

**Improve the Cash Yield
of Your Capital Markets
Transaction by Containing
Financial Print Costs**

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Financial Print Cost White Paper

If you've ever been through an IPO, Secondary Offering or Merger, then you know that the initial estimates from the financial printer and their final invoices frequently differ by many orders of magnitude. A \$75,000 estimate can turn into a \$1,000,000 invoice and you have no idea why. You receive the final bill and it contains pages and pages of items ranging from authors' alterations to proof distributions to pizza. The invoice is two inches thick, virtually undecipherable, and a big surprise. Is there any way to avoid this scenario?

Given the intricacy of financial transactions, companies don't have time to look at or take steps to manage the costs incurred in the financial print

portion of their transaction. Often, it is only after the invoice has been received that corporate finance managers realize these costs can take a significant bite out of their issue proceeds and that they went unmanaged.

There are four key steps in managing financial print costs:

- Proper drafting of the RFP
- Astute contract negotiation prior to the commencement of the project
- A disciplined approach to monitoring through expert project management
- A final review and negotiation of the invoice

Expert project management ensures that the job is managed efficiently and fees for the project can be accurately quantified and verified. This reduces the chances of sticker shock—every finance manager's nightmare.

This article highlights how, through effective project

Client experience

A multi billion dollar company received a \$175,000 estimate for the financial printing related to a merger. After the 6 month transaction was complete, they received a final invoice in excess of \$6,000,000. The firm did not engage a project manager to oversee the transaction and thus was in the dark regarding the procedures and terminology of financial printing.

Following the receipt of this bill, their controller spent 4 months negotiating what amounted to roughly a 15% savings. With the right expertise, from the beginning, this client would have realized savings of 30% or more and not had their controller waste his valuable time after the transaction closed.

IMPROVE THE CASH YIELD OF YOUR CAPITAL MARKETS TRANSACTION BY CONTAINING FINANCIAL PRINT COSTS

management, issuers can increase the amount of money flowing to their business—the original reason they went to the capital markets. It talks about why costs skyrocket and how companies fail to effectively manage these large transactions.

WHAT CAN HAPPEN

The estimate that the financial printer gives an issuer is based on the premise that the issuer will stay within certain parameters. This virtually never happens:

- The working group needs to respond to SEC comments.
- Deals are complex and subject to frequent revisions.
- Registration statements may need to be re-written due to changes in the issuer's policy.

Generally issuers are unaware of the time and complexity involved in the printing and filing of their prospectuses. When they receive the initial estimate it seems fine. They do not

appreciate how quickly the various unit rates that may or may not be presented can add up. In some cases, there may be over 100 distinct unit rates that could be invoked, as opposed to the 10 or 12 major rates that are typically included in the initial estimate.

As with any major corporate purchase there is a need to know exactly what is being purchased and what it will cost. With financial print there is a lack of transparency in pricing which makes it difficult to easily compare printing estimates at face value.

FINANCIAL PRINT NEEDS TO BE MANAGED LIKE ANY OTHER SERVICE

Why let the financial printer be the

Questions to Ask Yourself About Your Last Deal

1. Did you depend on your lawyer or banker to recommend a printer?
2. How closely did they monitor costs?
3. Was there a process in place for managing financial print transactions?
4. Did you employ or assign project managers to oversee the financial print process?
5. Was there anyone in your organization with the expertise to negotiate financial print contracts and keep an eye on the costs incurred throughout the process?
6. Did the improved financial controls that you put in place at your company to comply with Sarbanes-Oxley requirements extend to major 'one off' projects such as financial transactions?
7. At the end of the transaction, could anyone at your firm be confident that the charges incurred match the work performed and services utilized?

only one tracking the project? In the large majority of transactions there is nobody assigned to monitor the printing and editing of the documents—except the financial printer. The bankers, lawyers and issuers are busy just bringing the deal to market. Firms who are going through a major transaction often believe that they will receive an invoice that reflects the estimate, and those that are going through subsequent transactions often believe they are paying huge sums for “world class service” and the ability of the financial printer to complete the job accurately and on time.

Actually they are often paying for many unnecessary items that could be avoided with expert project management. Furthermore, as with all bills—telephone, utility, hospital, freight, etc.—mistakes can be made. At an average rate of \$60.00 per page (for an “in-house” edit), it takes only 100 miscounted pages to equal \$6,000.00 worth of charges. When you are making several thousand changes, it is easy for miscounts and other erroneous charges to quickly add up.

Even companies that try to manage their costs by requesting interim reports almost always lack the expertise to precisely interpret and effectively act on the information they give. By including a requirement in the initial contract for periodic reporting in the contract, firms are more likely to avoid some costly mistakes than those who simply await the final invoice. However, most are unable to spot charges that are problematic and then utilize this information to manage the deal team. Thus they miss significant cost savings.

CONCLUSIONS: PROJECT MANAGEMENT OF FINANCIAL PRINT CAN YIELD HUGE BENEFITS

While contract negotiation and project management are integral to running a

Client experience

A European company’s US subsidiary spun-off and went public earlier this year. The firm was issued a \$50,000 financial print estimate at the inception of the transaction and received an \$800,000 final invoice.

After talking with us for one hour, they placed a phone call to the printer that netted them an 8% savings. However, they left money on the table. Given a full audit, this client could have saved significantly more in cost recovery alone.

Further, it is likely that the savings on the transaction could have been upwards of \$250,000 had they brought our consultants in to negotiate the initial deal and manage the overall project.

business, they are often overlooked or are ineffective during financial print transactions:

- *Companies going public have no idea about prospective costs.* When a client receives an initial estimate for \$75,000, it seems like a ‘drop in the bucket’. No red flags are raised, nor should they be given the transaction size. Even if a company were to do research into financial printing, all they would learn is that the SEC lists the average IPO cost of financial printing at \$200,000-\$250,000. Is this helpful? Not really.
- *Deals are of long duration, but often sporadic in workflow.* On average, financial transactions fall within a three to six month time horizon. However, many complicated deals can extend to over a year in duration. Yet, the workflow ebbs and flows, so firms typically do not assign anyone to manage the process.
- *Issuers are not versed in the arcana of unit rates and financial print terminology.* In the initial estimate, financial printers are likely to list only the major unit rates that are easily understood. If an issuer were to request a full listing, many would be unintelligible to them. Similarly, financial print terminology can be complex, confusing and foreign to issuers.
- *The working group is concentrating on the task at hand and needs to stay focused.* Quite simply, it is generally nobody’s responsibility to manage the financial print process. Yet, when actual invoices for IPO’s, Secondary Offerings or Mergers extend to well over \$1 million dollars, it would seem that it should become somebody’s focus.
- *Often, it is only the financial printer who is keeping records.* Due to the complexity, duration, and logistics of major transactions, in most cases only the printer keeps the log. Without checks and balances, the issuer loses the ability to accurately manage costs.
- *Once a bill is paid there is little recourse.* Firms typically question the bills, but without knowledge of the intricacies involved or detailed records of the project, they are often unable to recoup more than a token ‘adjustment’ from the financial printer despite the magnitude of the bill. Also, once the bill is paid, it is often too late to perform an audit or seek cost recovery.

