

UDC 336.767.2

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IPO PROCESS: GLOBAL TENDENCIES AND UKRAINIAN EXPERIENCE, RISKS AND THEIR MITIGATION

Today Ukrainian economy is in desperate need of investment, but the state is not able to provide it, so the hopes are rested on foreign investments. One way to attract foreign investment is the Initial Public Offering (IPO) – proposal of shares, which the company makes to all interested investors. Still this process is aligned with certain difficulties and disadvantages. In the article the analysis of global and Ukrainian IPO-experience is carried out. Possible ways of IPO conduction for Ukrainian companies are studied. Main IPO risks and measures of their mitigation are identified. Deployment of the 6 stages of IPO process is offered.

Keywords: *Initial Public Offer, investment, risk, threat, exchange, share, financial and economic security, risk mitigation.*

Problem statement

On their way to growth and prosperity many companies come to a stage when further business expansion at their own expense and on account of the loans becomes too expensive, impossible or simply deficient. This often poses the question of raising capital through the stock market, including an initial public offering.

Initial public offering (IPO) is one of the main and most reliable tools of financial investments attraction, which allows company's development and current activities funding with relatively cheap resources of the stock market.

Going public offers great opportunities for business development. Through public offering of the company can attract additional capital, at the same time strengthening its structure and reputation, as well as integrating into the global capital market. Owners are also interested in diversification that will increase the market value and liquidity of investments, while reducing risks. However, IPO involves accepting some obligations and liabilities to the community and individual shareholders relating financial reporting, corporate structure, reporting history and ownership structure.

At present global IPO market finds itself on the upswing. IPO issuance in 2014 reached the highest levels since 2010. Annual IPO proceeds increased 48,7% to \$204,8 billion. Global IPO returns were also impressive in 2014. The average IPO generated a 15% return from their offer price. With issuance accelerating and returns strengthening, analytics expect to see global IPO markets continue to gain momentum and grow in 2015 [7].

Despite the previous attempts of Ukrainian

companies to enter the stock market, the ability to raise funds through public offering both on domestic and foreign stock exchanges remains unrealized. This is due to the lack of experience of Ukrainian companies on the stock markets and the lack of understanding of the content of the IPO-process, its advantages and components. The management of domestic enterprises is wary of requirements of developed stock markets, of conducting transparent business and of the risks that accompany the access to the international capital market, ignoring the significant opportunities that are open to the public companies.

Under European integration process IPO is particularly attractive mechanism of fund-raising for Ukrainian business, and that makes the research of its main points, risks and measures that ensure financial and economic security of the company in the course of the public offering very important.

Analysis of recent research and publications

In general IPO matters and its functionality were investigated by many experts, including J. Bardeena, K. Grynyuk, V. Kuks, T. Kutovy, J. Ritter, M. Rubaha, T. Yasinska and others. Still available sources are insufficient to full disclose IPO-mechanism of Ukrainian companies and associated risks and their impact on the financial and economic security.

At our opinion, domestic scientists give not enough attention to drawbacks of the IPO-process, focusing mainly on advantages and benefits of going public. While besides great opportunities IPO candidates face serious threats and downsides that can have a significant impact on company's operations.

The purpose of this article is the study of the theoretical and methodological principals of IPO in Ukraine and abroad, analysis of the main obstacles,

risks and threats to the financial and economic security of domestic companies associated with the conduction of initial public offering, development of recommendations to mitigate them.

Presentation of the main material

Raising funds through an initial public offering - is one of the most important and critical decisions that can be made by the company during its existence. By offering shares on the exchange, management will obtain necessary capital for further investment in the development of the company, for shareholders IPO will be an additional source of liquidity of their assets, investors will significantly increase their market position.

Cambridge Business English Dictionary defines initial public offer as the first sale of company's share to the public [1]. According to the Merriam-Webster Dictionary IPO means the first time a company's stock is offered for sale to the public [3]. The most complete definition provides Oxford Business English Dictionary, which determines initial public offer as an act of offering the stock of a company on a public stock exchange for the first time [6].

In Ukraine, the concept of IPO is interpreted more broadly. In national legislation, in particular art. 28 of the Law of Ukraine "On Securities and Stock Market", initial public offering – is a disposal of securities based on publication in the media or announcement in any other way the notice of sale of securities, addressed to not defined in advance number of people [5].

The National Commission on Securities and Stock Market defines public offering as placement of shares of public joint stock company among the investors, in which the shares offer is addressed to more than 100 individuals and/or entities other than shareholders, while existing shareholders of the issuer have no preemptive rights on purchasing these shares [4]. This way, the IPO include the first and all subsequent placement of equity securities of the certain issuer that are addressed to the general public and are made in the course of issuance of securities by public subscription or through their public trading on stock exchanges and other securities marker operators.

Any company that executes IPO is pursuing at least three goals: attraction of investments, determining its market capitalization and increasing the rating of the company by obtaining public status. Also public offering may be a practical way to reduce debt level, given the difficulties in obtaining a bank loan.

Compared to alternative sources of capital raising (retained earnings, budget and government loans, bank loans, bond issue) IPO has several advantages: does not dependent on future economic conditions, operational revenues, independent of the particular credit and financial institutions, the lack of liabilities, an unlimited

period of mobilization.

But the most important is the market development. IPO promotes economic growth in Ukraine altogether. Domestic business requires long-term placement of funds needed for economic development and improvement of the investment image of the country. IPO market, in this respect, is one of the new and promising ways of attracting foreign capital. Massive IPO conduction helps active movement of capital in the economy, enables structural transformation, and attracts significant investments.

Nevertheless, besides advantages IPO process involves a number of disadvantages and drawbacks that can be arranged into such groups:

- financial – include considerable expenses (listing committees, legal and professional costs, expenditures for compliance with standards); underpricing of company's stock; risks connected with volatility of the capital market;

- organizational – consists of long duration of the process of fund-raising; risk of class action lawsuits from investors; disclosure of sensitive information; probability of nonconformity with rules and standards applicable to a public company;

- structural – includes constant pressure on the behalf of investors, analysts and market; the necessity of adopting strict market standards; the loss of control because of increasing number of co-owners; strategic risks (associated with new investment projects possible due to IPO); removal of generous compensation packages for managers;

- external – concerned with certain loss of liberty and privacy.

In spite of these shortcomings, IPO is one of the most practical mechanisms of capital mobilization and allocation in the advanced economies.

Before IPO the companies attracted capital from a small number of investors that could not sell their shares in illiquid markets. With the development of a liquid market companies were able to get funds through a public offering on favorable terms from a wide range of diversified investors.

For the first time joint stock company offered its shares on the stock exchange for private investors, banks and investment trusts in the early XVII century in England and Holland. The first company that made an IPO is considered Dutch East India Company, which has attracted so about 6.5 million guilders in the early 1600s. In the United States, the first IPO was the public offering of the Bank of North America in 1783.

But the real heyday of classical IPO was the middle of the nineteenth century, when originated speculative promotion - frantically hurried mass foundation of manufacturing, construction and trading corporations, banks, credit and insurance companies, accompanied by credit expansion and the general issue

of securities - stocks and bonds, and also stock market speculation.

In the early 70s of the nineteenth century speculative promotion has become wide-scale in nature. It developed in many countries, including the United States and tsarist Russia. In the 1871-1873 bienniums' global issue of securities reached 40 billion francs.

The modern history of the IPO goes back to the 70s of the twentieth century, after the liberalization of the global financial market. Since then, the IPO market has experienced ups and downs. The globalization of capital markets, which began with the 80s of last century, led to an increase in the number of international IPOs, making all capital markets of different countries dependent on each other (Fig. 1). The most significant was its growth during the so-called "bull" period 1990-2000 (bull market - a market with a trend to higher prices).

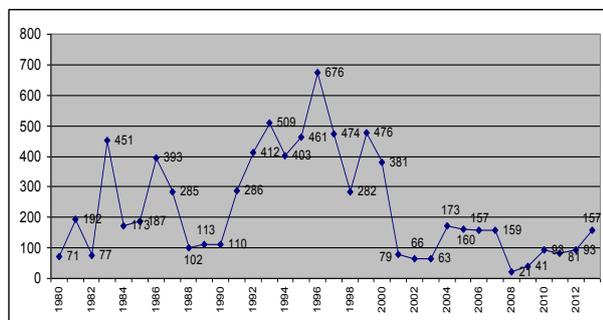


Fig. 1. The dynamics of number IPO deals in the USA in 1980-2013 years [8]

In the record 1999, in the wake of the rapid development of IT companies about 2 000 companies entered the global IPO market and raised approximately 200 billion dollars.

Modern IPO-industry in different countries developed differently. In Anglo-Saxondom – United States, Great Britain, Canada et al., focused on the stock market as a source of investment, the bulk of IPOs is carried out. These markets are the destination also for issuers from other countries that are unable to attract the necessary capital through their national markets. In addition, in the Anglo-Saxon countries market-entry of small and medium-sized companies is considered normal. In total, in these countries about 15-20% of total investments in fixed assets are financed by share issues.

IPO activity is a changeable phenomenon, which is highly dependent on market conditions and therefore is described as cyclical. Thus, in 2001-2003 and 2008-2011 significant reduction in the number and volume of proceeds raised took place on IPO-markets. In 2003, only \$50 billion were attracted through IPO. However, in 2005, more than 1,500 companies entered the market and were able to get a total \$168 billion of investments.

In 2007 compared to 2005 the number of transactions increased to 555, which ensured the mobilization of almost 265 billion dollars. These indicators give 2007 a record. The world financial crisis led to a decline in the IPO-markets in 2008-2009, with the deterioration of the dynamics on the secondary markets. In the first half of 2009, the market was very inactive and gradually began to recover only in the second half of the year, and in 2010 it significantly increased and approached the pre-crisis maximum.

The development IPO market in 2011-2012 was defined by the influence of external factors such as political, regulatory and macroeconomic conditions, and internal, such as mega IPO of Facebook. Overall, the number of IPOs and capital raised had a downward market dynamics (Fig. 2).

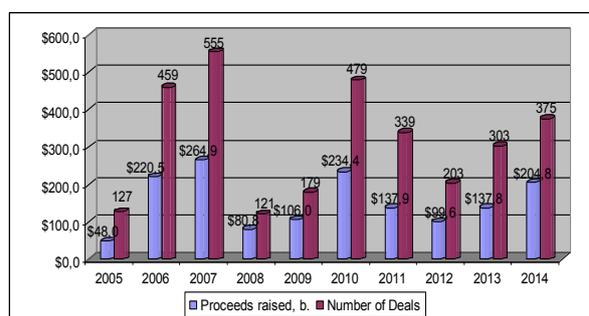


Fig. 2. Global IPO activity in 2005-2014 years [7]

Today after the recession of 2012 the global initial public offering activity increases. Thanks to increased income from equity, the capital raised in 2014 increased by 48.7% to \$204,5 billion.

The experts of EY believe that the factors that influenced the growth of IPO activity were the record low inflation and interest rates in the world, while the capital markets continued to grow, and the combination of a significant increase in corporate profits and lack of alternative areas of investment.

Bolstered by the largest Global IPO of Alibaba Group Holdings, North America leads in market share, increasing its IPO proceeds by almost 53% over a year. This way it outpaced the Asia Pacific region, which results were influenced by the lack of IPOs in the traditionally hyperactive China A-Share market.

European IPOs also rebounded this year after the region has spent much of the past two years disadvantaged by the lingering effects of the 2011 sovereign debt crisis. IPO proceeds raised here increased 32% from the last year. Main market of the London Stock Exchange was ranked third after NYSE and Hong Kong Exchange by the volume of raised funds – \$16,6 billion.

Financial IPOs accounted for nearly 31% of total IPO proceeds in 2014. Second and third places were taken by technology and consumer sectors.

Many progressive Ukrainian companies consider initial public offering as a mean to attract long-term investment for business and as an alternative to debt lending.

During the period from 2005 to August 2013, 26 domestic companies offered their shares on foreign exchanges, raising about \$2 500 million of additional funding. The most active were agriculture, real estate, metals and mining industries [11].

The first domestic company that made an IPO in mid-February 2005, at the Western market was Ukrproduct Group, which is engaged in release, and distribution of dairy products. The company sold 27.2% of the shares at a price of \$ 1.6. per share, and raised 6 million pounds.

In April of the same year oil and gas company Cardinal Resources has sold its shares at \$ 10.6 million pounds, and in December the investment company "XXI Century" by posting via subsidiary XXI Century Investments on AIM 37.5% stake, has attracted \$139 million.

In late May 2007, construction and investment company TMM (subsidiary Cypriot company TMM Real Estate Development) placed on the Open Market of Frankfurt Stock Exchange 13.11% of the shares and raised \$104,9 million. As a result the total capitalization of the company reached \$800 million. All the offering was bought by the large foreign investment funds.

Almost simultaneously, in June 1, on the AIM for the \$208 million were sold 100% of shares of investment fund Dragon-Ukrainian Properties & Development PLC, which also specializes in investments in real estate. Just during the few days of share prices rose more than 34%, and the market capitalization reached \$280 million. In 2007, the developers of "KDD Group" also came into the foreign market.

However, already in 2008 IPO-boom was changed to the collapse of quotations. The capitalization of companies that held public offering, decreased significantly. For example, as at 31 December 2008, the value of portfolio of XXI Century, according to the company "CB Richard Ellis", was \$474 million compared with \$2.18 billion as of June 30 of the same year. Such a significant reduction in portfolio value in the short term has not gone unnoticed. Investors of AIM reacted harshly: at present the value of these securities is 20 times lower (-95.3%) than in December 2005 during the initial public offering.

The most successful IPOs of Ukrainian companies are considered offerings of "Astarte" (319% profit in 5 years), JSC "Kernel Group" (162% profit in 3 years), Ferrexpoplc (154% profit by 3.5 years). Shares of other companies showed a collapse that was associated with worsening attitude of investors in certain sectors of the economy or poor assessment of the companies by

investors.

Ukrainian companies that showed the largest drop were "Vesta" – 70%, "Agroton" – 56% "Garden Group" – 52%, «Coal Energy» – 24%, "Kernel" – 10%. This significant decline was due to the deterioration of their financial performance.

At the beginning of 2012 in international markets was prevailing unfavorable situation for issuers and investors. During this time only KDM Shipping decided to execute the IPO, which can be explained by a general decline in stock price of Ukrainian companies and outflow of foreign investment from the country. The company became famous for the worst result in the history of Ukrainian IPOs. Instead of the expected \$36 million it raised only \$7.4 [9].

A recent IPO of Ukrainian company was in 2013, when the developer Arricano attracted \$24 million due to offering its shares on the AIM.

It is important to outline possible ways of conducting IPO by Ukrainian companies:

- 1) direct public offering on a foreign exchange;
- 2) offering of GDRs;
- 3) initial public offering of shares or GDRs by foreign holding company.

Direct offering of securities of issuers on a foreign stock market is realized through the establishment of correspondent relations between the central depositories of the two countries or between central depository of the country of the issuer and the international depository center (Euroclear, Cedel). It is well-known standard European practice of foreign securities circulation on domestic stock markets. Due to the requirements of Ukrainian legislation, the entry of Ukrainian issuers securities into the foreign stock markets can be implemented through the creation of contract relationship between the National Depository of Ukraine and the foreign depository (Central Depository). Depository services and payments for such securities are made through international depository and clearing systems.

For Ukrainian issuer this is already a quite complicated procedure, in addition, there are a number of legal constraints: nomination of shares only in the national currency, placing no more than 25% of the shares, the need to obtain NBU licenses and SSMNC permits and other technical requirements established by the legislation of Ukraine.

Global Depository Receipts (GDRs) are not the securities of Ukrainian issuers but are issued by the depository bank (for example, Bank of New York, Deutsche Bank or Citi), which issues such GDRs based on shares of the issuer deposited within the custodian or depository bank itself.

As GDRs are not Ukrainian securities and are not traded on a stock market of Ukraine, their issue and circulation is not governed by the laws of Ukraine. Both

Ukrainian securities and shares of foreign issuers can be deposited.

If the shares of the issuer are deposited, they will be entrusted to the custody of authorized Ukrainian custodian (usually ING Bank Ukraine) to store in a securities account of the depositary bank, opened in this a Ukrainian custodian. In its turn, the depositary bank will issue the appropriate amount of GDRs that can be sold to foreign investors and listed on foreign stock exchanges.

As for the indirect public offering schemes of Ukrainian company, it can be mediated by the corporate structure, specially created for this purpose, called "special purpose vehicle" (SPV), or bank. A characteristic feature of indirect schemes is that shareholders have limited recourse regarding the issuer *de jure* (SPV or bank).

The real responsibility for the yield on shares rests with the borrower, who is the issuer *de facto*. The implementation of the following structure requires that shareholders of the company (group of companies) eager to execute IPO, establish a foreign company that would become the owner of 100% of the company (group of companies). In this way shareholders will own company (group of companies) via the project which will directly place their shares on the foreign exchange.

This method is the most common in the case of placement of private property issuers, although it requires investment of time required to build a new structure. The only requirement under the law of Ukraine is obtaining by resident individual who will be the founder of the SPV, individual license from the NBU for single currency transactions.

The vast majority of Ukrainian issuers held not direct offering through their parent companies registered abroad. That means that the jurisdiction of issuer was never mentioned as Ukraine. To do this before the IPO they structured their business so that business in Ukraine found itself among the subsidiaries controlled by the holding company, which executed public offering. Such corporate restructuring give certain advantages: improves the structure of business management; provides optimization of taxation of profit as dividends, interest, royalties; creates opportunities for business protection using international legal instruments; provides a more advanced form of settlement between several owners.

Taking into account the favorable legal and fiscal framework, the registration of the parent company that directly puts shares in a foreign stock exchange often occurs in Cyprus, Luxembourg, the UK and the Netherlands.

Native realities show that in Ukraine there are not so many companies that are theoretically capable of executing IPO, some of them do not meet the requirements of going public, the other - either do not

understand the benefits of this process, or do not wish to disclose their assets and turn into a public company, and those that formally (turnover, ability to raise funds to bring business to the exchange standards) have an opportunity to enter the IPO, do not hurry to do so.

Seeking an IPO company should right away get familiar with the complex rules that govern the destined exchange to see if it is able to meet its requirements. Tighter regulation means high standards of accountability and transparency and they impact investor's confidence. IPO candidates for whom such regulation would be too heavy a burden can choose more loyal exchange regulations or internal exchanges, which are better understood.

After choosing a stock exchange that will be the most suitable for business objectives and requirements of which will meet the organization itself, company should assess the readiness for listing. From the governance system to accounting standards and management models all becomes a subject of a detailed assessment. The purpose of the IPO diagnosis is to identify discrepancies between market expectations and the current situation in the company.

First of all it concerns financial standards. Each exchange requires reporting of financial results in accordance with certain standards (usually International Financial Reporting Standards (IFRS), sometimes local systems generally accepted accounting principles (GAAP). The implementation of these standards is a long and troublesome process, so it should not be postponed at the last minute. Moreover, usually the market wants audited figures for at least the last three years.

For many Ukrainian companies audit is very significant obstacle on the way to IPO, because they either can not conduct an audit, or if carried out, the auditor's report contained too many comments that could adversely affect the decision of a potential investor.

One of the most important requirements is transparency of management schemes and structure of the property. Listing terms of leading exchanges contain requirements of corporate governance, where the basic elements are the composition of Board of Directors and management structure. Requirements of the structure largely depend on the chosen market. In some countries (e.g. Germany) it is expected that a public company must include the Supervisory Board and the executive body, others (e.g. UK) require the combined use of the Council.

The organizational structure of the company should meet Western standards and be clear and transparent to potential investors. This means a clear distribution of management powers on all levels and accurate connections between units. Equally transparent must be the ownership structure and the corporate

rights. In addition, the holding company should be able to provide consolidated reports.

Another important step is the risk analysis. Each company private or public encounters risks, however, public companies who take on the responsibility of protection shareholder's value, are subject to far greater danger. In most markets, public companies must evaluate the main risks of and to develop appropriate processes to mitigate them where possible. Many large companies add the following information in their annual reports in order to add confidence to investors and demonstrate their capabilities.

After completion of expanded IPO diagnostics when the management is well aware what they should change to meet the standards of the selected stock exchange, companies need to estimate future costs and threats.

IPO is not a cheap way of capital raising, overhead costs can amount to 10-15% of the amount of capital raised [2]. The cost of preparing for the placement of shares depends on many factors: the amount of work on bringing the company into compliance with the stock exchanges demands, the cost of services and members of the exchange, presentation costs and other. Experts say that in order to earn \$100 million the company will need to spend \$2-3 million and costs for the offering of shares may be even more [11].

However, the higher sum of raised capital, the

lower share of these costs, especially as the costs of IPO are one-off. The company, that is properly prepared and effectively works, invested at the pre-IPO stage funds will pay off.

Besides financial expenditures public company meets a number of new commitments and threats not known before. The owners and management of the company should carefully consider new obligations, increasing responsibilities and potential risks to make the correct, reasonable and the most appropriate for enterprise solutions.

IPO risks are closely related to the legal environment of the listing, and under today's conditions of increased regulatory control and improving corporate governance focuses on compliance with financial regulations, as well as independence, transparency and complex rigor financial and corporate due diligence.

Failure to properly handle these risks can have serious consequences, including financial loss, loss of competitive market position, unexpected and significant changes in the business activities, and the loss of the development rate. At least it will distract attention and efforts of management that would better serve the main objectives of the company and in the worst case – it can lead to the liquidation business.

With this in mind we have systematized the IPO risks, their influence on financial and economic security of the issuer and measures of mitigation (Table 1).

Table 1. The measures of risk mitigation of the company during IPO

IPO risks	Impact on the emitter-company	Ways of risk minimization
Risk of cancellation or postponement of IPO	additional costs, loss of reputation, deteriorating relationships with suppliers, customers, employees, increasing the likelihood of delisting	- a comprehensive analysis of market situation; - deep study of a particular sector and competitor activity on the chosen exchange; - preliminary communication with potential investors.
Risk of underpricing	the lesser amount of raised resources, capital shortfall	- communication with investors at the stage of road-show; - detailed disclosure of the company's activity; - creation by the Board of directors the Committee for setting the offering price.
Risk of fraud and manipulations on behalf of the top-management	loss of confidence in the investment community, loss of reputation, risk of lawsuits	- establishment of an adequate corporate culture; - formation of sound incentive system; - monitoring and control over the top-management of the company by owners and participants of the security market.
The litigation risk	legal costs and expenses, compensations for dissatisfied investors, loss of reputation	- regular and complete disclosure; - lower offering price; - setting realistic achievable goals; - constant communication with new shareholders; - development of a long-term strategy.
The risk of disclosure	loss of confidential information, loss of competitive position	- development of adequate information strategy; - lower offering price.
The risk of inadequate performance of participants, accompanying IPO	capital shortfall unsatisfactory marketing	- prior review of potential contractors; - control and monitoring of their activities.
The risk of control loss	the likelihood of a hostile takeover, greenmail	- adoption of takeover defense; - development of a long-term strategy.

One of the most common risks associated with the IPO is a risk of underpricing the shares. IPO is considered to be undervalued if the market price of the shares after the first day of trading exceeded determined by the company offering price.

The price of Initial public offering is set after consultations and discussions with underwriter, considering the market, analysis of possible evaluations and meetings with potential investors. This price is not a reflection of market prices because the market price until the IPO has not yet been established.

Often the offering price and the market price may be different. Frequently the market price of the shares will rise and fall depending on many factors, including macroeconomic conditions, government policy, interest rates, general market activity, investor sentiment, the situation in a particular area and the events and conditions affecting the company.

If a company sets too high a price, there is a high probability that potential investors will be not interested in the company and the IPO will fail. If the price is too low, the company risks not attracting the necessary capital.

The less liquid and less predictable shares are, the more undervalued they should be to compensate investors risk. As the issuer is better informed about the value of shares than the investor, the company usually has to assign lower price to cause investors wish to take part in its IPO.

The Joint Commission established by NYSE and NASDAQ in 2003 specifically to explore issues of abuse on exchanges and develop measures to address them, recommends boards of directors of issuing companies foundation of a committee on the price of offering. The duties of this committee should include periodic obtain of information from underwriters on the process, filling the book applications, the final decision on the price of placement and control over the distribution of shares among investors [9].

The preliminary "intelligence" of the market and the industry will help avoid such an unpleasant, though often enough phenomenon as cancellation or postponement of IPO. To reduce the impact of this potential risk companies primarily have to carry out a comprehensive analysis of the market situation, trends and forecasts, in-depth study of a particular sector and competitor activity in their chosen market.

Given the cyclical nature of popular IPO should also conduct a preliminary communication with potential investors to determine how attractive is currently the industry and the company itself. After all, there is always a risk not accommodate due to changes in the market situation or lack of interest on the side of investors.

While preparing and implementing IPO company has to involve a number of consultants, advisors,

analysts and other experts, on which largely depends the success of the offering. In this regard, there is a risk of poor quality performance of participants who support IPO process. Therefore, the choice of counterparties must be approached with caution. There must be done prior examination. Some domestic companies for that purpose claim special "Regulations on the procedure of contractors check".

Obviously, this must be experienced and competent securities market participants. It is advisable to review the history of previous offerings, which accompanied the potential underwriter, industries with which he is familiar, and credible firms underwriter plans to include in the syndicate.

Also, investors and analysts study in detail prospectus, information memorandum and strategy of the company. These are documents in which the characteristics of the issuer, its management, owners, market position, financial statements, key risks and investment proposals is given

The company must have a well developed business plan with a detailed strategy and prospects. The strategy should be long-term, for a period of 24-36 months before the IPO and 24-36 months after the IPO, and business plan should include a reasonable program understandable for investors. To attract investors, the company needs a compelling equity story of, positive dynamics of financial performance and confident competitive position in the market and an indication on what will be spent the raised funds.

The information contained in these documents must be accurate and complete and prospects - realistic. Financial statements should reflect, in all material respects, the financial position, the results of operations and cash flows and deficiencies and significant shortcomings in internal control of the company.

Investors rely on the statements made in the documents and possible distortions, errors or omissions may result in significant costs associated with the settlement of misunderstandings, and to lawsuits. If investors feel that they were misled by overly optimistic forecasts or concealed important information both during the pre-IPO stage and after executing IPO, they immediately go to court. Given that the number of investors will increase, and that they may be residents of countries with legal systems of which the company is not aware of, such risks should be avoided.

Full and fair disclosure in the above documents, as well as some under-pricing of IPO placement can reduce the possibility of complaints and claims from investors. However, both mechanisms are very valuable to the company. Under-reporting of prices means a loss of potential profit and deep disclosure may result in loss of competitive position.

The risk of disclosure is related to the fact that data from the prospectus and other documents that must be

provided to general public may land in the hands of competitors. Therefore, organizations should develop an information policy that would meet the needs of the investment community and the interests of the company. First of all company needs to accurately and thoroughly fill all possible risk factors in the performance of the issuer, not hiding negative factors. If positive information may be not fully disclose, only in general comments on new technologies, patents or products (not to lose the competitive position), negative information must be disclosed without omissions, which may reduce the offering price, but will also reduce the likelihood of the risk of lawsuits.

Also disclosure reduces information asymmetry between business owners and potential investors. It is also believed that disclosure can reduce agency costs the company because now accountable financial information, which is a measure of management performance will be under the supervision and monitoring of investors, analysts, stock exchanges and the entire market community.

When a company executes initial public offering, anyone can buy its shares. If a large number of shares is on the listing, the company becomes a potential target for takeover, which is not always friendly. To minimize the risk of loss of control of the company should use the mechanisms of takeover defense that will enhance corporate control and help prevent a hostile takeover.

International practice has developed a number of methods of protection against a hostile takeover, including the classified Board of Directors, poisoned pill, golden parachute, shares with different voting rights, specific provisions in the charter of the company and others. Their goal is to prevent a hostile takeover attempt by making them maximum complex.

Owners and top management of company that have decided to make an IPO, are under intense pressure. They must meet the high expectations of the market, analysts and potential investors. Also, their rewards and compensation will undergo some changes, and now will be closely linked to the price of the company. This may encourage managers to represent the company in a very positive light, or even start to manipulate and fraud, to meet the expectations of the company or to increase personal wealth.

This is a negative result of inadequate corporate culture that targets the company's management for a quick profit to maximize their bonuses. Thus workers, often regardless of the quality of cash flows and income are interested in operations and transactions only to increase personal performance, which guarantees them an additional fee.

The desire of top management for a quick and short-term growth of the shares market price, even by fraud, may be caused by the fact that those who hold leadership positions and make important management

decisions are also shareholders of the company or of its options.

Company executing IPO should be ready to fulfill not only the pre-IPO requirements but also after-IPO requirements.

After the initial public offering the management of public company is accountable not only to multiple investors, but possibly thousands of new stakeholders and owners. As the number of shareholders increases so does the number of commitments. Now they will include:

- compliance with market expectations;
- work with investors and analysts;
- conformity with requirements of the public company;
- increasing performance indicators;
- reporting on the use of the raised during the IPO funds.

Each business will balance these parameters differently. It is important that the company has defined the right combination at the highest level and brought their decisions throughout the business. Otherwise, it will be unable to reach its true potential and fulfill the promises made during the IPO, and as a result, will disappoint investors.

A common mistake of the companies seeking IPO is an attempt to do everything at once. Too often company is trying to simultaneously carry out the necessary acquisition, debt refinancing, cultural and business integration, changes in the ERP system, implementation of a new strategy for motivating employees, new organizational structure, new legal structure, new management philosophy and a new policy of the Board and the Supervisory Board. As a result, the company simply can not withstand such a violent pressure, and the process of the IPO at best is delayed or never completed.

The company needs to take a step-by-step approach in the creation of a public company. The components of this process should also include measures that support its financial and economic security.

With this purpose we structured the IPO process into 6 stages (Fig. 3).

Each of the stages involves a number of components that include measures aimed at ensuring financial and economic safety of the company conducting IPO. Their use enables company a better understanding of the IPO process and minimizes the probability of risks and threats associated with its deployment.

Detailed analysis of the IPO stages and its components showed that the process of public offering of shares requires constant monitoring and analysis of its impact on economic and financial security of the company. In addition, these steps increase the chances of a success in the listing.

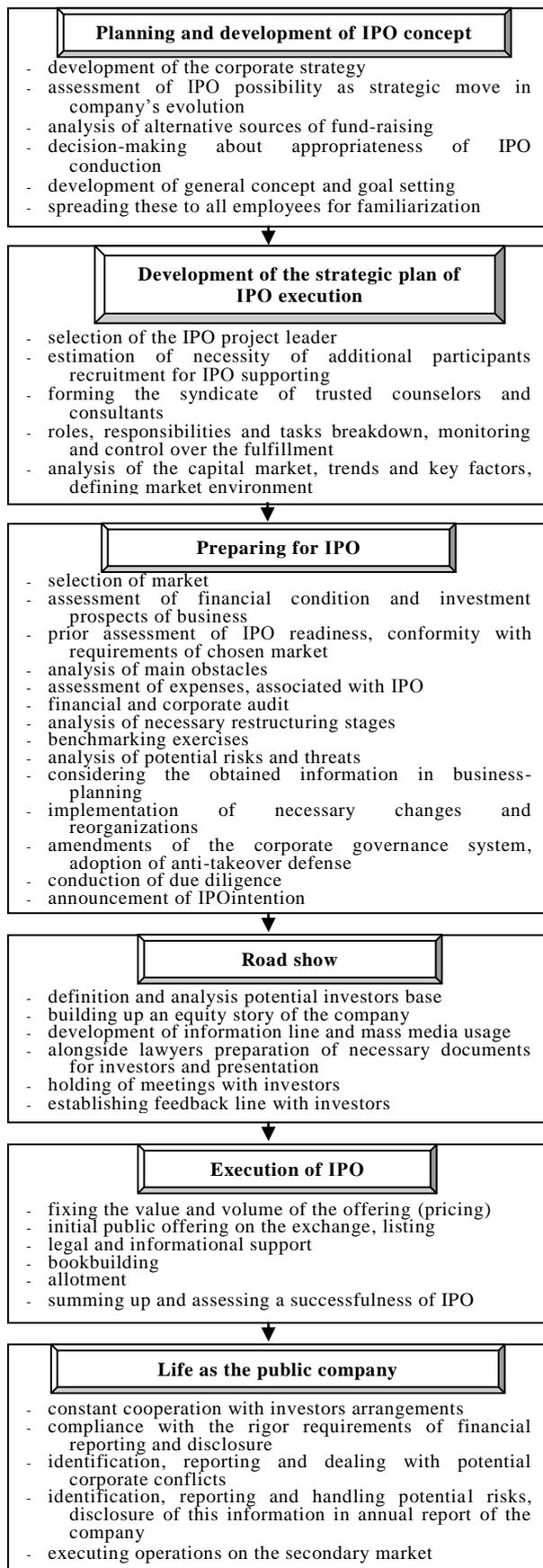


Fig. 3. The stages of IPO process

Conclusions

Execution of IPO - is a complex and long process that includes a large number of participants, which must be chosen and coordinated, and many tasks that must be simultaneously fulfilled.

Despite the effectiveness and perceptiveness of IPO as a mean of foreign capital infusion, domestic companies have not actively used its resources to finance their business. Since 2005, more than 25 local companies conducted IPO, but only few of these offerings can be assessed as successful. This experience is not conducive to the growth of the number of Ukrainian IPOs, however, taking into consideration trends of the global IPO market and European course of our country, an initial public offering can be a convenient source of additional not borrowed capital.

Given the number of risks and threats associated with the IPO, which include the risk of cancellation or postponement of IPO, the risk of underpricing, the risk of fraud and manipulation by top management, litigation risk, the risk of disclosure, risk of inadequate performance of participants accompanying IPO and the risk of control loss, candidates should take measures to ensure their financial and economic security.

Structuring the IPO process into 6 phases and determining their components enabled definition of activities aimed at providing financial and economic security and success public offering. The proposed measures contribute to leveling the risks that may arise during the IPO and ongoing analysis and control at every stage ensure financial stability and profitability of IPO.

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ПРОЦЕС ІРО: СВІТОВІ ТЕНДЕНЦІЇ ТА УКРАЇНСЬКИЙ ДОСВІД, РИЗИКИ ТА ЇХ ПОМ'ЯКШЕННЯ Н.О. Чех

У статті проведено аналіз світового та українського досвіду здійснення первинної публічної пропозиції акцій. Досліджено можливі шляхи проведення ІРО українськими компаніями. Визначено основні ризики ІРО та ідентифіковано заходи щодо їх пом'якшення. Запропоновано структуру процесу ІРО, що складається з 6 етапів.

Ключові слова: первинна публічна пропозиція, інвестиції, ризик, загроза, фондова біржа, акція, фінансово-економічна безпека, мінімізація ризиків.

ПРОЦЕСС ІРО: МИРОВЫЕ ТЕНДЕНЦИИ И УКРАИНСКИЙ ОПЫТ, РИСКИ И ИХ СМЯГЧЕНИЕ Н.А. Чех

В статье проведен анализ мирового и украинского опыта осуществления первичного публичного предложения акций. Исследованы возможные пути проведения IPO украинскими компаниями. Определены основные риски IPO и идентифицированы меры по их смягчению. Предложена структура процесса IPO, состоящая из 6 этапов.

Ключевые слова: первичное публичное предложение, инвестиции, риск, угроза, фондовая биржа, акция, финансово-экономическая безопасность, минимизация рисков.