

# IPO

## A GLOBAL GUIDE

Third Edition

PHILIPPE ESPINASSE

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# Preface

This book was first published in 2011 and last updated in 2014 (as a paperback version). It is now a good time to print a third edition.

Much has changed in the intervening period. Market activity has continued unabated, including, surprisingly, throughout the COVID-19 pandemic (although not across all jurisdictions). Equity underwriting fees in 2020 reached an unprecedented US\$13.2 billion, topping the previous record in 2009 by some 40%. The Chinese markets, and Hong Kong's in particular, continue to lead the issuance charts and dominate IPO volumes, alongside the New York Stock Exchange, while "elephant" deal, billion-dollar IPOs, which were something of a rarity only ten years ago, have now increasingly become commonplace. In late 2019, Saudi Aramco raised almost US\$26 billion on the Tadawul (the Saudi stock exchange) in what was then the world's largest-ever IPO. What was even more remarkable was that this offering was completed exclusively domestically, without an international tranche. At the time of writing (in the second quarter of 2021), while a planned Hong Kong IPO of up to more than US\$34 billion by fintech issuer Ant Financial had been postponed, there was talk that it could be relaunched, setting yet another record.

Special purpose acquisition company (SPAC) issuance has experienced a strong revival, and particularly in the US, while much of the equity issuance around the world is now by corporates that are active in the internet, IT, fintech, and biotechnology industries. Many of the companies from such sectors are also not yet at the stage when they are profitable businesses, even when they can generate significant levels of turnover and cash-flow, and often achieve multi-billion US dollar IPO valuations, something that stock exchanges and investors have had to learn to work with.

Another development has been the advent of direct listings (sometimes known as disintermediated IPOs), although these remain rather marginal, compared with the more traditionally marketed and underwritten deals.

Market regulators have also become much more demanding and more aggressive, imposing, on occasion, unprecedented and very sizable fines on IPO sponsors, in particular in connection with shortcomings pertaining to the latter's due diligence investigations. I have been personally involved in a number of such cases as an expert witness, both on the prosecution and defence sides, and in particular in Hong Kong.

The second edition of this book was much expanded to reflect the then new listing environment. It featured chapters on business trusts in both Singapore and Hong Kong, as well as on listing requirements (and a detailed case study) for Malaysia, on account of its status as one of the most active markets in Southeast Asia at the time. Some 25 recent examples of transactions were added throughout to illustrate topical issues, while a similar number of new definitions resulted in an expanded glossary.

Likewise, this new edition has been the subject of a complete and detailed revision throughout, and also includes new information addressing some of the more recent, above-mentioned market developments. Some topics, such as spin-off offerings, SPACs, listing requirements, due diligence, and others have also been further expanded while, as before, some 15 additional IPOs have been included as examples, to illustrate various aspects of new offerings.

However, and as always, while I have taken care to cross-check facts and information, I still caution readers working on actual new issues to seek current regulatory, corporate finance and advisory, legal accounting, and tax advice, as may be appropriate.

My blog is available online, and now includes well over 350 of my articles that have, for the most part, featured in a variety of financial and general publications, such as the *South China Morning Post*; *L'Agefi*; the *China Economic Review*; *Dow Jones and the Wall Street Journal*; the *Nikkei Asian Review*; and *Euromoney's GlobalCapital*. I still actively appear in interviews in print media, online, on TV, and on the radio to comment on new offerings, of which many are used as examples and case studies herein.

I have published other books, too, including the new study guide for candidates taking IPO sponsor licensing examinations in Hong Kong (jointly with Syren Johnstone); one more particularly focused on how investment banks pitch for business, and on how they are selected and mandated by companies and their shareholders; as well as another that addresses cornerstone investors, in particular in the Asian markets of Hong Kong, Malaysia, and Singapore.

Lastly, whether you are a prospective IPO candidate, an equity issuer, an equity capital markets professional, an investment banker, a private equity practitioner, an investor, or a journalist, I am always keen to hear from you. Please do reach out to discuss remarkable transactions, changes in market practice (whether pertaining to documentation, valuation, or marketing techniques), or regulations.

I trust you will enjoy this new global guide. IPOs remain one of the most fascinating, and least understood, aspects of the financial markets. Hopefully, I will have further unveiled some of their enduring mysteries.

Philippe Espinasse  
Hong Kong, April 2021



## About the author

Philippe Espinasse spent almost two decades working as a senior investment banker, including as a managing director, head of equity corporate finance, and head of equity capital markets. Throughout his prior banking career, he has successfully completed more than 140 corporate finance transactions and has marketed to issuers, and/or executed, capital markets offerings across some 30 jurisdictions.

Philippe lives in Hong Kong, where he now writes and works as a consultant and independent expert, in particular in connection with litigation and arbitration cases. He has also been honorary lecturer in the Faculty of Law of the University of Hong Kong (Department of Professional Legal Education) for a number of years. He is the author of *IPO Banks: Pitch, Selection and Mandate* (Palgrave Macmillan, 2014) and *Cornerstone Investors: A Practice Guide for Asian IPOs* (Hong Kong University Press, 2018), and a co-author of the English/simplified Chinese character *Hong Kong IPO Guide 2013* (LexisNexis, 2012) and *IPO Guide 2012* (LexisNexis, 2012). Philippe is the joint author, with Syren Johnstone, of the study manual for IPO sponsor examinations in Hong Kong (Hong Kong Securities and Investment Institute, 2013). His first book, *IPO: A Global Guide* (initially published by Hong Kong University Press in 2011), has also been translated in simplified Chinese characters. He is the author of two fiction thrillers, *Hard Underwriting* and *The Traveler*, both published by P&C Books, in 2015 and 2016 respectively.

He has contributed regular columns to *GlobalCapital*, the *Nikkei Asian Review*, Dow Jones Banking Intelligence, the *South China Morning Post*, and France's leading financial daily *L'Agefi*. His articles have also been published in the *Wall Street Journal*, on the website of BBC News, and in the *China Economic Review*. Philippe has been interviewed by, or has featured in, a variety of publications, including Bloomberg, Singapore's *Business Times*, the *China Daily*, *The Edge-Singapore*, *FinanceAsia*, *Financial News*, the *Financial Times*, the *Hong Kong Economic Journal*, the *International Financing Review*, *Le Monde*, Reuters, *Quartz*, and *Treasury Today*, among others. He has been a keynote speaker at a number of events and conferences and has also appeared on Bloomberg Television, CNBC, BBC World News Television, the

BBC's World Service radio, Australia Broadcasting Corporation radio, and Hong Kong's RTHK 3.

Visit Philippe's blog and website at [www.ipo-book.com](http://www.ipo-book.com).

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# 1

## Defining the parameters

### 1.1 Going public

Going public—offering shares for the first time to third-party investors—is probably one of the most important decisions that can be made during the life of a company. For shareholders of family-owned businesses, it can provide a welcome source of liquidity for their holdings. But it also opens up their affairs to the scrutiny of outsiders. Through a flotation, entrepreneurial ventures can find an unparalleled source of capital to support their development. Investors buy initial public offerings (IPOs) because they offer them the opportunity to build a sizeable position in a stock, something that would in most cases be more costly and take a long time to achieve in the secondary market. Most companies coming to market for the first time also exhibit some form of IPO discount, which makes them more attractive relative to their listed peers.

There are a variety of reasons for listing a company in an IPO on a stock exchange, but these generally come down to two: selling down one or more stakes in the business, and raising additional equity capital.

#### 1.1.1 Primary and secondary offerings

In technical terms, the raising of new money in an equity capital markets (ECM) transaction is called a “primary offering”, whereas a sell-down—whether by a government in a privatization or by long-term shareholders in a business that has, until now, remained in private hands and is now coming to market to generate liquidity (perhaps as a result of an inheritance)—is described as a “secondary offering”. Often, both are combined, so that one or more existing shareholders choose to reduce their holdings, while new funds are raised to enable the business to grow. In certain markets, such as in the UK or in Hong Kong, a primary offering is called an “offer for subscription” since new shares are issued by the company for

subscription by investors, whereas a secondary offering is, quite logically, called an “offer for sale”.

Most of the time, raising new money is an easier exercise, particularly if the issuer exhibits attractive characteristics, for example, if the market can clearly see that the new funds will help finance development. By contrast, selling down one or more shareholdings in a company is sometimes viewed with suspicion by investors, especially when no remaining stakes are retained by the sellers after listing. For example, investors would probably be wary of a private equity investor exiting in full in an IPO, not only because the investor would be seen to be trying to maximize its exit price at all costs, irrespective of how the shares may trade in the aftermarket, but also because its interests would no longer remain aligned with those of new investors, post-listing. A private equity investor in such a position may therefore prefer to wait until a later date to fully cash in on its investments, perhaps through one or more further sell-downs.

Similarly, investors will often be concerned when an IPO is solely structured through an offer for sale, with no proceeds being raised as part of the deal. A good example of this is the US\$1.5 billion equivalent IPO of car manufacturer Aston Martin on the London Stock Exchange in 2018. It took the form of a 100% secondary offering, which, alongside other factors, in my view contributed in the ensuing months to the issuer losing much of its stock exchange value.

Rather confusingly, the term “secondary offering” is also sometimes used to describe a follow-on transaction for a listed company, irrespective of whether new money or old shares are issued or sold. In addition, the term “primary equity” (or “primary equity market”) is commonly used to describe the new equity issue market (including IPOs), whether the offerings consist of new or old shares, while the secondary market often describes that for the trading of shares, once they have become listed, in what is also known as the “aftermarket”.

### 1.1.2 Other reasons for going public

Other reasons for going public can include the prestige and recognition attached to the status of a listed company, raising the profile of the business, or achieving optimal liquidity for the shares so that they can be more easily traded. In some cases, issuing new shares and listing in an IPO is a practical way to reduce the level of gearing that a company has accumulated over the years, perhaps as a result of conducting a costly acquisition, and with which it has been burdened. This is likely to become more prevalent following the recent credit crunch and COVID-19 pandemic, as some corporates find it difficult to obtain bank financing.

A business may want to re-focus on its core activities and spin off or de-merge a division in a newly listed company. For example, in 1995 Sandoz, the Swiss pharmaceuticals group, listed its specialty chemicals subsidiary in a US\$1.4 billion equivalent international IPO in Zurich. The business was, at that time, renamed Clariant to give it a new, stand-alone identity. Clariant subsequently developed as a new chemicals group with the acquisition in 1997 of the chemicals business of Hoechst, with further sizeable acquisitions in 2000, 2006, and 2008, while Sandoz itself merged with Ciba-Geigy in 1996 to form Novartis. Another example of a spin-off is the US\$3.1 billion equivalent listing in 2014 in Hong Kong, through a fixed single investment trust, of HK Electric Investments and HK Electric Investments Ltd. The assets of the trust were spun off from Hong Kong-listed Power Assets Holdings to create a separate, vertically integrated power utility with a focus on the generation, transmission, distribution, and supply of electricity to the islands of Hong Kong and Lamma. Spin-offs will be discussed in greater detail in Section 1.1.3. Examples of such transactions are also provided in the case studies in Appendix 1.

A company can also opt to list on more than one stock exchange, for example because it has become so large, or so global in nature, that this may be a way to more easily access investors around the world, so that they can trade the shares in their own time zones. For example, Prudential, the British insurance company, conducted secondary listings for its shares in Hong Kong as well as in Singapore, in addition to its primary listing on the London Stock Exchange (LSE), at the time of its attempted acquisition of AIA (the Asian arm of AIG) in early 2010. The reason for this was to be able to more easily target and tap Asian investors in a global rights issue, in order to raise funds for the acquisition.

Similarly, a business may have evolved in such a way that there has been a significant geographical shift in the company's activities, so a second (or even a third) listing may be a way to more closely align where the company carries out its activities with where its shareholders are located.

In some cases a company may even decide to de-list from one stock exchange and to re-list on another to try to achieve more recognition from investors, more active trading in its shares, and better sell-side research coverage. One reason for this can be because the new stock exchange is larger, or has higher daily trading volumes, which may also ultimately result in a higher valuation for the business. It is believed that, in 2007 Want Want, a Taiwanese food manufacturer, de-listed from the Singapore Exchange (SGX) and, after a corporate re-organization, subsequently re-listed its shares on the Stock Exchange of Hong Kong in 2008 precisely for this reason. Similarly, Hainan-based Sihuan Pharmaceutical, which manufactures heart drugs in China, also chose to de-list from the SGX in 2009 and to re-list in Hong

Kong in October 2010 in a US\$741 million equivalent IPO on similar grounds.<sup>1</sup> Kohlberg Kravis Roberts's (now known as KKR & Co. Inc.) transfer of its listing from the Amsterdam stock exchange to New York in July 2010 followed the same logic, although in this case other considerations also applied. These are said to have included succession planning at the top level in the US, as well as potential tax considerations.<sup>2</sup> Indeed, sales of shares by a founder in a listed buy-out firm were expected to attract a higher rate of capital gains tax (as compared to 15% at the time) pursuant to a bill discussed in the US Senate, so this may perhaps also have influenced the timing of KKR's IPO and new listing in the US. Other private equity firms in the US, such as Carlyle and Apollo Global Management, also subsequently listed there.

Another factor for a re-listing can be because, historically, a market has seen listings from companies in a particular industry sector, and will attract investors and research analysts more likely to understand the company's business, thereby often resulting in a higher valuation and better pricing for the IPO. This includes Nasdaq in the US for technology or internet companies (although in recent years significant businesses in that industry, such as Twitter, instead chose to list on the New York Stock Exchange (NYSE)); or the London Stock Exchange (LSE) in the UK, the Toronto Stock Exchange (TSX) in Canada or the Australian Securities Exchange (ASX) for companies in the minerals or mining sector. At the time of publishing the first edition of this book, the LSE had agreed to acquire the TMX Group, the parent company of the TSX, although that transaction was ultimately not completed.

### 1.1.3 Spin-off transactions

Spin-off transactions deserve a special mention. Essentially, a spin-off occurs when a listed issuer decides to seek a separate listing for one of its businesses, either on the same stock exchange or on another listing platform (in the same country or abroad).

This carve out can perhaps be made on a geographical basis for companies that are active internationally (e.g., the IPO in Hong Kong of Langham Hospitality in 2013 involved the spin-off of Great Eagle's Hong Kong hotel assets, while the parent company retained such assets in other countries); or it can concern a particular line of business (as was the case, also in Hong Kong, with the IPO of BOC Aviation, an aircraft leasing business, by Bank of China in 2016).

A number of important considerations must be taken into account in the case of a spin-off IPO. The main reason for this is that, in such cases, the parent company itself is also a listed entity.

As an example, in Hong Kong, all issuers planning for a spin-off must first submit proposals to the exchange for approval. In addition, the proposed spin-off entity must satisfy all the requirements of the listing rules for listing applicants, including the quantitative and other listing criteria. Further, a stock exchange will not normally consider spin-off applications within a number of years of the listing of the parent (in Hong Kong, this period of time is three years), since the original listing of the parent company will have been approved on the basis of that company's portfolio of businesses at the time of the flotation, and the expectations of investors at that time would have been that the parent would continue to develop such businesses.

For a stock exchange to consider approving a spin-off listing, it must also be satisfied that the parent will, after the spin-off, retain a sufficient level of operations and sufficient assets to support its separate listing status (and therefore continue to be able to satisfy its own listing requirements).

In addition, there should be a clear delineation between the business(es) retained by the parent company and the business(es) to be spun off, including independence of business operations (with minimum continuing connected transactions between the spun-off company and its parent, or the shareholders of the parent company); independence of directorship and management (i.e., a majority of directors and senior management cannot overlap); and independence of administrative capability (in other words, the parent and the spun-off company must have their own administrative teams, and be managed and operated independently, without relying on each other).

There should also be clear commercial benefits, both to the parent and spun-off company, which should be elaborated upon in the listing document, and, importantly, no adverse impact on the interests of shareholders of the parent resulting from the spin-off.

Further, shareholder approval of a spin-off may be required in cases where the assets, profits, revenue, market capitalization, or number of shares of the company to be spun off represent a significant percentage (typically 25% or more) of those of the parent.

Finally, to further protect the interests of the parent, the shareholders of the latter may in some jurisdictions (such as Hong Kong) be provided with an assured entitlement to shares of the spun-off company under the IPO, either pro rata, by way of a distribution *in specie* of existing shares in the spun-off company (which is rather infrequent), or of a preferred application in any offering of new shares by that company (which is more generally the case).

### 1.1.4 Duties and drawbacks associated with listing

Conducting an IPO can bring many advantages, but there are also drawbacks to becoming a public company. It is generally a costly exercise, both at the time of listing as well as over the long run because of the additional disclosure required to maintain a listing and to keep new shareholders abreast of corporate developments. Investor relations require not only a high level of transparency, which can give competitors, suppliers, or customers an edge, but also a significant commitment by the management in time and resources to meet the expectations of the market.

Lastly, in extreme cases, a flotation can result in attracting unwanted shareholders (such as Bernard Arnault's LVMH taking an initial 14.2% stake for a reported US\$2 billion in luxury leather goods company Hermès in France in October 2010) and even ultimately mean a loss of control over the business for the original shareholders. This could result from a takeover bid, to which listed companies are obviously vulnerable once the majority of their capital falls into public hands. Or it may happen because raising new equity from third parties, thus diluting existing shareholders, may be the only solution to rescue a business riddled with debt accumulated on its balance sheet. Some corporate structures, however, such as dual- or multiple-class shares and weighted voting rights, real estate investment trusts (REITs), or business trusts, can enable legacy shareholders to raise equity capital and maintain effective control over a listed business while avoiding some of the dilution issues that come with the listing of shares on a stock exchange.

## 1.2 Listing requirements, equity story, and liquidity

Regardless of where, and how, a company decides to proceed with an international IPO, a number of factors always apply.

### 1.2.1 Listing requirements

The company must first satisfy the thresholds laid out by the relevant regulator or stock exchange on which it has chosen to list. These vary, but will often include a minimum track record for the business (most of the time, at least three years of operations); a minimum amount of turnover, cash-flow, or net profit, or a combination of these, either based on the latest financial year or an average over several years; or a minimum market capitalization upon IPO. Waivers can sometimes be granted, or there may be special provisions under the listing rules particularly for minerals, exploration, or project companies, as well as for certain internet, fintech, or biotechnology issuers. The accounting standard for the accounts



# 3

## Marketing the deal

### 3.1 The importance of sell-side research

All the major investment banks have active and sizeable sell-side research departments. These research departments support their sales and trading efforts in the secondary market across a variety of securities. In many countries, research is also important to assist in the marketing of IPOs to investors.

#### 3.1.1 Types of research analysts

On a macro level, banks have economists who advise their institutional investor clients on major market events, as well as strategists who make recommendations on asset allocation, based on trends and high-level market developments. Investment banks also often have research analysts covering currencies, commodities, fixed income, and equity securities. On the equities side, in particular, research analysts generally have a regional or country focus, or an industry sector specialty. For example, a research analyst might specialize in telecoms companies across Europe; another might cover Spanish stocks only; while a third analyst might be responsible for the coverage of mining stocks in the Asia-Pacific region.

An individual research analyst is therefore on average responsible for the coverage of up to a dozen companies, reporting continually on results announcements and corporate events for each of these companies, and making calls on when to buy, sell, or remain neutral on individual stocks. Stand-alone corporate notes, from a few paragraphs to sometimes up to 100 pages or more, are published on a regular (and for the shorter ones often almost daily) basis, as are industry sector, country, or regional reports. Institutional investors now also often have electronic access to such research.

### 3.1.2 Analyst rankings

The accuracy of research analysts' predictions and calls, as well as their popularity with institutional investors, are regularly appraised in investor surveys, such as the well-known Extel survey in the UK or the regional surveys or polls compiled by *Institutional Investor* magazine or *Asiamoney*, or awards such as the StarMine analyst awards handed out by Thomson Reuters. These identify "stars" among the research analyst community. Highly ranked research analysts are much in demand and can be remunerated handsomely.

### 3.1.3 Pre-deal research in IPOs

Research is also used for IPOs, although in a very strict and tightly regulated way. This is because the prospectus and offering circular (in its various versions) are legally the only documents that investors, both retail and institutional, can use to form an investment decision in a primary equity offering. Research guidelines drafted by legal advisers (normally, the legal advisers to the underwriters) are always distributed to research analysts working on a particular IPO. These outline restrictions derived from local legislation and market practice. A pre-deal research report can be distributed only to institutional investors, not to the general public, which is deemed not sophisticated enough in matters of finance (although public investors are increasingly given access online to early—although slightly redacted—drafts of prospectuses posted on the websites of stock exchanges or regulators), and also cannot materially deviate as to its contents from what is included in the offering circular. In addition, it cannot, like those reports published in the secondary market to cover listed stocks on a continuing basis, include recommendations to make calls on the shares of the issuer (a "buy", "accumulate", "neutral", or "sell" recommendation, for example). Pre-deal research reports are also subject to restrictions as to the profit and loss account forecasts made by the research analysts that can be included; these will often be for a limited number of years only, except perhaps when valuation is conducted by way of a discounted cash-flow analysis (DCF). Sometimes no forecasts at all will be allowed. In many cases, research guidelines now also specify that several valuation methodologies must be used and that only a wide valuation range (but not individual valuations under each methodology) can be provided in such research reports. Pre-deal reports also always include significant disclaimers, generally on the cover and/or inside cover as well as on each page of the report, and cannot be distributed in the US, Canada, and Japan, where local rules and regulations prohibit their publication. One of the tasks of junior equity capital markets (ECM) bankers or, more commonly now, of

compliance professionals, is to check the research distribution lists for a particular IPO to ensure this is the case. Obviously, while investors in such jurisdictions must be excluded from the list, salespeople who cater to them, as internal recipients of research reports within an investment bank, should not.

Pre-deal research reports are checked for factual accuracy against the contents of the prospectus by legal advisers working on the transaction (again, generally, by the legal advisers to the underwriters), as well as by the banks' compliance departments working in research "control rooms". In the past, it was not uncommon for the corporate finance or ECM bankers working on an IPO, and indeed for the issuer themselves, to help draft, review, or comment on pre-deal research reports to make them more "punchy" and akin to a "sales" document. This is recounted with much humour by my former colleague at S.G. Warburg, David Freud (now Lord Freud), in his memoirs from the mid-1980s to 2003. In his book, he recalls in particular a few memorable "eureka moments" as an investment banker on how some major IPOs, such as those of Eurotunnel, Euro Disney, and Railtrack, should be "packaged" and presented through research to best appeal to the investor community.<sup>80</sup> In the post-dot com era, however, this is now strictly prohibited, and research analysts are required to work on, and to publish, their reports completely independently and without interference from colleagues working in other areas of the bank—at least in theory.

### 3.1.4 Why bother with pre-deal research?

If pre-deal research reports need to conform to the prospectus as to their contents, and if some major jurisdictions, such as the US, actually ban their publication in connection with IPOs, why bother with them at all? The reason is simple: offering circulars are above all legal and disclosure documents and include many statements that are useful in limiting the liability of the issuer, but they do not necessarily offer a condensed and easy-to-read summary of the investment case. Institutional investors are by nature busy people, and they need to be able to screen through many potential investment opportunities within a short space of time. Pre-deal research reports are written in a format they recognize and understand (since they are readily published for stocks that are already listed), and therefore enable potential investors to find quickly and easily the information they require for their investment committees. By contrast, prospectuses can run to several hundred pages, much of them taken up by discussions of risk factors and accounting reports.

However, in making investment decisions, institutions should rely only on the offering circular. A letter stating this often accompanies a pre-deal research report to stress the point, and investors are sometimes also asked to further acknowledge this

by returning a signed statement to that effect. Lastly, pre-deal research reports are generally all numbered, and a record is kept of the hundreds (or even thousands) of accounts that have been sent a copy by each bank. This can be useful for tracking down leaks.

Indeed, because pre-deal research reports are circulated to many investors around the world ahead of an IPO, it is not uncommon for their contents to be leaked to the financial press. Therefore, once pre-deal research is published, a transaction very much comes into the public domain and may, to some degree, lead to further speculation both by the market and by the media if the deal does not proceed at a later stage.

Once pre-deal research has been published, a blackout for further publication of research on the issuer by all the members of the syndicate comes into force, although it obviously does not apply to investment banks not involved in the IPO who are free to publish what they want. Whether they can have access to the right information is obviously another matter.

## 3.2 Presenting to research analysts

A key step in any IPO, where pre-deal, sell-side research is allowed, is the presentation to research analysts. This happens once the preliminary offering circular is in a nearly final shape, and takes the form of a meeting between the senior management of the issuer—often the chairman, CEO, CFO, and other key personnel—and the research analysts from participating banks from the syndicate. Generally, this includes a fairly small number of participants, but in some very large IPOs, particularly when the business of the company is complex or diversified, and when more than one research analyst may be appointed by some houses, this can become a sizeable gathering, totalling perhaps 25 or more attendees.

### 3.2.1 Research guidelines and the presentation to research analysts

The presentation to research analysts generally starts with short explanations by ECM bankers of the proposed timetable for the review by legal advisers and for the publication of pre-deal research reports. They also outline restrictions adhering to the publication of research reports in the context of the proposed IPO. Other than introducing management and explaining the timetable for the publication of research, ECM and investment bankers within the Chinese wall, if present at the presentation to research analysts, will usually remain silent throughout the rest of the meeting. Research guidelines are generally distributed at that time, or they can

alternatively be relayed to the research analysts at a later stage through ECM desks or compliance departments. Copies of the draft offering circular are also often made available to the research analysts, as are copies of the 75 to 100 (or so) slides used by management in their presentation: the contents of these slides are entirely consistent with the prospectus, summarizing key features of the business, and addressing the history, competitive environment, strategy, key markets, clients, suppliers, and financials of the issuer. More recently, market practice has been, on occasion, for the slides to be made available to the research analysts during the meeting but to be returned at the end, so that only the draft offering circular can be left with them. This often leads to some frantic note-taking on the part of the attendees!

The research analysts are given the opportunity to ask many questions and to challenge management on how they run their business. This acts as a useful preparation for the roadshow since management needs, for the first time, to convince participants from the “markets” side of the banks of the merits of the investment case, and because the research analysts themselves will need to persuade investors about the equity story during pre-marketing. The presentation to research analysts does not involve any investors, and therefore takes place in a somewhat friendly and closed environment, where tips and suggestions can be provided or exchanged. However, the management of the issuer still needs to convey to the research analysts that this is an attractive opportunity, which the markets side of the investment bank can offer to its investor clients. Management will obviously previously have been well rehearsed by ECM and banking teams, including through the use of suggested questions and answers provided by the latter. Much, if not all, of the presentation is also actually scripted.

### 3.2.2 Drafting pre-deal research

Research analysts are then, most of the time, given about two or up to three weeks to write their draft research reports, often with the opportunity to catch up again with management over another meeting or a conference call, so that any outstanding issues can be clarified. ECM teams can also relay further questions arising after the meeting to management, which can be addressed in writing or by way of another meeting or call. Sometimes, not ideally, the timetable for the offering is such that interim results may be published after the presentation to research analysts has taken place. In such a case, a follow-on call with management is generally arranged so that details of such financials can be included in the research reports in time for publication, and any related matters discussed. These interim accounts will then obviously also be included in the offering circular. Draft research reports are then sent to legal advisers and compliance departments for factual checking

and also to make certain that the required disclaimers have been included so as to ensure compliance with the research guidelines. Then the green light is given for publication.

Research analysts are by nature creative people and, on occasion, video CDs or DVDs have also been sent to investors as part of their pre-deal research, after they have been vetted and authorized by the legal advisers, so as to stand out from the research reports published by other banks. This in turn helps salespeople to secure orders from investors during the marketing phase of the transaction, as they will seek to reward those houses that have stood out above others as part of the process.

### 3.2.3 The blackout period

Once pre-deal research has been published, a blackout or cooling off period is in place, generally for a period of 40 days after the date of listing. No pre-deal research by any syndicate member can be published after the start of the blackout period, and no further research on the company can be issued by them until the end of the blackout period. This, obviously, does not apply to banks not involved in the IPO, but it is unlikely that these would have access to management, at least prior to listing, to prepare any reports they may choose to draft, because the Chairman, CEO, CFO, and their teams will be increasingly busy as the IPO nears completion, and also on the road for the roadshow.

## 3.3 Briefing the syndicate

At some point following the presentation to research analysts, or sometimes before it takes place, a presentation is generally held by the bookrunner banks for the benefit of all the banks in the syndicate appointed for the IPO. In the past, these could be large gatherings, but, more often than not nowadays no physical presentation actually takes place. Several dozen slides are sent by email to the ECM or equity syndicate desks of the junior banks involved, which are then free to call the lead banks if there are any issues that need clarification. This also may take the form of a long email rather than of a slide presentation.

### 3.3.1 The rules of engagement

This effectively serves to brief the more junior banks in the syndicate (below bookrunner level) on the rules of engagement for the offering, since these houses will not have been involved in discussions about the transaction—at least prior to the invitation to the research analysts presentation. These generally include:

# 4

## After the IPO

### 4.1 Price stabilization

In every IPO and primary equity offering there is the possibility of immediate instability in the aftermarket, when the stock is traded between short-term buyers and sellers. This may, on occasion, affect the share price, which may temporarily fall below the offer price (when there are more sellers than buyers at a given point in time). It is therefore common for the issuer to appoint, generally from within the global coordinators and bookrunners, a stabilizing agent (also sometimes called a stabilizing manager) to go into the market and buy (or offer to buy) the securities to stabilize or maintain their price during the initial period after listing.

#### 4.1.1 The stabilizing agent and safe-harbour exemptions

There can only be one stabilizing agent in an IPO, and its name is normally disclosed in the offering circular, usually at least on the front cover of the document and/or in the underwriting (or plan of distribution) section. Generally, the stabilizing agent is also the bank in charge of settlement (as one needs money to be able to stabilize an equity offering). Recent market practice in Europe has been to involve two banks—one stabilizing agent and one settlement bank—both of which liaise at the end of each trading day throughout the stabilizing period. Such stabilizing activity is generally covered by detailed market rules, which offer a “safe harbour” from allegations of market manipulation. For example, the US, the UK, France, Spain, Hong Kong, Singapore, Malaysia, South Korea, and Japan all have explicit “safe-harbour” exemptions from market manipulation when stabilization is carried out. By contrast, there are no specific exemptions in some other countries, usually in emerging markets. Stabilization rules broadly cover the manner, timing, record-keeping requirements, and price limitations associated with such activities. The rules also generally call for the disclosure of possible stabilizing activity to be made

in various documents (chiefly the offering circular), and often for actual stabilization activity to be disclosed to the public from time to time, as and when it occurs.

#### 4.1.2 Over-allotment options

In most markets, stabilization can be conducted through the use of an over-allotment option. This is also called a Greenshoe, derived from the name of the first issuer for which the technique was devised in the US, Green Shoe Manufacturing (now Collective Brands, formerly known as the Stride Rite Corporation, and which includes, among other brands of footwear, Saucony and Sperry Top-Sider). Greenshoes most of the time represent approximately 15% of the base offer size. Much more would send the signal to the market that the bookrunners expect a particular volatile start of trading. Much less than 10% probably would not reassure investors that the stabilizing agent has enough shares or “ammunition” at its disposal to ensure orderly trading in the first weeks after the IPO. In some markets, such as Singapore, a maximum of 15% is actually a legal requirement.

In most markets where it is allowed, stabilization can generally be conducted through buying stock at or below the offer price, and for a maximum of up to 30 calendar days after start of trading. In Taiwan, since 2005, stabilization can only be conducted for up to five days in light of a 7% daily limit on increases or decreases in share prices in that market. In addition, price stabilization activities must be properly separated, through the use of a dedicated stabilization account, from other trading activities, for example, proprietary trading activities.

#### 4.1.3 How a Greenshoe works in practice

The way an allotment option works in practice is as follows. Upon allotment of the book of demand, an additional amount of stock is allocated, demand permitting, at the same time and at the same offer price to institutional investors, above and over the “base”, “firm”, or initial amount of stock in the offering. As noted, the amount of additional stock is typically around 15% of the base offer size. In order to be allocated without just shorting the stock, these additional shares are typically borrowed, usually at no cost, from one or more of the major existing shareholders in the company, although such “covered” sales are not always allowed for stabilization purposes in some markets. For example, in the US, there is effectively a “failed settlement” for the shares making up the Greenshoe. The borrowing is generally for a period of up to 30 days, which is also typically the length of time during which stabilization can be conducted. The borrowing agreement (where permitted) is conducted at no cost to the banks since issuers and major shareholders are at that



point locked-up following the signing of the underwriting and sale and purchase agreements. Accordingly, they are prevented from monetizing their holdings in any event, in addition to benefiting from the stabilization process, which is conducted on their behalf by the stabilizing agent.

The Greenshoe, for practical reasons, generally takes the form of existing shares (rather than of new shares to be issued), although it is also possible to structure a Greenshoe in connection with a primary offering. This, however, can have a diluting effect in terms of earnings or dividend per share, which needs to be taken into account, especially when marketing an IPO with a significant dividend yield, for example, a real estate investment trust (REIT), or a business trust.

Once allocations to investors (including the Greenshoe) have been made and trading has started, the stabilizing agent will monitor the share price in the aftermarket. If the share price trades at, or above the offer price, then no stabilization is necessary. An over-allotment option will then be exercised at the stabilizing agent's discretion, and the net effect is that a further 15% additional shares will have been sold (or, more rarely, issued) at the offer price.

If the share price dips below the offer price, then the stabilizing agent will post one or more stabilization bids in the market in order to stabilize the share price by buying shares, effectively "eating" into and reducing the additional amount of stock that has been allocated to investors every time shares are bought back in this manner. Such stabilization bids typically increase in size at staggered levels at, and below the offer price—for example, assuming an offer price of US\$1, perhaps one million shares at US\$1, two million shares at US\$0.99, and three million shares at US\$0.98. If the share price goes back up, then the over-allotment option will be exercised at any time up to the end of the 30-day period, albeit only partially. If all of the Greenshoe amount has been used up to stabilize the share price, then the over-allotment option will not be exercised at all, and all the borrowed shares that have been bought back are returned to the lending shareholder.

Generally, amounts of stock bought back from the Greenshoe cannot be re-sold, although in rare instances, local regulations allow the stabilizing agent to "refresh the shoe".

Typically Greenshoes are exercised either within a week or a few days from the start of trading or at the end of the stabilization period—more rarely in between. By way of example, as already mentioned, the Greenshoe for the US\$20.4 billion IPO of AIA in Hong Kong was exercised on the first day of trading, as the share price closed more than 17% above the offer price. In rare instances, some large IPOs are structured without a Greenshoe. This was, for example, the case with the US\$530 million IPO of conglomerate SM Investments in the Philippines in 2005.

#### 4.1.4 Penalty bids

In the US, in addition to the Greenshoe, the bookrunners may impose a penalty bid on an underwriter if shares are bought back by the stabilizing agent from an investor brought about by that underwriter during the stabilization period. This penalty bid takes the form of reduced commissions, whereby the selling concession payable on the allocation for that particular investor is reclaimed by the bookrunners. In effect, penalty bids are a way to discourage flipping of the shares by investors in the first days or weeks of trading.

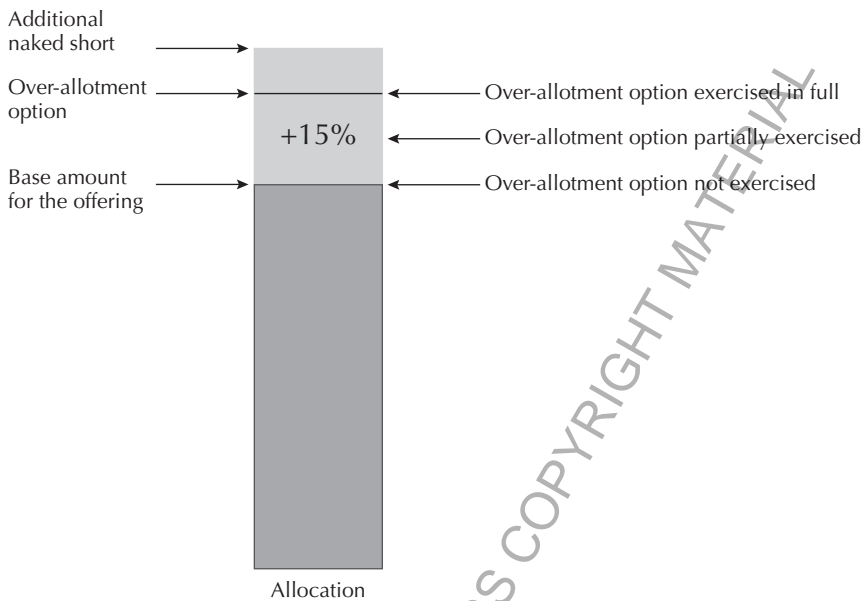
#### 4.1.5 Naked shorts

In some jurisdictions, including the US, it is also possible to allocate an additional amount on top of the Greenshoe, so as to provide further “ammunition” to stabilize the offering. This is then done through the use of a naked short (in addition to the Greenshoe shares themselves, which, as already mentioned, are also allocated in the US through the use of a naked, rather than a covered, short), whereby the shares are not borrowed and the stabilizing agent simply goes short by a further amount of shares, using its own balance sheet if it anticipates a particularly volatile aftermarket. This is rare outside the US; indeed, in many markets the use of naked shorts to stabilize IPOs or equity offerings is actually prohibited and only a limited number of stocks can legally be shorted in some jurisdictions (for example, this is the case in Hong Kong). On occasion, some investment banks have lost substantial amounts of money by shorting shares with a view to stabilizing offerings when that did not prove to be necessary, therefore resulting in a stabilization loss.

An illustration of how a Greenshoe and a naked short work is shown in Figure 11.

#### 4.1.6 Some controversial issues associated with stabilization

Rather perversely, stabilizing an offering that has started to trade down usually generates additional revenue for the lead banks, since Greenshoe shares are sold to investors at a price higher than those at which they are bought back (i.e., they are sold at the offer price and bought at prices below and up to that offer price). This results in a stabilization profit, which is then retained by, and distributed to, the banks in accordance with the terms of the agreement among managers. Accordingly, in recent years, issuers and selling shareholders have sought to share stabilization profits, if any, earned by the banks. For example, the issuer had agreed to share stabilization profits with the underwriters on a 50/50 basis in the IPOs of Samsonite in Hong Kong in 2011 and of IHH Healthcare in Malaysia and Singapore



**Figure 11**

A graphic representation of an over-allotment option and naked short

in 2012. Conversely, such a 50/50 split was between the underwriters and the selling shareholder in the IPO of Chow Tai Fook Jewellery, also in Hong Kong in 2011.<sup>90</sup> Such arrangements are rare, however, and I am personally not aware of other examples.

Since Greenshoes are not really technically underwritten by investment banks, but allocated to investors usually on the basis of a borrowing agreement, itself generally at no cost to the banks, the practice of paying management and underwriting commissions on over-allotment options has sometimes been criticized, particularly in the case of privatizations. Market practice, however, continues to dictate that full fees be paid on Greenshoes.

#### 4.1.7 Other stabilization issues

Greenshoes are generally allocated to placement tranches only, and not to retail or public offerings. In most jurisdictions, announcements must be made at the outset of the intention to stabilize an offering, as well as upon exercise (whether in full, in part, or not at all) of the Greenshoe. An interim announcement may also be required

# Appendix 1: Case studies

I have set out here seven case studies of international IPOs conducted across different major markets around the world. These include:

- the US\$1.0 billion IPO of Shanda Games, a Chinese developer and operator of online games, listed on Nasdaq;
- the US\$8.0 billion IPO of Banco Santander Brasil, the Brazilian subsidiary of the Spanish banking group Santander Group, which was spun off as a stand-alone company, on the New York Stock Exchange (NYSE);
- the US\$1.9 billion equivalent IPO of Essar Energy, an Indian energy group, on the London Stock Exchange (LSE);
- the US\$1.4 billion equivalent IPO of CFAO, a French non-food distribution company, on NYSE Euronext (now known as Euronext);
- the US\$787 million equivalent IPO of L'Occitane, a Luxembourg-incorporated cosmetics company with its origins in France, in Hong Kong;
- the US\$2.05 billion equivalent IPO of CapitaMalls Asia, a Singapore shopping mall development and management company, on the Singapore Exchange (SGX); and
- the US\$2.1 billion equivalent IPO of IHH Healthcare, a Malaysian healthcare company, on Bursa Malaysia and the SGX.

These transactions were some of the largest IPOs that came to market in their respective regions between 2009 and 2012 and are, I believe, typical of some of the international transactions that now dominate the headlines. Many of the practices highlighted earlier in this book were readily used or applied in these offerings.

By their nature, case studies provide a necessarily partial and incomplete view of a transaction. The case studies here are meant to illustrate some of the key features of these IPOs, but in no way do they purport to include exhaustive information or to offer any view, opinion, or investment advice by the author whatsoever, whether on the issuers discussed here or on the offerings undertaken by each of them.

## A Nasdaq IPO: Shanda Games

### Background

Shanda Games Limited (“Shanda Games”) is a leading online game developer, operator, and publisher in China, which was incorporated in the Cayman Islands following a re-organization. Shanda Games is a spin-off from Shanda Interactive Entertainment Limited (“Shanda Interactive”), which also listed on Nasdaq. At the time of listing, it offered a diversified game portfolio, including some of the most popular massively multi-player online role-playing games (or MMORPGs) in China, targeting a large and diverse community of users. Shanda Games had revenue in the financial year ended 31 December 2009 of about US\$704 million, with a net income of over US\$213 million.

The company was listed on Nasdaq’s Global Select Market in a US\$1 billion IPO in September 2009, with the ticker “GAME”. The CUSIP for the securities was 81941U105 and the ISIN US81941U1051. Upon listing, Shanda Games was valued at US\$3.6 billion, making its IPO the third largest on Nasdaq in 2009.

### Syndicate structure

The IPO was led by Goldman Sachs and JPMorgan, acting as joint bookrunners and joint lead managers. Goldman Sachs was the lead bookrunner for the transaction, underwriting 48% of the global offering, with JPMorgan underwriting a total of 28%. Nomura, Susquehanna Financial Group, and Oppenheimer acted as co-managers of the IPO, underwriting 15%, 6% and 3% respectively of the global offering. In addition to its co-manager role, Nomura also acted as sole bookrunner of a POWL in Japan.

### Legal and other advisers

The issuer was advised by Davis Polk & Wardwell as to US federal and New York State law and by Conyers Dill & Pearman as to Cayman Islands law. Jade & Fountain acted as PRC lawyers to the issuer. The underwriters were advised by Simpson Thacher & Bartlett as to US federal and New York State law and by Commerce & Finance Law Office as to PRC law. Shanda Games’ auditors were PricewaterhouseCoopers Zhong Tian. JPMorgan Chase was the depositary bank.

### Offer structure

The global offering was conducted by way of an SEC-registered offering of 83.5 million ADSs. Each ADS represented two Class A ordinary shares in Shanda Games. It included a US offering, targeted at US institutional and retail investors for approximately 58% of the global offering, and an offering targeted at international institutional investors for about

42%, including a POWL, targeted at institutional and retail investors in Japan that was said to be about US\$75 million in size. In addition, the offering included an over-allotment option representing 15% of the firm shares.

The offering mainly took the form of a secondary offering of existing shares in Shanda Games by Shanda Interactive (for about 84%), with the balance (16%) issued in a primary offering by Shanda Games for general corporate purposes, including capital expenditures and the funding of possible future investments, joint ventures, and acquisitions. Up to approximately 1.8% of the offering was reserved for Shanda Games' directors, officers, employees, business associates, and related persons through a directed share programme.

### **Fees and expenses**

The gross spread for the offering was 6.25%, split 20/20/60 between management and underwriting commissions and a selling concession, respectively. Accordingly, the total gross fees payable to the underwriters represented just over US\$65 million. The total expenses for the global offering were estimated in the IPO prospectus to be approximately US\$4.7 million, including SEC registration fees of about US\$67,000, FINRA filing fees of US\$75,500, a Nasdaq Global Select Market listing fee of US\$150,000, printing expenses of approximately US\$500,000, legal fees and expenses of approximately US\$2.6 million, accounting fees and expenses of approximately US\$1.2 million, roadshow costs of approximately US\$100,000, and travel and other out-of-pocket expenses of approximately US\$50,000. The underwriters had also agreed to reimburse Shanda Games for up to an estimated US\$6 million in connection with the expenses for the offering.

### **Notable features of the transaction**

Shanda Games had initially filed and planned for a smaller IPO of just over 63 million ADSs (excluding the over-allotment option). The offering was upsized from a base amount of up to US\$788 million to US\$1.04 billion after the first week of investor education, reportedly in response to investor interest. The price range, initially determined to be US\$10.50 to US\$12.50 per ADS, was, however, left unchanged. The range was said to value Shanda Games at a multiple of forecast earnings in the low teens.

The book of demand was reported to have been covered many times over and, in the end, the IPO was priced at the top end of the bookbuilding range.

At the start of trading, however, the ADS price fell 14% on the first day, hinting that the size of the transaction should perhaps not have been increased, or that the offering might perhaps have been better priced below the top end of the range.<sup>98</sup> Shanda Interactive's share price, which had rallied strongly during bookbuilding, fell 11.9% on the same day. Shanda Games' price continued to fall after the IPO and was down more than 47% after six months. Consequently, the over-allotment option could not be exercised.

Shanda Group founder Tianqiao Chen subsequently sold his stake in Shanda Games in 2014. In 2017, the Shanda Games brand was acquired by Zhejiang Century Huatong Group. In March 2019, following the buyout, Shanda Games changed its name to Shengqu Games.

Source: IPO prospectus, SEC filings, and financial and other media.

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## **Listing in Dubai on Nasdaq Dubai**

A summary of some of the principal initial listing requirements for Nasdaq Dubai (formerly known as the DIFX) is given below. These criteria are set out by the Dubai Financial Services Authority (DFSA), the exchange's regulator.

### **Financial requirements**

A trading record of not less than three financial years is required.

There are no stated financial criteria for revenue or profit.

### **Market capitalization, public float, and spread of shareholders**

The issuer must have an expected market capitalization of at least US\$10 million.

A minimum free float of at least 25% is also normally required. Generally, a minimum of 250 shareholders, each holding securities with a value of at least US\$2,000, are required, although Nasdaq Dubai can permit a lower number at its discretion.

### **Operating history and management**

The accounts must be audited. Management must have appropriate experience and business expertise for a listed company. Adequate systems must be in place to eliminate or manage material conflicts of interest. Proper systems must also be in place to enable the business to be run independently of the controlling shareholders.

### **Acceptable jurisdictions**

There are no stated restrictions on jurisdictions and foreign ownership.

### **Accounting standards**

IFRS and audited in accordance with the IAASB.

### **Suitability for listing**

The DFSA has broad powers to determine suitability for listing and the ability to waive or modify some of the listing requirements. Waivers and modifications are most typically seen where there has been a restructuring or where the issuer is less than three years old.



**Other requirements and issues**

Shares must be freely transferable, fully paid, and free from any liens or restrictions on transfer. The shares must be duly authorised and validly issued under the laws of the jurisdiction where the issuer is incorporated. One or more market makers must be appointed.

In 2014, a REIT successfully listed in Dubai, the emirate's first IPO since the financial crisis of 2009.

Source: Nasdaq Dubai website and financial media.

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## Listing in Singapore on the SGX

A summary of some of the principal initial listing requirements for the Main Board of the Singapore Exchange (SGX) is given below. Some of these requirements may be waived at the discretion of the exchange.

### Financial requirements

One of three financial criteria must be met:

- a minimum consolidated pre-tax profit of at least S\$30 million for the latest financial year and an operating track record of at least three years; or
- profitability (based on consolidated pre-tax profit) in the latest financial year, an operating track record of at least three years and a market capitalization of not less than S\$150 million based on the issue price; or
- operating revenue (whether actual or pro forma) in the latest financial year and a market capitalization of not less than S\$300 million based on the issue price.

### Market capitalization, public float, and spread of shareholders

For a market capitalization of less than S\$300 million, at least 25% of the enlarged share capital must be in the hands of at least 500 shareholders.

For a market capitalization of between S\$300 million and S\$400 million, at least 20% of the enlarged share capital must be in public hands.

For a market capitalization of between S\$400 million and S\$1 billion, at least 15% of the enlarged share capital must be in public hands.

For a market capitalization of more than S\$1 billion, at least 12% of the enlarged share capital must be in public hands.

In all cases, a minimum spread of 500 shareholders is required.

For a secondary listing, an issuer must have at least 500 shareholders world-wide. Where the SGX and the primary home exchange do not have an established framework and arrangement to facilitate the movement of shares between the jurisdictions, the issuer should have at least 500 shareholders in Singapore or 1,000 shareholders world-wide.

### Operating history and management

There is no requirement for companies to demonstrate a particular length of trading history or time in operation.

### Acceptable jurisdictions

There are no stated restrictions for listing in Singapore. A variety of companies from around the world are listed on the Main Board of the Exchange.

### Accounting standards

Singapore Financial Reporting Standards (International), IFRS, and US GAAP are accepted.

### Suitability for listing

The SGX considers whether the application satisfies the listing requirements and will decide whether a company is suitable for listing. Listing will not be permitted until all conditions set out on the eligible-to-list letter have been satisfied. In addition to shares, DRs, REITs, and business trusts can also be listed in Singapore.

### Other requirements and issues

#### *Moratorium:*

Controlling shareholders and their associates and executive directors with an interest in 5% or more of the issued share capital at the time of listing (known as Promoters) are subjected to a share lock-up after listing. Main Board issuers who satisfy the profitability tests will have the entire shareholdings of the Promoters locked-up for a period of six months after listing. Main Board issuers who satisfy the market capitalization test will have the entire shareholdings of the Promoters locked-up for a period of six months, and at least 50% of the shareholdings will be locked-up for the next six months. For investors with 5% or more of the issuer's post-invitation issued share capital and which have paid for their holdings less than 12 months prior to listing, a prescribed cash formula will be applied to determine the proportion of shareholdings to be subjected to a six-month moratorium.

#### *Directors:*

Listing in Singapore requires the appointment of at least two non-executive independent directors. In addition, a foreign issuer must have at least two independent directors resident in Singapore.

#### *Other board:*

In addition to the SGX Main Board, which is for established companies with an earnings track record, SGX Catalist is a sponsor-supervised listing platform catering for fast-growing companies seeking to expand their business and presence into Asia and beyond. SGX Catalist has different listing requirements with, in particular, no quantitative criteria and

lower requirements for shareholding spread and distribution. There is also a direct listing framework for Chinese companies.

Source: SGX website.

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# Glossary

**A share:** in mainland China, those shares listed and traded on the Shanghai or Shenzhen stock exchanges. A shares are quoted in renminbi.

**accelerated bookbuilding (ABB):** a form of follow-on equity transaction where a book of demand is gathered from investors over a short space of time. It may also be conducted pursuant to a hard underwriting.

**accounting standards:** the generally agreed accounting principles (GAAP), in conformity with which the accounts of a company are drawn up. Typically, listing requirements stipulate the accounting standard(s) that is/are accepted by the relevant regulator or stock exchange for the listing of a company. See also *generally agreed accounting principles*.

**accredited investor:** a type of investor in the US to which sales of securities may be made pursuant to an exemption from registration requirements. Accredited investors represent a wider universe of investors than the qualified institutional buyers (QIBs), which can be accessed through a Rule 144A private placement. See also *qualified institutional buyer*.

**acrylic:** see *deal toy*.

**advertising name:** the name used by an investment bank on the cover of a prospectus. The advertising name is generally shorter than the legal name.

**aftermarket:** the market once a newly listed company has started to trade.

**aggressive growth investor:** a type of institutional investment style in which investors focus on stocks that exhibit fast and increasing growth.

**agreed-upon procedures letter:** a lower standard of auditor comfort letter than an SAS 72 comfort letter. For example, an agreed-upon procedures letter may be delivered when 135 days or more have elapsed since the latest reviewed or audited accounts. See also *SAS 72 comfort letter* and *SAS 100 review*.

**agreement among managers:** an agreement between the underwriters of a particular tranche of a global offering, setting out their respective roles and responsibilities.

**allocation:** the amount of stock that a retail or institutional investor receives in an IPO.

**alpha:** a risk-adjusted measure of the active return (through skill) on an investment, equivalent to the return in excess of the compensation for the risk borne. Hedge funds in particular are said to focus on alpha.

**alternative investment fund:** a term often used to designate a hedge fund. See also *hedge fund*.

**alternative investment market (AIM):** the second board of the London Stock Exchange, with lower listing requirements than for a main board listing.

**American depositary receipt (ADR):** a security representing the economic interest in underlying shares, usually denominated in US dollars and normally traded in the US. ADRs can be sponsored or unsponsored. They may also be listed or unlisted.

**American depositary share (ADS):** an instrument that evidences American depositary receipts (ADRs). ADSs are traded by investors, whereas ADRs remain in the clearing system.

**American Institute of Certified Public Accountants (AICPA):** the national professional association for certified public accounts (CPAs) in the US. See also *certified public accountant (CPA) qualification*.

**analyst:** a junior, entry-level rank in an investment bank equivalent to business analyst or graduate trainee.

**anchor investor:** see *cornerstone investor* and *pre-IPO investment*.

**anchor market:** when a company is listed on more than one stock exchange, the exchange that is regarded as the "natural" listing location for the business and on which most of the trading volume takes place. See also *dual listing* and *multiple listings*.

**appearance:** how the names of the lead banks in a syndicate appear on the cover of a prospectus or in a tombstone advertisement. The top left position usually refers to the most senior bank in the syndicate, which often underwrites more stock than the others, or is paid a higher amount of fees (or both).

**application form:** a type of form used by retail investors to apply for shares in an IPO. For example, in Hong Kong, there are white applications forms for applicants who want shares to be issued in their own name through the delivery of physical shares; yellow application forms for applicants who want shares to be issued to them in the name of a wholly owned nominee subsidiary of Hong Kong Securities Clearing

Company Limited; and pink application forms for employee offerings. Applicants in Hong Kong may also apply for shares electronically through e-IPO application forms.

**application to listing:** communication to a stock exchange, usually by way of a prospectus and other documents, pursuant to which an issuer makes an application to list on that exchange. The application to listing is often primarily drafted by legal advisers with the help of investment banks.

**ASIC exposure period:** in Australia, a period of one to two weeks during which the market and the local regulator, the Australian Securities and Investments Commission (ASIC), can consider information in the disclosure document (or prospectus) before the issuer can accept applications for the shares on offer. The ASIC exposure period does not apply to offers of shares by companies that are already quoted. See also *Australian Securities and Investments Commission (ASIC)*.

**asset manager:** a generic term for an institutional investor. Through their portfolio managers (PMs), asset managers often manage collective investment schemes and invest across a spectrum of assets (equities or fixed income securities or commodities or real estate). When asset managers have a mandate to make investment decisions on behalf of their clients, they manage funds on a discretionary basis.

**associate:** a junior rank within an investment bank. Associates usually have between two and four years of work experience.

**associate director:** a mid-level rank within an investment bank, equivalent in some firms to the rank of vice-president. Associate directors usually have between four and six years of work experience. See also *vice-president*.

**audit committee:** a committee set up by the board of directors of a company tasked with oversight of financial reporting and disclosure. It is generally solely or mostly composed of independent, non-executive directors.

**audited accounts:** the accounts of a company, as audited and certified by auditors or reporting accountants. In some cases, the audited accounts can be qualified when the auditors have identified controversial (and disclosable) issues that may need to be remedied.

**auditors:** also called reporting accountants in the UK. A firm of accountants appointed by a company to audit and certify its accounts. For listed companies, the auditors are often one of the “big four”. Also see *big four* and *audited accounts*.

**auditors’ report:** a report written by a firm of accountants accompanying the accounts and certifying that they form a true and fair view of the affairs of the company. See also *auditor* and *audited accounts*.

**Australian Securities and Investments Commission (ASIC):** the Australian regulator for the securities industry.

**authorized representative:** a person (or a group of persons) authorized to handle communications with a stock exchange on behalf of a listed company.

**autocontrôle:** shares in a company owned and controlled by that company or its subsidiaries, generally pursuant to a share buy-back programme. In most markets, *autocontrôle* (also called treasury stock) is limited to 10% of outstanding shares and such shares cannot be voted in a general meeting of the company. See also *share buy-back programme* and *Treasury stock*.

**automated teller machines (ATMs):** a popular method of application for retail investors for IPOs and other equity capital markets transactions with a public offering in Singapore.

**Autorité des Marchés Financiers (AMF):** an independent public body in France, established to safeguard investments in financial instruments and other savings and investment vehicles, and to ensure that investors receive material information and maintain orderly financial markets. The AMF, which was established in 2003, was formed from the merger of the Commission des Opérations de Bourse (COB), the Conseil des Marchés financiers (CMF), and the Conseil de Discipline de la Gestion Financière (CDGF).

**average daily trading volume (ADTV):** the average trading volume per day in the shares of a company, as measured over a period of time (typically 20, 30, or 60 days).

**B shares:** in mainland China, those shares listed on the Shanghai and Shenzhen stock exchanges but traded in foreign currencies. The B shares listed and traded in Shanghai are quoted in US dollars, while the B shares listed and traded in Shenzhen are quoted in Hong Kong dollars. B shares are now rarely issued.

**back office:** the operations department of an investment bank, in charge of the settlement of securities and of corporate actions.

**backdoor listing:** a mechanism through which a company obtains a listing by acquiring a listed shell company. Companies that obtain a listing through this method already have the required minimum spread of shareholders.

**balloting:** a mechanism through which shares are allocated to retail investors by a share registrar after the closing of the public offer in an IPO.

**beauty parade:** a formal process through which investment banks or other advisers are invited to pitch to act in a senior role in an IPO. See also *oral presentation* and *request for proposal (RFP)*.



**best efforts underwriting:** see *soft underwriting*.

**big four:** the four largest global firms of accountants: Deloitte, EY (formerly known as Ernst & Young), KPMG, and PwC.

**bill and deliver:** a mechanism through which shares are paid and delivered to investors by a senior underwriter on behalf of others. A senior bank in a syndicate (typically a bookrunner) will bill and deliver on behalf of more junior banks, assuming the latter have generated allocable investor demand.

**bill voucher:** a retail incentive typically used in the privatizations of utility (electricity, gas, or water) companies whereby retail investors receive a voucher to offset against their utility bills for owning shares in the company over a period of time. See also *retail incentives*.

**blackout period:** the period of time during which the members of a syndicate of underwriters can no longer publish equity research on an issuer, following the publication of pre-deal research. A blackout period typically lasts for 40 days after listing or the start of trading. The term “quiet period” is also sometimes used.

**block trade:** the rapid sale of a block of, usually, existing shares in a company. Block trades are often conducted at a fixed price over a few hours and may also be hard underwritten. See also *hard underwriting*.

**blood letter:** a letter issued by an investment bank confirming certain information included in an offering circular and for which it takes responsibility. Such information is typically very limited in scope and usually relates to the investment bank itself, such as how its name appears, or whether it may be conducting stabilization.

**Blue Sky laws:** State laws in the US, as opposed to federal securities laws.

**BM&FBOVESPA:** a stock exchange based in São Paulo in Brazil created by the merger in 2008 of the São Paulo Stock Exchange (BOVESPA) and the Brazilian Mercantile and Futures Exchange (BM&F). The BM&FBOVESPA is the fourth largest stock exchange by market capitalization in the Americas after the New York Stock Exchange and Nasdaq in the US and the Toronto Stock Exchange in Canada.<sup>104</sup>

**board committees:** committees set up by the board of directors of a company and usually mainly or solely composed of independent, non-executive directors. These normally take the form of an audit committee, which is usually compulsory, a remuneration committee, and a nomination committee.

**board lot:** the minimum number of shares in which a company is traded. For example, a company may be traded in lots of 1,000 shares. Trading shares in odd lots rather than multiples of the board lot usually attracts additional costs.

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