

## Insights Into Initial Public Offerings

An initial public offering (IPO) is the initial sale of the common shares of a company or corporation to public investors. A corporation issues an IPO to raise capital. IPOs come with a host of compliance regulations and other legal requirements. The term IPO refers to only the first public issuance of a company's shares. Any further public issuance of shares is a Secondary Market Offering. The company offering its shares, known as the issuer, enters into a contract with the underwriters to sell its shares to the general public. The underwriters approach investors with offers to sell these shares. The IPO is a risky investment. As an individual investor, in the absence of historical data, it is difficult to predict the market's response. Since most IPOs are of companies, which are going through a period of transitory growth, the future value of the stock tends to be uncertain.

### Features of IPO

Like other financial assets being traded in markets, stocks also follow the principle of supply and demand. Many analysts obtain expertise in evaluating stocks. If the analysts consider the equity to be undervalued, they recommend buying the stock. They recommend selling the stock of a particular company, once the share price passes the fair value or target price. IPOs are unique stocks since they are newly introduced/issued stocks. The purchase of oversubscribed IPOs are the best bet as they usually appreciate considerably, since there is a great demand for these stocks.

### Evaluation of the IPO

Generally analysts consider the following points while evaluating the new issue.

- 1 The reason behind the company's decision to go public.
- 2 The company's plan for investing the money raised through IPO.
- 3 The growth prospects of the particular sector or industry in which the company associated.
- 4 The growth prospects of the company in its own domain.
- 5 The vision of the company.
- 6 The career graphs of the people in the top management of the company.

The above information could be retrieved from the Form S-1 that is filed by the company before filing for the IPO.

### Pricing of the IPO

Pricing is the most important feature of stocks, and it holds all the more importance in the case of the IPO. There is a marked difference between the prices of IPOs and their own pricing while dealing in the secondary market. This disparity in pricing can be credited to whether there is general acceptance among the investors. The IPOs, which appeal more to the investors, start with an initially high price. The increasing demand for these stocks can only be satisfied after the introduction of trading. This results in high prices for the shares in the morning hours of trading and falls or steadies as the initial rush for trading subsides.

### Unforeseen Circumstances

The IPOs generally operate as discussed above, but at times there are some conditions for the issuer such as having a minimum balance in the account of the prospective buyer, a subscription to their premium services, or restrictions on the flipping of the shares.

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