Initial Public Offering

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In News

An initial public offering (IPO) refers to the **process of offering shares of a private corporation to the public in a new stock issuance.** Public share issuance allows a company to raise capital from public investors. The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes share premiums for current private investors.

Features of Initial Public Offering

- Companies **often hire investment banks** to market, gauge demand, set the IPO price and date, and more.
- An IPO can **also be seen as an exit strategy for the company's founders and early investors**, realizing the full profit from their private investment.
- Prior to an IPO, a company is considered private. **As a private company, the business has grown with a relatively small number of shareholders** including early investors like the founders, family, and friends along with professional investors such as venture capitalists or angel investors.
- IPO gives the company a **greater ability to grow and expand.** The increased transparency and **share listing credibility** can also be a factor in helping it obtain better terms when seeking borrowed funds as well.
- The previously owned private share ownership converts to public ownership, and the **existing private shareholders' shares become worth the public trading price.**
- After IPO, the company's shares are traded in an open market. Those **shares can be further sold by investors through secondary market trading.**

- **Book Building is basically a process used in an IPO for efficient price discovery.** It is a mechanism where, during the period for which the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date.
- Meanwhile, the **public market opens up a huge opportunity for millions of investors to buy shares in the company and contribute capital** to a company's shareholders' equity.