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## **The Features of IPO Operations by Ukrainian Companies on International Stock Markets**

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**Abstract.** In this article the features of Initial Public Offerings (IPO) of the Ukrainian companies are considered in the conditions of globalization of stock market, which show up through intercommunication of advantages and disadvantages of the use of alternative funding processes of capitalization the capital.

**Keywords:** public placement, shares, stock markets, issuers, investments, capital.

**The analysis of the last researches and publications.** There is a wide range of Western as well as national researchers who have studied the topic of the efficiency of IPO. Jay Ritter (1991) studied the long run performance of an IPO. Among our scientists, Pavlo Gulkin (2006) issued a book on the initial public offering practices in emerging economies. Russian scientist Nikolai Perverzev (2007) suggested an improved approach to IPO efficiency measurement. Other scientists who wrote on the topic include Lowry (2002), Mishkin (2003), Pratt (2000), Chodwdhry (1996), Cornelli (2001), Cliff (2005), Debrien (2007), Chen (1999), Aggarwal (2000) and others.

**Research objective.** Initial public offerings as an instrument for Ukrainian companies to access international financial markets.

**The basic results of research.** Initial public offering (IPO) is the process of offering securities — generally common or preferred stocks — of a privately owned company for sale to the general public [1]. An IPO in which a company sells its newly issued shares and receives all the proceeds in the form of additional capital is called a primary offering. A securities sale in which securities held by the owners of the company are sold, and from which the owners receive the proceeds, is called a secondary offering. IPOs are almost always primary offerings, but may include a small number of shares held by the present owners [2]. The placement of the newly issued stocks is conducted on the primary market. Most of the corporations enter the primary market with the help of investment banks.

### **Public offering**

The most widespread type of new share issuance is the public offering. When planning and conducting an IPO the company will need the following agents: underwriters - investment banks, which guarantee a corporation a certain price of shares and then sell them to the public, accountants, lawyers, investor relations and public relations agency. If the issue is small, only one investment bank underwrites it. If the issue is large, several investment banking firms form a syndicate to underwrite the issue jointly, thus limiting the risk that any one investment bank must take. The underwriters sell the securities to the general public by contacting potential buyers, such as banks and insurance companies, directly and by placing ads in newspapers [3].

### **Advantages of IPO:**

- Prestige/reputation - the visibility for shareholders and their company is usually enhanced. For example, a regional company may more easily expand nationally following a

stock offering due to the increased visibility.

- Ability to attract and keep key personnel - if a company is publicly owned, employee incentive and benefit plans are usually established in the form of stock ownership arrangements to attract and keep key personnel. Stock option plans, for example, may be more attractive to officers and other key personnel than generous salary arrangements due to the significant upside potential.

- Less dilution - provided the company and the market are ready, the former may achieve a better price that results in less dilution compared to other forms of equity financing for example on national markets;

At the same time we have defined some **disadvantages of IPO** as a form of raising capital. According to PricewaterhouseCoopers survey they are the following:

- High expenses;

The comparative table of major company's expenses while conducting IPO is shown in Table 1.

Table 1

### Comparison of cost of listing on major international stock exchanges

Name of the exchange	First contribution	Annual contribution
NYSE	\$150-300 K	\$35-500 K
Am ex	\$35-65 K	\$15-65 K
NASDAQ	\$25-50 K	\$15-16 K
Vienna Stock Exchange	1% of the placement	0.05% of the trade volume
Warsaw Stock Exchange	0.03% of the placement	0.02% of trade volume
AIM	4180 pounds	4180 pounds
Moscow Interbank SE	50 K rubles	15 K rubles

Source: Kontrakty, №6, 2007 p. 12-14

Another disadvantage is separate procedures are set out for admission to trading (without listing), which may be initiated by stock exchange members (brokers), the issuer, or the stock exchange itself; and listing, which may only be initiated by the issuer itself.

At the same time the company starts the due diligence and prepares the draft of prospectus, a document required for listing, which contains the most important information on the company including the price of news shares. The prepared prospectus should be filed with the Financial Supervisory Authority of the stock exchange, where it is reviewed for some time (up to one month). Once the IPO is approved, the publication of the prospectus is required to launch a public offer of shares.

Table 2

### Ukrainian companies that make IPO operations abroad

№	Company	Attracted money, million, \$.	The amount of placed shares, %	Date of placement	Stock market	Underwriter	Sector of economics
1.	Ukrproduct Group	11,3	27,2	02.2005	AIM (London Stock Exchange)	Metropol UK Ltd	Food industry
2.	Cardinal	20	36,3	04.2005	AIM (LSE)	Fox-Dvies	Oil

	Resources (Great Britain)					Capital Ltd	
3.	XXI Century Investments	138,7	35,7	12.2005	AIM (LSE)	ING	Building, development
4.	Astarta Holding (Holland)	31,5	20	08.2006	Warsaw Stock Exchange	ING	Food industry (sugar)
5.	TMM Real Estate Development (Cyprus)	105	13,1	05.2007	Frankfurt Deutsche Borse	Concorde Capital	Building
6.	Dragon-Ukrainian Properties & Development Plc	208	100	06.2007	AIM (LSE)	Zimmerman Adams Intl, Dragon Capital	Development
7.	Ferrexpo (Switzerland)	218,72	12	06.2007	LSE	J. P. Morgan	Industry
8.	Aisi Realty Capital	33,1	30,2	08.2007	AIM (LSE)	Libertas Capital Group	Building
9.	Kernel Holding S. A. (Luxembourg)	218	33	11.2007	WSE	ING	Food industry
10.	Landkom International	110,5	54,9	11.2007	AIM (LSE)	-	Agriculture
11.	KDD Group N. V. (Kyiv-Donbas)	130	19,6	12.2007	AIM (LSE)	ING and Renessans Capital	Food industry
12.	Kernel Holding S. A. (Luxembourg) SPO	84	8,5	03.2008	WSE	ING	Food industry
13.	Myronivskiy Hleboprodukt	322	19,4	04.2008	LSE	UBS & Morgan Stanley	Food industry
14.	Avangard Co Investments Public Ltd	187,5	20	05.2010	LSE	Troika Dialog (UK)	Food industry
15.	Agroton	54,3	26,2	11.2010	WSE	Phoenix Capital	Food industry
16.	Milkiland	80	22,4	12.2010	WSE	Concorde	Food

	N. V.					Capital	industry (milk)
17.	Sadovaya Group	30,4	25	12.2010	WSE	BG Capital	Coal industry
18.	Coal Energy S. A.	80	25	07.2011	WSE	-	Coal industry
	<b>Attracted money</b>	2281,02					

Source: author's own modification based on materials [www.expert.ua](http://www.expert.ua)

### **Mechanism of an initial public offering**

There three possible ways to conduct an IPO [4]:

- Fixed price (Open Offer, Universal Offer);
- Auction;
- Bookbuilding;

Besides above mentioned methods there can be a mixture of offering methods.

#### **Fixed price (Open Offer, Universal Offer)**

According to this placement method the price per share is determined beforehand. Then offers/orders for shares are gathered by an investment bank till all shares are placed. This method is popular outside of the US. Investors should pay for their orders in advance and there is a concern of information leakage. According to Lukashov share price for the IPO conducted using fixed price method is generally relatively lower than when using other placing methods. It allows collecting orders from a large number of small investors and is optimal for a small IPO.

**Auctions** are widely used for government bonds placement and privatization. However they are rarely used for an IPO. Currently this method is used only in a limited number of countries and is not very popular. Main disadvantage of this placement method is the fact that often not all shares of the company are sold at the auction. This method is acceptable when the company is widely known and there is large number of investors willing to buy it.

**Bookbuilding** originally comes from the US and is the most popular method of conducting an IPO. According to this method, a book is formed stating all the investors willing to buy company shares, the volume they want to acquire and the price per share they intend to pay. The bookbuilding range of the offered shares is to be determined by the issuer and the underwriters (together with the selling shareholders) taking into account the response of institutional investors during the pre-marketing period. And finally the public offer is directed to the general public to subscribe for the issuer's shares during a limited subscription period.

#### **Conclusions**

With the opening of Ukraine's economy the variety of sources of finance is increasing, providing Ukrainian companies with the opportunity to benefit from the availability of new financing sources. In this research paper one of such sources, namely equity financing through initial share placement is studied. The research of current IPO trends and identification of crucial items in IPO preparation and exercising in the future are highly valuable and relevant for current scientific discussion.

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### **Особенности IPO операций украинскими компаниями на международных фондовых рынках**

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**Анотация.** В статье рассмотрели особенности первичного размещения акций (IPO) украинских компаний в период глобализации фондового рынка, которые проявляются через взаимосвязь преимуществ и недостатков использования альтернативных источников финансирования капитализации собственности.

**Ключевые слова:** размещение акций; ценные бумаги; фондовые рынки; эмитенты; инвестиции; капитал.