



Springboard for Solid IPOs

Despite the uncertain marketplace last year, the NYSE welcomed a steady stream of initial public offerings (IPOs) in 2002, capturing 94% of all qualified domestic dollars raised and 100% of all qualified non-U.S. IPOs. Some 32 U.S. companies raised a total of \$17 billion and eight non-U.S. companies another \$4.9 billion on the NYSE, including the \$2.3 billion IPO of **Alcon Inc. (ACL)**, a carveout of Nestlé S.A. Carveouts dominated 2002 IPO activity, accounting for 59% of the U.S. proceeds raised, with all qualified candidates choosing the Exchange. In addition, 35 new closed-end funds raised \$11.3 billion.

While NYSE IPOs were diverse in size—from **Windrose Medical Properties Trust's (WRS)** \$67.2 million transaction to **CIT Group Inc.'s (CIT)** \$4.6 billion deal—and sector (see pages 16 and 26 for articles on the **Chicago Mercantile Exchange Holdings Inc. [CME]** and **Seagate Technology [STX]**), the common thread appeared to be their strength and stability. “It was a survival of the fittest,” says Jay Chandler, managing director, equity capital markets at **Merrill Lynch & Co. Inc. (MER)**. “Only the best, highest-quality company could complete an IPO last year in our view, which we expect will be the case through 2003.”

TRIUMPH OVER ADVERSITY

Technology-based education company **LeapFrog Enterprises, Inc. (LF)** moved forward with its offering in July, finishing the year as the top-performing IPO, up 93.5% at year-end. Chairman Thomas J. Kalinske says LeapFrog, which began the IPO process in the spring, had discussed whether to wait for a better overall market but felt it had a moral responsibility to continue. “We’re growing fast...we’re a real company with significant revenues and profits,” he says. “Everything we do is of high quality, and if it isn’t, if it doesn’t help improve children’s or teenagers’ lives, we don’t do it. This real and legitimate business model is the reason for our success.”

Athens-headquartered tanker-fleet operator **Tsakos Energy Navigation Ltd. (TNP)** Chairman D. John Stavropoulos attributes the

success of its IPO to the fact that “investors recognized Tsakos Energy Navigation as a real-economy enterprise with solid management, sustainable earnings based on its business model and a vision to become a key player in our industry.”

For human resources outsourcing and consulting firm **Hewitt Associates, Inc. (HEW)**—the second-highest performer of 2002—long-term goals drove its IPO forward irrespective of market conditions, says Chairman and CEO Dale L. Gifford. The company, which had been private for about 60 years, was focused on long-term growth and went public to gain access to more permanent capital, achieve greater decision-making flexibility and broaden ownership among associates, Gifford says: “Doing our road show during June was obviously challenging, but we anticipated potential shareholders having a long-term view of our business, and ultimately that’s the way it played out.”

One active sector this past year was finance, particularly insurance, with offerings from **Travelers Property Casualty Corp. (TAP)**, **Platinum Underwriters Holdings, Ltd. (PTP)** and **Montpelier Re Holdings Ltd. (MRH)**. Another was government information technology, which included IPOs of **Anteon International Corp. (ANT)**, **SRA International Inc. (SRX)** and **Veridian Corporation (VNX)**. “Investors were pleasantly surprised when they turned their attention to this sector, which offers high growth with a lot of transparency and revenue predictability,” says Anteon’s President and CEO Joseph Kampf.

WHY A NYSE IPO?

Kampf says Anteon chose the NYSE “for its rich, traditional history, the name recognition it brings to an IPO and the stability and lower volatility of the companies it trades.” **Dick’s Sporting Goods Inc. (DKS)** also chose the NYSE because of its “history of tradition and stability, combined with the nature of the marketplace and role of the specialist,” says Chairman and CEO Edward W. Stack. Adds Montpelier Re CFO Tom Kemp: “Our board unanimously concluded that the prestige and depth of its market made it desirable for us to reach for a NYSE listing—an important credential for our customers and a better home for our shareholders.”



EXECUTIVES OF LEAPFROG ENTERPRISES INC., THE TOP-PERFORMING IPO OF 2002, CELEBRATE THE COMPANY'S NYSE LISTING BY RINGING THE OPENING BELL.

Indeed, many issuers say they sought to distinguish themselves as being able to meet the world’s toughest listing standards and governance rules. “We want to be fair and just to our shareholders, so we selected the NYSE because of its stringent requirements and the fact that everybody in the world knows how stringent those requirements are,” explains Sergei Plastinin, CEO of Russian dairy and juice manufacturer **Wimm-Bill-Dann Foods OJSC (WBD)**. “Listing on the NYSE was the most economical way to raise the necessary financing and keep demonstrating our dedication to the principles of openness and transparency.”

Plastinin says the majority of Wimm-Bill-Dann’s board is now independent, and it’s establishing new audit, compensation and nomination committees. “We’re also developing a corporate code that will allow us to incorporate governance best practices into our corporate structure,” he says, noting that Wimm-Bill-Dann recently scored well in governance risk ratings issued by UBS Warburg, the investment-banking arm of **UBS AG (UBS)**, and in corporate-transparency ratings by Standard & Poor’s, a division of **The McGraw-Hill Companies Inc. (MHP)**.

Some companies don’t realize at first that there are multiple standards under which to qualify. In addition to meeting minimum share distribution standards, companies must meet one of four financial standards, as measured by pretax income, cash flow, market cap and affiliation with a listed entity. These allow the NYSE to welcome IPOs with diverse profiles, including smaller entities. More than 40% of IPOs since 1998 listed with a market capitalization of less than \$500 million, and 50% had offering values less than \$200 million. In fact, it wasn’t until the institution of new practices in the mid-1980s that companies could list on the NYSE upon IPO. (Previously, standards addressed seasoned public enterprises only).

IMMEDIATE RESULTS

Once listed, companies report that the benefits of being associated with the NYSE quickly become apparent. “To the sophisticated consumer, it means that we’re a top-tier company, and that has helped the LeapFrog brand, certainly in our school division and internationally, where the NYSE is seen as representing the best of what the U.S. has to offer,” Kalinske explains. Kemp agrees: “A lot of our customers are international, and on a global basis the NYSE brings a lot more credibility than any other listing.”

Having recently returned from a week of client visits, Gifford says, “It’s interesting how much more visible we are now as a business enterprise. It helps in terms of credibility—recognition that we’ve got staying power and can make investments that are important to our clients going forward.”

Trading on the NYSE also helps with recruitment, says Ernst Volgenau, SRA International president and CEO. He says most shares are in the hands of its more than 2,000 employees: “SRA works on very difficult problems, and we spend a lot of time recruiting the very best people we can find.” SRA was recently named one of *Fortune*’s 100 best companies for which to work.

A NYSE IPO can also help build morale and motivate employees, the CEOs explain. “We liked the ability to share ownership at the onset with our 14,000 employees and having that flexibility on an ongoing basis with stock options,” says Gifford. Adds Stack: “Starting off our new era as a public company by ringing the opening bell at the NYSE was a real tribute to our thousands of associates who made it possible.” It is often overlooked “what a euphoric time it is for employees to know that their company has succeeded in such a big way that they’re accepted at the NYSE,” explains Kampf.

Another benefit is the enhanced ability to “access capital markets for future secondary offerings and the currency of our shares in making acquisitions or mergers,” says Stavropoulos. In fact, studies show that the Exchange not only provides excellent market depth and liquidity for new issues, but the lowest price dislocation for seasoned secondary offerings, a key consideration for venture capitalists.

LESSONS LEARNED

So what did the leaders of last year’s successful IPOs learn from going public? “When you’re confident in your business model and you fairly value yourself, it doesn’t matter what the market condition is; you’re better off just going ahead,” Kalinske says.

For SRA’s Dr. Volgenau, honesty is key. “There’s a natural tendency to speak about your firm in a sales mode. But you have to ‘walk the talk.’ If my rhetoric and those of my colleagues is hollow, it will soon be evident.”

It’s also important to “understand how a public company thrives after the IPO,” Kampf says. “It’s great to ring the bell, but the next day you have to go back to running your business and creating value. You need a sound strategy and a successful company after the fanfare is over.” □

