

Monica Niggel (monicaniggel@yahoo.com)

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Hossa ProCapital

The IPO market.

Introduction

An initial public offering (IPO) also known as going public is when a company sells shares of its stock on the open market for the first time and it is listed on the stock exchange. Every entrepreneurs dream is to take its company public. The decision of getting an IPO is very hard and it comes with many pros and cons. In the history of IPOs there have been companies that succeeded and those that should have stayed private. It is observed that IPOs historically have underperformed for up to two and a half years after going public.

Advantages and Disadvantages of going public

There are many advantages and disadvantages of going public but the main reason why companies choose to go public is motivated by financial gains that will be generated by selling stocks. The other benefits of an IPO are the ability to raise large amounts of capital to help the company grow quickly and invest in different business activities. The second advantage of going public is that the company will have a direct access to capital markets, again helping raising money for the business. The third benefit and the most curtail for any business that wants to compete is that when taking a company public the business becomes known within the public and it starts to shape its brand image. When a company gets listed, all its stakeholders, including its suppliers and employees start viewing it with more respect. Listed companies are considered to be larger and more efficient than other companies.

Even though the pros can be attractive for any business that is thinking of going public it is also important to be aware of the consequences that the IPO could bring. The potential drawbacks of an IPO are high cost. The cost of going public can be divided into two parts. First

the cost of the process itself and second, the cost of compliance. When companies are listed on the stock exchange, they have to spend an enormous amount of money trying to comply with the regulations that result from such listing. For instance, audits need to be done and financials need to be published every quarter. The management reviews also have to be sent along with the financials. All these tasks require the company to hire specialists and pay them fees periodically.

The second disadvantage that comes with the IPO is that the company will have less control due to selling its shares.

The third and maybe the most important disadvantage is that after setting the company as a public entity, the management will have to cope with the pressure to meet investor expectations. Going public creates enormous pressure on companies as they are required to perform and bring positive results every quarter. The stock market is well known for having very little tolerance for declining performance.

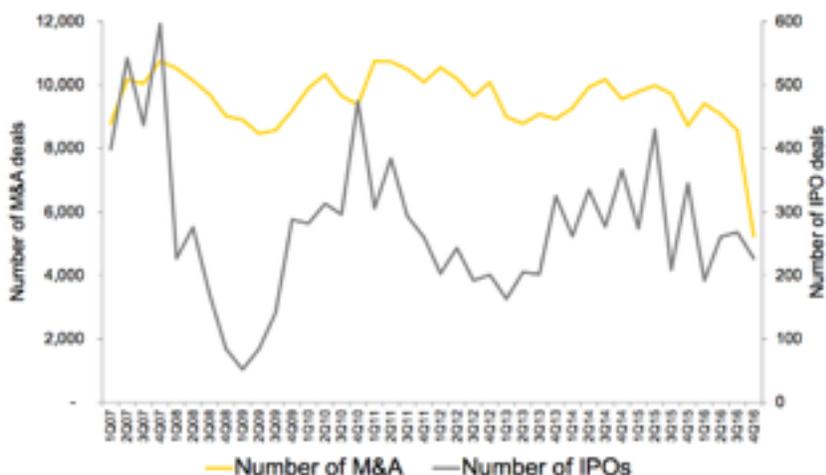
The IPO Process

The process of getting an IPO is very rigorous and takes a long time. When the company decides to go public, the management has to find an underwriter, advisors and auditors to conduct due diligence, file the registration statement with the proper entity (In case of United States all potential IPOs have to be register with the Security and Exchange Commission (SEC) and in Poland with the Komisja Nadzoru Finansowego (KNF). After the initial registration the company has to list the stock on a stock exchange. In the end price and close the sale of a company stock in the IPO.

The IPO activity around the world

According to [EY.com](https://www.ey.com), 2016 was the weakest IPO year since 2013 due to political and economic uncertainty around the world. EY states that “Asia-Pacific, led by Greater China, continued to dominate, increasing its share of global IPO activity followed by EMEIA and the Americas. Prospects are brighter, as the US is expected to lead a recovery in global IPO activity in 2017.” (EY Global IPO Trends, 2016).

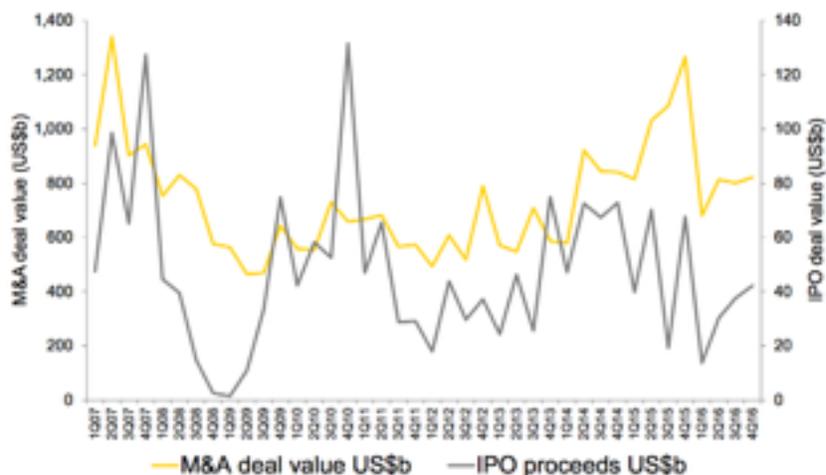
Global IPO and M&A by deal numbers



Note: 4Q16 M&A activity is based on announced M&A deals from October and November 2016, and 4Q16 IPO activity is based on priced IPOs from October and November 2016.

“In total, there were 1,055 IPOs globally in 2016, which raised US\$132.5b, compared with 1,258 IPOs raising US\$197.1b in 2015 — a 16% decline by deal number and 33% by capital raised. Not only were there fewer deals, there were also fewer megadeals. In 2016, there were only 21 deals with IPO proceeds of more than US\$1b, down from 35 the previous year.” (EY Global IPO Trends, 2016)

Global IPO and M&A by deal value



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The First IPOs

The first company to issue stock was the United East Indian Company that was established in 1602. It is a Dutch company also known as Dutch Vereenigde Oost-Indische Compagnie (VOC). The VOC motivation to issue stock was the same as with any other company to simply raise money to build and expand its business. The company's IPO resulted in a 15% rise to its issue price and also "from 1602 to 1696, the company paid a regular dividend that yielded 12% to 63%." (iFOREXBlog, 2016) . Twenty years later the price of the share had surged 300%.

The Biggest IPOs in History

The top biggest IPOs in history include:

Alibaba Group Holding Ltd. (BABA) a Chinese e-commerce company with an IPO date of 9/19/2014 and IPO price of \$68. The company is listed on the New York Stock Exchange (NYSE) with a current stock price of \$103.31 a increase of 52% from its initial price. Alibaba shares soared as much as 38% from its IPO price of \$68 per share making it the largest IPO in the USA history, raising \$25 billion.



Visa Inc. (V) is a payments technology company based in the United States. Visa Inc. went public on March 19th, 2008 raising \$17.864 billion. Visa Inc. priced shares for its initial public offering of stock at \$44 (not adjusted for the stock split), above the expected price of \$37 to \$42 and it offered 406 million shares. The company is listed on the NYSE with a closing price of \$88.79 as of March 3rd, 2017.



Facebook Inc. (FB) listed on May 18th, 2012 on the NASDAQ stock exchange at \$38 per share. Facebook's IPO was the biggest in technology with a market capitalization of \$104 billion. Last closing price for FB was \$137.17 and the companies market capitalization accounts for \$394.51 billion.

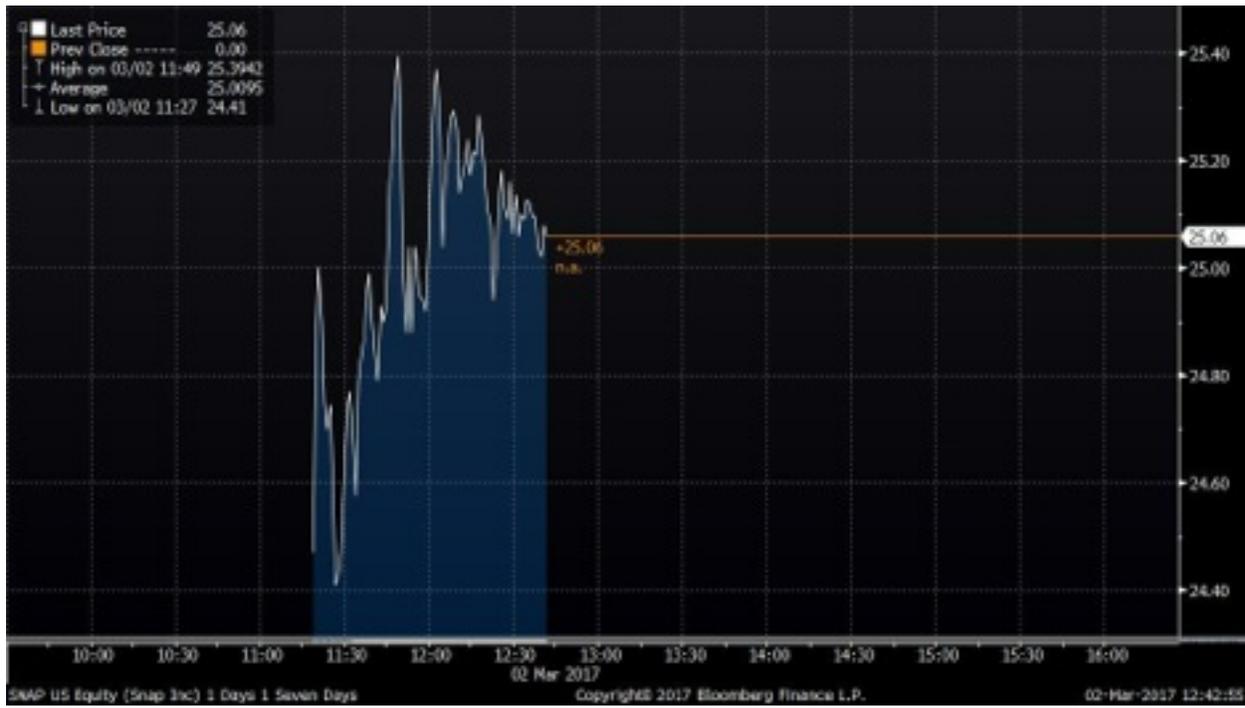


General Motors Company (GM) is American multinational corporation that designs and manufactures vehicles. The company went public on November 19th, 2010. The General Motors IPO launch raised \$20.1 billion at \$33.00 per share. Today GM is trading at \$38.23 per share with a market capitalization of \$57.77 billion.



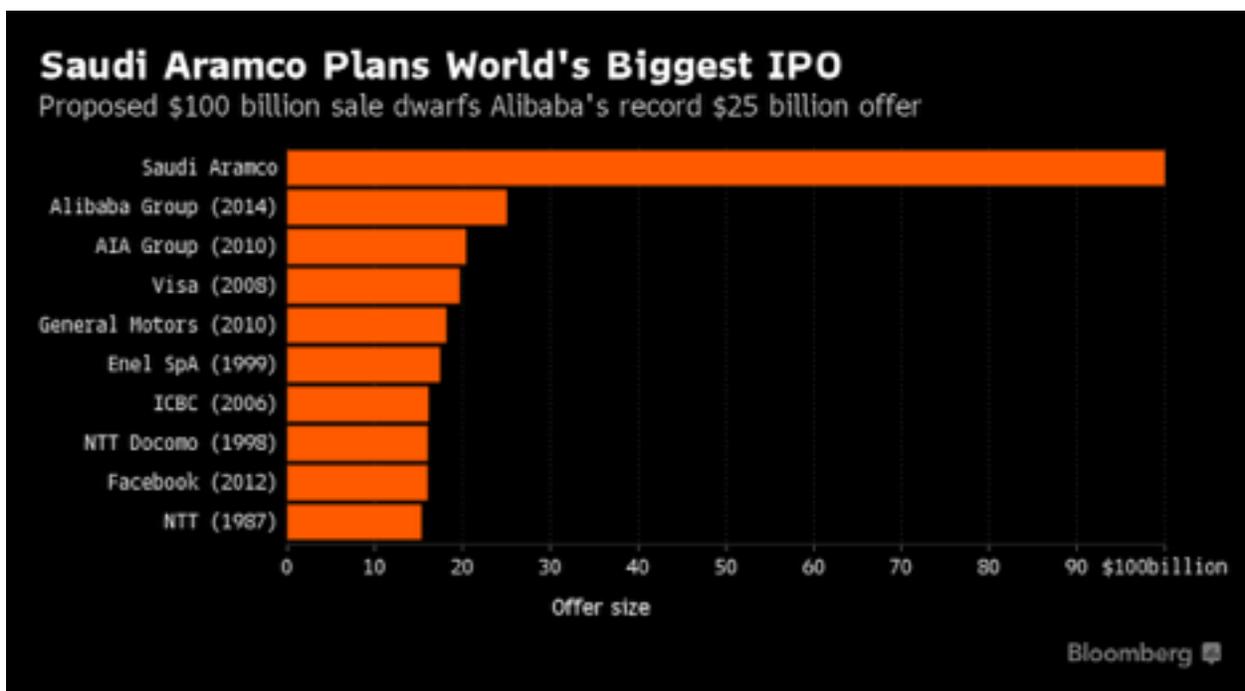
The IPOs today

The most recent IPO that took place on March 2nd, 2017 was of a company named Snap Inc. previously known as Snapchat (SNAP). Snapchat is an image messaging and multimedia mobile application mostly popular among millennials. The app was created by Evan Spiegel, Bobby Murphy, and Reggie Brown. The company is listed on the New York Stock Exchange with a starting IPO price of \$17 per share. As noted in the chart below “shares opened at \$24 and traded as high as \$25.42 apiece Thursday, giving the company a market valuation of about \$29 billion, based on the total number of shares outstanding after the offering in the deal prospectus.” (Bloomberg, 1 March 2017). Snap raised \$3.4 billion in its IPO, the biggest social-media IPO since Twitter more than three years ago. It’s also the first tech company to list in the U.S. this year.



Future IPOs

The next biggest IPO is said to be the Saudi Aramco. Aramco is a the Saudi Arabian national petroleum and natural gas company. It produces, manufactures, markets and ships crude oil. The company choose Moelis& Co., a small investment bank, to advise on its initial public offering. According to Bloomberg ‘the IPO would be the largest ever, dwarfing the \$25 billion raised by Chinese Internet retailer Alibaba Group Holding Ltd. in 2014.’ (Bloomberg, 8 February 2017). The company is expected to go public in 2018.



Conclusion

Even though the 2016 wasn't a good year for the IPO market due to political and economic uncertainty, experts are expecting a rebound in 2017.

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