

Pre-IPO – Financing via Convertible bonds
(legal and organisational aspects)

Abstract of the Master Thesis for
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Companies which are not able to achieve financing via senior debt but gain enough cash flow to handle additional debt, more and more apply Mezzanine Capital. A wide product range with many different possibilities is available. Above all the rights of the investor's voice as well as the form of repayment can be defined very variably.

An example for using Mezzanine Capital is the financing of expansion by developing new markets or designing new products. For midsize companies, which often do not have sustainable capital to finance growth and which are not credible enough mezzanine capital can close the gap between equity and senior debt. Growth and projects can be ensured until the results are improved.

The Master Thesis „Pre-IPO – Financing via Convertible bonds“ shows the legal and organisational aspects, to which a midsize company is faced during its expansion phase as a private limited company till the Initial Public Offering (IPO) as a public company. The intermediate financing of the company's growth till IPO should be achieved by issuing a convertible or a warrant bond. The convertible bond has been chosen because it motivates the management to deal with great care because the capital has to be repaid in any case and it offers the possibility of an extraordinary gain to the investor as well as it saves the autonomy of the entrepreneur. In the Master Thesis the term convertible bond is used in two manners. On the one hand it is used as a generic term covering all types of different convertible bonds. E.g. are warrant bonds and exchangeable bonds special types of convertible bonds. In other cases the term convertible bond is used to describe the pure convertible bond itself.

The shown financing strategy indicates a way allowing a company a soft entrance to the capital market via the warrant bond. The issue of the bond already enforces the company to settle profound organisational changes and to create transparency before going public. Otherwise it would not have any chance to place its securities. The obligation to repay also if the company is not developing well or the IPO can not be achieved, asks for an accurate planning and financing. It also excludes the risk of default for the investors.

The investors possibility to exercise influence is limited to the company's obligation to submit frequently reports and to meet the covenants committed. If the company is financed by a private equity fund the existing owners could lose control over their business either partially or totally. In case of default the investor could lose the invested capital totally.

If the initial public offering is realized finally the company has already collected some experience in dealing with the capital market by the issue of the convertible bond. Contrarywise the investors know already the company and could support the company with

their recommendation. During the term of the bond the company can show a shareholder-value-oriented way of management and enhance the company's value as well as the share price to make the conversion of the convertible bonds into shares possible.

Wandelschuldverschreibungen bieten darüber hinaus eine Fülle von Gestaltungsmöglichkeiten und finden in der Ausgestaltung von Volumen und rechtlichen Bedingungen wenige Einschränkungen und können daher vor allem für den Emittenten sehr attraktiv sein, solange er die richtigen Investoren dafür findet.

The first chapter „convertible bonds“ explains the different characteristics of convertibles and the reasons of issue. Afterwards the chapter “preparation for the IPO” leads over to the part called “requirements of an IPO”. Described are the standards to be met the company to go public successfully. Under “stock exchange conditions” the provisions of the vienniese stock exchange are covered. Finally the points discussed in theory are applied to an existing company with the goal of financing its expansion.

The final statement sums up the most important points and reflects the strategie discussed.

Keywords:

- Convertible bond
- going-public bond
- initial public offering
- projectfinancing
- Protection of interest