IPO SERIES: TO, THROUGH AND BEYOND THE IPO

IPO PRICING, STABILIZATION AND TRANSITION

Tapping the financial markets through an IPO is both an exciting and challenging task. You have chosen professionals for your legal and financial matters, and now you need to add the expertise of a transfer agent. In this series – "To, Through and Beyond the IPO" – EQ shares its deep expertise and insights into the entire process as a private company goes public.

01 BECOMING AN ISSUER

If you thought a lot was involved up until now, there is still a long and suspenseful countdown ahead to life as a public company. The next stages are focused on transitioning you to being an issuing company that trades on the open market. Think of this homestretch as a foretaste of public life.

The investment bank, or underwriter, will be determining the offer price for shares in your company, working to get your shares sold, then helping you get your bearing as you navigate into the open market. Here is an overview of what's involved in the process.

02 DETERMINING THE OFFER PRICE

After the IPO is approved by the SEC, the effective date is decided. On the day before the effective date, the issuing company and the underwriter decide the offer price (i.e., the price at which the shares will be sold by the issuing company) and the precise number of shares to be sold.

Deciding the offer price is important because it is the price at which the issuing company raises capital for itself. However, after the stock starts trading on the secondary market, money raised through the sale of shares goes to the company, not the underwriter. The following factors affect the offering price:

- The success/failure of the road shows (as recorded in the order books)
- The company's goal
- Condition of the market economy

IPOs are often underpriced to ensure that the issue is fully subscribed or even oversubscribed by the public investors, even if it results in the issuing company not receiving the full value of its shares.

If an IPO is underpriced, the investors of the IPO expect a rise in the price of the shares on the offer day. This increases the demand for the issue. Furthermore, underpricing compensates investors for the risk they take by investing in the IPO. An offer that is oversubscribed two to three times is considered to be a "good IPO."

You'll want to work with a transfer agent that offers ownership intelligence services to monitor post-IPO trading and know which investors are selling during the first days of trading. This can help identify which investors purchased more shares, potentially achieving their intended goal or the stakes for which they subscribed.

03 AFTERMARKET STABILIZATION

After the issue has been brought to the market, the underwriter has to provide analyst recommendations, ensure aftermarket stabilization,and create a market for the stock issued.

The underwriter carries out aftermarket stabilization in the event of order imbalances by purchasing shares at the offering price or below it.

Stabilization activities can only be carried out for a short period of time. However, during this brief window, prohibitions against price manipulation are suspended. The underwriter thus has the freedom to trade and influence the price of the issue.

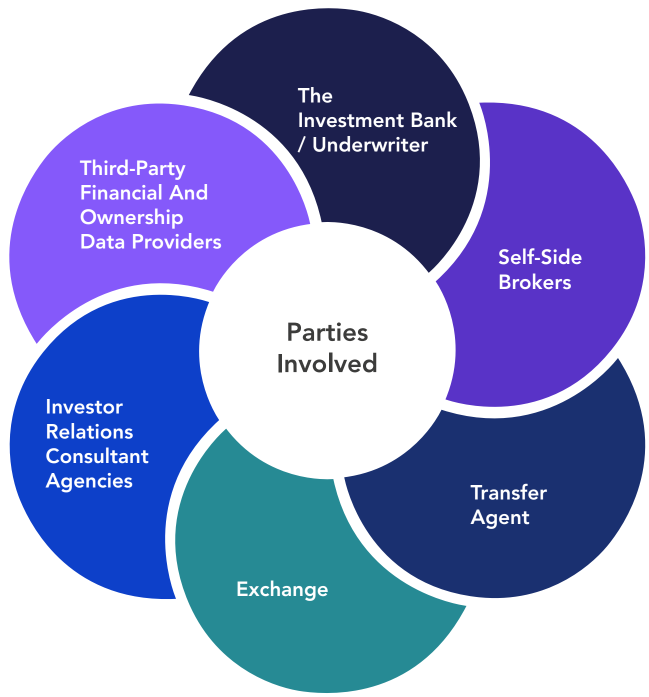
04 TRANSITION TO THE OPEN MARKET

The final stage of the IPO process, the transition-to-market competition, starts 25 days after the initial public offering, following the end of the SEC-mandated "quiet period."

During this period, investors transition from relying on the mandated disclosures and prospectus to relying on market forces for information regarding their shares.

After the 25-day period lapses, underwriters can provide estimates regarding the earning and valuation of the issuing company. Thus, the underwriter assumes the roles of advisor and evaluator once the issue has been made.

Ultimately, companies should be prepared in advance to engage with their owners independently of the underwriters. They will need to begin to manage their relationships with their investors. This transition triggers investor communication and investor management activities. It is also an important time to have ownership intelligence services available from the transfer agent and to consider engaging a corporate governance consultant to help with planning and execution of the first annual meeting.



05 CONGRATULATIONS!

Going IPO is now behind you – but life as a public company is ahead of you! If you engage the right teams of skilled professionals, they can help you engage and monitor your ownership, as well as properly navigate the numerous and complex regulatory requirements and proxy processes involved in public life. In addition, they can help execute the tactical plans you'll need for obtaining shareholder approval of your corporation's proposals. You took the first big step by going public – now get the right services and support to take the next: holding your first annual meeting!

About Us

EQ are specialists in helping you better understand and manage the ownership of your company through critical events across the corporate lifecycle. As trusted advisors, we provide strategic insight and operations expertise through our core business units in Private Company Services, Transfer Agent Services, Employee Plan Solutions, Proxy Services, and Bankruptcy. Globally we serve 6,700 clients (47% of the FTSE 100 UK and 35% of the S&P 500), with over 30 million shareholders, through 6,500 employees in 5 markets around the world.

Contact Us

We would welcome the opportunity to meet and provide more information on the full range of our IPO Services and how we can help before, during, and after the IPO. Please contact us at newbusiness@equiniti.com

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