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WHY DO COMPANIES SEEK IPOS?

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INTRODUCTION

An initial public offering (IPO) is a process in which a company offers its shares to investors in exchange for capital by listing them on the public stock market. As a result of an IPO, a company's shares become available for purchase by the general public of investors, including institutional investors and individuals. An IPO often involves the issuance of new shares, but may also involve the sale of existing shares of the company's owners.

MATERIAL AND METHODS

For a company, the stages of an IPO are as follows.

•Preliminary stage. It includes preparation within the company: preparation of documents, collection, and publication of reports, and audit.

•The work of underwriters. Underwriters are specialized financial institutions that interact with the central bank and the exchange, market the future IPO, and carry out further steps. In other words, underwriters are responsible for risk management of the upcoming IPO.

•State registration. The company sends an application to the central bank, which may request additional documents to verify the company or refuse registration if it finds violations.

•Listing. The exchange checks whether the company meets the requirements and registers the securities on the trading floor.

•Attracting investors. Underwriters hold roadshows (meetings with potential institutional investors) and present the company.

•Determining prices and collecting applications. The price is set by the underwriter, and the price range is determined based on the valuation of the business. Then the order book is opened to receive orders for transactions from investors.

•Start of trading. During trading, the value of securities may rise or fall. It depends on supply and demand in the stock market.

Before an IPO, all companies also issue a prospectus. Without this document, listing securities on the stock exchange is impossible. The prospectus contains information about the issuer's business, its features, goals for raising capital, as well as financial statements for the last three years. If the financial results are verified by an independent auditor, then confidence in the reporting will be higher. This means that the issuer is not hiding anything and has provided truthful information.

Investments in IPOs are attracting more and more individuals. After the investor has assessed the company's investment attractiveness and decided to participate in the initial offering, it is necessary to find out which brokers provide access to the IPO. This information can be found on the website or social networks, but you can also ask about this directly through customer support.

Then individuals need to open an account with the desired broker or top up an existing one if there is no free money there. To participate in an IPO, as a rule, there is a limit on the amount - a minimum application. When replenishing an account, individuals need to consider the commission the broker will charge. Sometimes the final amount of the transaction is also affected by exchange rate differences - if the price of shares is initially calculated in foreign currency, then the purchase will be in the national currency of the country.

Next, it is necessary to submit an order to the broker. As a rule, a few days before the placement, an order book is opened to collect instructions from a wide range of investors. The underwriter will receive information about those willing to invest in the IPO from all brokers and decide at what price the maximum number of shares of the issuer can be sold.

When the order book opens, the broker notifies its clients about this and talks about the transaction terms: the minimum order amount, and commissions. Now individual’s order can be submitted. Brokers may have different submission forms. For some this can be done through an app, for others it can be done by email or phone. After submitting the order, the amount required for the transaction will be blocked in the account.

After the order book is formed, the underwriter announces the price at which investors will receive the securities of the company going public. The price range for shares is known in advance and is announced before the collection of applications from a wide range of investors begins. The specific price is announced only before the securities are released to the stock exchange.

After the transaction is completed, the broker will notify clients about how it went and will release the remaining funds if they were not used. After some time, the papers will be credited to the client’s account.

Results

The main reasons for companies going public are:

1. Attracting financing. One of the main reasons why companies go public is the need to raise additional capital to finance their growth and development. Funds raised from the sale of shares in an IPO can be used to expand production, research and development, international expansion, acquisition of other companies, or to strengthen the company's financial position.

2. Increased reputation. Through an IPO, a company attracts the attention of the general public and the investor community. This can help strengthen the company's reputation. Companies that go public gain greater visibility in the marketplace, which can help attract new clients, partners, and talented employees.

3. Improving corporate governance and transparency. When a company goes public, it undertakes to comply with strict financial reporting and transparency requirements set by the governmental regulator. This allows to raise corporate governance standards and improve the transparency of the company's internal operations. Participation in public markets also requires a company to comply with certain rules and regulations, which can lead to more efficient management and build trust with investors. Moreover, it is easier for public companies to take advantage of government programs or obtain debt financing on favorable terms.

4. Liquidity for existing shareholders. A company's listing on the stock market also provides an opportunity for existing shareholders to realize their investments and gain access to liquid funds. During an IPO, existing shareholders can sell securities on the stock exchange, thereby converting their investments into cash.

DISCUSSION

An example of the first successful IPO in the automobile industry in Central Asia is the IPO of “UzAuto Motors”. It was one of the most anticipated IPOs in Uzbekistan. The release of such companies to IPO with the opportunity to buy their shares to a wide range of investors is an important apex in the development and stimulation of the local capital market. Securities of the largest national companies work well as an investment instrument in other countries and work effectively in Uzbekistan. As a result of the company's IPO, funds were raised from international financial institutions such as Credit Suisse, JP Morgan Chase, and City Bank, which consequently stimulated the issuance of Eurobonds by “Uzavto Motors”.

CONCLUSION

After the IPO of shares, the company becomes public and from that moment on publishes financial statements in the public domain. The company can attract additional financing for its projects, and its presence on the stock market confirms its success and importance to the economy.

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