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METHODS FOR DETERMINING THE VALUE OF SHARES IN IPO

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Abstract

One of the important financial stages of the IPO process is the formation of investment positioning, which contains the most obvious reasons for the acquisition of shares by potential investors. The basis of investment positioning is the value of the company's business, which places shares on the stock market. In this article, methods for estimating the value of shares when a company enters an IPO are studied.

Keywords: initial public offering, going public, book-building, book-runners, fixed price method

The process of price formation for shares within the IPO can be divided into three stages:

1. Setting a price range by investment banks
2. Setting the final offer price
3. Determination of the share price by the market in secondary trading

There are three methods by which an investment bank can set the placement price:

1. Auction method
2. Fixed price method
3. The method of building an order book (book-building)

During the auction, the investment bank announces the lowest possible placement price a week before the IPO date. Investors then provide their prices or the number of shares they are willing to buy. After the collection of bids, the offer price of shares is set by collecting bids for shares from investors, and then a single settlement price is determined for all investors. The shares are then distributed among investors in proportion to the offered prices.

The fixed price method involves setting the offer price without taking into account the demand from investors. The order book is not formed, however, the lead arranger bank and underwriter syndicate are in close contact with investors to determine the price of a successful placement. The placement price is fixed a week before the

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placement and is announced in the issue prospectus. The main advantage of fixed price proposals is the low cost and relative ease of implementation of the proposal. Investors know in advance the true price they pay if they acquire a share of the stock. However, it is not possible to determine for sure whether this will be a fair price, which creates a major disadvantage of fixed-price proposals.

When using the book-building method, investment banks set a price range that reflects the market value of the offer from the point of view of the underwriters.

As a rule, the process of building a book of applications lasts about two weeks and takes place in parallel with the roadshow. In the course of book-building, investors, based on the price range, leave orders of two types: in the number of securities or monetary terms; and also indicate the price level at which they are ready to buy securities. Book-runners, in turn, accumulate demand for the issuer's shares from investors and analyze the composition of the order book.

In some cases, during book-building, book-runners narrow down the price range to provide investors with a clearer target. Also, the price range can be changed if there is low demand or an insufficient number of applications. However, in each case, decisions to change the range are made by the book-runners in conjunction with the issuer.

At the end of the book-building process, investment banks make a recommendation regarding the placement price, taking into account the interests of investors and the issuer.

To support the dynamics of quotations after the placement of a company, the international practice uses a stabilization mechanism - an over-allotment option (greenshoe) built into the structure of the transaction. This option allows underwriters to buy and resell additional shares. The syndicate can buy additional shares (usually up to 15% of the offering) at the IPO price up to 30 days after the stock starts trading. Additional allocated shares are borrowed by the syndicate from the issuer or its shareholder. Greenshoe shares can be sourced from both primary and secondary shares.

This option is a call option received by the book-runners from the company. In the event that the share price rises after the IPO, then the buyback of shares from the market is not carried out, and the book-runners execute the greenshoe. In the opposite case, when there is a negative trend in the shares, the book-runner buys shares from the market at the IPO price or lower during the entire period of stabilization.

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