

## **IPO: ITS PROBLEMS AND PERSPECTIVES**

## **ІРО: ЙОГО ПРОБЛЕМИ ТА ПЕРСПЕКТИВИ**

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**Abstract.** One of the most common activities in the market is IPO. However, in recent years IPOs have endured a severe decline and the world has seen a rise in alternative forms of financing, e.g. ICO. The aim of the article is to determine the main trends, issues of the Initial Public Offering performance and to identify the prospects for those seeking additional financing. The topic's significance is hard to overestimate as we enter more technological and competitive financial markets than ever before.

**Анотація.** Одним з найбільш поширених видів діяльності на ринку є ІРО. Однак в останні роки ІРО пережили серйозний спад, і в світі спостерігається зростання альтернативних форм фінансування, наприклад ІСО. Мета статті-визначити основні тенденції, питання ефективності первинного публічного розміщення акцій та визначити перспективи для тих, хто шукає додаткове фінансування. Значення цієї теми важко переоцінити, оскільки ми виходимо на більш технологічні та конкурентоспроможні фінансові ринки, ніж будь-коли раніше.

**Аннотация.** Одним из наиболее распространенных видов деятельности на рынке является ІРО. Однако в последние годы ІРО пережили серьезный спад, и в мире наблюдается рост альтернативных форм финансирования, например ІСО. Цель статьи-определить основные тенденции, вопросы эффективности первичного публичного размещения акций и определить перспективы для тех, кто ищет дополнительное финансирование. Значение этой темы трудно переоценить, поскольку мы выходим на более технологичные и конкурентоспособные финансовые рынки, чем когда-либо прежде.

The essence of IPO as a way of raising capital was many times studied by scientists. But 2018 has witnessed a dip in global IPO activity - here is the first sign of new problems appearing. Proving it, cross-border IPO Index, which is usually published by the well-known company Baker McKenzie, continue to decrease after a small growth in 2017. For the last 5 years, the meaning of the index has fallen down from 29.1 points in 2013 to 13.8 in 2018. [1] Moreover, in 2018 1359 IPOs were conducted – it's 17% lower in comparison to 2017. [2] In general, the following issues could be considered as the cause of IPO activity fall down:

1. With the development of new technologies, innovative methods of attracting capital are emerging. One of them - the initial coin offering (ICO), which arose after the appearance of blockade and cryptography. The market for initial coin offering was 45% from the traditional IPO and during the second quarter of 2018, respectively, 40% during the first quarter of 2018. [3] ICO is an attempt to apply IPO stock exchange rules in a more democratic environment in the crypto-exchange market. In general, the process of engagement is the same, only the investor buys the coins instead of the shares. Another important difference in the token from the stock is that it does not give the investor the right to a share in the company. Accordingly, the investors of ICO do not face the corporate rights delusion, as it happens when a company issues shares for the second time.

2. The number of IT companies IPO accounts for 26% of all IPOs. The market is currently experiencing a boom in IT companies IPO. However, these companies have set their own trend, which is simultaneously not beneficial to investors. Most investors while deciding whether to buy shares of a company, analyze its internal data, in particular, its financial statements. Obviously, every investor wants to invest profitably, and therefore wants to see good indicators in the report to be sure that the company will grow in order to be able to receive dividends or at least not reduce the value of his investment portfolio. So, Apple has become profitable a year after its existence, and after three years went to the stock market, CISCO was founded 6 years before the IPO, but in the last year, it came in the plus. Now, everything is in a different way: Twitter began to make a profit for 5 years after the IPO, and the well-known successful Amazon company - for 6 years. Uber, the

IPO, one of the most expected IPO in 2019, showed a net loss of \$ 1.2 billion USD for the 4th quarter of 2018. [4] At the same time, the company claims that it will never be possible to profit. Of course, investors are investing, hoping that the story with Amazon will repeat, but in most cases they are wrong. 80% of IPOs in 2018 are IPOs with negative earnings and this trend seems to be also kept in the nearest future. [5]

3. Worries around geopolitics weighed on investors' minds and dented the headline numbers of IPO activity in general. In the light of trade wars between the United States and China and BREXIT uncertainties, investors appear to be adopting a "wait and see" approach, while the companies postpone an IPO conducting for an indefinite period of time in order to effectively capital raising. As a result, the number of listings is minimized, and there is the assumption that in 2019 Nasdaq would hold the lowest number of listings.

When it comes to the perspectives of IPO, their roots lie in its own problems. Despite the fact that according to statistics it can be assumed that the ICO can crowd out the IPO as a way of raising capital, innovators and entrepreneurs are beginning to find a link between the ICO and the IPO. At the moment, they have created an "investment token", which is the equivalent of shares. Thus, the token is initially subject to regulation applicable to securities and will be issued in an appropriate manner, as it issues company shares in IPOs. [6] One of the interesting possible uses is partial ownership. The purpose is to turn the rights to valuable tangible or intangible assets into commodity units. Take an example of a property or a valuable piece of art. In the case of an investment token, the unit of rights is sold to several investors, and they can receive future profits or productive income on a pro-rata basis. It may sound like a rally, but there are differences. One of them is that the profitability of a share is related to the performance of the entire firm, which can carry other business, while in the case of investment tokens, economic activity can be linked by means of a smart contract exclusively with the underlying asset, without outside influences.

Summarizing all points mentioned above, nowadays can be considered as unattractive for conducting IPOs and taking part in this process. Unprofitability is the common thread in the financial reports of the IT companies, which have made recently an IPO boom, geopolitical uncertainties clouded market landscape and appearing technologies are both threat and engine for this way of raising capital. So, it is just a matter of time when silver lining will arise.

## References

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