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IPO

Secrets of earning

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WHAT IS AN IPO AND WHAT IS IT FOR

You can often find an information that a particular company has gone public (IPO) and its founders have become rich people, but few people understand what is hidden behind this abbreviation and what metamorphoses occur with the company from the moment of making decision by the management and to the bell that sounds over the space of the exchange.

Initially, companies are private, not even to say - startups that not everyone believed in, not to mention what they were known by anyone. And now, when a company has gone through several rounds of raising funds under the OTC, when a product or service becomes of interest to a wide range of people and companies, it appears the necessary to change the status from a private company (when a very narrow circle of shareholders is listed) to a public one (when anyone can become a shareholder).

With the change of status, the company changes a number of obligations to regulatory authorities, but in our opinion this is more of a plus, the business becomes more transparent and understandable for future investors and creditors.

The main motive for an IPO for a company is to raise money. Attracting a large cash flow that does not need to be serviced.
Yes, yes, yes, you will say, but what about the dividends??? Dividends, as we know, are paid from profits and this is not an obligation, but a right of the company.

Also, the advantage of a successful public company is that its shares are the equivalent of money, which should become more expensive in the future and by offering the best managers a job, they can interest them in stock options. Well, let's not forget that getting on the world stock exchanges is simply prestigious

START OF IPO PREPARATION

An investment bank or broker is directly involved in preparing a company for going public, in this role it is called an underwriter.

An agreement is concluded between the underwriter and the company and after that the underwriter provides a description of the company's business, essential information about its development plans, its owners and much more to the institute regulating financial markets (it is SEC in USA, Central Bank in Russia). Also, the underwriter leads an advertising campaign for the issuer, the so-called Road show, where he talks about the issuer and increases interest in the company's shares.

But why would an underwriter do this? For exactly the same reason that a huge number of investors have an interest in the IPO market. In the interval when the price per share is already known, and their number is also known, the underwriter buys back part of the shares, or takes them as payment for the work done. And he sells them when the auction has already begun and the share price has increased, well, or he doesn't sell it, it all depends on the strategy. It is in the same way that those who want to hit the big jackpot in a short time act, all those who buy back shares on the over-the-counter market at the placement price. After the opening of trading, shares are sold at a higher price, perhaps even several times higher than the purchase price.

But as in any business, you need to understand that not all placements will give you the opportunity to earn big money or even earn at all.

But why don't stocks “shoot”???

Alternatively, unsuccessful IPOs happen because investors overestimate the company's prospects. The fact is that when placing shares, the company's reports are not available to most small investors, and if the underwriters have excellent PR companies, you can play a good face on a bad game.

Also, by entering the stock exchange with uninteresting reports or with overestimated forecasts, the company dooms itself to strong stock volatility with a further decline or a very rapid drop in quotations.

HERE IS A LIST OF FAIRLY WELL-KNOWN COMPANIES WHOSE IPO DID NOT GO AS THEY WANTED:

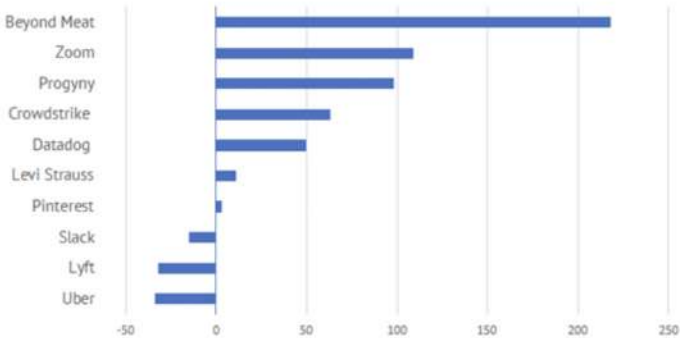
- **Vonage** - due to technical failure of the exchange, shares fell by 30% in a week.
- **BATS Global Market** - As a result of a failure on the website, the company's quotes have depreciated 400 times since entering the stock exchange: from $16 to $0.04 per share.

- **Facebook** - The mistake of the underwriter was to increase the volume of placement of shares after a successful start. Increased emission and due to interruptions in the purchase of securities by investors, their value fell by 20% in a couple of days, and the shares returned to their original $38 only after a year and a half.
- **Xiaomi** - Several events took place here, the first of which was the attraction of only $4.5 billion, instead of the planned $10 billion, and, accordingly, the second was a reassessment of the capitalization by the company itself - instead of the $100 billion that investors were counting on, the company barely crossed the threshold of $54 billion. This in aggregate has led to the fact that the value of the shares has decreased by 50% since the placement.
- One of the most high-profile and failed placements is considered to be the placement of Uber. The company has been showing losses for ten years, which led to a decrease in the share price from $45 to $27 in six months.

Therefore, investments in this market must be made systematically, constantly and in small amounts. And that's when you shall not miss the company that will become the next Beyond Meat in your portfolio.

IN THE FOLLOWING FIGURE, COMPANIES THAT DELIGHTED THEIR INVESTORS:

How shares prices has been changed after IPO, %



Unlike speculation or investing on the stock exchange, investing in a company's IPO is more unpredictable.
And all due to the fact that the stock at this stage simply does not have support and resistance levels, so lovers of technical analysis are bypassed. The stock does not have a trend or any reference points, and only from the first strike of the stock exchange bell will its history begin to be recorded in the form of prices on the terminals.
But all these shortcomings are more than compensated by the opportunity to earn 100, 200, 300 and even 1000 percent in an extremely short time.

FEATURES OF THE IPO MARKET

Diving into the terms and features of this market, let's deal with some. The first thing you want to pay attention to is the term allocation.
In the context of this question, this means the amount of approval of your IPO application. For example - you invest $1000 in Datadog IPO, the allocation was 15%, in other words, you wanted to enter $1000, but they gave you $150. Thus, you will receive profit from only $150.
Why is there 30% allocation for some companies, and only 6% for others, and who decides. This is all due to the fact that different companies are attracting investors in different ways and features, and the number of shares that can be purchased is fixed. Thus, with a high interest in the company's IPO, brokers cannot satisfy all applications and satisfy only partially, observing a certain priority of big money over small ones.

How is it treated? If you follow a certain company and want to participate in the IPO, then you can bypass the allocation restrictions by buying shares of this company, but on the over-the-counter market. There are no volume limits in this market. Further, holding these stocks in the portfolio and passing the stage IPO, you will be able to sell your package already at higher exchange prices.

The next term is “Lock Up period”. This is the period during which you will not be able to sell the shares that you bought to make money on the IPO. The period can be set by the underwriter or broker. It is good for the client when it is minimal or non-existent. A lock-up period ties you up and doesn't give you the opportunity to sell shares when you need to.

How is it treated? Finding a broker or dealer with a minimum period. Some say that there must be a period, but it is not so, seek and you will find.

DID WE FIND THE GRAIL?...

Some of you have already scrolled the numbers in your head and are already sitting in your personal Jet. But not everything is so clear. Investing of this kind requires: a) specific knowledge b) access to the very possibility of participating in initial public offerings of companies c) perhaps the most important thing is the overall investment strategy, one of the directions of which will be venture investment in IPO.

Most investors use IPOs as an opportunity to make a lot of money quickly, they don't hold shares for a long time, they don't put them in retirement portfolios. This strategy is more like a 100m than a marathon. Therefore, many private investors do not care how much the company will cost in six months or a year. They collect their money for the day-week-month and are already preparing for the next race.

Summing up, we can say that investing in IPO is a promising and profitable direction that will allow you to be one of the first holders of the most advanced companies.