Initial public offering essay

Economics, Currency

After getting some insight about how the traditional PIP processes work verses using the alternative online process I will look at the company AVGAS and describe in detail which PIP process it would most benefit from. Ill explain my reasons for this decision by focusing on the type of investors believe they will likely attract as well as discuss the costs and the risks associated with each. I will also list various advantages of each PIP process and will then conclude by reaffirming my decision to advise AVGAS to go with the PIP process that believe will best benefit their company. Body Based on the research I have conducted concerning the use of both the traditional and the online auction PIP processes and given Avgas global online audience and its untraditional business model I would highly commend that the executives at AVGAS use a traditional PIP to bring their stock public and will list the reasons for my decision in the following paragraphs. Lets begin by taking a quick look at the differences of each PIP. Investment Bankers use a book building process and make their money by charging large fees and commissions to take the issue on a ‘ Road Show” to large institutional and sophisticated investors to determine an appropriate PIP price and in return these selected investors often receive the initial allotments of PIP shares and therefore benefit from the price appreciation imbued teen the offer price and the open price. (Fund, 201 1).

While, the Dutch auction is designed for the seller to get the best price. It enables more investors to participate in the pricing by posting the price they are willing to pay and the number of shares they are willing to buy and as a result the final price of the PIP winds up being the lowest price at which all shares are sold. This process minimizes the Investment banker as the

middleman and therefore the fees are significantly less. (Hansel, 2005) The downside is that online auctions don’t have bankers out there actively racketing the offer.

Lessons Learned Lessons learned from the article entitled “ Mornings follows Google’s lead” written by (Carter, 2005) described the reasons companies choose alternative routes instead of the traditional paths. In short, after reading Carter’s article it became rather clear that the online auction process seemed to be more successful for larger well know companies like Google and that the alternative online auctions didn’t seem to be as successful for a smaller lesser known companies like Mornings. The article went on to explain how firms using online processes are not objected to the Same rigorous interviews Of the investment banks like in the traditional book building process and that Mornings actually went public when it was under legal investigation relating to inaccurate data Mornings published on a mutual fund. (Carter, 2005).

Google also encountered regulatory and market challenges during the PIP process. Specific missteps, such as the failure to register employee share distributions with the SEC. Maybe if they had used the traditional process they might have been able to avoid some of these problems in advance. In a different article entitled Lessons learned from Google’s Dutch auction” it stated that an advantage to the Dutch auction process is an efficient pricing mechanism, but Google was launched in a rather cold market and didn’t get as much money as it expected to.

Instead Google offered its issue at $85. 00 and the stock rose to $100. 34 in the aftermarket and Mornings offered at $18.

0 and closed it first day of trading at $20. 05 up 8. 38%. The article went on to stated that Google paid around 2. 8 percent in gross commissions to launch the PIP which was only slightly less than the 4 percent that deals of this size normally go for (Hilbert, 004). In short, studies have shown that Dutch auctions are not more efficiently the traditional PIP process and that is why I feel it is better for AVGAS being a smaller company go with the traditional PIP process. Types of investors After completing an analysis of past traditional Ipso it seems clear that the type of investors EAVE are likely to attract by going with a traditional PIP would be the more sophisticated and preferred clients of the Investment Banks, various Institutional clients, pension funds, mutual funds and large endowments because Of the access and comparative advantage underwriters eave in persuading these kinds of investors to purchase the PIP. Online auctions are more likely to attract smaller retail investors which may be less informed on true valuations of Ipso.

Advantages According to the “ Corporate Handbook Series” written by (Snell & Wilier L. L. P. Says that some of the potential advantages of a traditional Ipso are to raise capital, Provide liquidity to current stockholders.. Future access to capital markets. Acquisition currency and employee incentives.

In another article written by (Hansel, 2009) states that other advantages of rotational Pip’s are that underwriters do all the groundwork by highlighting investment opportunities. They create awareness through various selling

efforts, and use their network of contacts. They also attract higher percentages of stable investors that usually hold assets for longer periods which decreases the chances of a stock tanking in the event of a bad quarter; which generally improves capital market efficiency. Some of the advantages of the alternative online Dutch auctions are that they enable issuers to raise more or equivalent cash at lower cost, its pricing recess is more objective and open and underwriters are not leading the allocations process.

In addition, retail investors have more opportunities to participate in offerings and the money goes to the PIP firm instead Of the investors. (PIP fees, 2011). Costs visited the website @ www. PWS.

Com which was written by (Levered H.) in his article entitled “ Considering and PIP? ” It states that the magnitude and scope of PIP costs can vary significantly from offering to offering based on several variables, including the size of the offering, the complexity of the PIP truce and the organization’s readiness to be a public company. Some factors impacting the cost of an PIP are direct costs, such as underwriter and printer fees, and certain legal and financial reporting costs, longer-term costs such as capabilities for financial reporting, investor relations and human resource functions, and costs to institute incentive plans for executives. Underwriter fees are reported to average between 5%-7% of the gross proceeds. In addition to underwriter fees, on average companies incur $1 million and $2. 5 million in costs directly attributable to their PIP.

In addition o those fees and according to a report by (SEC, 2007) the cost for initial listing on the stock exchange ranges from $125, 000 to $250, 000 depending on number of shares they sell. Risks Some of the risks associated with traditional Ipso are Increased risk of legal exposure. The company and its directors and officers will be subject to potential liability under the federal securities laws for material misstatements or omissions in its SEC filings and other public disclosures (Snell & Wilier L. L. P.

) Other risk include under pricing of securities which can create the potential for abuse in allocation. Davidson , 2011). Also the proceeds from the issue, based upon the offering price, may not be delivered and the investment bank may not have the capital to back up its guarantee Some risks associated with using online auctions would be the risk related to under pricing. Another risks is that retail investors are more volatile due to investment decisions being affected by a herd mentality which can lead to market instability when the stock opens.

In addition, online auctions do not ensure that analyst will track stock or that underwriters will promote the company in subsequent issues (Clinton, 01 1). Lust, online auctions tend to issue smaller number of shares and have sales below $10 million which are unattractive to most larger investors Conclusion In conclusion it seems clear that despite the success of Google’s Dutch auction process, and trying to pay less fees that it is in the best interest of EAVE to use the traditional PIP process in order to lure large institutional investors in because they are elephants that drive stock prices. Paying the higher fees for the services assures the exposure and the interest that online

actions can’t grant for Ipso. Avoiding to do so may cause Avgas Ipso to experience severely impacted stock prices and future valuations much like Mornings experienced merely by not giving Institutions incentives.