIs foreseen for future capital-market communications are reflected in the historic financials, so that analysts and investors have a consistent set of data on hand to inform their investment decisions.

Corporate and governance readiness

In cases in which a company plans to set up an IPO for only parts of the business, a detailed carve-out concept is required to separate “IPO-Co” from “Old-Co”—legally, financially, and operationally. BCG helps clients plan and run the carve-out process to ensure that IPO-Co is sufficiently independent by the target IPO date.

Going public also requires a strong governance structure that complies with relevant regulatory mandates, such as an independent board and special committees. In addition, it calls for changes in a company’s existing corporate structure and the capabilities it will need to succeed. From strengthening the accounting department to assembling a powerful investor relations team, BCG helps organizations navigate these required changes and build the expertise necessary to go public.

Once executives feel confident about their organization’s IPO readiness (or about their ability to close any readiness gaps), they can turn toward the next phase in the IPO process: preparation of the listing.

BCG adds value to the IPO conceptualization phase in these ways:

- Helping companies understand what’s needed to successfully compete for investor funds in their industry
- Evaluating and improving companies’ strategic and financial readiness for an IPO by examining the investment proposition and the business plan from the capital market’s perspective and implementing improvement measures
- Supporting the company to plan and fulfill all other requirements ahead of an IPO decision, such as an operational carve-out
A successfully managed carve-out helps ensure that IPO-Co is sufficiently independent by the targeted IPO date.

German utility giant E.ON discovered this first hand. In 2014, it announced its intention to separate its conventional business (now known as Uniper) from its renewables, distribution grid, and sales businesses. In order to create Uniper, E.ON had to manage the operational separation of businesses that used to be closely linked. More than 10,000 full-time employees—to say nothing of a huge number of legal entities, assets, processes, and contracts—would have to be transferred into the new company in less than 12 months.

BCG supported E.ON in these ways:

- **Diagnosis:** We helped E.ON’s functional carve-out teams identify 4,000-plus issues associated with the separation, such as moving FTE and assets required in Uniper out of legal entities that stayed with E.ON. We then assisted in planning the issues’ resolution according to their impact on completion of the separation.

- **Planning:** We worked with the carve-out teams to address the issues through targeted measures. We also assigned clear responsibilities and timelines for each measure and its underlying milestones. In addition, we identified critical interdependencies between measures and jointly developed strategies for effectively managing them.

- **Implementation:** We implemented our proprietary Roadmapping tool to track more than 4,000 milestones and to focus the work of up to 1,000 people toward the joint goal of a successful Day 1.

Our teams also offered dedicated support in several especially challenging aspects of the carve-out, such as negotiating the personnel transfers involved.

Thanks to the disciplined approach of E.ON and BCG, Day 1 came and went without a single operational hitch. Afterward, we continued supporting E.ON through the spin-off and listing of Uniper in September 2016 by teaming with other advisors to develop the equity story, the IPO prospectus, and other crucial transaction materials.
Phase 2: Prepare

Have you set the stage for a successful listing and maximum valuation?

During the IPO preparation phase, companies must ensure that all requirements of the IPO are met, present the asset in such a way that the maximum valuation and the targeted proceeds from the IPO can be reached, and continue running their day-to-day business effectively. To meet these imperatives, companies need to identify and thoroughly understand their future investor universe. Leadership must develop a convincing equity story and prepare accurate and comprehensive filings for the regulator and the listing venue. They need to decide on a capital structure and dividend policy and make considered decisions regarding the offering’s technical parameters.

BCG helps them manage these responsibilities effectively and efficiently:

Understanding the future investor universe
To prepare their company for life in the public market, executives must understand who is going to invest at the IPO and afterward, and what these investors will expect.

A good starting point for building this understanding is to analyze peers’ shareholder structures to identify prospective individual investors and investor groups (such as pension funds, asset managers, hedge funds, and retail investors). The next step is to understand these investors’ expectations. For instance, are they anticipating a constant dividend yield, or are they looking for aggressive growth at the expense of lower payouts?

Companies need to identify and thoroughly understand their future investor universe

Articulating these expectations helps a company frame its future investor base. This understanding should influence the strategic and financial plan the company presents to the market. For example, if the company decides to target yield-seeking investors, it should orient its dividend policy, capital structure, and business plan toward strong cash-flow generation. If the higher payout
will limit the company’s ability to invest in growth, that fact needs to be reflected in the equity story.

If all of this sounds complex, that’s because it is. BCG helps by working with clients to navigate the investor universe. We apply proven tools.

<table>
<thead>
<tr>
<th>Who will invest? And what do I have to offer?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yield investors</strong></td>
</tr>
<tr>
<td>Revenue growth expectations</td>
</tr>
<tr>
<td>Time horizon</td>
</tr>
<tr>
<td>Key metrics</td>
</tr>
<tr>
<td>Expected P/E multiple</td>
</tr>
<tr>
<td>Target yield</td>
</tr>
</tbody>
</table>

1Growth at a reasonable price.
to analyze peers’ shareholder structures and to identify different investor groups’ expectations. We conduct in-depth interviews with fund managers and analysts to understand their views on the industry or sector in question and their criteria for identifying the most attractive assets. We also bring our considerable expertise in an array of industries. We know what cycle each industry is in, where companies are in that cycle, and what implications these realities have for a company’s IPO strategy and investors’ expectations.

**Developing an equity story**

To conduct a successful IPO, companies have to convince investors and analysts of the offering’s value ahead of the listing—that’s where a good equity story can make all the difference. It is the tool for differentiating a company from peers competing for the same pool of investor funds.

The equity story focuses on the information most important to investors. These include the key differentiators between the company on offer and its peers, a detailed discussion about and substantiation of the company’s investment highlights and strategy, and an in-depth look at the business’s financials. Making things even more challenging, the company needs to convince investors of its value under the capital market’s tight disclosure rules. Unlike in a trade sale, the company cannot present the full business plan to investors and analysts but can only provide guidance on a few KPIs.

Companies have to convince investors and analysts of the offering’s value ahead of the IPO listing.

BCG helps clients formulate their key investment highlights and pressure-test them to see how well substantiated they are so that they can be refined as needed. We then work with clients to generate accurate and convincing details to craft the most compelling equity story possible. (See “The Secrets Behind Successful Equity Stories.”)
Building an effective equity story isn’t as easy as many might think. And here’s why: how companies think about themselves doesn’t necessarily gel with what the capital market cares about most. The fact is, most investors and analysts don’t get carried away by the usual language that companies use to describe themselves, such as “market leader,” “innovation champion,” “unique,” “agile,” “lean,” and “global.” If such language isn’t backed up by substance, investors and analysts will dismiss it—and put a discount on the valuation. What’s more, companies seeking to go public have to paint a picture of the future without being able to share a detailed outlook on its strategy and financials—a challenging task indeed.

Drawing on our work with clients, we’ve developed a set of best practices for crafting a strong equity story.

- **Pick the right peers to compare your company against:** Select peers in your equity story that will guide investors and analysts to your targeted valuation levels. The right peers will also serve as a measuring stick for your preparation work, by setting the financial and non-financial bar your company must meet to convince investors of its value.

- **Challenge yourself:** Ensure that each claim in your equity story can be compared to your peers’ position. By doing so, you’ll address all themes relevant to your potential investors and analysts. And you’ll validate whether your company truly has a unique position in its industry—or if it’s merely a “me too.” This exercise helps you see where you can look for a premium compared to your peer’s valuations and where your story needs strong lines of defense.

- **Prove your points:** Thoroughly substantiate each claim in your equity story, ideally by explaining tangible initiatives that your company has implemented—such as recent M&A activity that strengthened your product offering, or improvement programs that addressed operational challenges. Make sure the initiatives behind your “proof points” are reflected in the financials at the time of the IPO, so that you get credit from the capital market.

- **Show your commitment to value creation:** In your equity story, explain how your company’s strategic priorities (such as top-line growth, margin expansion, or cash generation) translate directly into shareholder value creation. Communicate clear ambition levels for all such drivers, to demonstrate your commitment to the market.

- **Build a spot-on financial section:** Tailor your selection of KPIs and your presentation of financials to what investors and analysts care about most. Make sure the numbers are consistent with information provided in previous announcements.
We also know that an effective equity story must be more than just a story. To that end, we help clients thoroughly evaluate the data they must provide to meet investors’ and analysts’ expectations. We also help them identify the optimal way to report their business to the market (such as how to segment the business and which KPIs to use).

We then draft the equity story and build the financial and non-financial data repository. In addition, we work closely with the business’s segments to distill the best possible proof points for substantiating the investment highlights and to differentiate the company from its peers. We also join forces with the CFO to create a financial section in the equity story that sets the right aspiration level for investors and that proactively addresses their questions. Most equity stories are also accompanied by an extensive appendix containing data on the company’s operations (such as technical details about its manufacturing plants, products, and distribution channels). We help companies collect and review all such data to ensure consistency with data used in previous disclosures and other transaction documents.

To set the stage for successful execution, we help clients distill the content and data in the equity story into presentations customized for analyst and investor meetings; for example, early-look meetings, pilot fishing, and roadshows.

**Preparing regulatory filings**

To apply for an IPO, companies must compile a number of documents for filing with the local regulator and targeted listing venue. The most prominent among these documents is the IPO prospectus. Local legislation specifies the exact content required in the prospectus; in every case, the prospectus must provide investors with essential information such as a detailed description of the business and its risk factors, the IPO’s purpose (including planned utilization of the proceeds), listing details, shareholder structure and governance, and information on capital structure and taxation. The prospectus also includes historic and audited financial statements for (in most cases) the three years preceding the IPO. Generally, the prospectus does not include forward-looking financials, and its content must be closely tied to the information in the equity story.

In most jurisdictions, the prospectus is a liability document. That is, if information in the prospectus proves incomplete or incorrect, investors may claim damages. Therefore, the prospectus must be prepared with great
An IPO is often discussed as a synonym for a capital increase through the floatation of new shares. Through the selling of new shares, the proceeds from an IPO go to IPO-Co, providing fresh capital that can be channeled in a number of directions, such as growth projects. On the other hand, existing shareholders get diluted if they decide not to participate in the capital increase. If a company includes a capital increase in the IPO, it must make a compelling business case for how it will use the fresh funds, if it hopes to convince new and existing investors of the opportunity’s value.

However, an IPO does not necessarily have to include new shares. In some instances, the IPO is used solely as a vehicle by existing owners to sell down their stake in the company. In such cases, the proceeds flow to the existing shareholders, and not to the company.

An analysis of large IPOs in Germany since 2012 shows that not all the companies opted for a capital increase. Pbb, for instance, offered existing shares only, as did Telefonica when floating its German business. Companies that have included primary shares have done so in a wide range. To illustrate, in Innogy’s IPO, roughly 43% of the shares offered came from an 11% capital increase, while 57% were sold by parent company RWE. For Internet giants Rocket Internet and Zalando, the entire IPO volume came from new shares.

### Overview of large German IPOs since 2012

<table>
<thead>
<tr>
<th>IPO Date</th>
<th>Company</th>
<th>Volume (£m)</th>
<th>Shares offered</th>
<th>Capital increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Jun-17</td>
<td>Delivery Hero</td>
<td>n/a</td>
<td>22.7%</td>
<td>48.5% 12.4%</td>
</tr>
<tr>
<td>06-Oct-16</td>
<td>Innogy</td>
<td>4,641</td>
<td>23.2%</td>
<td>43.1% 11.1%</td>
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<tr>
<td>08-Oct-15</td>
<td>Schaeffler</td>
<td>n/a</td>
<td>45.2%</td>
<td>88.0% 66.0%</td>
</tr>
<tr>
<td>02-Oct-15</td>
<td>Covestro</td>
<td>1,500</td>
<td>30.9%</td>
<td>100.0% 44.6%</td>
</tr>
<tr>
<td>30-Sep-15</td>
<td>Scout 24</td>
<td>n/a</td>
<td>31.7%</td>
<td>22.3% 7.6%</td>
</tr>
<tr>
<td>15-Jul-15</td>
<td>Pbb</td>
<td>1,156</td>
<td>80.0%</td>
<td>0.0% 0.0%</td>
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<tr>
<td>21-Jan-15</td>
<td>Telecolumbus</td>
<td>n/a</td>
<td>90.0%</td>
<td>71.9% 183.1%</td>
</tr>
<tr>
<td>01-Oct-14</td>
<td>Rocket Internet</td>
<td>n/a</td>
<td>21.6%</td>
<td>100.0% 27.5%</td>
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<tr>
<td>29-Sep-14</td>
<td>Zalando</td>
<td>n/a</td>
<td>10.0%</td>
<td>100.0% 11.1%</td>
</tr>
<tr>
<td>09-Jul-13</td>
<td>Deutsche Anntion</td>
<td>n/a</td>
<td>15.5%</td>
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<tr>
<td>31-Jan-13</td>
<td>LEG</td>
<td>n/a</td>
<td>50.0%</td>
<td>0.0% 0.0%</td>
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<tr>
<td>29-Oct-12</td>
<td>Telefonica</td>
<td>1,449</td>
<td>23.2%</td>
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</tr>
<tr>
<td>01-Oct-12</td>
<td>Talanx</td>
<td>817</td>
<td>17.7%</td>
<td>100.0% 21.2%</td>
</tr>
</tbody>
</table>

Source: Thomson ONE Banker, CapitalIQ, BCG analysis.

Note: Analysis including greenshoe except for Delivery Hero.

*Disclosure includes IPOs >500m since 2012.

*New/Primary shares issued as % of number of shares outstanding pre IPO.

*Total shares offered in IPO (primary, secondary, and greenshoe shares) as % of number of shares outstanding post IPO.

*Primary shares offered in IPO as % of total shares offered in IPO (primary, secondary and greenshoe shares).
diligence, a process that often requires substantial time and close coordination among numerous parties.

Financial figures in the prospectus must reflect the company as if it had already existed three years ago. The document also tends to be extensive—often exceeding 400 pages—and requires input from many different parts of the company and external sources. Companies should therefore start this process very early in the IPO preparation phase.

BCG helps companies manage the big challenges associated with developing the prospectus and other important IPO transaction documents, to ensure consistency and accuracy throughout. We also apply a disciplined process for structuring the prospectus—including identifying the right people in the organization to provide the right information, and compiling a single repository for all data and information used in the prospectus and other documents.

Deciding on capital structure and dividend policy

While preparing the equity story and the prospectus, companies also have to make decisions about IPO-Co’s capital structure and dividend policy. This is especially important for companies initiating an IPO for a subsidiary. The originating company has to decide how much debt it wants to “push down” to IPO-Co. This decision needs to strike the proper balance among growth, dividend payouts, and a balance sheet/debt structure that matches the rating level targeted for IPO-Co. Insights from the investor peer analysis help companies determine investors’ expectations regarding debt levels and payout ratios. A detailed peer analysis provides further guidance on which rating and payout levels will allow IPO-Co to successfully compete for investors’ funds.

If the company plans to restructure the debt side with new instruments (such as a senior bond), it should reserve sufficient time in the IPO schedule to prepare and execute the debt strategy. Debt issuance can create substantial additional workload (for instance, it requires a separate bond prospectus) that will have to be performed in parallel with the IPO preparation. The content of this extra work must be consistent with the statements and data subsequently presented in the equity story and IPO prospectus.

At this point, the company also needs to decide what portion of its equity it wants to offer and it must determine whether it wants to include new (“primary”)
shares in the IPO to collect fresh capital or to sell only existing ("secondary") shares. BCG helps companies define the right dividend policy and capital structure. We build integrated financial models based on the company’s business plan to simulate the effects of different payout and leverage levels on operating performance and financial stability. We also incorporate expectations from both debt and equity investors to identify which levels can lead to sustainable success in the market.

**Defining the offering’s technical parameters**

Before the IPO execution phase, the company also has to make a number of key technical decisions regarding the offering, including selecting global coordinators who will orchestrate the listing and deciding on the listing venue and market segment.

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**BCG ADDS VALUE TO THE IPO PREPARATION PHASE IN THESE WAYS:**

- Helping companies compile comprehensive, clear, compelling, and accurate transaction documents
- Providing end-to-end support for the equity story by leveraging market insights and combining the story with the reworked business plan for a strong and convincing package
- Working with company leaders to help them make the right decisions about dividend policy, capital structure, and the offering’s technical parameters
Phase 3: Execute

Will you hit the targeted IPO window?

In the home stretch of any IPO transaction, all efforts are aimed at hitting the targeted IPO window. To reach that goal, companies have to go through the tightly regulated approval process for the prospectus with local authorities. They must prepare the analyst presentation and conduct investor education efforts. And before ringing the bell, management needs to hit the road to persuade investors and analysts to invest in IPO-Co.

Gaining approval for the prospectus from the authorities is a prerequisite for the IPO. Once the company obtains such approval, it can publish the IPO prospectus, an important source of information for investors. But companies should not publish too early—if they do, they may have to create a supplement to the prospectus if significant new information becomes available between the publication and the listing date. Also, financials in the prospectus can go stale. In a prospectus used in connection with a Rule 144A tranche, financial statements (including the company’s balance sheet) must be as of a date that’s within 135 days before closing of the final allotment of the offered shares.

To gain approval, companies often file drafts of the prospectus with the regulator before the final application. This enables them to collect and incorporate feedback from the regulator on the structure and content of the prospectus. But to use this approach, companies must have the core elements of the prospectus ready about three months before the targeted approval date.

During the last months before the IPO, the company also needs to closely engage with investors and analysts, drawing on the equity story to prepare compelling materials to inform these constituents. Top management presents the equity story and financials for the first time to analysts during a “capital market day.” Analysts prepare their reports and valuation of the company largely on the basis of this information. Once the first reports are published, management engages with potential anchor investors to whet their appetite for the IPO.

In the final week before pricing, top management conducts an extensive roadshow that includes stops in key financial centers to meet with broader groups of investors.
BCG helps companies through all of the execution phase, including compiling information for analyst and investor meetings and incorporating feedback from these meetings into the equity story. We also help management prepare for these meetings as well as for capital market day and the roadshow. If time gets tight before critical deadlines, we switch from orchestrating internal and external stakeholders to closely managing the action—hour-by-hour, if needed, to ensure that deadlines are met.

**BCG ADDS VALUE TO THE IPO EXECUTION PHASE IN THESE WAYS:**

- Coordinating all efforts required to gain the necessary approvals for the IPO prospectus
- Preparing convincing materials for analyst presentations and roadshows
- Coaching top management on how to conduct investor meetings and detailed Q&A sessions
In 2012, Bain Capital acquired Bravida—a Swedish properties and facilities installation and technical services firm—from London-based Triton Private Equity. BCG supported Bain Capital during the buy-side process by running the due diligence work stream and developing a first view of a plan for maximizing Bravida’s value.

Bain Capital has a strong track record in creating value by actively working with its portfolio companies to boost their performance. In Bravida’s case, it partnered with BCG throughout its ownership period to create sustained value.

We supported both Bain Capital and Bravida in the following ways:

- **Driving large-scale change:** We helped Bravida’s management team launch several ambitious programs aimed at achieving excellence in crucial business activities such as project management, pricing, procurement, and services sales. These programs strengthened Bravida’s EBITDA margins and infused new, cost-saving efficiencies into the company’s key business processes. The programs were implemented in Bravida’s 300-plus largely autonomous branches, where BCG played an important role in enabling Bravida’s leaders to drive the change.

- **IPO preparation:** We helped management prepare investor presentation materials and market reports, including a sound business plan and a compelling equity story for Bravida. These materials clearly communicated the company’s strong position in its Nordic market and its impressive history of excellent performance. They also pointed to Bravida’s potential for mid-term value creation.

Thanks to this rigorous planning and preparation, Bravida’s EBITDA soared by more than 90% during the time it was owned by Bain Capital, and the company was successfully listed on the OMX Stockholm on October 16, 2015.
IPOs vs. Spin-offs

Not all companies that decide to exit and float all or parts of their businesses through stock markets choose an IPO—some decide to do a spin-off. IPOs and spin-offs differ on several dimensions, including how shares are handled, whether the parent company gets proceeds, and how much execution risk is involved. The table shows examples.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>IPO</th>
<th>Spin-off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall design</td>
<td>Existing or new shares of IPO-Co are sold to new investors</td>
<td>Shares of Spin-Co are distributed to existing shareholders</td>
</tr>
<tr>
<td>Proceeds for parent company</td>
<td>Value of existing shares offered in IPO</td>
<td>None</td>
</tr>
<tr>
<td>Capital increase</td>
<td>Optional</td>
<td>None</td>
</tr>
<tr>
<td>Execution risk</td>
<td>Higher, since timing and valuation of the IPO depends heavily on equity market conditions</td>
<td>Lower, since the company doesn’t initially have to attract new investors</td>
</tr>
<tr>
<td>Taxation</td>
<td>Cash proceeds are taxable for the seller of the shares</td>
<td>Tax-free to both the parent company and its stakeholders in most jurisdictions</td>
</tr>
<tr>
<td>Shareholder vote</td>
<td>Required</td>
<td>Not mandatory in most jurisdictions</td>
</tr>
</tbody>
</table>

Managing IPOs and spin-offs involves very similar processes, but spin-offs come with a significantly lower execution risk. Consequently, companies that aim for an IPO can plan for both options (if IPO-Co is owned by a listed company and the transaction structure allows for both options). For instance, companies can use the spin-off as a potential backup option if their IPO plans falter due to financial or political turbulence in the equity markets, for example.

But a spin-off doesn’t necessarily have to be the second-best option for shareholders. Quite the opposite: spun-off companies have consistently outperformed the broader market during the last 15 years. Thus, depending on a company’s goals, a spin-off may be the best choice right from the start.

BCG helps clients compare the pros and cons of each approach and arrive at the right decision for them. And once they’ve selected to go with an IPO or a spin-off (or both, in a dual-track exercise), we work with them every step of the way—to help ensure that the transaction delivers the promised results.
Bloomberg Spin-off Index (tracks U.S. Spin-Cos for the first three years of their lives) has constantly outperformed the S&P 500.

Sources: Bloomberg, BCG.
THE ART OF SUCCESSFUL IPOs

1. **Prepare diligently:** Successful IPO journeys take 12 to 18 months, sometimes even longer. By preparing every component carefully (including the business plan, equity story, and prospectus) along with building a capital-market-ready team, companies can improve the odds that the stock market will apply a high valuation to the offering.

2. **Have strong “proof points:’’** Most firms contemplating an IPO claim that their business is unique. But is it really? Investors and analysts will rigorously challenge your claims and translate them into financial projections. The better proof points a company has, the higher its valuation.

3. **Have a “plan B’’ to manage execution risk:** Capital markets are volatile, and windows of opportunity can close quickly. Many successful IPOs are designed with a range of alternative pathways—such as a trade sale (dual track) or a spin-off option (triple track)—to serve as a backup plan in case something goes wrong during execution of the IPO.

4. **Prepare for life in the public space:** After an IPO, life for a company’s CEO and CFO changes radically, as investors and analysts keep an eagle eye on the business’s financial performance and management practices. The best way to adapt to such public scrutiny is to design and execute a rigorous strategic and business plan and to establish a strong investor relations and communications team. That way, investors and analysts always know about the company’s successes.

5. **Don’t overlook carve-out complexity:** Orchestrating a carve-out is not the most glamorous part of the IPO process—it presents some complexities, and companies that underestimate these may botch the process, putting the entire IPO timeline at risk.

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**FIVE TIPS FOR EFFECTIVELY MANAGING AN IPO**

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# Deals That We’ve Helped Happen

<table>
<thead>
<tr>
<th>Year</th>
<th>Client</th>
<th>Industry</th>
<th>Transaction Details</th>
<th>Value</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Woolworths Group</td>
<td></td>
<td>Divesting their drinks and hospitality business</td>
<td>AUD$10B</td>
<td>Strategic advisor to the seller</td>
</tr>
<tr>
<td>2018</td>
<td>BR</td>
<td>Petrobras</td>
<td>Comprehensively support for carve-out/carve-in of energy businesses</td>
<td>Value not disclosed</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>SANOFI</td>
<td></td>
<td>Selling their European generics business</td>
<td>€1.9B</td>
<td>Strategic advisor to the seller</td>
</tr>
<tr>
<td>2018</td>
<td>NorthPC</td>
<td>Nordics</td>
<td></td>
<td>Value not disclosed</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>MERCK</td>
<td></td>
<td>Selling their Consumer Health (OTC) business</td>
<td>€4.6B</td>
<td>Strategic advisor to the seller</td>
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<tr>
<td>2018</td>
<td>ANZ</td>
<td></td>
<td>Divesting their heat pump business (Thermia) to</td>
<td>Value not disclosed</td>
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<tr>
<td>2017</td>
<td>TemplateName</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2017</td>
<td>Kazakhcom</td>
<td></td>
<td></td>
<td>Value not disclosed</td>
<td></td>
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<tr>
<td>2017</td>
<td>Boehringer Ingelheim</td>
<td></td>
<td>Strategic advisor to the seller</td>
<td>€21.8B</td>
<td></td>
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<tr>
<td>2017</td>
<td>Resurs Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>e.on</td>
<td></td>
<td>Strategic advisor in spin-off of fossil fuel assets</td>
<td>$4.5B</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>TEGNA</td>
<td></td>
<td>Strategic advisor in spin-off of cars.com from Tegna</td>
<td>$2B</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>TECHNOGYM</td>
<td></td>
<td>Developed equity story and business plan for the IPO</td>
<td>Value not disclosed</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Allergan</td>
<td></td>
<td>Operational carve-out of generics business</td>
<td>$38.7B</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>Land &amp; Property NSW Information</td>
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<td>$1.9B</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td>Value not disclosed</td>
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</tr>
<tr>
<td>2015</td>
<td>MAERSK</td>
<td></td>
<td>Divesting their oil &amp; gas business</td>
<td>$7.5B</td>
<td>Strategic advisor to the seller</td>
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<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
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Meet Our Team

BCG’s experts represent a rich and diverse group whose experience comes from solving the key issues faced by companies around the world. For every focus area, we also have local experts who provide pivotal insights into the dynamics of individual markets.

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Some factors generally regarded as important, such as timing and the number of underwriters, appear to have little or no influence on the IPO valuation.

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Articles and Reports

The 2018 M&A Report
Synergies Take Center Stage
Dealmakers seeking to convince their board and shareholders that an acquisition creates value have a clear imperative: prove that synergies justify a high valuation.

2018 Value Creators Report
20th Anniversary Edition
When it comes to achieving superior performance over the long term, the firms topping BCG’s Value Creators rankings have perfected the art.

Post-Merger Integration Rejuvenation
Large, well-established companies should turn away from the classic PMI and instead embrace a more nuanced postmerger approach—and rejuvenate their potential for growth.
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