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TIMWE: IPO go or no go?

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Abstract

Title: TIMWE: IPO go or no go?

This case study describes the path TIMWE followed from its creation in 2002 up to 2012, highlighting its portfolio of services and the expansion strategy. It addresses the two IPO attempts, including the main steps involved, namely the selection of the underwriters and of the market. It briefly describes the main challenges the company had to face, from reputational issues of being a Portuguese company to external factors that fell beyond the company's control. The chosen company – TIMWE – is a Portuguese case of success, having experienced an impressive growth since is foundation.

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TIMWE: IPO go or no go?

May 17th, 2012, was another day of road show for Diogo Salvi, founder and Chief Executive Officer of TIMWE, and his team. For 2 weeks they had travelled around the US and Europe to "sell" the company, marketing the initial public offering (IPO) of TIMWE, a global provider of mobile monetization solutions. Throughout this period, Salvi had heavily relied on investment bankers to reach the right investors. These were attracted by TIMWE's business model, which they could easily understand, and by the company's incredible growth records. However, non-controllable factors - namely the market uncertainty and the disappointing outcome of Velti, TIMWE's main comparable - seemed to scare away potential investors and to drive valuations down.

Going public in NASDAQ would increase brand recognition, while providing liquidity to the company. Even though TIMWE could "survive" without this capital injection, being a public company would allow future access to capital markets. This was the second time TIMWE was trying to do an IPO, having failed an attempt the year before. Postponing the first attempt was justified by unfavourable market conditions and investors would hardly misinterpret this decision, but the consequences of calling off a second IPO attempt could be tremendous and this could be the last chance to take the company public.

Foundation

After graduating from a business school – ISCTE Business School in Portugal –, Diogo Salvi became a "banking consultant", devoting a significant part of his career to the strategic development of leading Portuguese banks, namely Banco Best and Banco Comercial Português (BCP). From 1992 until 2001, he did projects in many areas including restructuring (commercial and IT), innovation (e.g. phone as a banking channel), internationalization and mergers and acquisitions (M&A).

Salvi could recognize a promising business opportunity and, in 2001, he realized that investing in the mobile-phone industry could be an interesting challenge. This was sparked by a series of factors, such as the opportunity to commercialize mobile content for a group of Dutch businessmen[1] and the growing worldwide importance of mobile-phones. This was a sector with undeniable potential since, in 2000, countries such as the

[1] This group was devoted to the production of mobile rings, games and other mobile contents.

United Kingdom and Singapore had more than 70% mobile penetration[2], and others such as Brazil and Colombia had less than 15%, meaning that there was room to grow and to exploit this undeveloped market. **Exhibit 1** presents a more extensive list of penetration rates for selected countries.

From the beginning, the idea was to be headquartered in Lisbon, Portugal, and to focus on emerging markets. TIMWE's initial bet would be Mobile Entertainment, playing the role of an intermediary, gently imposing its presence as a global provider of monetization solutions. This was a high potential business that, if properly managed, could allow for a scaling of operations, resulting in reduced costs. However, given the nature of the activity, it was also exposed to a series of risks that, if materialized, could put the company in jeopardy.

Although Salvi had the passion and the vision, he lacked the technical skills needed to be successful. He was determined to find someone to complement his skills and Ricardo Carvalho and Paulo Salgado seemed to be the perfect match. At the time, they were working with a platform that provided mobile content management and delivery solutions. This would pose an important advantage since they knew the business and the market and they had the technical skills needed to form a complementary and cohesive team.

Ricardo Carvalho studied physical education but his professional career followed a different direction. His first project in the business area was the co-foundation and management of a sports web portal - infodesporto.pt – in 1996, which was sold in 2000 to Portugal Telecom. The conjunction of a growing media market and his enthusiasm about the business world led him to become an advisor in many leading mobile marketing and entertainment firms, as well as in Cofina[3]. In Cofina, he was consultant on the media, internet and customer relation management areas for the Board of Directors, a role that gave him different and complementary perspectives of the business. Carvalho had an impressive track record and the entrepreneurial spirit needed to embrace this enterprise.

In 2002, Salvi and Carvalho co-founded TIMWE, which resulted from the combination of Salvi's business idea and Carvalho's platform, with little initial investment. In the initial phase, contacts to attract potential clients were made from Salvi's garage and the services offered were linked to the reselling of mobile entertainment. By that time, they had the tools to enter the market of entertainment solutions for mobile phones and take advantage of a promising market.

The first phase, finding a co-founder who could add value to the project, was successfully completed. Salvi was nominated CEO and Chairperson of the Executive

[2] Ratio of mobiles/credit cards/internet access per inhabitants.
[3] Cofina is a leading Portuguese media group. It started in 1995 with a share capital of 5 M€ and by 2002 it had already acquired Investec, a media holding; "Correio da Manhã", daily newspaper; and "TV Guia", a TV magazine.

Committee and Carvalho was nominated Managing Partner. Later, in 2003, Paulo Salgado was nominated Chief Technology Officer (CTO). **Exhibit 2** provides information regarding the main shareholders and ownership distribution.

Expansion

From the beginning, Salvi knew there were a large number of companies with greater insight and expertise on the business and a wider network. Nonetheless, he aimed to grow through internationalization, opening local offices in markets not very appealing to other companies but with a hidden potential, from TIMWE's perspective.

TIMWE has been headquartered in Lisbon since 2002 and the first pilot projects were hosted in the Netherlands, Singapore, Spain, Colombia and Argentina. After a successful road show conducted by the owners in Latin America, in 2003, they decided to open two offices in Colombia and Argentina (2005). The focus became obvious: emerging markets characterized by high growth rates and few competitors.

From 2006 onwards, 23 more offices were opened according to the company's strategic plan and market opportunities. In 2008, the existence of important clients in Spain triggered the opening of an office in that country. In the same year, the continuous search for new places to establish an office led Salvi and Carvalho to make a risky move and invest in Mozambique. They could anticipate a huge potential from the then-low penetration of mobile phones, and they wanted to be already well-known when the market started to grow, since this would give them a unique advantage against future competitors. **Exhibit 3** presents information regarding the internationalization process.

As of May 2012, TIMWE was present in more than 75 countries, had 26 offices in different locations, worked with more than 280 carriers worldwide and could reach 3 billion mobile users. As can be seen in **exhibit 4**, TIMWE's services were spread all over the world and its ambition was to continue this expansion policy. **Exhibit 5** provides data regarding revenue distribution, from 2009 until 2011, per geography.

Being a global company with physical presence in different geographies posed a significant advantage vis-à-vis companies that operate locally and have no international exposure and those that are international yet lack local insight. TIMWE knew it could only build a sustainable business model if it could successfully apply its firm-wide knowledge to each local market. Although there was a common pattern regarding the level of development of the countries, the demands were specific and the best way to address them was with local knowledge. This was the reason why the company decided to recruit local talent to form the local teams. The recruitment process was not an easy task, since it was time-consuming and required financial investment for training. Nonetheless, looking back at the outcome of this decision, gains clearly outweighed costs, and so this policy was still in practice after all these years.

TIMWE's aim of being a global integrated company could be troublesome given the design of the organizational structure, where local offices were entitled with decision power. It posed a colossal challenge since, due to the diversity of characteristics of its clients, procedures and business decisions could not be standardized. In order to keep the cohesion of the company as a whole, TIMWE promoted continuous training sessions where local managers were exposed to the global picture and to the vision and strategy that the company intended to reach as a whole.

Company overview

Mobile Entertainment

TIMWE's initial role was to act as an intermediary between the producers of entertainment content and mobile operators. This was a value-added service for both: content owners would sell their contents in many carriers without entering into negotiations or maintaining relationships, and mobile carriers would have tailor-made content without spending time and resources developing it or finding partners. By that time, content monetization services[4] were offered as "white labels" to carriers, who would then rebrand it with their own brands.

Although TIMWE allowed end users to choose from a wide portfolio that included games, music, videos, images and applications, it was permanently concerned about offering the fashionable and popular content, implying a continuous effort to analyse market trends and needs. These services were provided using a cloud-computing platform. The major advantages of using this non-physical platform were the savings associated with the lack of infrastructure's investment and the ability to increase capacity without additional costs.

By that time, services were mainly provided to European mobile operators.

By 2004, TIMWE developed its own platform, allowing end users to buy directly from the company content that was either self-developed or controlled by it. From then on, in order to effectively distribute contents with its own brand, TIMWE marketed these services among mobile-users. This platform was compatible across models of basic mobile phones and smartphones, bringing versatility to the company to adapt to market changes.

Mobile Marketing

By 2007, the crucial decision of entering the mobile marketing was taken. The company started to offer a complete service comprising the conception of the marketing campaign, its implementation and the analysis of its results. TIMWE was able to exploit

[4] The concept of content monetization services means that the company can extract money from the services provided. For example, when an end user buys a game, price is immediately deducted from the mobile phone balance.

synergies between mobile entertainment and mobile marketing, increasing investment less than proportionally to the turnover since this service also used the same cloud-computing platform.

At this time, this was an innovative product that was offered to mobile operators, brand owners, governments, NGOs and media groups. The choice, by a client, of a company to develop the marketing campaign was based on a set of decisive factors. For example, TIMWE's relationship with many carriers worldwide was a guarantee that the message would reach more end users. Additionally, the accumulated know-how derived from its international presence could be extrapolated to other campaigns, posing an incredible advantage against other companies. Moreover, having local offices would provide a better insight of the market, easing the process of developing a customised and effective campaign, i.e., adapted to each particular market and segment. This was perceived as a value-adding service to its clients, e.g., governments used it to communicate with its citizens regarding important issues, such as, vaccination, elections and poverty. More than being a cheap way to reach people, this was a user friendly service[5]. Besides these institutional campaigns, media groups, as well as other worldwide well-known brands, had also used these services, as it was the case of Kellogg's with the "*Special K calories counter*" in Mexico or Coca-Cola's initiative in Angola to alert clients to substitute cans for bottles, since the latter could be recycled. A list of the top clients, in terms of revenue, is presented in **exhibit 6**.

TIMWE Lab was created in 2009, in a decision triggered by the need to better study market trends, research and develop products and be in the vanguard of innovation. The establishment of their own independent research and development incubator in Covilhã, Portugal, represented the achievement of an important milestone. Being ahead of the competition and having the first mover advantage was a central part of the strategy of the company[6].

Mobile Money

By 2010, the mobile entertainment and mobile marketing areas were well-established, presenting impressive results. Nonetheless, top management identified a new area that could be important to cover another segment of the market – mobile money (2010). This was something that would need no financial effort since it was already used internally and it would use the same platform as the other services.

In mobile money, TIMWE would play the role of an intermediary between consumer-facing micropayment providers and mobile carriers, offering a billing solution for the purchase of digital contents. The process was simple: end users chose the content they wanted to purchase (e.g., download premium contents or download music) and it was charged directly to the phone regardless of whether it had a pre-paid

[5] Corporate messages follow four steps: choose the target, write the message, set date and, finally, send it.
[6] R&D expenses amounted to 4,5 M€ (2010) and 6,2 M€ (2011).

or post-paid plan. The biggest advantage of choosing the company to this role was the large number of potential clients that would have access to this solution.

In the European context, where the banking system was established and safe, this could be perceived as a no value-adding service. However, the reality was very different in emerging countries, where banks' services and credit cards were not used by the majority of people (**exhibit 7**) and the degree of safety was not satisfactory.

As TIMWE realised that this service could be sold to other companies, it created a distinct brand named "M-Coin". This solution could be used by developers and publishers for in-Game and in-App monetization and by online merchants for digital goods and digital services monetization[7]. For example, TIMWE had implemented a micropayment solution for Habbo[8] in Latin America. Just one SMS away, end users could authorize the purchase of a virtual roller skating ring or a virtual luxury swimming pool for the virtual hotel. **Exhibit 8** refers an example of how the service is provided to the end user. By the end of 2011, the three main clients in terms of revenue were XGranted, Habbo and Himedia.

From one service to a portfolio

TIMWE's portfolio of services had changed throughout the time and, what used to be exclusively a reseller of mobile entertainment, evolved and expanded into the mobile marketing (2007) and the mobile money (2010) markets. The introduction of each service was the result of the consumers' demands and the company's recognition that it needed to follow customers, otherwise they would "lose the train".

Throughout the years, mobile marketing and mobile money have been solidifying their position as a winning bet in terms of revenues. As can be seen in **exhibit 9**, from 2009 till 2011, revenues of these two services increased more than two-fold. These represented, in 2011, more than 50% of the pie. To ensure the continued success of these services, TIMWE had to continue satisfying the market's needs and to explore synergies between the services.

The competition TIMWE faced in its three services was intense, fragmented and prone to increase. This was a response to the perceived high growth potential of these services, driven by the expected growing adoption of mobile phone in emerging markets (**exhibit 10)**. Competition can be a blessing or a curse depending on how companies face it: it can be either a trigger for innovation, commitment and evolution, or an excuse for failure. In TIMWE's case, it was clearly a blessing that pushed the company forward and pushed it to the right level of ambition. Nonetheless, TIMWE did not identify a

[7] For example, end users can access paid internet wireless in airports, with the cost charged from the phone balance. This digital service is bought through M-coin.
[8] Habbo is a website were players can create an identity and a virtual life.

truly comparable competitor that was able to provide the three services at an international scale.

Taking into account all these changes and evolutions, TIMWE became a more sophisticated company with a more diverse portfolio of services. It could cover a wider range of clients, provide a more complete and integrated service, and achieve economies of scope. This was the result of a demanding and fragmented market, with fierce local competition and a product that could easily become obsolete if changes did not keep pace with the technological evolution.

Industry characteristics

The mobile service industry is highly dependent on diverse factors such as technological innovation, trends and degree of development of countries, and consequently, penetration of mobile devices and internet. As can be seen in **exhibit 11**, mobile-phone penetration increased from 18,4% in 2002 to 77,2% in 2011, while internet access increased from 10,7% to 32,7%, for the same period.

This industry is characterized by a rapid rate of innovation, meaning that companies have to be able to adapt its products and services, otherwise they will quickly become obsolete. Moreover, subscribers require more than the traditional voice and text-based services, demanding a wider range of data and content services. While this poses a risk, it is also a great opportunity for companies to beat the competition. Only those who can anticipate market trends and needs will be able to secure their position. The growing penetration of smartphones[9] exemplifies this since mobile carriers and their partners will have to redesign their offers. As end users demand more services with a higher degree of complexity, mobile carriers will have to make a strategic decision of whether to join forces with specialized companies, as TIMWE, or whether to invest in in-house development.

Emerging markets

From day one, TIMWE found emerging markets attractive because of its population growth and consequent expected GDP growth above the world average[10]. Given the increasing mobile phone adoption and low internet penetration[11], end users needed to rely on the services provided by mobile phones. These were the markets to explore.

[9] Smartphones were expected to constitute 8% of total mobile connections in Latin America and 4% of total mobile connections in the Middle East and Africa in 2011, according to the World Cellular Information Service (2011).
[10] The GDP CAGR for the *World economy* is 5,3% and for the *Emerging and Development markets* is 7,9%, based on information of the "*World Economic Outlook Database*", April 2013, by IMF. This calculus was done for the horizon of 6 years - from 2012 up to 2018.
[11] According to data from the ITU, as of 31st December 2011, internet penetration in developed markets (1) was 74%, while in emerging markets (2) it was 26%. (1) Includes data for UK, US, Germany, Canada and France. (2) Includes data for Brazil, Russia, India and Mexico.

Interestingly, in Africa, Middle East and Latin America, users rely mainly on prepaid phone plans. Consequently, carriers have little insight of who their clients are and this is, once again, an opportunity for companies like TIMWE, since they can draw a profile and create a database of end users based on the services provided.

Challenges

TIMWE could anticipate some sensitive points that could undermine the achievement of the defined goals. Its medium-term strategy of increasing the international presence was tangible but challenging. It required an integration between the different dimensions associated with the company and the business, namely between the different geographies, clients' relationships and markets' needs. Moreover, the focus in emerging markets would bring an extra dose of risk associated with the lower maturity of the democracies and institutions. Although developing a cohesive company would not be an easy task, TIMWE knew the risks it would face and it was counting on its most valuable asset – the management team - to mitigate them the best way it could.

TIMWE's business was highly dependent on third parties - mobile carriers and technology providers - and on its ability to deliver innovative services. Although TIMWE played an important role, the leading one belonged to mobile carriers, as the latter were responsible for delivering the content/service and billing it. A healthy relation was crucial for the balance and sustainability of the business, since a disagreement could end up destroying the business relation and, ultimately, TIMWE. Another important actor that should not be ignored was the content providers. Although TIMWE had in-house production, it was dependent on external content and so, maintaining good relations with them was essential to assure the diversity and completeness of the portfolio and, consequently, the overall attractiveness of the services provided. **Exhibit 12** describes the industry value-chain.

Taking a financial perspective, TIMWE could be considered a company with good financial results and high operating leverage. Revenues were generally reported by carriers, since the company could not monitor sales, and were relatively variable. However, operational expenses did not follow the same path, being fixed in the short-term. If for any reason revenues decreased, this would not be followed by an immediate decrease of operating expenses, affecting the financials of the company, at least, in the short-term.

TIMWE faced another challenge regarding the daily operations: the net working capital requirements. Due to its dependence on third parties, namely content providers, to deliver its services, TIMWE had a limited bargaining power on the suppliers' side – who demanded payments within a short period of time. On the other hand, the vast majority of the sales were made through the carriers who, realising the dominant position, negotiated unfavourable payment terms for the company. **Exhibit 13** presents selected financial information.

This business was about delivering services with quality, assuring the functioning of technology and the satisfaction of end users and, in order to be a successful player, TIMWE had to build a strong reputation with clients – mobile carriers and end users. If the previously enumerated risks materialized, reputational costs would be significant and this could compromise the future of the company.

Initial public offering (IPO)

By the beginning of 2011, TIMWE had achieved a comfortable position with established business relations and an impressive record of more than 200 M€ in revenue. From the beginning, Salvi's vision was to take TIMWE public on the NASDAQ. Nonetheless, the board knew that going public was a decisive step that would drastically change the organization and positioning of the company.

At that moment, the main reasons to go public were to raise capital, to reduce the dependence on banks, and to create brand recognition and customer awareness. TIMWE had followed a short but demanding path up to now and going public would reinforce the idea of stability. This was crucial since TIMWE's business was completely dependent on third parties, those who effectively distribute the content, being credibility an invaluable weapon when competing against the other, less transparent, players. An indirect gain from being public would be the alignment of incentives across the hierarchy as the company's objectives would be public and any deviation would impact the share's price, posing a stronger incentive to employees. Finally, stronger corporate governance standards would have to be imposed and TIMWE would be subject to a tighter control and monitoring.

The gains from being public would only be achieved at a cost, and thus a thorough cost-benefit analysis would have to be done. Costs included legal, accounting and investment bankers' fees[12] - around 10% of the total amount raised; information disclosure imposed by the Sarbanes-Oxley Act of 2002; balance between short-term and long-term strategy as markets would react negatively to variations in results, promoting short-termism.

- **TIMWE as an IPO candidate**

The definition of a successful IPO candidate is linked with its ability to attract investors and TIMWE knew that, more important than its recent double digit revenue growth rate[13], were the future prospects of the company and what it would be able to reach in the future. TIMWE's ability to have a successful offering could also be anticipated by factors such as industry, product, financial indicators and communication.

[12] These fees are incurred when doing an IPO. On the following years, the company needs to pay a yearly fee to the stock exchange to continue listed.
[13] From 2002 to 2012, TIMWE experienced a compounded annual rate of 90% - more information on the revenue evolution is presented in **exhibit 14**.

At an industry level, TIMWE benefited from being in a multitude of fragmented markets, i.e., it faced fierce competition locally but it did not have a competitor able to provide the three services at the international scale. Additionally, this was a fast-growing market that would offer more opportunities for the company to expand and achieve the forecasted levels. However, being a relatively young company – ten years - would scare away some investors that would find this to be too risky. TIMWE was also well-positioned to what concerns the product or service provided, since its portfolio was fashionable, although not differentiated from its competitors.

TIMWE could then draw the profile of its target: investors seeking large capital gains derived from the strong expected growth. So far, the scenario was very optimistic and the team acknowledged that this would be worthless if investors did not understand the business. The team needed to communicate the business model and the strategy in a way that investors wanted to invest in the firm. This implied time and dedication of the management team, at a cost of a potential impact on the daily operations of the company due to the punctual deviation of focus.

Market conditions

When launching the IPO, TIMWE had to take into account the timing, as it could have a dominant impact on the outcome of the offering. Nonetheless, since the crash of 2008, there had not been such a thing as a perfect timing and so, they would have to take part of market window openings.

By mid-2011, the US IPO market seemed to have cheered up and the slowdown experienced in the second half of the year could be partially explained by the European debt crisis. As represented in **exhibit 15**, the number of deals and capital raised in 2010 was significantly higher than in the previous two years. Moreover, the Tech sector was the one with the most deals in the previous two years and it was on the top two regarding the capital raised. Finally, NASDAQ had more than doubled the number of deals from 2009 to 2010, from 30 (total of $8,1 B) to 76 deals (total of $8,7 B).

Although indicators seemed to be favourable, there was a lot of uncertainty regarding the second half of the year and the following year.

The offering

One of the reasons to go public was the access to capital markets. TIMWE was going to use the proceeds from the sale to accelerate expansion into new markets, enhance its monetization solutions portfolio through new developments and strengthen its capacity to grow inorganically, i.e. by pursuing strategic acquisitions.

TIMWE internally set the price range from $5 to $6 and would sell a total of 13,7 M shares, 11,9 M new shares and 1,8 M from existing shareholders. Excluding the overallotment option of 15%, net proceeds would be approximately $49,3 M and the market capitalization would be around $340 M. A description of the amount of shares and proceeds from the sale can be found in **exhibit 16**.

Take 1: 2011

After taking these issues in consideration, the board decided to launch the IPO. They selected the investment banks that would support the company throughout this process and this was, again, a strategic decision – investment banks were responsible for the book building, so it was crucial to choose the ones that were able to reach the right investors. They ended up with the Credit Suisse Securities and Citigroup Global– global coordinators as joint book-running managers; Needham & Company, LLC; Pacific Crest Securities; Santander and ThinkEquity LLC – were also hired as underwriters. Being both Credit Suisse and Citigroup on the "Underwriter League Tables"[14], respectively in the 5th and 6th position, proves their successful track record and justifies their choice as leading underwriters. Needham & Company, LLC and Pacific Crest[15] were chosen due to their expertise in "Internet, Digital Media & Consumer" and "high-growth technology companies", respectively.

When preparing the IPO, companies are aware of the level of information that will be disclosed and, particularly in the US, everything has to be in the prospectus. There is no room for missing information and, again, having the right "counsellors" makes a difference. With all the legal requirements met, the board started the road show around the world. It was essential to capture investors' attention and transmit the potential of the company.

In August 2011, the company decided to suspend the IPO. Mere misfortune was the main factor to blame. A combination of negative events, namely the European Sovereign debt crisis, the downgrade of US rating, the fall of the NASDAQ and IPO market culminated in the stock markets falling[16]. In any other circumstance, investors would perceive this as a sign of weakness but, given the exceptional circumstances, this decision was understood by the markets and the company knew it could, in the future, have another chance.

Take 2: 2012

TIMWE was able to smooth the consequences of this decision because there was not a desperate need for raising money. However, Salvi knew this could change in the future and so, going public continued to be part of the company's agenda. At the beginning of 2012, a slight recovery in the markets boosted the company's confidence and the prospectus was re-done. TIMWE, supported by the same investment banks, was

[14] Based on the "Global Equity, Equity-linked & Rights", by Bloomberg, and refers to 2011. This ranking includes all eligible equity and equity-linked offerings and it is based on the weighted average disclosed fees.
[15] Needham had been the joint-lead manager of the Velti's IPO in 2011 and Pacific Crest belonged to the syndicate of Facebook's underwriters.
[16] **Exhibit 17** graphs the price evolution of NASDAQ and PSI20.

now ready to face this journey for the second time and, hopefully, complete the offering.

For the second time, in April 2012, board and management devoted their time and effort throughout long sessions trying to explain to investors what the company was and what it aimed to achieve. Investors had incurred in significant losses during the crisis and so, although reticent, they were willing to invest to recover part of the loss.

In the meantime, Portugal was having a difficult time due to the requirements imposed by the Economic Adjustment Programme, which was negotiated with the ECB, IMF and EC[17]. Interestingly, TIMWE found two very different perspectives regarding the nationality of the company: in Europe, TIMWE was perceived by investors as a Portuguese company that could be contaminated by the sovereign debt crisis, representing a risky investment; in the USA, it was a worldwide company with a minority position in Portugal – 3% of its revenues – that had the risk spread across different locations. This prejudice was recurrent when Portuguese companies tried to seek financing abroad and little action was possible to overcome it. Regardless of this obstacle, bankers had been building the book.

As the IPO process started to take shape, external conditions seemed to worsen. Facebook was also on the process to go public and, if expectations materialised, its IPO would be a success. The consequences on the markets were unclear since it could either cheer them or increase their reluctance.

- **Velti**

When doing the valuation of a company, investors rely among other things on information from comparable companies to set the price they are willing to pay for the share. TIMWE's closest comparable was *Velti*, a Greek technology company that provided mobile marketing and advertising solutions at a global scale. It went public in January 2011 on NASDAQ at a share price of $12 but it had been fluctuating significantly reaching minimums below $6.

The outcome of the Greek legislative elections on May 6th, 2012 triggered a sharp fall of Velti's share price. From 7th to 16th of May, it decreased from $10,65 to $5,72. TIMWE's board was concerned that this unstable behaviour could contaminate investors' expectations and decrease valuations, increasing uncertainty around the odds of the IPO. **Exhibit 18** presents information of the comparable Velti.

The decision

May 17th was a crucial day and as the context worsened, Salvi needed to make a decision. On one hand, he had the support of the underwriters that had invested time and

[17] Portugal had asked for external support in April 2011.

money on this IPO and wanted to conclude it to earn the commission associated with the sale of the shares. On the other, TIMWE had been experiencing unparalleled growth and, although some vectors for growth would be compromised by the cancelation of the offering, the company would continue to grow – however, at a lower than optimal rate.

After all, would the poor environment be more important than this promising business model? What would be the consequences of the decision? Could TIMWE, an international company based in Portugal, become victim of a Greek tragedy?

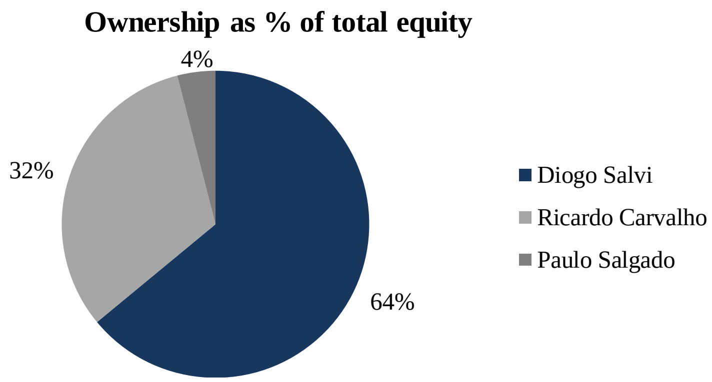
Appendix

Exhibit 1 Mobile phone penetration per 100 subscriptions. Note: grey cells correspond to countries were TIMWE had invested.

Mobile-cellular subscriptions (%)	2000	2001	2002
Argentina	17,57	18,07	17,44
Austria	76,42	81,37	83,33
Brazil	13,29	16,25	19,46
Chile	22,06	32,69	39,56
Colombia	5,68	8,08	11,19
Netherlands	67,80	76,47	75,41
Singapore	70,10	75,15	82,16
Spain	60,23	72,74	81,06
Taiwan, Province of China	81,48	98,59	109,55
Turkey	25,36	30,32	35,64
United Kingdom	73,80	78,32	82,96

Source: International Telecommunication Union (ITU) World Telecommunication/Information and communication technologies (ICT) indicators database.

Exhibit 2 Ownership distribution as of 31st December 2010

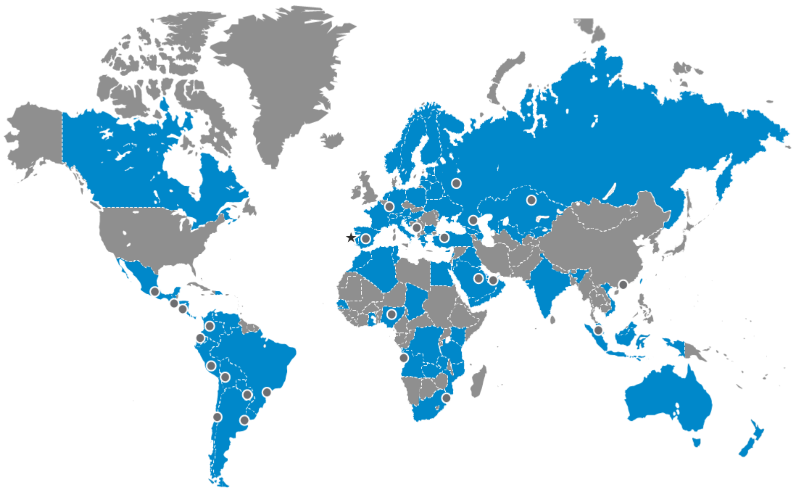


Source: TIMWE's Prospectus 2012

Exhibit 3 Information regarding the opening of international offices

Location	Date
Lisbon	2002
Colombia and Argentina	2005
Chile and Turkey	2006
Brazil, Bolivia, Mexico, Paraguay, Poland, United Arab Emirates, Kazakhstan, Hong Kong	2007
Spain and Mozambique	2008
Peru, Nicaragua and Malaysia	2009
Russia, Serbia, Algeria, Angola, Ecuador, Saudi Arabia, Guatemala, Azerbaijan	2010 onwards

Exhibit 4 TIMWE's footprint: ★represents the Lisbon office; ● identifies the locations with local offices; ■ highlights the countries served



Source: TIMWE's corporate presentation

Exhibit 5 Distribution of revenues across geographies from 2009 until 2011

(in thousands)	2009	2010	2011	Weight as % of total revenue (2011)
Brazil	66.860 €	103.173 €	122.313 €	43%
Andean(1)	17.316 €	35.991 €	35.553 €	13%
South Cone(2)	37.229 €	28.006 €	24.617 €	9%
Mexico	15.257 €	17.969 €	19.625 €	7%
EECA(3)	2.866 €	7.525 €	11.465 €	4%
Middle East(4)	1.194 €	2.864 €	8.212 €	3%
Europe(5)	19.799 €	21.706 €	24.344 €	9%
Africa	5.491 €	14.318 €	30.402 €	11%
North America	- €	698 €	588 €	0%
APAC(6)	229 €	1.601 €	4.156 €	1%
Total	**166.241 €**	**233.851 €**	**281.275 €**	

Source: TIMWE's Prospectus 2012

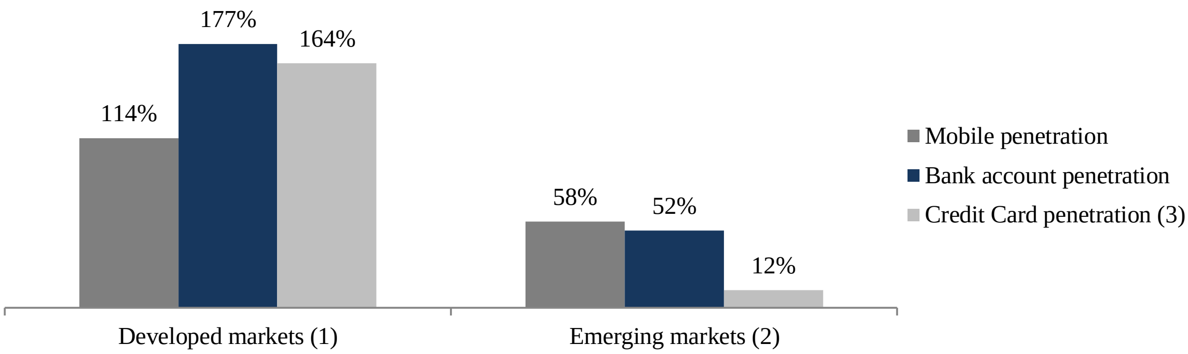
(1) Includes: Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Nicaragua, Panama, Peru, Puerto Rico, El Salvador and Venezuela. (2) Includes: Argentina, Chile, Paraguay and Uruguay. (3) "Eastern Europe and Central Asia" and includes: Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkey, Ukraine and Uzbekistan. (4) Includes: Bahrain, United Arab Emirates, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and Yemen. (5) Includes: Austria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Lithuania, Netherlands, Poland, Portugal, Romania, Serbia, Slovenia, Spain, Switzerland and the United Kingdom. (6) "Asia Pacific" and includes: India, Indonesia, Malaysia, New Zealand, Taiwan, Thailand and Vietnam

Exhibit 6 List of top clients of Mobile Marketing, in terms of revenue, as of 31st December 2011

Mobile Marketing
Mobile carriers: Telefonica, Unitel, America Movil and TIM Brazil
Media groups: SBT, Record, TPA, SIC and Controlinvest
Goverment and NGO: Accion Social (Colombia) and Instituto Technologico y Estudios Superiores de Monterrey (Mexico)
Brand owners: Kellogg’s, HP, Coca-Cola, Activo Bank and Pfizer

Source: TIMWE’s Prospectus 2012

Exhibit 7 Comparison between the penetration of mobiles, bank accounts and credit cards in emerging and developed markets

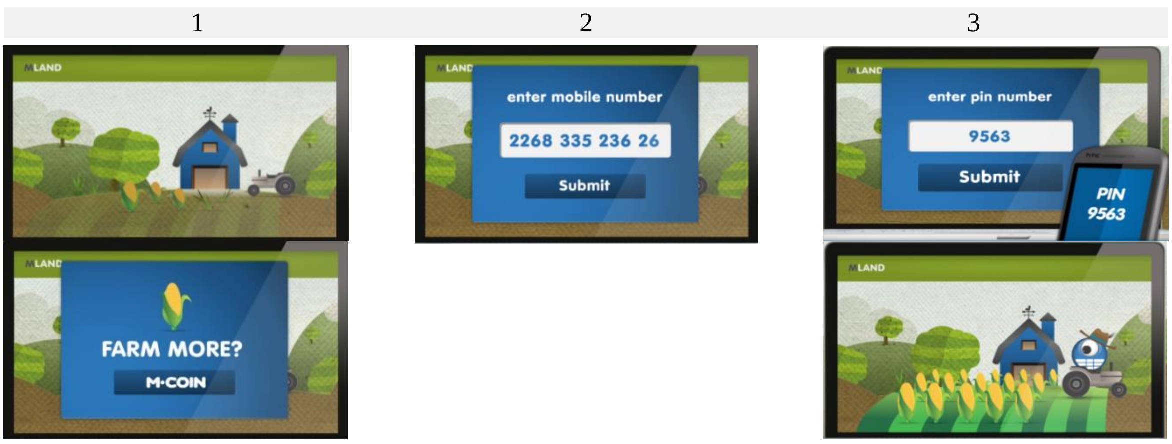


Source: TIMWE’s Prospectus 2012.

(1) Includes 2009 data for US, Canada, UK, Germany and France. (2) Includes 2009 data for Brazil, Russia, India and Mexico with respect to mobile and bank account penetration. (3) Includes 2009 data for Brazil, Russia, India, China, Korea and Mexico, regarding emerging markets.

Exhibit 8 Example of the application of mobile money. M-coin service in three steps:

1	End users choose a content to buy with M-coin;
2	End users have to insert their mobile number in order to receive a SMS with the pin number;
3	Insert pin number on the computer and enter submit to conclude the purchase



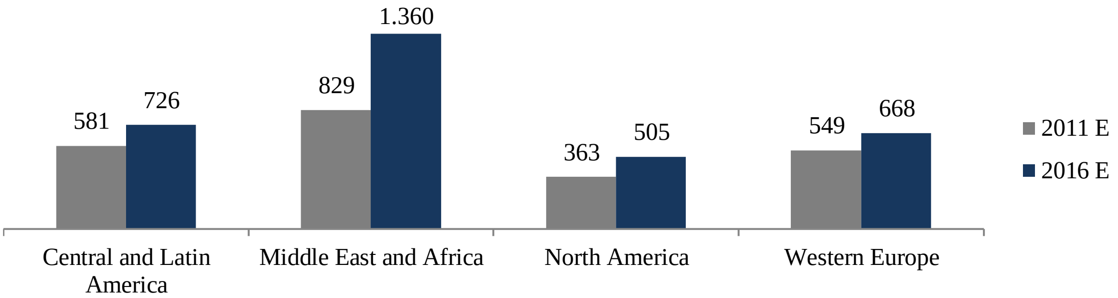
Source: *M-Coin* website (http://www.mcoin.com)

Exhibit 9 Distribution of revenues between the three services: Mobile Marketing, Mobile Entertainment and Mobile Money

(in thousands)	2009	2010	2011	Weight in total revenue (2011)
Mobile Entertainment	107.534 €	116.185 €	132.601 €	47%
Mobile Marketing	54.154 €	101.320 €	117.707 €	42%
Mobile Money	4.552 €	16.346 €	30.967 €	11%
Total Revenues	**166.240 €**	**233.851 €**	**281.275 €**	**---**

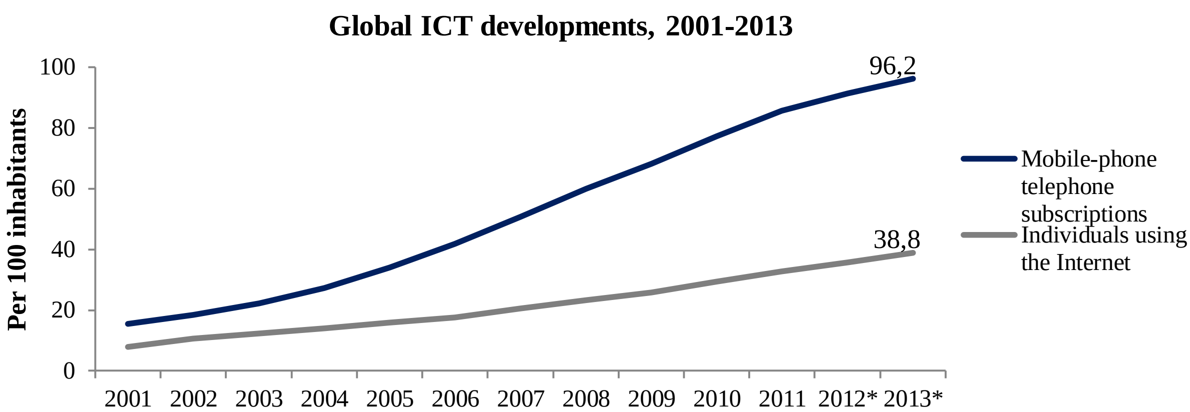
Source: TIMWE's Prospectus 2012

Exhibit 10 Number of mobile phone connections expected in 2011 and 2016 (Millions)



Source: TIMWE's Prospectus 2012. Data from "Analysis Mason (2011)"

Exhibit 11 Evolution of mobile-phone and internet penetration from 2001 to 2013 (Note: * estimate)



Source: International Telecommunication Union (ITU) World Telecommunication/Information and communication technologies (ICT) indicators database

Exhibit 12 Simplified representation of the industry value chain

a) TIMWE as an intermediary

b) TIMWE as the main player, delivering services directly to end users

Exhibit 13 Selected financial data (in thousands, except for per-share data)

a) Balance sheet

	2007	**2008**	**2009**	**2010**	**2011**
Cash and cash equivalents				8.610 €	11.873 €
Trade receivables				25.431 €	35.325 €
Inventories				72 €	69 €
Prepaid expenses and other assets				3.238 €	8.948 €
Current income tax expenses				3.280 €	1.519 €
Other tax expenses				4.647 €	3.597 €
Current assets				**45.278 €**	**61.331 €**
Property and equipment				2.775 €	2.155 €
Capitalized technology				5.536 €	4.945 €
Other intangible assets				3.139 €	12.358 €
Goodwill				642 €	642 €
Deferred income tax expenses				2.119 €	4.360 €
Other assets				87 €	101 €
Non-current assets				**14.298 €**	**24.561 €**
Total assets	**24.000 €**	**40.049 €**	**46.738 €**	**59.576 €**	**85.892 €**
Accounts payable				20.084 €	28.328 €
Liabilities related to factoring operations				1.181 €	461 €
Current portion of LT debt				2.521 €	13.352 €
Current portion of finance lease obligations				1.038 €	746 €
Current tax liabilities				535 €	1.862 €
Other taxes				887 €	1.453 €
Current liabilities				**26.246 €**	**46.202 €**
Provisions				699 €	1.009 €
LT debt				7.314 €	3.880 €
LT portion of finance lease obligations				1.036 €	611 €
Deferred income tax liabilities				269 €	337 €
Non-current liabilities				**9.318 €**	**5.837 €**
Total liabilities	**16.923 €**	**31.684 €**	**32.729 €**	**35.564 €**	**52.039 €**
Total equity	**7.077 €**	**8.365 €**	**14.009 €**	**24.012 €**	**33.853 €**
Total equity and liabilities	**24.000 €**	**40.049 €**	**46.738 €**	**59.576 €**	**85.892 €**
Total capitalization					38,344€
D/E				*54,4%*	*56,3%*

Source: TIMWE's Prospectus 2012

b) *Income statement*

	2007	2008	2009	2010	2011
Revenues	67.813 €	125.339 €	166.241 €	233.851 €	281.275 €
Operating Expenses:					
Cost of service delivery	32.118 €	65.059 €	97.056 €	117.318 €	144.550 €
Commercial and production costs	21.511 €	35.292 €	37.130 €	76.025 €	88.573 €
Personnel costs	4.430 €	6.519 €	8.758 €	9.585 €	11.092 €
General and administrative	3.258 €	6.162 €	6.980 €	7.526 €	8.749 €
Tax expenses	420 €	2.150 €	2.306 €	3.263 €	3.212 €
Amortization and depreciation	517 €	1.605 €	2.490 €	4.225 €	5.419 €
Provisions expense	853 €	116 €	405 €	589 €	483 €
Total operating expense	63.107 €	116.903 €	155.125 €	218.531 €	262.078 €
Operating profit (EBIT)	**4.706 €**	**8.436 €**	**11.116 €**	**15.320 €**	**19.197 €**
Finance income	511 €	570 €	139 €	1.650 €	1.272 €
Finance costs	- 687 €	- 1.500 €	- 2.415 €	-2.576 €	- 2.535 €
Net finance income (costs)	- 176 €	- 930 €	- 2.276 €	- 926 €	- 1.263 €
Profit before income taxes (EBT)	**4.530 €**	**7.506 €**	**8.840 €**	**14.394 €**	**17.934 €**
Income tax expenses	- 1.973 €	- 2.119 €	- 1.676 €	- 3.389 €	- 3.776 €
Net income	**2.557 €**	**5.387 €**	**7.164 €**	**11.005 €**	**14.158 €**

c) *Other financial data*

	2007	2008	2009	2010	2011
Cash and cash equivalents	3.886 €	4.456 €	5.667 €	8.610 €	11.873 €
Net working capital	5.725 €	14.222 €	11.284 €	19.032 €	15.129 €
Capital Expenditures			5.300 €	6.100 €	13.200 €
Total debt	4.329 €	15.973 €	10.204 €	9.835 €	17.232 €

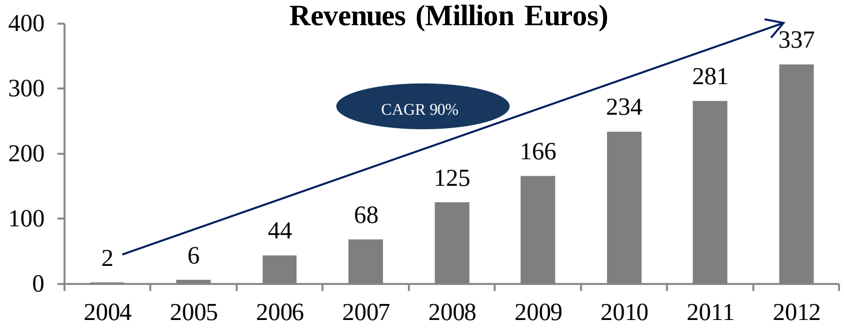
d) *Debt convenants*

Financial covenants: a maximum debt–to–EBITDA ratio and a minimum equity–to–total net assets ratio.

Non-financial covenants: providing financial statements to the bank in a timely manner, current stockholders should maintain at least 51% ownership, and TIMWE shall not sell, transfer or otherwise dispose of 20% of its assets without the express consent of the lenders.

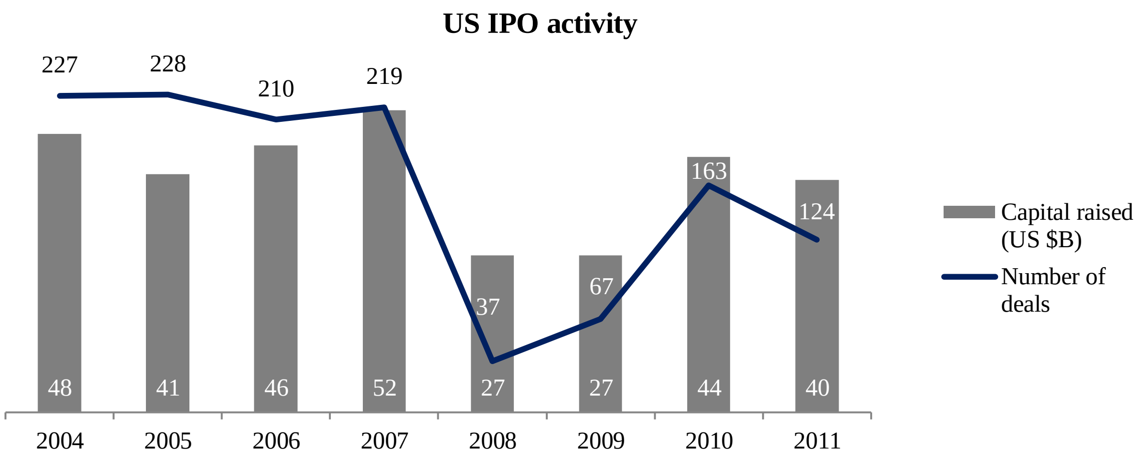
Source: TIMWE's Prospectus 2012

Exhibit 14 Evolution of TIMWE's revenues from 2004 up to 2012. The compounded annual growth rate for the period in the graphic is 90%



Source: TIMWE's corporate presentation

Exhibit 15 Description of IPO activity in US from 2004 to 2011



Source: "*Global IPO trends 2012* – Prepare early, move fast", Ernst & Young

Exhibit 16 Offering data: number of common shares that will be issued and corresponding proceeds from the sale

Price			**$5,50**		
Common shares offered by:	**TIMWE (new)**	**Selling shareholders**	**Total**	**Total shares outstanding**	**Proceeds from sale**
Without exercising option	11,9 M	1,8M	**13,7M**	61,9 M	$49,3 M[18]
Exercising overallotment option	+ 1,027,500	+ 1,027,500	**15,755 M**	62.927.500	$54,6 M if overallotment option is exercised in full.

Source: TIMWE's Prospectus 2012

[18] "Total proceeds net of underwriting discounts and estimated expenses of the offering payable by TIMWE. No proceeds from the sale of the selling shareholders will be received. The estimated expenses include 3 M€ to be paid to TIMWE's employees", TIMWE's prospectus. Exchange rate = $1,2973 per 1,00 €.

Exhibit 17 Evolution of NASDAQ and PSI 20 prices. Portuguese Stock Index 20 – PSI 20 - is the stock market index of companies that trade on Euronext Lisbon, Portugal's main stock exchange. The 20 listings correspond to the companies with the largest market capitalisation and share turnover in the PSI Geral.

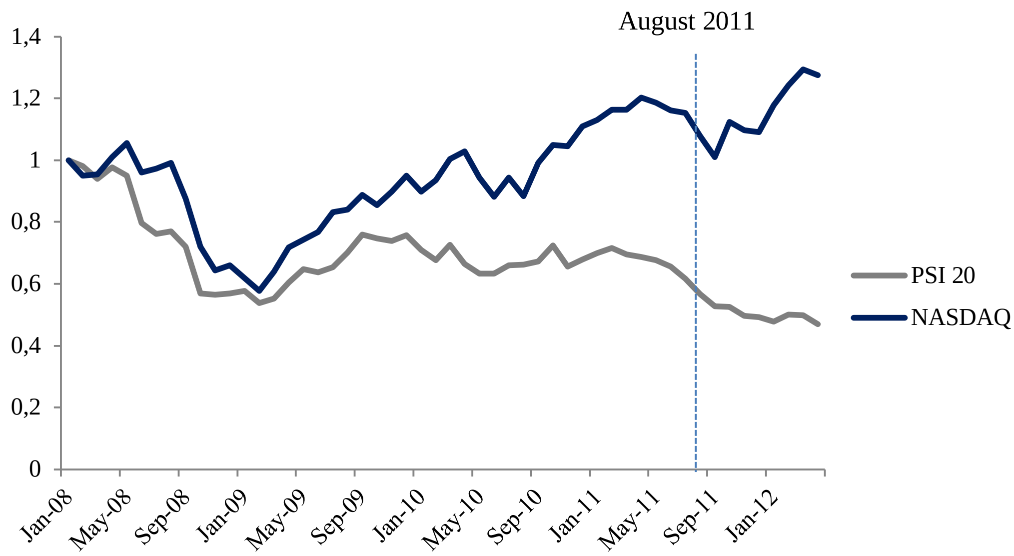
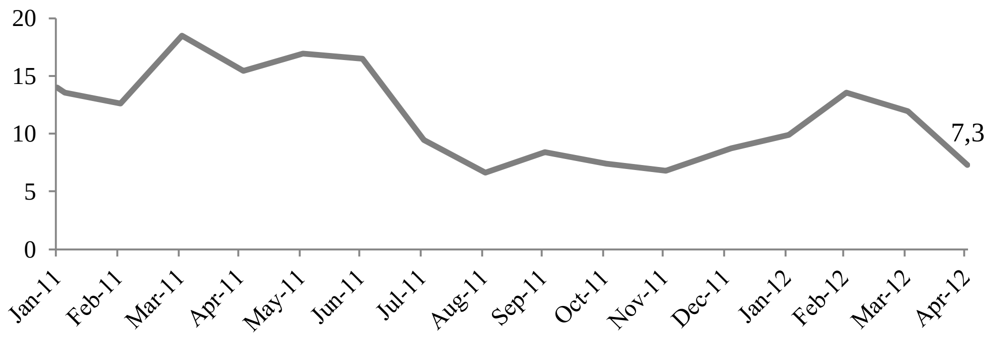


Exhibit 18 Information about the comparable *Velti*

1. Shares price evolution from January 2011 until April 2012

Velti Price per share evolution (in dollars)



Source: Yahoo finance, symbol VELT

2. Financial information

	Velti
EBITDA	$53.077.000
Debt	$ 9.625.000
Revenue	$ 189.202.000
Adjusted Net income	$29.005.000
Number of shares	61.816.000

Source: "Annual Report 2011 VELTI PLC – Form 20-F".

Teaching notes

TIMWE's case should be interpreted as a case of a successful Portuguese company that achieved impressive results in such a short period of time. The discussion of the case study should cover the different aspects involved in an IPO, including the choice of the investment banks and market to list the company, the context and the main difficulties in marketing the company. Additionally, the prejudice of being a Portuguese company should also be analysed, as well as the capital structure of the company. Students should also discuss whether TIMWE should or not cancel the IPO. Proposed questions and solutions are presented below.

1. Define the source of early financing.

In 2002, when the company started, the minimal initial investment was made by the founders. This type of financing – bootstrapping – is characteristic of ventures in an early stage, when founders do not want to make significant physical investments and the company is still too infant to be able to attract outside financing.

2. How was TIMWE able to raise debt from banks in its early days?

From the beginning, TIMWE had positive results (EBITDA>0, profit>0) since it was able to sell its services, incurring in minimal costs. Banks, realizing the sustainability of the business and the internal capacity to generate income, had little reserves to what concern lending small amounts of money to the company.

3. What was the true motivation behind the IPO? Was the capital structure optimal?

The decision of going public is based on several factors, namely the need to recapitalize the company. TIMWE had relied on debt financing and retained earnings to support its growth but the board knew that a ratio of 56,3% of debt-to-equity could be a warning signal. The ability to create value through the PV of tax shield is limited to the optimal (D/E). From that point onwards, the cost of financial distress dominates. Additionally, the debt covenants posed a restriction to the decision-makers, reinforcing the need to find alternative financing sources. Financial covenants included a maximum debt–to–EBITDA ratio and a minimum equity–to–total net assets ratio; and non-financial covenants included providing financial statements to the bank in a timely manner, requirements that current stockholders should maintain at least 51% ownership, and TIMWE shall not sell, transfer or otherwise dispose of 20% of its assets without the express consent of the lenders.

A successful IPO would represent more than a significant capital injection; it would bring liquidity to the shares of the company and, consequently, TIMWE could use them as a mean of payment. Not only the company would be recapitalized, having more equity, but it would also reduce the dependence on debt and the burden associated with it. The envisioned inorganic growth could be achieved, as well as, other opportunities that in the past TIMWE was not able to exploit due to the abovementioned limitations.

4. Do you agree with TIMWE's decision of going public in the NASDAQ? (Compare with going public in an European exchange, e.g.)

The decision of where to go public is crucial and should take into account a series of factors. Firstly, companies need to study the market and identify the investors' base. At first glance, an American exchange is the safest choice since it is the deepest pool of liquidity. When compared to the NYSE Euronext Lisbon – home market -, it is clear that the number of potential investors willing to invest in this exchange is smaller, due to the lower credibility, historic of transactions and number of companies listed.

Secondly, it is important to go public in a market where the brand will be boosted, as well as, credibility. Investing in the US would, again, be a better option. American exchanges are broadly recognized as being more regulated and, consequently, safer and more transparent. Additionally, it is unquestionable that the most well-known stocks are listed in the US and so, this will positively affect the ambitioned brand recognition. Nonetheless, companies should be aware that this comes at a cost since more information will have to be disclosed and there will be costs associated with it.

Thirdly, in the case of European companies and, particularly, Portuguese, due to the difficult economic situation, there is an extra-level of prejudice when it comes to choose them to invest. For European investors, a Portuguese company is perceived as having the same risk as the country, regardless of its performance and exposure to the home market. In the US, investors have a different perspective, privileging the origin of income and spread of operations. Doing an IPO in Europe would be a challenge since, not only the base of investors is smaller, but also being a Portuguese company would reduce the odds of having enough investors willing to invest at the expected price.

The final question is between NASDAQ and NYSE. The main reason to choose NASDAQ is linked to the nature of the exchange as it is usually referred to as a "high-tech" market and its stocks are considered more volatile and more growth oriented. Additionally, when compared to NYSE, both the entry and the yearly fees are much smaller. For example, the entry fee in the NYSE is up to $250.000, while in NASDAQ it is between $50.000 and $75.000. All in all, TIMWE's decision of going public in NASDAQ provides the best "price-quality" relation.

5. What was the main difficulty when marketing this company to investors?

TIMWE does not have a competitor that can offer the same portfolio of services in all of its regions. Consequently, when it came to set the price, investors were not able to cover the complete range of characteristic, potentially under-valuing the company. Additionally, despite the long list of companies offering partially similar services, there were only a few that are public, meaning there was little information available.

All in all, the main difficulty was the inexistence of a truly comparable that could work as reference to the valuation exercises. From an investors' perspective, Velti seemed to fit not only in terms of product - provider of mobile marketing services at a global scale -, but also to what regards the challenges associated with the deep crisis. Velti had done the IPO the year before and it was a Greek company – Greece was also struggling to "survive" the crisis and to comply with the impositions of Troika.

6. Would the poor environment be more important than this promising business model? Provide a valuation of the company based on the multiples method.

TIMWE was facing, for the second time, a very difficult situation, since there were investors willing to put their money on the table but at a conservative price. Investors would have to rely on multiples from Velti to do the valuation.

	Velti	TIMWE	Multiple: EV/EBITDA	Multiple: P/E
EBITDA	$ 53.077.000	$ 36.727.860		
Debt	$ 9.625.000	$ 17.232.000		
Revenue	$ 189.202.000			
Net income	$ 29.005.000	$ 18.367.173		
Number of shares (1)	61.816.000	61.900.000		
Market Cap (1)*(2)	$451.256.800		EV – Net Debt[19] = $ 317.088.686	P/E * net income = $ 285.754.590
EV [(1)*(2)+debt]	$ 460.881.800		(EV/EBITDA) * EBITDA = $ 318.917.843	
EV/EBITDA	8,68			
P/E	15,56			
Share price (2)	**$ 7,3**		**Mkt cap / # shares = $ 5,12**	**Mkt cap / # shares = $ 4,62**

Based on the valuation above, by May 1st, the price offered would be between [$ 4,62; $ 5,12], below the $ 5,5 envisioned by the company. TIMWE's price would be driven down by the deteriorating position of its comparable. By May 16th, due to the Greek elections, multiples were sharply dropping. A promising business model at the wrong time has less changes of being successful than an uninteresting business model during booms. During a crisis, investors are less willing to invest, risk aversion increases and obstacles facing the business will have a great impact, limiting the scope of the business and the odds of success.

7. Discuss the role of investment banks and why they supported the IPO despite the deteriorating market conditions.

Underwriters are the ones which have a better overview of the whole process since they are the ones responsible for the book building and for marketing the company. When they show a yellow card, it signals their scepticism regarding the odds of the IPO and it warns the company that the offer may not be completed.

Investment banks (IB) were selected due to their past results and reputation. Bankers will be used as a channel to reach the right investors and this is what

[19] Net debt = debt-cash

companies are actually paying for. Underwriters are well aware of this and they end up playing a double game. Consequently, there is a clear conflict of interest. On one side, they are being paid by the company to assure the success of the IPO and they have an incentive to sell shares at the highest price possible because it will be reflected on their commissions. On the other, in order to continue to succeed in the IPO market, IBs have to offer attractive deals to institutional investors, which materialize in reduced prices. Nonetheless, the consequences of selling at lower prices are wider since it reduces IBs' risk of not having enough demand for the shares; it increases the odds of making money with the Greenshoe option and, finally, it will represent gains to buyers from the underpricing. However, in the medium term, issuers will tend to "run away" from IBs that systematically underprice offers.

In this case, IBs had invested time and money through the two IPO attempts and commissions would only be paid if TIMWE managed to go public. Realizing that their image would not be damaged by this IPO, IBs maintained their support, leaving the decision up to the CEO.

8. What would be the impact on TIMWE of another failed IPO? Could they be taken seriously by investors should they go for a third attempt?

TIMWE was, by now, in a dilemma: go or no go. If it decided to continue and go public at any cost, it would need to face the unknown and the risk associated with low prices on the selling. Nonetheless, it would be a public company with future access to capital markets, when markets started to boom. However, if TIMWE decided to cancel the IPO it would be conditioning the access to capital markets, at least in the medium term. This was the second attempt and reputational costs would be significant if it ever tried to go public again.

TIMWE made a decision of restarting the process a few months after calling it off for the first time. The cancellation of the first IPO was understood by investors since they recognized that companies could not control the negative external factors but the second would not be. The question is whether the present value of future reputational costs plus the costs associated with re-doing the process (IB, lawyers, e.g.), would outweigh the losses associated with the low valuations.

<u>What happened?</u>

Diogo Salvi and his team decided to cancel this second attempt of going public on May 17th. In reality and contrary to what was expected given the circumstances, there was book building but at prices below the internally set. The losses that the company would suffer were lower than the ones if the decision was to complete the offering. From the beginning, TIMWE managed to grow without significant capital injections and there were no reasons to believe that this would change. As stated in the case, calling off the IPO could hinder the company to achieve the optimal growth but it would not prevent it to continue to grow, although at a slower pace.