

1 hot issues

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Going Public on the Toronto Stock Exchange

The Toronto Stock Exchange (TSX) Initial Public Offering (IPO) process takes approximately 14-20 weeks.

The timing is influenced by a number of factors including the preparedness of the Company before the IPO process, due diligence by the lead underwriter(s), the audit review, market timing and the number of comments made by the provincial Securities Commissions – typically the Ontario Securities Commission (OSC). There are six major phases:

- Phase 1: drafting the preliminary prospectus and IPO roadshow presentation
- Phase 2: filing the preliminary prospectus
- Phase 3: IPO roadshow
- Phase 4: responding to comments from the relevant Securities Commission(s)
- Phase 5: filing the final prospectus, pricing and listing
- Phase 6: exercising the over-allotment option (also known as the “greenshoe option”)

Week	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Filings	Draft preliminary prospectus including gatefold (optional)					File preliminary prospectus	Comments from Securities Commission(s)			Response to comments	File final prospectus			
Press releases						X						X	X	X
Roadshow					Prepare IPO presentation and pocket folders	Roadshow – institutional and retail in Canada/Europe/US								
Pricing										Pricing done by the investment bankers				
Closing											Closing and settlement			
Listing													Listing	
Greenshoe														GS

NOTE: These timelines are guidelines only and may vary.

Phase 1: Drafting the Preliminary Prospectus and IPO Roadshow Presentation

The **preliminary prospectus** is prepared by the Company in conjunction with the Company’s legal counsel, their auditors, the lead underwriter(s) and the lead underwriter(s)’ legal counsel. The preliminary prospectus does not include the offering price or the number of shares and it indicates that the size of the offering has not yet been established. If possible, Equicom should get involved with the contents of the prospectus; but, if we are engaged after the prospectus has been completed, we should be provided with a copy so we can gain an understanding of the Company and its industry.

In the early stages of an IPO, Equicom can get involved with the production of the prospectus gatefold, the IPO roadshow presentation, illustrations for the prospectus and the pocket folder design.

The **prospectus gatefold** is a one to three page fold-out extension of the prospectus cover page; it is optional but encouraged. This piece gives a visual outline of what the Company does, basically its “value proposition”. The Account Executive should work with Equicom’s Creative department to determine the content and design of the gatefold. The gatefold must be reviewed and approved by the Company, the lead underwriter(s) and the lawyers.

The **IPO roadshow presentation – PowerPoint (PPT)** is a critical IPO deliverable as it is used to sell the deal to prospective investors. It is important to get the lead underwriter(s)’ input at the beginning of the process in order for them to support the end product. This roadshow presentation cannot contain material that is not present in the prospectus. It is also essential that management is comfortable with the slides, accompanying script and Q&A which may require a number of rehearsal meetings. The presentation must be reviewed and approved by the lawyers. Equicom or the lead underwriter(s) usually prints the presentations – typically one slide per page/single sided.

Often illustrations that are created for the IPO roadshow presentation can be used in the prospectus or gatefold. Try to determine early in the process if this is required.

The **pocket folders** hold the investor materials (called kits) for roadshows and other investor meetings. For an IPO roadshow, the investor material includes the:

- preliminary prospectus
- IPO roadshow presentation (PPT)
- greensheet which usually includes a webcast link (approval is needed from the lead underwriter(s) to include the greensheet in the kit)

The **greensheet** is a summary document of the terms of the offering and is used by the syndicate salespeople. It is prepared by the lead underwriter(s) once the preliminary prospectus has been filed. The greensheet and the IPO roadshow presentation are created for a limited audience and are considered **non-public** documents.

For roadshows that are cross-marketed in the United States (US), US IPO kits only includes the:

- preliminary prospectus

IPO roadshow presentations and greensheets are **NOT included in US** investor kits and are only used for discussion purposes with respective representatives and are collected at the end of each roadshow meeting.

Phase 2: Filing Preliminary Prospectus and Issuing of Press Release

After the IPO team finalizes the preliminary prospectus, it is then filed by the lawyers and posted on www.sedar.com. The lawyers normally file it on SEDAR which also includes setting up the Company’s SEDAR profile.

Once filed, a **press release** is issued (usually by Equicom) stating that the Company has filed a preliminary prospectus. The provincial Securities Commissions will issue a receipt a couple of days later confirming that they have received the prospectus. These receipts are also filed by the lawyers on SEDAR. It is common practice to wait for these receipts before issuing the press release but conferring with the Company’s legal counsel is recommended.

The prospectus and gatefold (if included) can now be printed. Determine from the printer, or the lead underwriter(s), if the prospectus and gatefold need to be translated into French for the Quebec market.

Phase 3: IPO Roadshow

The goal of the **IPO roadshow** is to market the Company to the investment community.

The roadshow involves meetings with domestic and international investors (institutional and retail), salespeople and analysts and the process can take about three weeks, depending on travel time and the size of the deal. It is important that the presentation gets the audience excited about the Company and its future. Senior management should be well versed in delivering the presentation within a 25 minute timeframe and have the ability to answer questions concisely and consistently.

The success of the roadshow will be evident in the “book” or the compilation of share orders by the investors.

Phase 4: Responding to Comments from the Relevant Provincial Securities Commission(s)

Responding to comments from the Securities Commission(s) can take up to two weeks, depending on the number. The comments can affect the contents of the final prospectus which is revised and finalized by the Company’s management, the lawyers, the accountants and the lead underwriter(s).

Phase 5: Filing the Final Prospectus, Pricing and Listing

Once all parties have signed off the final prospectus, it is filed on SEDAR by the lawyers – in English, and if necessary, in French. By this time the share offering price has been set and the allocation of shares has been determined. The bullet points for the price and number of shares issued in the preliminary prospectus are replaced with the actual figures in the final prospectus. Another **press release** is issued (usually by Equicom), announcing the filing of the final prospectus, the offering price and the number of shares issued. It is common practice to wait for receipt from the provincial Securities Commissions before issuing the press release, but conferring with the Company’s legal counsel is recommended.

The lead underwriter(s) and the rest of the syndicate collect the monies from the investors who were allocated the shares. The shares are distributed to these investors and the Company receives the proceeds, net of the investment banking fees. Once the settlement is complete, the lead underwriter(s) contacts Equicom to issue a listing **press release**. A press release is then issued, announcing the completion of the IPO, the offer price, the number of shares sold, that the common shares start trading (on that specific day) on the TSX, under the symbol XYZ and other various details of the underwriting syndicate.

Phase 6: Exercising the Over-allotment Option/Greenshoe

The **over-allotment option**, also known as the greenshoe, allows the underwriter(s) the right to sell additional shares in a securities offering, if demand for the securities is in excess of the original amount offered. The specifics of the greenshoe are outlined in the prospectus and can be up to 15% of the original number of shares offered and can be exercised up to 30 days after the first day of trading.

The over-allotment option enables the underwriter(s) to stabilize the price of a new issue post-pricing. What they want to avoid is a public offering trading below its offering price. This creates the perception of an unstable or undesirable offering which can lead to further selling and hesitant buying of the shares.

As a result, the underwriter(s) typically oversell (short) the offering by 15%. If the share price goes down, they can buy back the shares at a lower price and help stabilize the stock. If the share price goes up, they can exercise the greenshoe and buy the shares from the Company at the offer price and hence not incur a loss on the transaction.

The option is normally exercised shortly after the first day of trading. Once the greenshoe is exercised, a final **press release** is issued (usually by Equicom) outlining the number of additional shares issued by the Company, the gross proceeds and the net proceeds.

Relevant SEDAR filings during the IPO process:

1. Preliminary prospectus – English and sometimes French
2. **Press release announcing filing of preliminary prospectus**
3. Preliminary receipt from Canadian provinces/territories Securities Commissions
4. Underwriting or agency agreement (prepared by underwriter(s))
5. Final prospectus – English and sometimes French
6. **Press release announcing filing of final prospectus**
7. Consent letter of issuer's and other legal counsel (prepared by lawyers)
8. Auditors' consent letter (prepared by auditors)
9. Final receipt from Canadian provinces/territories Securities Commissions
10. **Press release announcing the completion of the IPO and trading on the TSX**
11. **Press release announcing the exercise of the over-allotment option/greenshoe**

Reporting Deadlines Post Going Public

Based on National Instrument (NI) 51-102, Section 4.7 when a company becomes a reporting issuer, they are required to file *interim* financial statements for the interim period that ended **before** the issuer became a reporting issuer, these financial statement must be filed on or before the **later** of:

- i) the 10th day after the issuer became a reporting issuer; and
- ii) the regular filing deadline NI 51-102, Section 4.4 (i.e. 45 days for TSX listed companies and 60 days for Venture Exchange listed companies).

When the Company becomes a reporting issuer, they are required to file *annual* financial statements for the financial year that ended before the issuer became a reporting issuer; these financials must be filed on or **before** the later of on or before the **later** of:

- iii) the 20th day after the issuer became a reporting issuer; and
- iv) the regular filing deadline N151-102, Section 4.2 (i.e. 90 days for TSX listed companies and 120 days for Venture Exchange listed companies).

Always confer with the Company's legal counsel regarding the upcoming reporting deadlines after an IPO, as the Securities Commissions may offer some exemptions to the rules outlined above.

Dealing with Media/Investor Calls/Queries During the IPO Process

You must be very mindful when dealing with the media and investors during the IPO process. It is advised that management wait until after the Company is public, before talking about the Company. If you or management mention information about the Company to the public that is not in the prospectus, the prospectus must be re-filed with this new information.

If asked questions about the deal, direct them to the prospectus at www.sedar.com. Remember that the greensheet and the IPO roadshow presentation are not public documents so you should not disclose the terms of the deal such as the price range or estimated deal range. In reality, the press will obtain this information.

The lawyers recommend that you and company management stay in a “**quiet period**” until the over-allotment/greenshoe has been issued. However, it is beneficial for a company to talk to the press the day their shares start trading. If the Company does decide to talk to the media, they should ensure that they adhere to a script and be careful not to talk about forecasts or expectations.

Choosing the Right Underwriter(s)

Choosing the right underwriter(s) is probably second in importance to choosing the right time to go public. It is essential that the lead underwriter(s) or syndicate:

1. has a **focus on the Company's industry** and an analyst devoted to the industry;
2. is committed and capable of **providing research**;
3. has the ability and contacts to **identify the right investor groups** for the Company's presentation and get them committed to attend;
4. can provide sufficient **evidence of being able to build a quality "book"** of potential orders for the Company's stock;
5. has a history regarding the **ability to identify the right offer price and size**; and
6. can provide **aftermarket support**. This would include maintaining and supporting trading in the stock, providing subsequent research reports on the Company, and continuing institutional exposure to the Company.

References from previous IPO successes are essential in assessing the above factors.

Companies which Equicom was involved in the IPO process:

	Date
ConjuChem (life sciences)	2000
Coventree (financial services)	2006
Foraco (drilling service provider company)	2007 (June)
Fralex (life sciences)	2007
Lab Research (life sciences)	2006
Lavell (satellite communications)	2007 (October)
Novadaq (life sciences)	2005
North American Energy Partners (metals & mining)	2006 (November)
Xitek (life sciences)	2006 (November)
Flow-throughs	
SkyPower (wind power)	2005 (December)
Ventus Energy (wind power)	2006

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