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Privatization IPOs
Lessons Learned and Suggestions for the Future

Final Report

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Abstract

The report titled *Privatization IPOs: Lessons Learned & Suggestions for the Future,* was commissioned by AMIR as the result of concerns by the Jordan capital markets sector and AMIR that the 2002 IPO for Jordan Telecom had not gone quite as smoothly as it might have, that the capital markets players had not been involved early enough or substantially enough in the pre-planning and planning processes, and that it would benefit Jordan to have a review of what occurred, with suggestions regarding changes that could be made to improve the next privatization IPO. The Jordan Securities Commission, Ministry of Communications and Information Technology, the Executive Privatization Commission and USAID all concurred with the preparation of the study.

The report examines how the IPO was structured and why, what positive elements made it a success, what difficulties influenced it, what and who drives the privatization decision process in Jordan, and what future privatization IPOs might arise. It concludes with a series of recommendations for changes in the pre-planning, planning and implementation stages for privatization IPOs, and provides an overview of the critical elements necessary for a successful IPO, the relative timing of those elements, and the responsibility for their being properly executed.

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Executive Summary

This report is the result of a need recognized by capital markets authorities in Jordan, the AMIR Program, the Executive Privatization Commission (EPC) and USAID for a review of the only privatization IPO undertaken by Jordan to date – the sale of 10.5% of Jordan Telecom common stock in December 2002. The purpose was fourfold: Determine what worked well, identify what might need to be changed in future IPOs, suggest actions arising out of specific lessons learned, and lay out a broad schematic for the events, timing and responsibilities for future privatization IPOs.

Jordan Telecom 2002 IPO – Overview

The Telecom IPO was concluded in December 2002, after approximately a year of pre-planning and planning, including four months of international investment banking advisory services from JPMorgan & Company. This was the first privatization IPO ever done in Jordan and in fact was the first IPO done on the Amman Stock Exchange. Although planned much earlier, it was concluded at a time when world markets and the Amman Stock Exchange in particular were well below historic highs, particularly for IPOs in general and the Telecom sector in particular. In addition, Jordan found itself on the geographic front lines of an upcoming war in Iraq, with the future impact of that totally unknown.

The structure of the offer was based on a decision by the Government of Jordan (GoJ) to sell up to a 15% portion (37.5 million shares) out of its 52% holdings in Jordan Telecom to both institutional and retail investors. The deal concluded with the sale of 10.5% of the total number of Jordan Telecom shares, of which a 5% block went to the Social Security Investment Unit and 5.5% to institutional and retail shareholders in Jordan, the majority of which were institutional Jordanian entities.

Although the IPO was acknowledged as imperfect, it still was considered successful, because even given the hurdles it faced it was completed on time, it was done to international standards, Jordan's technical and marketing systems worked, a reasonable amount was raised, and the necessary parties were involved in their proper roles. However, the strong direction provided by an internationally experienced IPO Advisor hired by the EPC was critical to this success.

A set of specific difficulties impacted the IPO including:

- Participant commitment, which initially was slow and weak
- France Telecom Issues arising of the previously signed Joint Agreement and pricing constraints
- The size of the issue, which was small by world standards
- Pricing based on the maximum price that could be obtained, not on a market price that would have maximized the volume
- Marketing difficulties that were heavily influenced by above-market pricing, the newness of an IPO in the marketplace, and the lack of strong local buy-in
- Timing, with the deal concluded at a low point in local and world stock markets

Future privatization IPOs will depend on both what large companies are left with significant GoJ ownership and on decisions on how to best sell them, be it to a strategic investor, via an IPO, or some combination of the two over time. Timing is also an issue, as some joint agreements with existing strategic investors will push IPOs for those companies off into the future.

The list of possible candidates and current status includes:

- *Royal Jordanian Airlines*: The airline needs updated analysis and no decision has been made at this point nor is likely for another year.
- *Silos & Warehouses*: This operation may not be large enough for an IPO, it is most likely to be separated and sold to individual investors, be they individuals or companies.
- *Jordan Phosphate Mining Company:* The EPC has recently received bids for the restructuring and financial analysis of the company, which will take up to a year to complete. No decision has been made when to sell it or what percentage of the GoJ's ownership will be sold.
- *Electricity:* SEDGCO bids were received in early January, and a winner will be chosen during the next two months. The international financial advisor, Rothschild, has advised the Government to put a two-year restriction in the proposed joint agreement with a strategic investor, prohibiting the GoJ from selling more than the 51% it is presently selling to a strategic investor
- *Arab Potash:* Part of the Government's ownership in Arab Potash was sold last July to Potash Corporation of Saskatchewan (PCS), a very large international mining company. At the request of PCS, the joint agreement with them has a three-year moratorium on the GoJ selling additional shares,
- *Jordan Telecom*: The GoJ announced last Wednesday that it would proceed with the sale of the remaining GoJ-owned shares of as a straight market offering of the shares.
- *Post Office:* An international financial consulting firm will be hired soon to analyze the Postal Service and make recommendations to the GoJ as to how it might be privatized. This work will not be completed for at least 9 months to a year.
- *Railway:* International consultants will be hired in early 2005 to analyze the Railway and make recommendations to the GoJ regarding how to privatize it and at what price. Work should begin by the end of March, with final recommendations and decision at least nine months to a year away.

There are unlikely to be other large privatization candidates, and given current plans, it appears that there will be no regular flow of new IPOs or sale of stock via the stock exchange

Lessons for the Future

This study has pointed out a variety of lessons that should be heeded by those wanting to improve future privatization IPO offerings and the capital markets in general. The most important of these follow.

Capital Markets in the Privatization Planning Process

Jordan would benefit from increased input by and discussion with capital markets players throughout the privatization planning and implementation process.

There needs to be a conscious weighing at the highest levels (Royal Court, Prime Minister, Privatization Council, Cabinet, Ministry of Finance, and the EPC) of the value of IPO cash proceeds to the GoJ versus the value of increased capital markets activity. However, this will not happen on its own – it must be aggressively orchestrated by the Jordan Securities Commission and other capital market players.

There also should be clear understanding throughout the Government of the critical importance that market pricing plays in any future IPO. Jordan's reputation was damaged on its first IPO because it was not oversold, due to the above-market pricing. This must not happen again.

The Jordan Securities Commission and other capital market players must be ongoing, *active* spokespersons to ensure that public offerings are given fair consideration in privatizations analyses and recommendations. The JSC and others need to be active and frequent deliverers of this message.

The JSC, ASE and SDC have to be certain that they are consulted before and during an IPO process, but they also have to be active players and participating fully.

One method of ensuring closer close coordination between the JSC and the EPC is for the two institutions to draw up a joint letter to the Privatization Committee and the Prime Minister regarding recommended critical changes for the next IPO, plus a plan for future much closer cooperation between the two institutions. The two need to work in a close partnership, to their individual benefits and the benefit of the country.

Capital market players and the EPC should meet early in the planning of privatizations to understand the market potential for specific IPOs. The candidate and timing process needs more input from the capital markets.

Market incentives for sub-distributors and retail buyers need reconsideration, as the lack of them the first time appeared to disincentivize those marketing the deal and probably diminished retail purchases. Work should be undertaken to look at how IPO incentives have been handled in other countries, both for buyers and distributors.

The JSC, with other capital market players and companies, needs to begin regular generic regional road shows highlighting the opportunities of investing on the Amman Stock Exchange, particularly four to six months in advance of future IPOs.

More flow of additional IPOs is needed to build Jordan's market reputation. Because privatization is unlikely to be a sufficient source of IPOs, work should begin on publicizing to private companies the benefits of raising capital through the stock exchange.

Other Considerations

- Using an International IPO expert is crucial to a successful IPO process, because the broad range of skills required to push through an IPO are still relatively new to the Jordan marketplace.
- To the extent that it can be done, the GoJ and the EPC should make timing of future privatizations clearer to the JSC, ASE and SDC so that they can plan properly.
- Waiting for perfect timing to do an IPO is a worthless and impossible effort. Best timing cannot be easily determined ahead.
- The crafting of future strategic investor agreements needs to be carefully managed – probably with strong EPC input, so as to avoid future problems and not limit GoJ options. Existing agreements should be carefully analyzed now and understood by the EPC.
- Privatization is always hard to sell to the legislature and the public. General efforts on this need to continue, and specific efforts for future IPOs need additional targeted public relations efforts regarding the mode of privatization and the pricing.
- International standards must be the sole acceptable quality measure for Jordan. Jordan needs to be seen as a capital markets player of international quality
- It is important to first sell a proposed IPO to Jordan investment bankers, and only, then go to Gulf. Selling the local investment banks and investment advisors has an important secondary effect on their clients and investment banking friends in other countries
- All efforts should be made to make certain that the international investment bankers managing an IPO are authorized to conduct business in Jordan, to maximize their psychological impact.

Fundamentally, it is the responsibility of the JSC and other capital market players to bring these points home to the appropriate authorities and other players in ways they can clearly understand and use for public relations efforts

Road Map

There are four distinct IPO phases in which capital markets players and others have roles. It is important to understand what needs to be done in each, the relative order of these needs, and who is responsible, all of which is detailed in the body of the report.

Pre-planning Phase

Pre-planning occurs before investment bankers and lawyers are hired, primarily involving the selection of Steering and/or Technical Committee members, the hiring of an IPO Advisor to help manage the IPO, and preliminary design of an IPO. Preliminary agreement with the Privatization Council and Cabinet also is sought.

Implementation Planning Phase

This phase involved selection and hiring of international investment bankers and lawyers, and public relations services and the commencement and completion of most planning work, including the drawing up of a draft prospectus.

Implementation Phase

The phase during which public relations become active, the market is tested for pricing levels, mechanics all systems are tested, a final prospectus, is published, and final pricing is set, the offer is formally made, bids accepted and the deal closed.

Follow Up Phase

In this phase, results of the offer are announced, trading begins, follow up information is provided on a regular basis by investment banker and the company management, and additional public relations is undertaken by the company

PRIVATIZATION IPOS
LESSONS LEARNED & SUGGESTIONS FOR THE FUTURE

Background

This study examines the privatization of a portion or the 52% of the shares of Jordan Telecom owned by the Government of Jordan (GoJ) in late 2002 via an initial public offering (IPO) of shares to institutional and retail investors in December 2002. It particularly focuses on:

- What worked well?
- What should be changed in following privatization IPOs?
- What are other key lessons for future privatization IPOs?
- What would a generic road map or guide look like for future privatization IPOs, including key steps, relative timing of steps, and responsibilities?

It should be understood that the study begins with a view that increased capital market activity has a positive impact on Jordan; this concept pervades the recommendations.

Jordan Telecom 2002 IPO – Overview
Ownership Change

The sale of shares by the GoJ through this offer led to the following changes in stock ownership:

	PRE-IPO		IPO		POST-IPO	
SHAREHOLDER	SHARES	%	SHARES	%	SHARES	%
GoJ	**130.0 M**	**52.0%**	**(26.25 M)**	**(10.5%)**	**103.75M**	**41.5%**
JITCO*	**100.0 M**	**40.0%**			**100.00M**	**40.0%**
Social Security	**20.0 M**	**8.0%**	**12.50M**	**5.0%**	**32.50M**	**13.0%**
Public	**0.0**	**0.0%**	**13.75M**	**5.5%**	**13.75M**	**5.5%**
TOTAL SHARES	**250.0 M**	**100%**	**26.25M**	**10.5%**	**250.00 M**	**100%**

Joint Investment Telecommunications Co., a joint venture of France Telecom (88%) and Arab Bank (12%)

The GoJ originally agreed to sell a tranche equal to up to15% of JT’s total shares, or 37.5 million shares. Unofficially, had it appeared that demand would be quite strong, they might have even agreed to as much as 20% (50 million shares).

Technically, this was not a traditional IPO, in that it was not an issue of new shares, but an offer of a block of existing GoJ shares to various potential buyers, both institutional and retail. However, it was handled identically to an IPO, with a prospectus written to international standards.

IPO Hurdles

It is important to remember that this was the first time that an IPO of this size and nature had been done in Jordan, and there was very little local experience in creating and managing such a sale. It also was decided early in discussions that this needed to be done to international standards, both because the investment bankers would try to sell it in the Gulf States and elsewhere (although not the United States due to a variety of legal strictures that would not be worth spending the money to meet given the very low potential of any shares being sold there) and because it was felt that Jordan’s market reputation and activity levels required that quality henceforth.

In addition, there were many other hurdles. Although the decision to sell via an IPO was made by the Privatization Council and Cabinet in early 2002, the events of the fall of 2002 could not have been predicted. By the time the sale took place, a war in Iraq was being forecast. Second, the late fall of 2002 proved to be the low point in international favor for telecom issues and IPOs. Therefore, the issue went off at possibly the worst moment in the market cycle. However, given the lead times required for such issues, it is impractical to try to manage market timing. Even the incredible turn-around in the Amman Stock Exchange demand and prices since the late fall of 2002 was not predicted by anyone at that time.

Although there was some discussion of pulling the issue as the sale date approached, to the credit of all, it went forward. However, the general rule is that once a decision to go has been made, only the most catastrophic of circumstances should kept it from happening. Otherwise the marketplace will react negatively to the issue once it is re-issued, and will begin to distrust the talk of future offers.

Jordan also was not yet on many investor radar screens outside the Gulf, and even within the Gulf, not enough was known about Jordan’s market. The California State retirement has recently improved its ranking of the Amman Stock Exchange as an acceptable developing market in which to invest, but it had not in the fall of 2002.

Pricing of the deal, discussed later in this report, was a major hurdle. For many reasons, the GoJ choose to set a minimum price and accept all offers at that price, versus the other option of setting the shares to be sole and accepting the price offers that clear those shares.

IPO Results

Although the IPO was acknowledged as imperfect, it still was considered successful, because even given the hurdles it faced,:

- It was completed on time, four months from the time the international investment bank (JPMorgan) began it’s work
- It was done to international standards

- All Jordanian support systems worked – both technical and marketing, including the registration of new owners and the trading of shares
- A reasonable amount was raised, although at the low end of the expected range
- The parties necessary to make it happen were involved in their proper roles, even though the "meshing" of the parties was somewhat haphazard and incomplete.

It should be noted that one critical key to success was the very active presence of an international IPO advisor with broad European experience, who designed the process to be used, and pushed and cajoled the multitude of parties including owners, investment bankers both local and foreign, the EPC, capital market regulators and players, and lawyers to eventually come together with a professionally done IPO.

IPO Difficulties

Specific difficulties that impacted the IPO included the following, discussed in more detail following:

- *Participant Commitment*: slow & weak at first
- *France Telecom Issues*: Joint Agreement + price
- *Issue Size*: small by world standards
- *Pricing*: maximum price-driven, not market-driven, + expectations out of line
- *Marketing*: influenced by pricing & newness
- *Timing:* at bottom of local and world markets

Slow Commitment

There was a clear sense of uncertainty and hesitation early on among some Steering and Technical Committee members. Some would not always show up on time but would later question Committee decisions or recommendations. This led to many unnecessary and time-consuming explanations of issues already analyzed, and misunderstandings.

There also was a tendency among some members to think that until the Prime Minister, Economic Council, Cabinet or Minister of Finance had approved items, it was not necessary to push forward rapidly. Rather than making strong recommendations to these groups, there was a wait and see attitude, which greatly slowed the process.

At times there appeared to be no strong commitment among members to use international standards for issuing an IPO. Early on in the process, statements were made such as *"That is not the way we do it in Jordan"*, or *"Why do we have to do it that way*?", indicating that the value of doing it to international standards were not well appreciated. It required, therefore, a great deal of time and explanations by the IPO Advisor, describing why things should be done a certain way.

Part of the problem may have been that there were too many members in each committee, and too many groups. Too large a group can be unwieldy, and usually there is no need for more than one person from each organization, except the EPC which manages the sale. It also might be possible to consider having a smaller core group to manage the sale, interfacing with others as necessary, and combining the Technical Committee and the Steering Committee into a single committee. Multiple committees only slow the decision process.

Joint Agreement Flaws

The original Joint Agreement between the GoJ and JITCO had been written without sufficient thought having been given to future needs of the Government. It drove the general timing of the IPO and limits as to how much could be sold. It also required that JITCO approve the final price, which complicated the pricing decision process as it is normally done in the international marketplace. As JITCO/France Telecom were slow in their decision making process particularly in the early stages (partially because of other problems France Telecom was facing in their international business), the whole process was slowed. Jordanian parties were slow to understand this and press for more rapid negotiations. This suggests that joint agreements between the GoJ and strategic buyers need to be carefully drawn up so as to not inhibit actions that are good for Jordan.

There was discussion of drawing up a revised agreement prior to the sale. Fortunately sane minds prevailed, and it was put off until after the sale was complete so as to not delay the IPO further.

Issue Size

An IPO of this size (10% – 15% of capital equal to less than $100 Million) was small by world investment banking standards. As a result of this and early indications of it being overpriced, the JPMorgan industry specialists dropped out, leaving the deal to be managed by their Middle East geographic market staff. It also was clear early on that the GoJ was focused on a fixed price no matter the volume, not a fixed volume no matter the price. Therefore, size was limited over what it might otherwise have been, leading to an IPO with absolutely no multiple of demand or increase in initial price, as most strive to achieve.

Pricing

As noted above, this IPO ultimately was driven by the decision to set a specific price "acceptable" to the GoJ and JITCO, and well above the level at which JPMorgan and others felt the market would accept, especially after JPMorgan's analysis of the Gulf market. The above-market price was driven by:

- Expectations of both the GoJ and France Telecom (JITCO), which were unrealistic from the beginning, particularly France Telecom, which had paid JD3.6 per share in its initial purchase of Jordan Telecom stock. With France Telecom under some earnings pressure in its worldwide business, a price below the JD3.6 level was more difficult to sell to its shareholders, as it would have required a significant write-down in the value of their JITCO shares.

France Telecom was willing to go as low as JD2.8 per share, but the level of JD2.0 per share suggested by JPMorgan's market survey was considered wholly unacceptable, and with their approval required, the deal was endangered. In fact, getting France Telecom to accept a price as low as JD2.35 per share was almost impossible and they only reluctantly and unhappily agreed, after much pressure

- An earlier statement by the Minister of Finance to the Prime Minister that the price would be well above what JPMorgan considered to be the more realistic price of JD2.0 per share, thus placing his reputation on the line.
- A fear of public criticism from the Parliament opposition and the public in general (the selling-of-the-"crown jewels"-at-discount-prices syndrome) also played a role, especially as there was no well-thought through public relations program for counteracting such criticism
- The lack of discussion and comprehension at senior GoJ levels of the long-term value to Jordan and its people of increased capital market development, thus, leaving price as the sole focus. This issue was not well articulated nor given serious emphasis.

The final price was well above realistic market levels, and made the deal very unattractive outside of Jordan.

Marketing

Both the size of the deal and especially its price had serious impacts on marketability, particularly in what turned out to be a down market, and with Jordan's reputation not sufficiently strong in the Gulf. JPMorgan and others attempted to market to the Gulf, but ultimately the price level could not overcome buyers' reluctance.

However, there also were other issues that negatively impacted marketing success. For instance, the lack of JPMorgan's name on the local prospectus (due to their not being registered to conduct share-marketing business in Jordan as a result of their reluctance to take what they considered to be too much time and money to become registered), combined with a local marketing effort focused on investment banks and other financial institutions and investors that some have not considered as intensive as it might have been, led to some local investment bankers and large investors being less than strongly enthusiastic about the deal. Because of the influence these people have on Gulf investors who automatically check with their Jordanian counterparts, their lack of enthusiasm negatively influenced the Gulf market. A lesson for the future is to sell Jordan well before going to the Gulf.

In addition, there was no desire by the lead local investment bank and the GoJ to leave anything on the table for other local investment bank distributors of the issue, unlike international norms. No small price discount was offered to local investment banks (overnight float on the funds collected was said to be enough). The impact of this is difficult to trace, but it may have had an influence on how aggressively local banks pushed the deal to their clients.

It also was suggested during interviews that the Jordan Telecom 7% dividend yield on the offering price was below other competitive market options at 10% or higher, although this study did not analyze that issue.

Finally, local retail marketing was generally considered successful, although it started slowly, as many institutions had never done a retail buyer stock marketing program before and needed to be actively pushed. However, the lack of incentives for retail buyers in Jordan probably limited the ultimate retail demand. Both price incentives (selling to retail buyers at slightly below the offering price in order to give them an immediate benefit) and payment incentives (allowing a retail buyer to pay for the stock in multiple payments over a year or six months) were discussed, but ultimately discarded by senior GoJ officials in order to keep the deal "simple."

In the end, without the local institutional buyers, particularly the Social Security organization, which had to be aggressively "encouraged" to participate, this IPO would have failed.

Other Difficulties

The absence of any IPOs coming out of Jordan prior to the Jordan Telecom IPO, and the lack of any additional ones during the two years following, have contributed to making investors less likely to look at Jordan. It was not in the past on many investors' maps. Furthermore, linked with the absence of IPOs, Jordan appears also to have no consistent program to sell Jordan markets to foreign investors, in the Gulf and elsewhere.

At the same time, the recognition of Jordan as a viable market in which to invest by CALPERS, the California retirement system and the recent raising of Jordan's level among developing countries, is a very positive sign that Jordan can be sold as a market in which to invest. Combined with strong share price growth over the last 18 months, there is a positive story to tell.

There were many complaints from parties interviewed for this report about the timing of the issue, but that appears to only be in hindsight of the then unanticipated recent success of the Amman Stock Exchange since the JT IPO, driven partially by the flow of Iraqi and Palestinian money into Jordan. In addition, the Joint Agreement limited the time period during which it could be done, and as mentioned earlier, it is difficult to get perfect timing because planning has to start well in advance of closing, and once announced, there are serious negative implications if deals are pulled over any but the most dire circumstances.

Decision Process
Role of the Executive Privatization Commission

There is no single process of deciding what GoJ-owned or partially-owned companies are to be privatized. In the case of Jordan Investment Corp. (JIC)-owned companies, JIC handles the initial analysis of companies in its portfolio, and a joint recommendation of the JIC Board and the EPC to the Privatization Council and Cabinet commences the process. Further analysis may or may not be required.

Shares of these companies can simply be placed for sale on the stock exchange or they may be sold to private investors. JIC-owned companies are rarely large enough to warrant a formal IPO type process

For larger companies, a draft strategy often exists, having been set by the Privatization Council, then given to EPC for further study and/or implementation. The Privatization Council often recommends or agrees with hiring of international experts to analyze the company in detail and recommend a process that is vetted by the EPC and passed to the Privatization Council and Cabinet for approval. Upon approval of a process, the EPC then manages that process on behalf of the Government, with timing more or less set by the EPC with Privatization Council approval.

Privatization of GoJ-ownership in certain other large companies with existing strategic investors may driven by Agreements with those investors, as was the case with Jordan Telecom. The role of the EPC in those cases is similar to that for the large companies in the prior paragraph.

The key fact is that the EPC is a hire-the-consultants and manage-the-process organization. It is not responsible for making most of the decisions, and it is not able to drive the decisions in many cases, although it does provide important input to those making the decisions. Many people do not understand that the role of the EPC, as defined in the law and by practice, it that of a process manager. It generally is not a decision point; the political decision is at the Cabinet level. Therefore, efforts to make pro-IPO changes have to be first directed at the Privatization Council, the Cabinet and the PM's Office.

Possible Candidates

Potential candidates for future privatization IPOs include the following companies:

- *Royal Jordanian Airlines (RJ)*: RJ just sold off its engine maintenance operation to a Dubai company, but the airline needs updated analysis and no decision has been made at this point nor is likely for another year.
- *Silos & Warehouses*: This operation may not be large enough for an IPO, and are most likely to be separated and sold to individual investors, be they individuals or companies.
- *Jordan Phosphate Mining Company (JPMC)*: The EPC has recently received bids for the restructuring and financial analysis of the company. No decision has been made when to sell it or what percentage of the GoJ's ownership will be sold. It anticipated that at least part of it will eventually be sold to an international mining company with broader and deeper channels of marketing and technical expertise and funds to compete internationally and to maximize profits. However, the extent of money and time spent on restructuring of the company is of some concern, as pre-privatization restructuring decided upon by consultants and the GoJ may not be in line with what an international buyer may wish to do, and could diminish potential corporate value. The quantity, quality, and costs of extracting reserves are a major and uncertain issue in spite of prior work

- *Electricity:* SEDGCO bids were received in early January, and a winner will be chosen during the next two months. The international financial advisor, Rothschild, has advised the Government to put a two-year restriction in the proposed joint agreement with a strategic investor, prohibiting the GoJ from selling more than the 51% it is presently selling to a strategic investor, in order to give time for SEDGCO's value to rise as a result of better management. That restriction is under consideration by the Cabinet.
- *Arab Potash:* Part of the Government's ownership in Arab Potash was sold last July to Potash Corporation of Saskatchewan (PCS), a very large international mining company. At the request of PCS, the joint agreement with them has a three-year moratorium on the GoJ selling additional shares, in order to give PCS (which has a minority holding and a management contract) opportunity to freely improve the company using the joint controlling ownership of the GoJ and PCS. The remainder of shares are held by other Arab Governments
- *Jordan Telecom (JT)*: The GoJ announced last Wednesday that it would proceed with the sale of the remaining GoJ-owned shares of as a straight market offering of the shares, i.e., not taking the public offering with prospectus route is used for the first public sale. An international consultant probably will be hired to assist
- *Post Office:* An international financial consulting firm will be hired soon to analyze the Postal Service and make recommendations to the GoJ as to how it might be privatized and at what price. This work will not be completed for at least 9 months to a year.
- *Railway:* International consultants will be hired in early 2005 to analyze the Railway and make recommendations to the GoJ regarding how to privatize it and at what price. Work should begin by the end of March, with final recommendations and decision at least nine months to a year away.

There are unlikely to be other large privatization candidates, and given current plans, it appears that there will be no regular flow of new IPOs or sale of stock via the stock exchange

It also has been suggested that the GoJ consider not selling a portion of companies to strategic investors as a pre-requisite to selling shares to the public. However, the GoJ and many of its advisors feel that good management, strong international marketing outlets and sources of new investment is critical before privatizing large companies, and that these conditions are likely to be met only via international strategic investors. Selling shares to the public without these, as has happened in some countries, would be inappropriate.

Lessons for the Future

This study has pointed out a variety of lessons that should be heeded by those wanting to improve future privatization IPO offerings and the capital markets in general.

Capital Markets in the Privatization Planning Process

Jordan would benefit from increased input by and discussion with capital markets players throughout the privatization planning and implementation process.

For instance, there needs to be a conscious weighing – at the highest levels – of the value of IPO cash proceeds to GoJ vs. the value of increased capital markets activity. However, this will not happen on its own – it must be orchestrated by the Jordan Securities Commission and other capital market players. They cannot wait to be asked for this by the Royal Court, Prime Minister, Privatization Council, Cabinet, Ministry of Finance, or the EPC; they must aggressively push this agenda.

There also should be clear understanding throughout the Government of the critical importance that market pricing plays in any future IPO. Jordan's reputation was damaged on its first IPO because it was not oversold, due to the above-market pricing. This must not happen again.

The Jordan Securities Commission and other capital market players must be ongoing, *active* spokespersons to ensure that public offerings are given fair consideration in privatizations analyses and recommendations. The JSC and others need to be active and frequent deliverers of this message. They must not wait to be asked.

The JSC, ASE and SDC have to be certain that they are consulted before and during an IPO process, but they also have to be active players, showing up at meetings on time and participating fully. This well help to insure that capital market players have sufficient influence on future IPOs, but they will have to aggressively pursue this role – it won't be handed to them automatically.

One method of ensuring closer close coordination between the JSC and the EPC is for the two institutions to draw up a joint letter to the Privatization Committee and the Prime Minister regarding recommended critical changes for the next IPO, plus a plan for future much closer cooperation between the two institutions. The two need to work in a close partnership, to their individual benefits and the benefit of the country.

Capital market players and the EPC should meet early in the planning of privatizations to understand the market potential for specific IPOs. In fact the candidate and timing process needs more input from the capital markets. It is their responsibility to push this issue and to be included in the process. In cases where an IPO is chosen as the mode of privatization, capital markets players and the EPC need active involvement from the first steps of the IPO.

Market incentives for sub-distributors and retail buyers need reconsideration, as the lack of them the first time appeared to disincentivize those marketing the deal and probably diminished retail purchases. Work should be undertaken sooner rather than later in looking at how IPO incentives have been handled in other countries, both for buyers and distributors. Use of them can enhance IPO success.

The JSC, with other capital market players and companies, needs to begin regular generic regional road shows highlighting the opportunities of investing on the Amman

Stock Exchange, particularly four to six months in advance of future IPOs. Other public relations efforts to keep Amman Stock Exchange opportunities in front of local, regional and international investors also should be considered, including publications and/or Internet presentations.

More flow of additional IPOs is needed to build Jordan's market reputation. Because privatization is unlikely to be a sufficient source of IPOs, work should begin on publicizing to private companies the benefits of raising capital through the stock exchange. This is particularly important in a country such as Jordan, where family ownership and close-knit management teams have been the norm.

Other Considerations

- Using an International IPO expert is crucial to a successful IPO process, because the broad range of skills required to push through an IPO are still relatively new to the Jordan marketplace. Furthermore, doing the IPO to international standards and on time is important for Jordan's reputation. There is too much at stake to not have that in a still under-experienced market.
- To the extent that it can be done, the GoJ and the EPC should make timing of future privatizations clearer to the JSC, ASE and SDC so that they can plan properly. There should be a better understood and stated IPO strategy for each privatization candidate, which also will require the EPC working actively with financial advisors to make certain that IPOs are given serious consideration.
- Waiting for perfect timing to do an IPO is a worthless and impossible effort. Best timing cannot be easily determined ahead. A decision to privatize using an IPO should be made and it should move ahead, regardless of the state of the market at issuance date, unless circumstances are truly drastic.
- The crafting of future strategic investor agreements needs to be carefully managed – probably with strong EPC input, so as to avoid future problems and not limit GoJ options. Existing agreements should be carefully analyzed now and understood by the EPC before further consideration of an IPO. Future agreements also must take into account a strategic investor's natural tendency to manage for their worldwide benefit versus Jordan's.
- Privatization is always hard to sell to the legislature and the public. General efforts on this need to continue, and specific efforts for future IPOs need additional targeted public relations efforts regarding the mode of privatization and the pricing.
- International standards must be the sole acceptable quality measure for Jordan. Any thought of not using international standards for whatever is done in the Jordan capital markets arena will only damage long-term success. Jordan needs to be seen as a capital markets player of international quality.
- When an IPO is being done, it is important to first sell the Jordan investment bankers, and only, then go to Gulf. Selling the local investment banks and investment advisors will positively benefit local sales, but also has an important secondary effect on their clients and investment banking friends in other countries.
- All efforts should be made to make certain that the international investment bankers managing an IPO are authorized to conduct business in Jordan, to

maximize their psychological impact. They name must appear on the local prospectus and they should be active in local marketing. This can be accomplished best by making registration to conduct investment banking business in Jordan a requirement of those investment bankers chosen. Alternatively, but less beneficial to the standing of the Jordan Securities Exchange and earnings would be to exempt them from such the registration requirement.

Fundamentally, it is the responsibility of the JSC and other capital market players to bring these points to the attention of appropriate authorities in ways they can clearly understand and use for decisions that they can then defend in the public arena.

Value of Capital Market Growth

As recommended earlier, a concerted effort needs to be made to insure that the most senior decision makers for privatization understand clearly that capital market development has significant long-term benefits for Jordan. These benefits must be apparent to those making pricing and privatization method decisions so that short-term benefits are not given more weight than they deserve.

The responsibility for this effort lies primarily with the Jordan Securities Commission, but would be aided by international consultants to help design and refine the arguments.

Broad Benefits

A quick overview of the issue shows that privatizations via the capital market help to**:**

- Attract potential new foreign portfolio investors
- Provide new investment opportunities; often in well-known companies
- Expand pool of shareholders, building a base for raising other capital
- Enhance transparency (or at least the appearance of it)
- Offer Jordanians ownership options
- Expand the supply of shares in the capital market
- Allow the GoJ to draw upon the capital markets network
- Enable the GoJ to leverage investor trust in JSC, ASE and the SDC.

Specific Benefits

In turn these lead to:

- Increased capital availability to the private sector
- Lower capital cost for the private sector
- Increased private sector investment
- Job increases
- Higher tax revenues
- Increased competitiveness of Jordan in international markets

- Political acceptability and easier defense of privatizations
- Increased wealth in investors' pockets

It is the latter list of direct benefits that should carry the most weight in the discussion.

Road Map

Pre-planning Phase

This phase covers events up to the point that international investment bankers are hired to manage an IPO.

STEP	RESPONSIBILITY
Draft presentations regarding value of capital market development versus cash price, and the importance of pricing to the market versus artificially setting a price for IPOs	JSC, using external consultants, along with the EPC
Presentation of recommendations to the Prime Minister, Privatization Council and Cabinet	JSC and EPC, with external consultants
Increased sharing of information regarding specific privatization candidates that may require an IPO at some point	EPC, with JSC
Analysis of privatization candidate (as part of normal privatization analysis that requires the financial advisor to consider an IPO as a possible privatization technique)	EPC and Financial Advisor, but the JSC should have some involvement in final discussions to lobby for an IPO where appropriate and to make certain that it is given a fair hearing
Recommendation by financial advisor to use an IPO or to delay an IPO until some point in the future	Financial Advisor with input from the EPC
If an IPO is not recommended, discussions between the EPC and the JSC to discuss why and whether correct	EPC and JSC
Recommendation to the Privatization Council and Cabinet	EPC, giving due influence to arguments of the JSC
If sale to a strategic investor with a later IPO, preparation of joint agreement that properly allows for an IPO	EPC and EPC lawyers, with input from the JSC on appropriate issues
Discussion of proceeding with an IPO in the near future	EPC, JSC, ASE,
Recommendation to the Privatization Council and Cabinet to proceed with an IPO for a specific company	EPC, with JSC concurrence
Decision to proceed with an IPO, including amount of stock to be sold by the GoJ	Privatization Council and Cabinet
Appointment of a Steering Committee and a separate Technical Committee	Privatization Council and Cabinet, with EPC input.

Preparation and delivery of a generic Jordan stock investment climate road show (should be 4-46 months ahead of IPO)	JSC and ASE, possibly with EPC
Hiring of an international IPO expert to assist with designing and implementation of an IPO to international standards, including processes for hiring international investment bankers, lawyers, and public relations firm.	EPC and Steering/Technical Committees, with final Cabinet approval
Detailed reading and analysis of existing joint agreement, if any	EPC, JSC
Discussion of likely hurdles to be faced in completing an IPO within 9 months	EPC, JSC, ASE and IPO Advisor
First Draft guidelines and structure for the public offer, including recommended amounts, target buyers, likely sales venues, timing	EPC and IPO Advisor, with input from the JSC and ASE, plus approval of the Technical Committee and Steering Committee, and ultimate approval of the Privatization Council and Cabinet
Analysis of potential legal issues	EPC, local legal advisors, IPO Advisor
Development of and RFP for International Investment Bank to manage an IPO	EPC and IPO Advisor, with approval of Technical Committee and Steering Committee
Analysis of bids; final recommendation as to preferred bidder for Cabinet approval	Technical Committee and Steering Committee

Implementation Planning Phase

This phase includes all the detailed planning required for an IPO from the time an International Investment Bank is hired until the offer is ready to be advertised

STEP	RESPONSIBILITY
Due diligence and analysis of issues, hurdles and other requirements	International Investment Bank, with input from and discussion with the EPC and IPO Advisor, also including input from the JSC and ASE, and local investment bankers plus the privatization candidate management
Preparation of an RFP for International Legal Advisor and local and/or foreign Public Relation consultants	IPO Advisor with input from international Investment Bank, and EPC
Selection of an International Legal Advisor	Technical Committee and Steering Committee recommendation, closely coordinated with the International Investment Bank and IPO Advisor, with decision from Privatization Council and Cabinet
Selection of Communications/ Public Relations consultants	Technical Committee and Steering Committee , closely coordinated with the International Investment Bank and IPO Advisor
Development of a more advanced offer structure	International Investment Bank, with input from the JSC and IPO Advisor, as well as the company management
Establishment of a selling syndicate	International Investment Bank
Preparation of initial offering documents (draft prospectus)	International Investment Bank and International Legal Advisors with input from local investment banks, lawyers, the IPO Advisor, the JSC and the ASE, the Technical Committee and the Steering Committee
Preparation of an Underwriting Agreement	International Investment Bank and International Legal Advisors with input from local investment banks, lawyers, the IPO Advisor, and the Technical and Steering Committees
Development of a public relations/communication program	Communications/ Public Relations consultants with input and critiques by the IPO Advisor, and other input from the International Investment Bank and the Technical Committee
Preparation of legal documents required for approvals	International Legal Advisors with input from local lawyers, the ASE and the JSC, the IPO Advisor

Discussion regarding ownership tracking mechanics	International Investment Bank with the SDC, including local lawyers and the IPO Advisor
Distribution of research data as part of pre-marketing process	International Investment Bank and local lead investment bank and other syndicate members
Beginning of media and advertising campaign	Public relations firm and International Investment Bank, local lead investment bank and other syndicate members, with input from the IPO Advisor and Technical Committee
Finalization of the offer structure	International Investment Bank with local lead investment bank, IPO Advisor and Technical Committee. Approval by the Steering committee, Privatization Council and Cabinet
Establishment of a likely price range	International Investment Bank with local lead investment bank, IPO Advisor and Technical Committee. Approval by the Steering committee, Privatization Council and Cabinet

Implementation Phase

The implementation phase covers the activities from the final regulatory approval and active public relations campaign to closing and delivery of the shares to their new owners.

STEP	RESPONSIBILITY
Regulatory approval for the share offer and conditional approval of the listing	International Investment Bank with local lead investment bank and IPO Advisor. Approvals from JSC and ASE
Final targeted media and advertising campaign	Public relations firm and International Investment Bank, local lead investment bank and other syndicate members, with input from the IPO Advisor and Technical Committee
Road show and block building	International Investment Bank with local lead investment bank, JSC, and IPO Advisor
Setting of final offer price and execution of final Underwriting Agreement	International Investment Bank with the local lead investment bank. Final price should be within a range pre-approved by the Cabinet, in order to allow the International Investment Bank the flexibility required to set the final price at the very last second
Allocation of shares to buyers	International Investment Bank with the local lead investment bank and the SDC, based on input from all distributors
Closing, settlement and delivery of shares	SDC

Follow-Up Phase

The follow-up phase begins at the start of trading, and involves on-going psychological and sometimes financial support of the stock for at least six months.

STEP	RESPONSIBILITY
Trading begins	ASE , brokers and/or owners of the stock
Daily tracking of the stock	Local lead investment bank ,International Investment Bank and ASE
Support of the stock price should it drop below a certain agreed-upon level within a stated period (often six months)	Local lead investment bank and International Investment Bank
On-going announcement and thorough explanation of company’s financial results to local and regional investors	Company management, with International Investment Bank and local lead investment bank
On-going public relations efforts	Company, with International Investment Bank and local lead investment bank

Appendix I: Persons Interviewed for AMIR's Privatization IPO Study

Jordan Securities Commission:

- H.E. Dr. Bassam Saket, Executive Chairman
- Dr. Abderrazak Bani Hani, Commissioner
- Mr. Mohamed Tash, Commissioner
- Mr. Bassam Asfour, Commissioner
- Mr. Abdel Rabab'a, Director, Issuance & Disclosure Dept.

Amman Stock Exchange:

- Mr. Jalil Tarif, Executive Manager
- Mr. Nader Azar, Deputy CEO

Securities Depository Center:

- Mr. Samir Jaradat, Executive Manager

Executive Privatization Commission:

- H.E. Dr. Adel Al-Kodah, Chairman
- Mr. Nazih Barkawi, Secretary General
- Mr. Salem Ghawi, World Bank Advisor
- Mr. Fred Faiz, IPO Advisor
- Ms. Dina Dabbas, Privatization Manager

Arab-Jordan Investment Bank:

- Mr. Nasser Tarawneh, Assistant General Manager

Atlas Investment Group:

- Mr. Diya M. Musa, Head of Brokerage
- Mr. Ihab G. Asali, Corporate Finance Executive

Jordan National Bank:

- Mr. Samer Sunnuqrot, Assistant General Manager, Investment Banking Services
- Mr. Amer Mouasher, Executive Manager, Brokerage Department
- Mr. Talal Toukan, Head of Research Section, Investment Banking Unit

Jordinvest:

- Mr. Hilal Abuzeid, EVP
- Mr. Hatem Akroush, VP Corporate Finance Department

Social Security Investment Unit:

- Mr. Hatem El-Shahed, Executive Manager, Investment Unit

USAID/Jordan:

- Mr. Sean Jones, Deputy Director, Economic Opportunities Office
- Mr. Jamal Al-Jabiri, Cognizant Officer, Economic Opportunities Office
- Mr. Don Richardson, Senior Private Sector Advisor, Economic Opportunities Office

AMIR Program:

- Mr. Stephen Wade, Program Director
- Khush Choksy, Financial Markets Development Team Leader
- Ms. Asma Abu-Taleb, Financial Markets Business Operations Advisor

Privatization IPOs -
Lessons Learned & Suggestions for the Future

Jordan Securities Commission

Amman, Jordan

January 18, 2005

Goals of the Study

What worked well?

What needs to be changed?

What are lessons for the future?

What would a road map look like?

Jordan Telecom IPO Overview

Shareholder	Pre-IPO		IPO		Post-IPO	
GoJ	130.0 M	52%	(26.25 M)	(10.5%)	103.75M	41.5%
JITCO*	100.0 M	40%			100.00M	40.0%
Social Security	20.0 M	8%	12.50M	5.0%	32.50M	13.0%
Public	0.0	0%	13.75M	5.5%	13.75M	5.5%
Total Shares	250.0 M	100%	26.25M	10.5%	250.00 M	100%

**Joint Investment Telecommunications Co., a joint venture of France Telecom (88%) and Arab Bank (12%)*

Telecom IPO Overview

Not a traditional IPO, although IPO aspects

- Existing GoJ shares, not new shares

Major Hurdles:

- 1st time in Jordan – Little local experience
- Difficult timing – predicted Gulf War
- Telecom & IPOs out of favor then, market down
- Jordan not on many investor’s radar ex-ME/Gulf

Telecom IPO Overview (continued)

Acknowledged as imperfect, but successful

- On time, to international standards
- Systems worked – both technical and marketing
- Acceptable amount raised
- Necessary parties involved in proper roles

Key to success was international IPO advisor

Telecom IPO Difficulties

- *Participant Commitment*: slow & weak at first
- *FT Issues*: Joint Agreement + price
- *Issue Size*: small by world standards
- *Pricing*: maximum price-driven, not market-driven, + expectations out of line
- *Marketing*: influenced by pricing & newness
- *Timing:* at bottom of local and world markets

Telecom IPO Difficulties (continued)

Slow Commitment

- Key players tardy or absent from many Steering Committee meetings
- Little push until PM or MoF approved
- Limited experience with & appreciation of international standards
- Some aversion to international standards

Much time on explanations of "why this way"

Telecom IPO Difficulties (continued)

Joint Agreement Flaws:

- Much control in JITCO hands; they moved slowly
- FT price & structure agreement required, with impact of price FT originally paid
- Parties were slow to understand & negotiate these issues

Deal almost failed over these issues

Telecom IPO Difficulties (continued)

Issue Size:

- 10% – 15% of capital (< $100 M) small by world investment banking standards
- JP Morgan industry specialists backed out early – deal carried by M.E. geographic market staff
- GoJ chose fixed price vs. set volume

Deal unattractive outside Jordan

Telecom IPO Difficulties (continued)

Pricing

- Expectations of GoJ & France Tel. far too high
- Focus of GoJ on price per share & reputation
- Fear of FT non-approval kept price higher
- Fear of public criticism also played a role
- Pricing outweighed capital market development
- "Low" JT dividend policy also hurt

Result was price well above the market

Telecom IPO Difficulties (continued)

Marketing:

- Made more difficult by above-market price, down markets, lack of Jordan reputation
- Impossible to market to Gulf, although attempted
- Local retail marketing started slowly, but successful
- Lack of incentives for retail buyers limits volume
- JPMorgan not on local prospectus had negative impact on local bankers' recommendations

Local institutions & Soc. Sec. made the deal

Telecom IPO Difficulties (continued)

Other

- Lack of strong buy-in by local banks impacted Gulf negatively
- No follow up to this IPO – negative future impact
- No consistent pre-selling of Jordan overseas
- Some Gulf buyers did not get prospectus in time
- Complaints about timing, but Agreement limited

Issues to address to improve success

Privatization Decision Process

Decision Process Varies

- JIC-owned co's – joint recommendation of JIC Board/EPC to Privatization Council & Cabinet
- Larger co's often have draft strategy + amount set by Privatization Council, then given to EPC
- Others driven by Agreements with existing strategic investors

EPC – process manager, not decision point; the political decision is at the Cabinet level

Future Privatization IPOs

Possible Candidates:

- *RJ* – no decision yet – update analysis
- *Silos & Warehouses* – may not be large enough
- *JPMC* – Restructuring & no decision how to sell
- *Electricity* – SEDGCO bids due; 2 yr. minimum
- *Arab Potash* – 3 yr. minimum in agreement (7/07)
- *JT* – Announced last week as market offering
- *Post & Railway* – both will use int'l consultants

Unlikely to be others, so flow limited for now

Lessons for the Future

- Jordan would benefit from increased input by capital markets in privatization *planning*
- Broader engagement of Jordan capital market players is important throughout the IPO process
- There needs to be a conscious weighing – at highest levels – of IPO cash proceeds to GoJ vs. value of increased capital markets. *This will not happen on its own – it must be orchestrated*

These are JSC (+ASE & SDC) responsibility

Lessons for the Future (continued)

- Capital market players & EPC must meet early to understand market potential for specific IPOs
- Capital market players & EPC need active involvement from the first steps of an IPO
- Market incentives for retail buyers and sub-distributors needs reconsideration
- Regional road shows needed regularly, particularly 6 months or 4 months before IPOs
- Market pricing is critical to success

Lessons for the Future (continued)

- More flow needed to build IPO market reputation – if not privatizations, then private companies
- International IPO expert is crucial to the process
- EPC/GoJ needs to clarify privatization schedule
- Best timing cannot be easily determined ahead, so make decision and move, regardless
- Strategic investor agreements: craft so as to not limit GoJ options + cover owner's tendency to manage for their worldwide benefit vs. country's

Lessons for the Future (continued)

- More aggressive explanation to legislature and public re market pricing probably important
- International standards – sole acceptable quality
- Decision process on candidates & timing needs revisiting by EPC & others
- Sell the Jordan market 1st, then go to Gulf
- Make certain that the international investment bankers are on the local prospectus & active in local marketing

Lessons for the Future (continued)

- All players – Royal Court, Prime Minister’s Office, Counsel of Ministers, Ministry of Finance, EPC, and advisors must fully understand and appreciate long-term value of capital market growth vs. short-term proceeds and ease of selling
- The Jordan Securities Commission and other capital market players must be ongoing, *active* spokespersons to ensure that Public Offerings are given fair consideration in privatizations

Value of Capital Market Growth

Privatizations via the capital market help:

- Attract potential new foreign portfolio investors
- Provide new investment opportunities; often in well-known companies
- Expand pool of shareholders, building a base for raising other capital
- Enhance transparency (or at least the appearance of it)
- Offer Jordanians ownership option
- Expand the supply of shares in the capital market
- Enable the GoJ to draw upon the capital markets network
- Enable the GoJ to leverage investor trust in JSC, ASE and the SDC

Value of Capital Market Growth

These, in turn, lead to:

- Increased capital availability to private sector
- Lower capital cost to private sector
- Increased private sector investment
- Job increases
- Higher tax revenues
- Increased competitiveness of Jordan
- Political acceptability and easier defense
- Increase wealth in investors' pockets

PM, EC, MoF & public need to understand this

Road Map

Four distinct phases

- *Pre-planning*
- *Planning Implementation*
- *Implementation*
- *Follow-up*

Clarify broad elements, responsibilities, & relative timing