PRAGUE STOCK EXCHANGE
BURZA CENNÝCH PAPÍRŮ PRAHA

Issuer’s Guide

WHO IS AN ISSUER?

The issuer is a company or a public corporation (e.g. a municipality or state) which issues securities, mainly to raise new funds to develop its business. Various types of securities can be issued; the best known include shares, bonds and participation certificates.

The process of issuing securities and listing issues on a regulated market is associated with considerable publicity, which contributes significantly to the issuer's increased prestige and credibility.

Dozens or maybe hundreds of top analytical brains from all over the world examine every day whether the CEZ Group's decisions are the best.

INITIAL PUBLIC OFFERING

An initial public offering (IPO) is the initial entry of a company onto the stock exchange following the sale of the company's shares. One of the main reasons why companies enter the market by issuing shares is to raise new funds. An IPO is also useful in addressing the succession of businesses and spin-offs. Other reasons include the need for growth-driven equity, reduction of the cost of borrowed capital (loan debts), improvement of creditworthiness, raising awareness about, and the competitiveness of, the company, as well as increasing its attractiveness for employees and managers. In addition, listed companies may continually increase their equity through rising capital.

WHO IS A SUITABLE IPO CANDIDATE?

The answer is not that simple and does not depend solely on the size of the company. To be eligible to join the stock exchange, the company must be able to meet the requirements of the capital market, i.e. relevant statutory requirements and investors' expectations. Therefore, one of the main criteria for a successful IPO is the ability to attract and convince investors that the value of their invested funds will increase adequately. The candidate should thus focus on the clear definition of the company's objectives and development plans to be presented to investors. The willingness to share information with investors is crucial for all companies operating on the capital market.

Key requirements for a successful IPO candidate:

- readiness to share information
- transparent structure and financial flows within the company
- clearly defined objectives, strategies and definitions of measurable performance idicators, accounting based on international accounting standards, ambitious and professional management

BENEFITS OF AN IPO

Interest-free capital

The capital thus acquired does not expose the company to a stern and inflexible payment schedule.

Freedom in the management of capital

Capital raised by issuing shares can be used more freely, which is a considerable advantage over the constraints associated with loan financing. The funds are not ring-fenced, and the company can thus react more flexibly to the development of the surrounding business environment.

Possibility of choosing the degree of control over the company and commercial risk

By determining the amount of the public offering, the original owners decide what share in the registered capital will be rendered to external investors, selecting which decisions they will keep control over in accordance with laws and statutes. Furthermore, the issuer can have an impact on how much of the public offering will be offered to large institutional long-term investors and how much of it will be spread among small investors. Therefore, an IPO definitely does not result in the loss of control over the company, or significant limitations on control.

Easier access to other forms of financing

Performing accounting, legal and economic due diligence of the company during the preparation of the IPO may have a positive effect on the assessment of the company's risk level. A publicly traded company fulfilling its obligations under relevant standards which is continuously monitored and commented on by capital market analysts is then fully transparent and more predictable for banks, which results in easier access to loans or further increases in capital.

Spread of risks and unlimited resources

The commercial risk is spread among multiple investors, which allows promising projects to be financed without limiting the company's abilities to guarantee the repayment of borrowed capital by collateral and guarantees, as would be the case with bank loans.

Optimization of the capital structure

By issuing shares, the company increases its equity. The possibility of optimising its capital structure or, more precisely, the debt-to-equity ratio, allows for optimisation of the costs of loans by improving the negotiating position with banks and reducing capital costs. Often, after issuing their shares on the market, companies refinance existing loans under more advantageous conditions.

Increasing employee involvement

Through various forms of incentive programmes such as profit-sharing schemes, it is possible to achieve greater commitment from employees. This strategy has a positive influence on employees' involvement in the company and their willingness to participate in its further development. Employee stocks can serve as a tax-effective and modern motivational component of remuneration.

Publicity and visibility

Each IPO is associated with great media interest. Publicly traded companies are monitored by media much more closely than other privately-owned companies. In addition to advertising, this synergy can be used to promote products and attract new customers or business partners. The company's financial stability and transparency gradually documented by the public media strengthen its overall profile. Companies that are already traded on the stock exchange are usually considered to be more trustworthy by the professional public and business partners in the course of trade.

EQUITY CULTURE

An IPO not only provides much-needed funds but also constitutes many advantages for the company. It is something that is very hard to describe, yet essential for all publicly traded companies that marks them off – equity culture. Upon its admission to the capital market, the company becomes one of the top companies in the region, thereby gaining prestige, which represents not only a useful tool but also a commitment.

Floating shares is profitable for the wider economy. Strong companies are the foundation of prosperous development. Companies gain the equity acquired through the stock exchange and use it for large investments. The companies are thus more competitive, existing jobs are better remunerated, and new jobs are created.

IPO NEEDS AND OBLIGATIONS

Good preparation and the selection of an experienced team are absolutely essential for a successful IPO. The external IPO team usually consists of an investment bank, which also acts as the lead manager, the head and coordinator of the entire external team and a legal advisor with experience in similar transactions on the capital market. The team also includes one or several other investment banks that help with the initial public offering, i.e. allocation.

The numerous activities provided by your IPO team can be divided into five areas:

1. Prospectus

The prospectus is one of the most important documents in the context of an IPO. It is a comprehensive document that must contain all the information related to the company and share offering requirements. In other words, under an IPO, you may not disclose any other information other than that contained in the prospectus. For the purpose of its preparation, the lead manager and the legal advisor, often in cooperation with your auditor, perform a financial, commercial and legal audit. Its aim is to verify that the information (on the company, the market in which it operates and trends affecting its business) provided in the prospectus is true, complete and accurate. At this stage, however, the lead manager has another role to fulfil – on the basis of the information obtained, he performs the first indicative valuation of your company, i.e. he determines the preliminary price for which the shares will be offered.

The prospectus is subject to approval by the relevant regulator (the Czech National Bank in the Czech Republic). Once it is approved, the IPO can be publicly announced, and share offering can be initiated.

2. Materials on the offering

Although the prospectus is the main material on the offering in the context of an IPO, the lead manager also prepares other documents. The first one is the investment story – it usually consists of four to six points summarising the unique nature of your company and share offer. Other materials on the offering include presentations for analysts and investors. In both cases, they contain information from the prospectus but in a presentation form. They are presented by the company manager at meetings with analysts and potential investors.

The presentation for analysts usually takes place at the end of the second month of the preparation of the IPO. In the presentation, the company management introduces the company to the lead manager's equity analysts. Note that it is a completely different team from the one you are working with on the IPO. These are people who comment daily on the operation of the stock exchange, determine the target prices of shares and recommend shares to purchase or sell. For this reason, they cannot receive more information than any other stock market participant. In the case of an IPO, however, their role is different (they cannot recommend purchasing the shares offered under the IPO; otherwise, it would a conflict of interests) – they value the company on the basis of the information provided by the management. Their opinion is the second piece of information that the lead manager takes into account when determining the price of shares (to recall, the first opinion is formed on the basis of the audit performed for the preparation of the prospectus). The analysts' work results in Equity Research, i.e. a report that the analysts issue before the shares are listed on the stock exchange and that contains an evaluation of your company. Although you provide information for this report, the report is prepared by analysts and is completely independent of you. In other words, you will not be able to influence its content.

The management presents the company and the share issue to potential investors during a roadshow. It involves a one- or two-week trip around Europe (and possibly other continents) and personal meetings with potential investors, either individually or in groups. The presentations result in share orders submitted by potential investors to your lead manager.

Both presentations, i.e. the presentation for analysts and the presentation for investors, and their form and the ability to answer the questions of analysts and potential investors, are crucial to reach the share price and a successful IPO. The vast majority of these meetings are conducted in English.

3. Share placement

Once the prospectus is approved by the Czech National Bank, the lead manager can start offering the shares. For this purpose, the manager proposes framework issue terms: the number of shares issued and an indicative price, which can be provided as a price range, a minimum or a maximum price, etc. These framework issue terms are provided in the prospectus and will continue to be binding.

During the roadshow, the lead manager starts to collect investors' orders and conduct bookbuilding. After the end of the bidding process, the manager closes the book, assesses it and recommends the target allocation (how many shares will be allocated to individual investors) and final share price for which the shares will be traded on the stock exchange; both are subject to your approval.

Upon approval of the issue terms, the price and number of shares will be completed in the prospectus, and the issuer terms will be published. Allocation usually takes place in the evening and at night after the end of trading on the stock exchange, and its terms are announced at the beginning of the following trading day so that shares can be traded immediately under "conditional trading" (trading in securities that have not been issued yet).

4. Settlement

After the final share price is determined and the shares are allocated, the manager concludes the Subscription Agreement with you. It is drafted by your legal advisor. In simplified terms, it is an agreement stipulating all the necessary terms for the issue of shares and their subscription and purchase by the lead manager. In the agreement, the manager undertakes to subscribe and purchase new shares as of the settlement date.

5. Listing and trading

In addition to the application for approval of the prospectus submitted to the Czech National Bank, the lead manager usually also files an application for admission to share trading on some of the stock exchange markets (usually the Prime Market in the Czech Republic) and an application for conditional trading. Both applications aim to allow trading in the shares immediately after their price and allocation to new shareholders are determined.

ADVANTAGES OF THE PRAGUE STOCK EXCHANGE

The Prague Stock Exchange – a responsive approach to both investors and issuers

When you decide to enter the stock market, you surely know in what direction you want your business to grow. You have decided that you want to expand your company and raise funds. What can the stock exchange offer you?

Zero fees in the first year of trading

The Prague Stock Exchange always tries to accommodate issuers and facilitate their path to the stock market. The stock exchange does not require new issuers to pay any fees for listing in the first year of trading, and a trading member who brings a new issue to the market does not pay any trading fees.

Passportisation

If an issuer already has its shares on a different EU market and wants to make a dual listing in Prague, it need not undergo the entire process of having the prospectus approved by the domestic regulator but can use the prospectus already approved by its home regulator. For the needs of a public offering and to be accepted for trading in the Czech Republic, "passportisation" is sufficient, which significantly accelerates and simplifies the entire process.

Standard disclosure duties

The disclosure duties towards the exchange that arises from being allotted to one of the markets of the Prague Stock Exchange are standard and common for both domestic and foreign issuers. These duties are fulfilled in Czech, English or Slovak.

"The Czech capital market regulator is very flexible and was able to create in a relatively short amount of time a liberal but maximally fair environment, thanks to which the Czech capital market can respond very flexibly to all impulses stemming from EU legislation."

Radan Marek, Head Lawyer of the Prague Stock Exchange

Conditional trading

Another indisputable benefit of the Prague Stock Exchange compared to other Central or Eastern European markets is the ability to perform conditional trading. This service is particularly important from the point of view of the investors who acquired the shares in the IPO process and who are allowed to commence trading in these shares immediately. Therefore, they do not have to wait for the actual issue of the securities. Thus, in the case of dual listing, the Prague Stock Exchange commences trading in the relevant issue several days earlier than other markets.

Inclusion in the PX index

A new issue can be included in the PX index, a prestigious indicator of the Prague stock market. A number of foreign banks use the PX index (and its constituents) as an underlying asset for their structured products. The PX Index is one of the dynamically growing indices of Central and Eastern Europe.

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