RetailBook

Explaining

Initial Public Offerings

Capital at risk

Investing in securities involves a significant degree of risk including loss of capital, rarity of dividends, lack of liquidity and potential for dilution and should only be done as part of a diversified portfolio. The value of an investment and the income from it could go down as well as up. The return of your investment is not guaranteed and you may get back less than what you originally invested. Past performance is not an indicator of future performance. It is important that you read the Risk Warnings in the Prospectus before considering any investment. This is a financial promotion and is not intended to be investment advice.

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What is an IPO?

An IPO, or Initial Public Offering, is when a private company offers its shares to the public for the first time on a stock exchange, and people can buy a piece of the company and become shareholders.

Companies usually go public to raise money to grow their business, pay off debt, or gain more visibility. Once a company is public, its shares can be bought and sold by anyone through a stock exchange, such as the London Stock Exchange (LSE) or Nasdaq.

The IPO process

An IPO requires careful planning and approval from the company's board of directors. First, the company hires advisers, including **investment banks**, to guide them. This group is often called the IPO readiness or underwriting team, and they help:

- Set the right price for the shares
- Prepare legal and financial documents
- Market the IPO to investors

Next, the company files its **Registration Document** and **Admission Document / Prospectus** with the appropriate financial regulator, such as the Financial Conduct Authority (FCA) in the UK. The prospectus helps ensure transparency and protects investors by explaining:

- What the company does
- How it makes money
- Risks involved
- How it plans to use the money raised

Once the FCA approves the documents, the company and its bankers set an initial price range for the shares before going on a "roadshow" — a series of presentations to investors to build interest and excitement. This helps gauge demand and narrow the price range.

Based on investor interest, the company and its bankers decide on the IPO price — the price at which the shares will be sold to the public. Judging an appropriate price is a crucial but difficult step, requiring a balance between how much money the company raises and how the stock performs on day one.

On the day of the IPO, the company's shares are listed on a stock exchange, and anyone can now buy or sell the shares. The company's stock price will now rise or fall based on financial performance of the company, sector news, and market trends, and the company must follow strict rules designed to protect investors, including:

- Regular financial reporting
- Transparency with shareholders
- Accountability to the public

Typically, an IPO gives you the chance to invest in a company at a relatively early stage, but it also comes with risks — prices can be volatile, especially in the beginning.

Advantages of "going public"

Although being a public company means more rules and requires greater transparency, there are several attractions for a private company:

Access to Capital

Public companies can raise money by selling new shares to investors which can be used to fund expansion, research, or reduce debt.

Increased Visibility and Credibility

Being listed on a stock exchange makes it more recognisable to customers, partners, and the media.

Attracting Talent

Public companies can offer stock options, which can help attract and retain employees.

Improved liquidity for existing investors

Early investors and employees can sell their shares more easily, turning their investment into cash.

Use of Shares as an Acquisition Currency

Public shares can be used as a form of payment when acquiring other businesses.

Market Valuation

The company's value is determined by the market, offering real-time feedback on performance and investor confidence.

Why participate in an IPO?

Although IPOs come with risks and the share price can be volatile, there are a number of benefits to taking part:

Early Access to Growth

IPOs offer a chance to invest in a company at the start of its public journey — potentially before it grows bigger and more valuable.

Diversification

Spreading risk across different stocks and industries can lower the volatility of your portfolio.

Enhanced Accountability & Transparency

Public companies must share detailed financials and business plans, which help investors make informed decisions.

Greater Liquidity

Shares that trade on a recognised exchange can be readily bought and sold.

Improved Governance

Shareholders are able to exercise voting rights on issues such as executive remuneration or strategic direction.

Potential for Higher Returns

If the company performs well, early investors could see stronger returns.

The risks of investing in an IPO

Price Volatility

IPO stocks can exhibit significant price volatility, especially in the first few days or weeks of trading.

Limited Track Record

Many companies that IPO are young and fast-growing but have limited financial history which makes it harder to judge their potential.

Lack of Information

While IPO filings provide significant disclosures, they still may not give the full picture and there remains a high degree of uncertainty as to the company's success.

Motivated Sellers

Understanding the rationale of the selling shareholders is an important component in determining the value of an IPO.

Lock-Up Periods

Whilst insiders typically are not able to sell their shares for a few months after the IPO, their selling can cause the stock to fall in value.

Poor Performance

Individual stocks can deliver negative returns which means you may face a loss of capital.

Indicative timeline of an IPO

T-14

Expected Intention to Float (EITF)

The first announcement by a company of its proposed IPO, including information about its business, strategy and the equity offering.

T-7

Confirmation of Intention to Float (CITF)

Confirmed of intention to proceed with the IPO including further details and confirmation of the Global Offer.

T

Launch of Retail Offer and Publication of Prospectus

Once the IPO has launched, you will be able to place orders through your broker, investment platform or wealth manager.

T+7

Closure of Retail Offer

No further orders can be submitted.

T+8

Allocation and Trade Date

If your subscription has been successful, your allocation will be confirmed by your broker, investment platform or wealth manager.

T+10

Settlement, Admission and Start of Trading

Shares are available for trading on an exchange.

Risk Warning & Disclaimer

Risk Warning

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